AcSB
Accounting Standards Board

Exposure Draft

Improvements to Presentation and Disclosure of Investments for Pension Plans

June 2024

This Exposure Draft closes for comments on October 2, 2024.

The Accounting Standards Board (AcSB) welcomes feedback from any interested party on any or all the questions posed in this Exposure Draft.

You can provide feedback to the AcSB on the proposals in a variety of ways:

- Connect directly with the AcSB by attending a discussion session on this Exposure Draft. Session dates and registration information will be posted on the Improvements to Presentation and Disclosure of Investments for Pension Plans project page.
- Write a response letter and upload it via our online form. Response letters can be addressed to:

  Katharine Christopoulos, CPA, CA
  Director, Accounting Standards
  Accounting Standards Board
  277 Wellington Street West
  Toronto, Ontario M5V 3H2

Note: Response letters will be posted online shortly after this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the online form.

Helpful tips when participating in a consultation:

- Comments are most helpful if they refer to a specific paragraph or group of paragraphs found in the Exposure Draft.
- If you identify a potential issue in this Exposure Draft's proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.
- The AcSB does not expect you to respond to every single question posed – only those to which you feel you can or should respond.

HIGHLIGHTS

The AcSB proposes, subject to comments received following exposure, to amend PENSION PLANS, Section 4600, in Part IV of the CPA Canada Handbook – Accounting. The proposals aim to improve the presentation and disclosure of investments held by pension plans. The amendments will apply to pension plans applying the standards in Part IV of the Handbook, as relevant.

Background

The AcSB undertook research to improve the presentation and disclosure of investments held by pension plans. In performing its research, the Board consulted with its Pension Plan Advisory Committee (the Committee), formerly known as the Pension Plan Working Group, and heard about gaps in the requirements and the need to increase transparency for financial statement users. Through this research, the Board considered improvements to:

- fair value disclosures;
- disclosure of interests in investment vehicles; and
- presentation and disclosure of investment expenses.

The AcSB proposes to amend Section 4600 to address concerns in these areas.

Main features of the Exposure Draft

The proposals in this Exposure Draft would:

- require pension plans to provide the disclosures required by IFRS 13 *Fair Value Measurement* in Part I of the Handbook;
- introduce requirements to disclose the nature and extent of a pension plan's interests in investment vehicles (other than master trusts) and the associated risks;
- amend the presentation of administrative expenses to include two categories – "investment expenses" and "pension administration and other expenses";
- introduce a definition of "investment expenses" and require disclosure of the nature of investment expenses; and
- introduce qualitative disclosure requirements regarding what investment income types include embedded investment expenses and the details of those embedded investment expenses.

The proposals would apply for annual periods beginning on or after January 1, 2026, with early application permitted.

Consequential amendments

No consequential amendments are proposed to other standards in Parts I and II of the Handbook, as these proposals do not affect other standards.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consulting with the Committee. The Committee assists the Board in maintaining and improving accounting standards for pension plans. The Board will also consult with other interested and affected parties through additional outreach activities, such as holding roundtables.

The AcSB will provide updates about its deliberations in its decision summaries and on the Improvements to Presentation and Disclosure of Investments for Pension Plans project page. Once the deliberation process is complete and the due process procedures for finalizing the amendments are carried out, the Board plans to issue the final amendments by spring 2025, if no significant changes are required to the proposals.

Comments requested

While the AcSB welcomes comments on all the proposals in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. The AcSB proposes in paragraph 4600.05(pa) that "investment expenses" be defined as costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between "investment expenses" and "pension administration and other expenses". Do you agree with this proposed definition of "investment expenses" in paragraph 4600.05(pa)? Do you agree that the examples of investment expenses included in the definition in 4600.05(pa) are the most relevant to users of pension plan financial statements? If not, why not and what alternatives should the Board consider?

2 The AcSB proposes in paragraphs 4600.25(e)-(f) that "investment expenses" and "pension administration and other expenses" be separately distinguished on the statement of changes in net assets available for benefits. Further, the Board proposes in paragraphs 4600.27(b)-(c) that details of "investment expenses" and "pension administration and other expenses" be presented on either the face of the statement or in the notes to the financial statements. Do you agree that the proposed presentation changes will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

3 The AcSB proposes in paragraph 4600.32(a)(ii) that for investments that are financial instruments measured at fair value, pension plans provide the disclosures required by IFRS 13 *Fair Value Measurement* in Part I of the Handbook, instead of those currently required by the Appendix to Section 4600. The Board accordingly proposes to withdraw the Appendix to Section 4600. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

4. Paragraph 4600.32(b) currently requires that for all other investments measured at fair value, pension plans provide a description of how fair values have been determined. Do you think it would be useful for pension plans to provide the disclosures required by IFRS 13 for these investments? If not, why not? If so, paragraph 4600.32(b) could be amended as follows: *"for all other investments measured at fair value, ~~a description of how fair values have been determined~~ the disclosures required by* IFRS 13 Fair Value Measurement *in* Part I *of the Handbook."*

5 The AcSB proposes in paragraphs 4600.32D-.32E that pension plans disclose information that enables users to understand the nature and extent of the pension plan's interests in investment vehicles other than master trusts, and to evaluate the nature of, and changes in, the risks associated with those interests. This would include disclosing the fair value of those interests and the nature of the investment vehicles. Do you agree that the proposed disclosure requirements will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

6 The AcSB proposes in paragraph 4600.32F(a) that pension plans qualitatively disclose the types of investment expenses that are included in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information to users of pension plan financial statements? If so, why? If not, why not?

7. The AcSB proposes in paragraphs 4600.32F(c)-(d) that pension plans qualitatively disclose the types of investment income that include embedded investment expenses, and the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Do you agree that the proposed disclosures will provide useful information related to embedded investment expenses to users of pension plan financial statements? If so, why? If not, why not and what disclosures should be required for embedded investment expenses?

8 Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2026, in accordance with the transitional provisions in paragraph 4600.45, with earlier application permitted? If not, why not?

The deadline for providing your comment letter to the AcSB is October 2, 2024. Comment on this document by uploading your response letter via this online form.

PROPOSAL

The following Section would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

SECTION 4600

pension plans

DEFINITIONS

.05 …

<u>(pa) **Investment expenses**</u>

<u>Investment expenses are costs related to managing the net investment assets of the pension plan. Investment expenses include but are not limited to management fees (based on the level of invested assets), performance fees (based on the level of returns), internal investment management costs that are directly attributable to net investment assets, custodial fees and transaction costs. A pension plan may choose to allocate internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between investment expenses and pension administration and other expenses.</u>

PENSION PLAN FINANCIAL STATEMENTS

Statement of changes in net assets available for benefits

.25 *The statement of changes in net assets available for benefits shall distinguish at least the following:*

(a) investment income, excluding changes in fair values of investment assets and investment liabilities;

(b) changes during the period in the fair values of investment assets and investment liabilities;

(c) contributions from the sponsor;

(d) contributions from participants;

(e) ~~administrative~~ <u>investment</u> expenses;

<u>(f) pension administration and other expenses;</u>

~~(f)~~<u>(g)</u> benefit payments;

~~(g)~~<u>(h)</u> refunds and transfers; and

~~(h)~~<u>(i)</u> net assets available for benefits at the beginning and the end of the period.

…

.27 *The statement of changes in net assets available for benefits shall present the following, either on the face of the statement, or in the notes to the financial statements:*

(a) details of contributions showing separately voluntary and required contributions from participants, past service contributions from participants, past service contributions from the sponsor, current service contributions from the sponsor, and special contributions;

(b) details of investment expenses;

~~(b)~~(c) details of ~~administrative~~ pension administration and other expenses, showing separately actuarial fees, audit fees, trustee and custodial fees, ~~investment management fees,~~ and any other significant ~~administrative~~ expenses; and

~~(c)~~(d) details of benefit payments showing separately retirement benefit payments, disability benefit payments, termination benefit payments and death benefit payments.

DISCLOSURE

Investment portfolio

.32 *A pension plan shall provide the following information about its investment portfolio:*

(a) for those investments that are financial instruments measured at fair value:

(i) the disclosures required by IFRS 7 Financial Instruments: Disclosures *in* Part I *of the Handbook; and*

*(ii) the ~~fair value~~ disclosures required by ~~the~~ ~~Appendix~~ ~~to this Section~~ IFRS 13 Fair Value Measurement *in* Part I *of the Handbook; and*

(b) for all other investments measured at fair value, a description of how fair values have been determined.

…

.32D *A pension plan may invest in various types of assets either directly or indirectly by holding an interest in an investment vehicle (e.g., investment fund, securitization vehicle or asset-backed financing). For interests in investment vehicles other than master trusts, a pension plan shall disclose information that enables users of its financial statements:*

(a) to understand the nature and extent of its interests in investment vehicles; and

(b) to evaluate the nature of, and changes in, the risks associated with its interests in investment vehicles.

.32E To meet the disclosure objective in paragraph 4600.32D, a pension plan shall disclose the following for its interests in investment vehicles other than master trusts:

(a) the fair value of the pension plan's interests in investment vehicles;

(b) the nature of the investment vehicles; and

(c) any additional information that is necessary to meet the disclosure objective in paragraph 4600.32D.

.32F *A pension plan shall qualitatively disclose the following information about its investment expenses:*

(a) the types of investment expenses that are included in the statement of changes in net assets available for benefits. Types of investment expenses include, but are not limited to, those identified in paragraph 4600.05(pa);

(b) the pension plan's choice as to whether it allocates internal investment management costs that are not directly attributable (should the pension plan assess performance in this manner) between investment expenses and pension administration and other expenses, as required by paragraph 4600.05(pa). The disclosure shall include, as applicable, a description of the pension plan's methodology applied in performing its allocation;

(c) *the types of investment income that include embedded investment expenses. The types of investment income are identified in paragraph 4600.25B; and*

(d) *the types of investment expenses that are embedded in investment income in the statement of changes in net assets available for benefits. Types of investment expenses include, but are not limited to, those identified in paragraph 4600.05(pa).*

EFFECTIVE DATE AND TRANSITION

.40 In satisfying the fair value measurement requirements in paragraph 4600.19, a pension plan applies IFRS 13 *Fair Value Measurement* in Part I of the Handbook to annual periods beginning on or after January 1, 2013. Earlier application of IFRS 13 is permitted provided that the pension plan discloses that fact and the measurement requirements are applied to the fair value of all investment assets and investment liabilities. IFRS 13 is applied prospectively as of the beginning of the annual period in which it is initially applied. ~~A pension plan that has adopted IFRS 13 is not required to provide the disclosures included in that IFRS.~~

…

.45 New paragraphs 4600.05(pa), 4600.32D-.32F and amendments to paragraphs 4600.25, 4600.27, 4600.32 and 4600.40, issued in [MONTH] 2025, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted. A pension plan applies these amendments at the beginning of the earliest period presented.

~~APPENDIX~~

~~FAIR VALUE DISCLOSURES~~

~~This Appendix is an integral part of this Section.~~

~~The fair value disclosures formerly in paragraphs 27-27B of IFRS 7 *Financial Instruments: Disclosures* in Part I of the Handbook were deleted as a consequence of incorporating IFRS 13 *Fair Value Measurement* into the Handbook. Paragraph 4600.32(a)(ii) requires the fair value disclosures in this Appendix, which are the same as those deleted from IFRS 7. The required disclosures are:~~

~~27 An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.~~

~~27A To make the disclosures required by paragraph 27B an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:~~

~~(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);~~

~~(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and~~

~~(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).~~

~~The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.~~

~~27B For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:~~

~~(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.~~

~~(b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.~~

~~(c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:~~

~~(i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);~~

~~(ii) total gains or losses recognised in other comprehensive income;~~

~~(iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and~~

~~(iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.~~

~~(d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).~~

~~(e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.~~

~~An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.~~

ILLUSTRATIVE EXAMPLES

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Example 1 – Interests in a Master Trust

This example illustrates how interests in a master trust, described in paragraph 4600.32C, may be presented. All investments presented are Level 1 investments. Refer to ~~paragraphs 27A-27B in the Appendix~~ IFRS 13 for details on fair value hierarchy disclosures.

BASIS FOR CONCLUSIONS

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INTRODUCTION

1 During 2022 to 2023, the AcSB heard from its Pension Plan Advisory Committee that there are gaps in the presentation and disclosure requirements for investments held by pension plans, especially as investment vehicles are becoming more complex. These gaps relate to the use of outdated guidance on fair value disclosures, insufficient information being disclosed on a pension plan's interests in investment vehicles and a lack of transparency on investment expenses. After considering the advice of the Committee, in December 2023, the Board approved a project to amend PENSION PLANS, Section 4600, to address these concerns.

EFFECTS ANALYSIS

2 The AcSB is committed to enhancing the relevance of accounting standards for pension plans, as necessary, to ensure these standards continue to meet the needs of pension plan financial statement users. These proposals focus on increasing transparency on a pension plan's investments through improved presentation and disclosure requirements.

3 The fair value disclosure requirements in Part IV of the Handbook are based on previous guidance in Part I. That Part I guidance has since been updated to require enhanced disclosures in key areas, including on "Level 3" fair value measurements. However, Part IV has not been updated to reflect such enhancements. As investment vehicles evolve and pension plans rely more on highly subjective Level 3 fair value measurements, the AcSB thinks that updating the Part IV guidance to reflect enhancements to Part I guidance would provide useful information. The Board thinks that enhanced fair value disclosures could help financial statement users better assess those subjective valuations, and thus the pension plan's overall financial position and ability to meet benefit payments. In considering the costs associated with implementing these amendments, the Board notes that there are practical ways for pension plans of different sizes to approach the requirements. This can be seen in the varying levels of detail provided in public company financial statements in their fair value disclosures under Part I requirements.

4 The proposals to introduce disclosure requirements on interests in investment vehicles are intended to improve transparency, giving users a view into a pension plan's interests in investment vehicles and the associated risks. The proposed disclosure requirements are

principle-based and would not require pension plans to gather extensive information that does not already exist. In addition, they would not require pension plans to “look through” the investment vehicles to the underlying assets and liabilities held by those investment vehicles.

5 The proposals to amend the presentation of investment expenses and related disclosure requirements seek to increase transparency regarding the costs associated with generating net investment income. The AcSB thinks by adding a definition of “investment expenses”, it creates consistency in the interpretation of what should be included in the statement of changes in net assets available for benefits as an investment expense. This definition will be helpful to pension plans of all sizes. In addition, the Committee noted that some pension plans that provide Management Discussion and Analysis (MD&A) are already making such disclosures, and therefore the information is readily available to those pension plans.

6 The AcSB thinks that additional disclosures related to embedded investment expenses would provide insight into what investment expenses are captured in net investment income. These disclosures would provide users with a more fulsome understanding of the cost associated with generating investment income. As these disclosures are intended to be qualitative in nature, the Committee advised the Board that pension plans should have sufficient information to generate these disclosures without significant cost.

AMENDMENTS

Fair Value Disclosures

7 In accordance with paragraph 4600.32(a)(ii), pension plans currently provide the fair value disclosures required by the Section 4600 Appendix for investments that are financial instruments measured at fair value. The Section 4600 Appendix comprises paragraphs that were deleted from IFRS 7 *Financial Instruments: Disclosures* when IFRS 13 *Fair Value Measurement* was issued in May 2011. IFRS 13 carried forward much of that former IFRS 7 guidance and introduced additional guidance. The AcSB is considering whether it would be useful to update the fair value disclosure requirements in Section 4600 at this stage.

8 As investment vehicles evolve, the AcSB wants to ensure that users of pension plan financial statements continue to get useful information on those investments. The Board considered how it could update the fair value disclosure requirements to accomplish this. The Board compared the disclosure guidance in IFRS 13 to the Section 4600 Appendix and noted that many of the requirements are similar. This is because IFRS 13 carried forward much of the former IFRS 7 guidance upon which the Section 4600 Appendix is based. However, one key difference is that IFRS 13 requires additional disclosures on fair value measurements categorized within Level 3 of the fair value hierarchy. Level 3 fair value measurements are those that use significant unobservable inputs.

9 By their nature, Level 3 fair value measurements have a greater degree of uncertainty and subjectivity. As such, when a pension plan invests in Level 3 assets and liabilities, the AcSB thinks it would be useful for the plan to disclose additional information on how it measured the fair value of those assets and liabilities. The Board heard feedback from its Committee that pension plans would incur additional costs to prepare these disclosures. The Board notes that the costs would vary depending on the extent to which a pension plan invests in Level 3 assets and liabilities. For example, a pension plan may incur minimal to no costs to prepare these disclosures if it invests primarily in investment vehicles whose prices are quoted in active markets. In contrast, a pension plan may incur greater costs if it invests primarily in alternative assets that are not traded in active markets. In this respect, the Board thinks the costs of preparing the disclosures would be commensurate with the nature of the pension plan’s investments. Moreover, the Board thinks that the benefits of providing these disclosures would exceed the costs, especially due to the lack of publicly available information on Level 3 assets and liabilities.

10 IFRS 13 also includes other new disclosure requirements that are not specifically limited to Level 3 assets and liabilities. For example, IFRS 13 requires an entity to disclose its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred. The AcSB heard from its Committee that these other new disclosure requirements would be useful to financial statement users and would not be unduly costly to prepare.

11 Therefore, the AcSB proposes to require pension plans to provide the disclosures required by IFRS 13 instead of the Section 4600 Appendix. The Section 4600 Appendix would be deleted. The Board notes that under this proposal, pension plans could look to existing educational materials on IFRS 13 to aid in implementation. They could also look to a wide range of real-life examples in public company financial statement disclosures. The Board thinks these could be helpful references for a pension plan that is looking to develop disclosures that are proportional to its particular investment portfolio while still meeting all of the IFRS 13 disclosure requirements.

12 Please refer to APPENDIX A of this document for a side-by-side view of the fair value disclosure requirements in IFRS 13 and the Section 4600 Appendix.

Disclosure of Interests in Investment Vehicles

13 In December 2022, Section 4600 was amended to include new disclosure requirements on a pension plan's interests in master trusts. In particular, paragraph 4600.32C requires pension plans to provide information on the investment assets and liabilities held by those master trusts (i.e., "look-through" disclosures). This requirement focused on master trusts and did not extend to other investment vehicles, such as investment funds. The AcSB noted that, unlike certain investment funds, master trusts are not subject to the same requirements in securities law to prepare audited financial statements.

14 However, the AcSB heard from its Committee that there is still a need to increase transparency on a pension plan's interests in investment vehicles other than master trusts. For example, while some investment vehicles have audited financial statements, these are not always publicly available. The Board also heard from its Committee that it may not be practicable for pension plans to provide look-through disclosures on investment vehicles other than master trusts, as they may not have access to the necessary data.

15 The AcSB sought feedback from its Committee on what information would be useful to disclose on a pension plan's interests in investment vehicles other than master trusts. Committee members thought it would be useful to disclose the fair value of the pension plan's interests in investment vehicles and the nature of those investment vehicles (e.g., the primary types of investments held by those investment vehicles). They thought it would also be useful to include commentary on risks.

16 The AcSB researched other sources of generally accepted accounting principles and thought there were disclosures in IFRS 12 *Disclosure of Interests in Other Entities* that could be helpful. In accordance with paragraph 24 of IFRS 12, an entity discloses information that enables users of its financial statements:

(a) to understand the nature and extent of its interests in unconsolidated structured entities; and

(b) to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

17 IFRS 12 then outlines several specific disclosure requirements to meet the above objective. Committee members agreed that the above objective could result in useful information but questioned the relevance of some of the specific disclosure requirements in IFRS 12 to Canadian pension plans. The AcSB thinks that one way to ensure only relevant information is disclosed would be to keep the requirements principle-based. This would also ensure that the requirements would not be unduly costly for financial statement preparers.

18 The AcSB introduces the term “investment vehicles”, which the Board thinks would be relevant in the pension space to capture entities such as securitization vehicles, asset-backed financings and investment funds.

19 Therefore, for investment vehicles other than master trusts, the AcSB proposes in paragraph 4600.32D to require a pension plan to disclose information that enables users of its financial statements:

(a) to understand the nature and extent of its interests in investment vehicles; and

(b) to evaluate the nature of, and changes in, the risks associated with its interests in investment vehicles.

20 The AcSB proposes in paragraph 4600.32E that to meet the above objective, a pension plan shall disclose the fair value of its interests in investment vehicles, the nature of those investment vehicles and any additional information that is necessary to meet the objective. This captures the other elements noted in paragraph 15 above that Committee members thought would be useful to include.

Presentation and Disclosure of Investment Expenses

21 Paragraph 4600.25 requires the statement of changes in net assets available for benefits to separately distinguish administrative expenses. Further, paragraph 4600.27 requires the statement of changes in net assets available for benefits to present, either on the face of the statements or in the notes to the financial statements, the details of administrative expenses showing separately actuarial fees, audit fees, trustee and custodial fees, investment management fees and other significant administrative expenses. There are no additional requirements for disclosure related to administrative expenses in Section 4600.

22 The AcSB heard from its Committee that there is diversity in what is included when pension plans present the details of administrative expenses related to investment management fees, as required by paragraph 4600.27. For example, some pension plans may present the amount paid in investment management fees, without disclosing that there are other investment management fees that are embedded in net investment income. Further, the Committee noted that there may be other expenses associated with managing the net investment assets and liabilities of the pension plan that are not considered investment management fees but should still be captured as expenses associated with the pension plan’s net investment assets and liabilities.

23 The AcSB decided that clarification of the presentation and disclosure requirements is needed for users to have a transparent understanding of the cost to manage the net investment assets and liabilities of a pension plan, along with qualitative information to understand the types of investment expenses. The Board understands from its Committee and research activities that the complexity of the types of investment assets and liabilities managed by pension plans continues to increase, and therefore the complexity of the related investment expense structures has correspondingly increased. The increasing complexity of these investment expense structures underscores the need for more transparency around the nature of the investment expenses of a pension plan.

24 In proposing amendments to the presentation and disclosure of investment expenses in Section 4600, the AcSB considered that there are no corresponding presentation and disclosure requirements related to investment management fees in Parts I-III of the Handbook. The Board discussed the needs of Part IV users and thinks that their needs differ from those using other parts of the Handbook, as investments are a primary asset for pension plans. Pension plans generally have more complex investment structures and more variability in the types of expenses associated with managing those complex investment structures. Therefore, the Board thinks that the users of pension plan financial statements would benefit from increased transparency over the associated expenses related to managing a pension plan’s net investment assets and liabilities.

25 The AcSB considered what and how much information regarding the expense associated with managing a pension plan's net investment assets and liabilities should be provided in the financial statements, as opposed to other sources of disclosure, such as the MD&A and regulatory filings. The Board heard from its Committee that including disclosure in the MD&A allows for more context to be provided around investment expenses as they relate to investment strategy, cost effectiveness and benchmarking of investment expenses. The Committee also noted that the MD&A is not prepared for all pension plans, and therefore financial statements may be the only source of information regarding investment expenses. After considering the feedback from its Committee, the Board decided that given financial statements are the primary source of information for users to make decisions, sufficient information should be provided in the financial statements to understand the expenses associated with managing the plan's net investment assets and liabilities and the nature of those expenses.

26 The AcSB proposes to amend the presentation of administrative expenses in the statement of changes in net assets available for benefits, to separately present "investment expenses" and "pension administration and other expenses". This would replace the requirement to present "administrative expenses" in paragraph 4600.25. The Board thinks that amending the presentation of administrative expenses will increase the transparency regarding the costs associated with generating net investment income with the amounts shown as a separate line item on the statement of changes in net assets available for benefits.

27 Correspondingly, the proposals require the details of "investment expenses" and "pension administration and other expenses" to be presented separately in accordance with paragraphs 4600.27(b) and (c), respectively. The AcSB did not redeliberate the current requirement to disclose details of "pension administration and other expenses" included in paragraph 4600.27(c). Disclosure of administrative expenses, other than investment expenses, is outside of the scope of this project.

28 Further, the AcSB proposes to include a definition of "investment expenses" in paragraph 4600.05(pa). The definition of "investment expenses" includes examples of the types of expenses considered to be investment expenses. In listing the types of investment expenses in the definition, the Board does not intend for the list to be exhaustive, but to instead identify the most relevant types of investment expenses. In assessing the relevant types of investment expenses to include in the definition, the Board considered recommendations from its Committee, along with its research findings. In addition, to help users understand how the definition of "investment expenses" in paragraph 4600.05(pa) has been applied, the Board proposes in paragraph 4600.32F(a) to incorporate qualitative disclosure of investment expenses by type included in the statement of net assets available for benefits.

29 In developing the definition of "investment expenses", the AcSB debated whether internal investment management costs that are not directly attributable to managing a pension plan's net investment assets should be allocated between "investment expenses" and "pension administration and other expenses". The Board understands from its Committee that some pension plans perform an allocation of internal investment management costs that are not directly attributable for business purposes, and therefore have developed an allocation methodology. Conversely, other plans do not allocate internal investment management costs that are not directly attributable. Therefore, a requirement to allocate internal investment management costs that are not directly attributable for the purpose of preparing the financial statements could reduce the quality of information. To accommodate the differences in how pension plans account for their internal investment management costs that are not directly attributable, the Board proposes that the definition of "investment expenses" include a choice to allocate internal investment management costs that are not directly attributable between "investment expenses" and "pension administration and other expenses", should the pension plan assess performance in this manner. In deciding whether to allocate its internal investment management costs, a pension plan will need to consider its business model and provide the corresponding disclosure in paragraph 4600.32F(b).

30 The AcSB understands that investment expenses may be paid directly by the pension plan, or alternatively, they may be embedded in investment income. The Board discussed what could be considered an investment expense embedded in investment income. The Board thinks that embedded investment expenses are investment expenses that are not explicitly paid and are instead structurally included in investment income. Embedded investment expenses are not directly observable investment expenses.

31 The Committee informed the AcSB that users of pension plan financial statements would benefit from an understanding of the types of investment income that contain embedded investment expenses. The Committee noted that without disclosure, it may appear that a pension plan's investment expenses are significantly less, as there is no information available to the user to indicate that certain investment expenses are embedded in investment income.

32 In developing the disclosure proposals, the AcSB considered whether the amount of embedded investment expenses should be quantified in the financial statements. The Committee provided feedback that determining the amount of embedded investment expenses may be costly or not possible for a pension plan to determine, and a plan may not always have the information to bifurcate the embedded investment expenses. In consideration of the feedback from the Committee, the AcSB proposes disclosures in paragraph 4600.32F(c) requiring qualitative information about the types of investment income that include embedded investment expenses. In addition, to increase transparency around the types of expenses that are embedded in investment income, the proposals require qualitative disclosure of the types of investment expenses that are embedded in investment income.

33 This disclosure could be as simple as:

(a) stating the types of investment income, as defined in paragraph 4600.25B, where there are embedded expenses (i.e., investment expenses are embedded in net investment income related to alternative investment and real estate investments); and

(b) noting the types of investment expenses, as defined in paragraph 4600.05(pa) included in investment income (i.e., embedded investment expenses include fixed management expenses and variable performance fees).

EFFECTIVE DATE AND TRANSITION

34 Selecting an effective date for amendments is an important step in the AcSB's due process. Considering the proposed transitional provisions discussed below, the Board thinks that the proposed effective date (fiscal years beginning on or after January 1, 2026) will provide pension plans with sufficient time to implement the proposals. The Board understands most pension plans do not prepare interim financial statements. Therefore, unless early adopted, the amendments will apply to annual financial statements for the year ended December 31, 2026, at the earliest, allowing most pension plans over a year to implement the amendments.

35 The AcSB proposes that these amendments apply at the beginning of the earliest period presented. As such, the effects of the proposals would apply to the period in which the amendments are first applied and to the comparative period(s) presented. The Board thinks that the effects of these proposals should apply consistently to all periods presented in the financial statements, as this approach improves comparability of financial information from year to year. In addition, the Board understands that the comparative information is often readily available.

APPENDIX A: Comparison of Fair Value Disclosure Requirements in IFRS 13 and the Section 4600 Appendix

The complete Disclosure section of IFRS 13 is shown in the left column of the table below. Where applicable, the fair value disclosure requirements in the Section 4600 Appendix are shown beside the corresponding IFRS 13 requirements. Paragraph 27A of the Section 4600 Appendix is excluded from this table, as the corresponding IFRS 13 guidance resides in the Measurement section of IFRS 13, which pension plans already apply in accordance with paragraph 4600.40.

IFRS 13	Section 4600 Appendix
91 An entity shall disclose information that helps users of its financial statements assess both of the following: **(a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.** **(b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.** 92 To meet the objectives in paragraph 91, an entity shall consider all the following: (a) the level of detail necessary to satisfy the disclosure requirements; (b) how much emphasis to place on each of the various requirements; (c) how much aggregation or disaggregation to undertake; and (d) whether users of financial statements need additional information to evaluate the quantitative information disclosed. If the disclosures provided in accordance with this IFRS and other IFRSs are insufficient to meet the objectives in paragraph 91, an entity shall disclose additional information necessary to meet those objectives.	

IFRS 13	Section 4600 Appendix
93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:	27B For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:
(a) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount).	
(b) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).	(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.
(c) for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.	(b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.
	[…]

IFRS 13	Section 4600 Appendix
(d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.	27 An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.
	27B [...]
(e) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:	(c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
(i) total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.	(i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);
(ii) total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised.	(ii) total gains or losses recognised in other comprehensive income;

IFRS 13	Section 4600 Appendix
(iii) purchases, sales, issues and settlements (each of those types of changes disclosed separately).	(iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and
(iv) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.	(iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
(f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.	(d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).
(g) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).	
(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:	

IFRS 13	Section 4600 Appendix
(i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).	
(ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.	(e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.
(i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.	

IFRS 13	Section 4600 Appendix
94 An entity shall determine appropriate classes of assets and liabilities on the basis of the following: (a) the nature, characteristics and risks of the asset or liability; and (b) the level of the fair value hierarchy within which the fair value measurement is categorised. The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IFRS specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this IFRS if that class meets the requirements in this paragraph.	
95 An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 93(c) and (e)(iv). The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following: (a) the date of the event or change in circumstances that caused the transfer. (b) the beginning of the reporting period. (c) the end of the reporting period.	

IFRS 13	Section 4600 Appendix
96 If an entity makes an accounting policy decision to use the exception in paragraph 48, it shall disclose that fact.	
97 For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 93(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this IFRS.	
98 For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.	
99 An entity shall present the quantitative disclosures required by this IFRS in a tabular format unless another format is more appropriate.	An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.