



# Special Notice

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## Proposed Amendments to International Accounting Standard (IAS) 19 – Defined Benefit Plans

The International Accounting Standards Board (IASB) has just released its second exposure draft outlining proposed changes to their accounting standard IAS 19 – Employee Benefits. As expected, the proposed changes will force plan sponsors to recognize, on their balance sheet, the funded status of defined benefit (DB) pension plans and post-retirement plans through the immediate recognition of all changes in obligations and assets. The exposure draft also proposes changes to the presentation and disclosure of defined benefit costs.

The change will impact all organizations that sponsor a DB pension and/or post-retirement plan and that report under the International Financial Reporting Standards (IFRSs).

For more information on IAS 19, including the transition to IFRSs by many Canadian organizations on January 1, 2011, please refer to our January 2010 edition of [Analysis](#).

### **Immediate recognition**

Currently, IAS 19 allows plan sponsors to:

- defer the recognition of actuarial gains and losses, or
- immediately recognize gains and losses – through either profit and loss or other comprehensive income (equity).

The proposed amendments require that all changes in the defined benefit obligation and the fair value of assets be recognized immediately, as they occur, and that actuarial gains and losses be recognized through other comprehensive income. Furthermore, these amounts must be transferred to retained earnings immediately and cannot be recycled to profit and loss in a later period.

In other words, the proposed amendments remove the ability to defer recognition of actuarial gains and losses. They will also require immediate recognition of all past service costs. Currently, only vested past service costs are subject to immediate recognition under IAS 19.

The IASB believes these changes will:

- eliminate the misleading situation in which a company recognizes an asset in its statement of financial position, even when the plan is in a deficit position; and
- permit a fairer comparison between companies.

While these changes will lead to less volatility in profit and loss, they could increase volatility on the balance sheet. Canadian organizations transitioning to IFRSs in 2011 may want to rethink the method they choose for recognizing actuarial gains and losses, because the option chosen could be eliminated shortly after the transition. As a result, plan sponsors could be faced with two significant accounting changes in a short period of time.

## **Presentation**

The exposure draft also proposes a new approach for presenting the defined benefit cost. More specifically, it proposes that the cost be split into three components:

**(a) A service cost component, to be recognized in profit and loss:**

This component will include the current service cost, any past service cost, and any gains or losses on curtailments.

**(b) A finance cost component, to be recognized in profit and loss:**

This component is defined to be the interest on the net defined benefit liability or asset. The net defined benefit liability or asset is the plan's deficit or surplus, adjusted for the effect of any asset limit.

The exposure draft proposes that the net interest is calculated using the prescribed discount rate used to determine the opening value of the defined benefit obligation. This removes the requirement for a separate calculation of the expected return on assets in profit and loss, but doesn't go as far as to require that the actual plan asset return for the period be included in profit and loss.

**(c) A re-measurement component, to be recognized in other comprehensive income:**

This component will include:

- the actuarial gains and losses on the obligation,
- the actual return on plan assets (net of the interest income included in the finance cost component),
- any gains or losses on settlements, and
- any changes in the asset limit.

In terms of actuarial gains and losses on the obligation, each of the following will need to be reported separately:

- experience adjustments,
- differences due to changes in demographic assumptions, and
- differences due to changes in financial assumptions.

The IASB believes these changes will:

- improve the visibility of different types of gains and losses arising from defined benefit plans, and
- complement more general improvements to IFRSs related to the presentation of other comprehensive income (announcement of these improvements is expected in an exposure draft later this month).

## **Disclosure**

The IASB is also looking to improve the disclosure requirements under IAS 19. The goal is to:

- ensure that amounts related to defined benefit plans are more clearly identified and explained in financial statements, and
- better highlight the characteristics and risks associated with these plans.

Among other things, the proposed changes would require disclosure of:

- plan characteristics (including type of plan, impact of regulatory framework, governance responsibilities, minimum funding requirement, and restrictions on the recognition of net assets);
- the extent to which the plan exposes the organization to risk, as well as any concentration of risk;
- details regarding any plan amendments, curtailments or non-routine settlements;
- the process used to determine demographic assumptions;

- how a change to each of the significant actuarial assumptions would impact a) the plan's obligation at the end of the reporting period, and b) the current service cost reported for the period;
- a description of the methods and assumptions used to prepare the sensitivity analyses related to changes in actuarial assumptions;
- the plan's obligation, adjusted to exclude the effect of projected salary growth;
- details of any asset-liability matching strategies used by the plan; and
- factors that could lead to a significant difference between contributions and current service costs over the next five years.

Organizations participating in defined benefit multi-employer plans will face additional disclosure requirements, including information on:

- plan details,
- funding arrangements,
- the extent of their liability,
- details regarding plan membership,
- the expected contributions for the next five years, and
- how the contributions are determined.

While some of these new disclosure requirements will be welcomed by users of financial statements, they may increase the costs associated with preparing statements. In addition, some of the requirements will need explanation to clarify the extent of disclosure required.

### **Timing**

The IASB has requested comments on the exposure draft by September 6, 2010. Their objective is to finalize the standard by mid-2011. While the effective date has not yet been established, it is not expected to be any earlier than January 1, 2013.

If you would like to discuss these changes in more detail, or need any help developing a response to the IASB on the proposed changes, please contact your Eckler consultant.

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