

Long-awaited Changes on International Pension and Employee Benefit Accounting



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The International Accounting Standards Board (IASB) issued an exposure draft (ED) on proposed changes to International Accounting Standard 19 on Employee Benefits (IAS19) in April 2010. The Canadian Institute of Actuaries (CIA) submitted comments on the ED to the IASB in September 2010. An [article](#) published in the October 2010 (*e*)*Bulletin* summarized the proposals along with the CIA's comments. In general, the CIA supported the proposals which promoted greater comparability and transparency among users of financial statements.

After receiving many comments from a substantial number of stakeholders, the IASB published the amendments to IAS 19 in June 2011. The amendments will come into effect for periods beginning on or after January 1, 2013. Earlier adoption is permitted.

Consistent with the ED, the amendments focus on three key areas promoting greater comparability and transparency in reporting:

- **Recognition**—the elimination of the option to defer the recognition of gains or losses for defined benefit plans (the ‘corridor approach’). By eliminating the smoothing mechanisms, entities will need to recognize gains and losses as they occur in other comprehensive income (OCI), and recycling in profit and loss in subsequent periods will *not* be permitted.
- **Presentation**—the amendments include:
 - Recognition of service cost and finance cost in profit or loss; and remeasurements in OCI (amendments to IAS 1 were also issued to improve the presentation of items in OCI);
 - The introduction of the ‘net interest’ approach to disaggregate the defined benefit cost. The expected return on assets and interest cost on the defined benefit obligation are replaced by a single ‘net interest’ component, determined based on the discount rate; and
 - Entities must report the effects of plan amendments, curtailments and settlements in profit or loss (as opposed to reporting the effect of settlements in OCI as proposed in the ED).
- **Disclosure**—the amendments increase the focus on a risk-based disclosure approach reflecting the characteristics and the risks inherent to the companies’ defined benefit plans. This moves away from exhaustive or prescriptive lists. The amended IAS 19 also requires that an entity participating in a defined benefit

multi-employer plan provides a description of any agreed allocation of a deficit or surplus on withdrawal from or wind-up of the plan.

In addition, the amendments clarify some other areas of IAS 19, including:

- **Risk-sharing features**—such as accounting for employee contributions and conditional indexation. For contributory defined benefit pension plans, the employee contributions are attributed to periods of service as a negative benefit (i.e., the net benefit should be attributed in the determination of the defined benefit obligation);
- **Taxes and administration costs**—the administration costs should be recognised when the administrative service is provided, taking into account the nature of the costs. The cost of managing assets should be deducted from the return on assets. The amendments aimed to clarify the treatment of taxes but further guidance could be required in specific applications (e.g., refundable taxes on non-registered funded plans—RCAs); and
- **Termination benefits**—amendments on termination benefits that were exposed for public comments in 2005 were incorporated into the new IAS 19. The amendments require an entity to recognise termination benefits when it can no longer withdraw that offer (such as, when the employee accepts the offer).

However, the following key areas were not addressed by the amendments. Some of the topics remain subject to a more comprehensive IAS 19 review:

- The proposals did not address measurement items of the defined benefit obligations such as the discount rate assumption, nor did they incorporate prior proposals on contribution-based promises. These items may be part of a more fundamental review;
- IFRIC 14 was not incorporated into IAS 19. IFRIC 14 remains as a separate interpretation of the standards; and
- Some proposals on disclosure in the ED were not adopted and may be revisited within a future review.

In light of comments by respondents on the ED (including the CIA), the amendments did not combine post-employment and other long-term employee benefit categories as originally proposed.

Many respondents have urged the IASB to comprehensively review the accounting for employee benefit promises. The IASB has agreed with the need for such a review, but it will depend on the outcome of the current agenda consultations, which are still to be finalized due to recent changes of Board members.

This article has been prepared by the Task Force on International Pension and Employee Benefits Standards. Please do not hesitate to contact any members of the task force listed on the CIA [website](#) if you have any comments or questions on the above article.