Proposed Changes to Pension and Employee Benefit Accounting Standards

By Denis Plouffe, FCIA

At the end of April 2010, the International Accounting Standards Board (IASB) issued an exposure draft on proposed changes to International Accounting Standard 19 (IAS19 Employee Benefits) in order to improve the recognition, presentation and disclosure related to defined benefit plans by mid-2011. The proposed changes presented in this exposure draft are an interim step in a long-term process with a fundamental review of pension accounting issues to be addressed after mid-2011. This exposure draft was opened for public comments until September 6, 2010.

In essence, proposed changes to IAS 19 include:

- Removal of the corridor approach to recognize actuarial gains and losses. Companies would need to recognize actuarial gains and losses immediately through Other Comprehensive Income (OCI);
- A new presentation approach providing more visibility among the different components of the net periodic cost, including:

- The service cost as part of profit and loss;
- The interest cost as part of the finance cost component of profit and loss; and
- Any cost impact due to remeasurement into OCI;

- Improved disclosure requirements to promote a risk-based approach, focusing on the characteristics and risks inherent in the defined benefit plans.

The exposure draft did not address measurement of defined benefit plans or the accounting for contribution-based benefit promises. The IASB will consider after 2011 whether to address these topics.

Comments on the exposure draft were requested by the IASB in the form of questions and answers. In general, the Canadian Institute of Actuaries (CIA) supports the proposals improving transparency, provided the disclosure requirements are more clearly defined.

Highlights of the CIA comments and suggestions submitted to the IASB are:

- Proposals that change practices that are currently essentially uniform between the Financial Accounting Standards Board (FASB)/Canadian Institute of Chartered Accountants (CICA) and IASB are counterproductive. Even if the IASB believes that the current accounting is problematic, it should not be causing consistent practice to diverge when its goal is convergence.

- A well-defined rationale or objective to disaggregation of the net periodic pension cost components would help avoid manipulation of assumptions to divert costs to OCI rather than profit and loss. For example, assumptions regarding future benefit improvements may be set low for the purpose of calculating the service cost and obligation and to the extent that actual improvements are greater than expected, the difference would be treated as an actuarial loss and would be recognized through OCI.
- The proposed presentation approach, with curtailments included in profit and loss and settlements included in the remeasurement component, also requires additional guidance when accounting for a single event leading to both a curtailment and a settlement, in order to avoid manipulation in the accounting treatment.
- A risk-based disclosure approach focusing on the most significant risks should also incorporate appropriate examples of disclosures, including when and what additional disclosure is required on interim periods.
- The accounting treatment for a multi-employer plan (MEP) should reflect the employer's liability as a result of its participation in the MEP and not be determined based on the ability to allocate assets and liabilities among participating employers. MEP accounting should be revisited and subject to a more comprehensive review related to the employer's obligations and risk.
- Appropriate disclosure on post-retirement medical plans reflecting the main risks inherent to these types of plans should also be elaborated since the current proposals provide very little guidance specific to these types of plans.
- A simplified and common approach should be promoted for certain short-term benefits. In particular, having different accounting methods between compensated absences that accumulate and those that do not is cumbersome and difficult to apply in practice.
- In Canada, for non-registered funded plans (RCAs) where the trust is subject to a 50 percent refundable tax, the proposal that the finance cost component be based on interest calculated on the net defined benefit liability (asset) must be examined more closely to determine proper accounting for tax during the accumulation phase and the payout phase.

The IASB and the IAS19 working group met in London towards the end of September to review submitted comments. Changes of Board members are also taking place at the IASB and the trustees of the IFRS foundation, the oversight body of the IASB, have just appointed a new IASB chair to succeed Sir David Tweedie upon his retirement at the end of June 2011. A new vice-chair was also appointed. The actual kick-off date for the fundamental review originally scheduled for mid-2011 remains speculative until the new Board is in place and has framed its priorities.

Denis Plouffe, FCIA, is Chair of the Task Force on International Pension and Employee Benefits Standards.