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IFRS

First Impressions: Employee benefits

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Employee benefit accounting revised

The amended employee benefits standard IAS 19 *Employee Benefits*, published on 16 June 2011, is the result of a lengthy process of post-employment benefit accounting considerations. The amended standard has an effective date of annual periods beginning on or after 1 January 2013.

One of the significant changes in the amended standard is the elimination of the 'corridor method' under which the recognition of actuarial gains and losses could be deferred. Instead, all actuarial gains and losses are recognised immediately in other comprehensive income. We expect this generally to have a significant impact on those entities currently applying the corridor method. However, even if an entity does not currently apply the corridor method, the amended standard may still have a significant effect on entities with funded defined benefit plans. This is principally because it introduces a new approach to calculating and presenting the net interest income or expense on the net defined benefit liability (asset). This is now calculated as a single net interest figure, based on the discount rate that is used to measure the defined benefit obligation. As a consequence, an entity is no longer able to recognise in profit or loss the long-term expected return on the plan assets actually held; for many entities this will result in a reduction in net profit from that reported under the current IAS 19.

Back in 2006 the IASB added to its agenda a project for a fundamental review of all aspects of post-employment benefit accounting. It published a discussion paper *Preliminary Views on Amendments to IAS 19 Employee Benefits* (the discussion paper) in March 2008 with proposals for employee benefits to be based on 'promises'; for the liability related to certain employee benefit promises to be measured at fair value; and for a new approach to accounting for cash-balance plans. Following the discussion paper, the IASB also discussed proposals to put the full impact of defined benefit plan accounting in profit or loss. However, in March 2010 it issued the exposure draft *Defined Benefit Plans – Proposed Amendments to IAS 19* (the exposure draft), which did not include any of these proposals, although it retained the proposed abolition of the corridor method of accounting. Instead, the exposure draft focused on presentation, with recurring costs, i.e. service costs and net interest income or expense, being recognised in profit or loss, and remeasurements being recognised in other comprehensive income. The future of the other aspects of the project deferred at the exposure draft stage may become clearer when the IASB publishes its three-year agenda consultation promised for later this year.

Separately, in June 2005, the IASB published a different exposure draft of amendments to IAS 19, dealing with the accounting for termination benefits, together with proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Due to a pause in the IAS 37 project, the IASB decided to finalise the amendments concerning termination benefits when it finalised the amendments arising from its 2010 exposure draft.

When considering the effects of the amended standard, the wider practical impact that it might have, for example on compliance with debt covenant requirements and key performance measures, also may be a focus for entities. The amended standard alters both the timing and location of recognition of the changes in the net defined benefit liability (asset) and each entity will need to evaluate the impact from its own perspective.

In the meantime, we trust that this publication will assist entities in understanding what they need to do to apply the standard and investors in understanding what is driving the amended information that they will begin to see, in the second half of 2013 and into 2014, as entities begin to report on this basis in their interim and annual financial statements.

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1. Overview

IAS 19R.2

The scope of the standard is unchanged. It is applied by all entities in accounting for all employee benefits other than those to which IFRS 2 *Share-based Payments* applies.

IAS 19R.6, 8

Employee benefits are all forms of consideration given by an entity in exchange for services provided by employees or for termination of employment. They include such benefits provided directly to employees and to their dependants or beneficiaries.

IFRIC 14.4, 6

In addition to IAS 19, IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* continues to be relevant for post-employment and other long-term employee defined benefit plans. The interpretation provides guidance on the effect of the asset ceiling test, which might involve restricting the amount of a surplus that can be recognised as an asset or recognising an additional liability for minimum funding requirements that relate to past service.

IAS 19R.5

Employee benefits continue to be classified into four separate classes with differing recognition, measurement and disclosure requirements. However, the boundaries between these classes have changed and under the amended standard are:

- short-term employee benefits, which are those benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service;
- post-employment benefits such as pensions, lump-sum payments on retirement, and post-employment medical care;
- termination benefits; and
- other long-term employee benefits, which are all benefits other than those falling into the previous three categories.

The amended standard makes no change to the underlying measurement method in IAS 19 for post-employment benefits, although change had been proposed earlier in the IASB's project. Benefits continue to be attributed to periods of service based on the benefit formula, on a straight-line basis when employee service in later years will lead to a materially higher level of benefit than in earlier years, i.e. back-end loaded benefits.

IAS 19R.8

However, some of the terms used in the amended standard, e.g. settlements, are now defined differently.

IAS 19R.135

Under the amended standard, the disclosures required for defined benefit plans have changed. The amended disclosures are now grouped under three objectives:

- the characteristics of, and risks associated with, defined benefit plans;
- identification and explanation of the amounts in the financial statements arising from defined benefit plans; and
- a description of how defined benefit plans may affect the amount, timing and uncertainty of future cash flows.

IAS 19R.165

A termination benefit is now recognised at the earlier of:

- when the entity recognises costs for a restructuring within the scope of IAS 37 that includes the payment of termination benefits; and
- when the entity can no longer withdraw the offer of the termination benefits.

IAS 8.30, 19R.172

The effective date for the application of the amended standard is annual periods beginning on or after 1 January 2013. Earlier application is permitted, subject to making disclosure of this fact. For those entities that choose not to early adopt, disclosure is required of this fact and the known or reasonably estimable information relevant to assessing the possible impact that application of the amended standard will have on the entity's financial statements.

2. How this could affect you

The key changes from the current IAS 19 and the related potential impacts are summarised below.

Key changes from the current IAS 19	Potential impacts
All actuarial gains and losses recognised immediately in other comprehensive income	<p>The change to require immediate recognition of all actuarial gains and losses will affect, and make more volatile, the statement of financial position of entities applying the corridor method under the current IAS 19, which is abolished. Immediate recognition in other comprehensive income will affect the profit or loss of both these entities and those currently recognising actuarial gains and losses immediately in profit or loss.</p> <p>Those currently applying the corridor method may need to discuss with their lenders revising the definitions of any relevant covenants included in their lending agreements.</p>
Finance costs – revised basis of calculation	<p>Since net interest is now calculated as the net defined benefit liability (asset) multiplied by the discount rate that is used to measure the defined benefit obligation, the nature of the plan assets held will have no impact on the net finance charge or credit. The impact of this change will be greater, when the gap between the expected rate of return on plan assets and the rate used to discount the obligation is greater. This change might lead to a rebalancing of investment portfolios.</p> <p>Entities may wish to reconsider how their covenant tests will be affected by the amended standard. For instance, this change to finance costs may affect an interest cover calculation. They may wish to reconsider also what performance measures are used in, for example, employee remuneration arrangements.</p>
Additional disclosures for defined benefit plans	<p>Entities with a significant number of post-employment defined benefit plans will need to plan carefully the way that they assess the need for and how best to aggregate the disclosures to be made.</p> <p>When defined benefits are provided to employees in various countries, detailed and early planning will be key to obtaining the necessary information in a consistent manner in the different countries.</p>
Amended definitions of short-term and other long-term employee benefits	<p>The distinction between short-term and other long-term employee benefits affects the measurement of the obligation and not just its classification. More benefits may now be other long-term than was previously the case.</p> <p>Entities will need to reconsider the classification that they have been using for all employee benefits within the short-term and other long-term employee benefit categories. Entities will also have to keep the classifications under review in case expectations change other than on a temporary basis.</p>
Possible changes to timing of recognition of termination benefits	<p>Entities providing termination benefits as part of a wider restructuring may find that, depending on the detail of the termination, the timing of recognition of those benefits changes.</p> <p>Currently such benefits are recognised when the entity is demonstrably committed to either terminate employment mandatorily or provide voluntary termination benefits. Under the amended standard, they are recognised at the earlier of when the entity recognises related restructuring costs and when it can no longer withdraw the offer of those benefits. Depending on the details of the termination this might result in earlier recognition.</p>

3. Post-employment benefits – recognition

IAS 19R 8, 63

Under the amended standard, the net defined benefit liability (asset) is recognised in the statement of financial position and is made up of:

- the present value of the defined benefit obligation; less
- the fair value of any plan assets (together, the deficit or surplus in a defined benefit plan); adjusted for
- any effect of limiting a net defined benefit asset to the asset ceiling.

IFRIC 14.26

The effect of limiting the net defined benefit asset to the asset ceiling also includes any additional liability recognised for minimum funding requirements that relate to past service.

Effectively, under the amended standard all changes in the value of the defined benefit obligation, in the value of plan assets and in the effect of the asset ceiling are recognised in both the statement of financial position and the statement of comprehensive income immediately. Therefore, the amendments:

- eliminate the corridor method, by requiring immediate recognition of actuarial gains and losses; and
- result in immediate recognition of all past service costs, including unvested amounts.

In addition, the timing of recognition in respect of changes to the net defined benefit liability (asset) that result from plan amendments and curtailments that arise as part of a restructuring or that are linked to termination benefits may change in some cases.

3.1 Elimination of the corridor method for recognising actuarial gains and losses

IAS 19.7

Actuarial gains and losses under the current IAS 19 arise from experience adjustments and the effect of changes to actuarial assumptions relating to both the defined benefit obligation and plan assets.

IAS 19.7

Currently under IAS 19, an entity may choose an accounting policy of recognising actuarial gains and losses in profit or loss or alternatively immediately in other comprehensive income. If actuarial gains and losses are recognised in profit or loss, then an entity may choose to recognise such gains and losses using the corridor method, which permits their recognition to be deferred.

IAS 19.92, 93

Under the corridor method, actuarial gains and losses are recognised when the cumulative unrecognised amount thereof at the beginning of the period exceeds a 'corridor'. The corridor is 10 percent of the greater of the present value of the defined benefit obligation and the fair value of the plan assets, measured at the beginning of the period. The net cumulative unrecognised actuarial gain or loss at the beginning of the period in excess of the corridor is amortised on a straight-line basis over the expected remaining working lives of the employees participating in the plan. This represents the minimum amount of cumulative actuarial gains and losses that should be recognised, but an entity may use a method that results in faster recognition.

IAS 19R.8, 127

Under the amended standard, *remeasurements* comprise:

- actuarial gains and losses;
- the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
- any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

- IAS 19R.8, 128* Under the amended standard, *actuarial gains and losses* are changes in the present value of the defined benefit obligation that result from experience adjustments and changes in the actuarial assumptions.
- IAS 19R.120(c)* All remeasurements are recognised immediately in other comprehensive income (see 5.3), and therefore both the corridor method of recognising actuarial gains and losses and the policy choice of recognising them immediately in profit or loss under the current IAS 19 are eliminated.
- IAS 19.BC70-BC72* The IASB explains in the Basis for Conclusions to the amended standard that it believes that immediate recognition provides more relevant information to users of financial statements and provides a more faithful representation of the financial effect of defined benefit plans. It also improves comparability by eliminating the options allowed under the current IAS 19. With the requirement to recognise remeasurements outside profit or loss, in other comprehensive income, the IASB notes that the additional volatility that this would introduce for those entities currently using the corridor method is isolated by being reported as a remeasurement (see 5.3).

Insight – Abolition of the corridor

IAS 19.BC38-BC48

Immediate recognition of actuarial gains and losses is consistent with the *Conceptual Framework for Financial Reporting*, as acknowledged in the Basis for Conclusions to the current IAS 19. Although the International Accounting Standards Committee (the IASB's predecessor) found the immediate recognition alternative attractive when the standard was updated in 1998, it was believed not to be feasible to require that approach until substantial issues about performance reporting had been resolved. However, the deferral permitted by the corridor method has been subject to continuing criticism and the IASB has now abolished it.

Insight – How might this change affect you?

The changes to recognition of actuarial gains and losses will affect the statement of financial position and make it more volatile for those entities applying the corridor method under the current IAS 19. It will affect the profit or loss of both these entities, since amounts in excess of the corridor will no longer be recognised gradually in profit or loss, and those currently recognising actuarial gains and losses immediately in profit or loss, since such amounts will now be recognised in other comprehensive income.

Those currently applying the corridor method may need to discuss with their lenders either revising the definitions of any relevant covenants included in their lending agreements or possibly, in the short-term, seeking to insulate their debt covenants from this change in accounting requirements.

3.2 Plan amendments that give rise to past service cost

- IAS 19R.8, 102, 106* Under the amended standard, *past service cost* is the change in the present value of a defined benefit obligation for employee service in prior periods resulting from a plan amendment or a curtailment. It may be either positive or negative, i.e. either increasing or decreasing the present value of the defined benefit obligation. Plan amendments that give rise to past service cost will be discussed in this section, whilst 3.4 provides additional discussion about curtailments that give rise to past service cost.
- IAS 19R.8, 104* Under the amended standard, *plan amendments* are the introduction of, withdrawal of, or changes to a post-employment benefit plan.
- IAS 19.97* Under the current IAS 19, plan amendments give rise to past service cost when an entity:
- introduces a defined benefit plan that attributes benefits to past service; or
 - changes the benefits payable for past service under an existing defined benefit plan.

Insight – Withdrawal of a plan is a plan amendment

Under the current IAS 19, withdrawal of a plan or any amendment to the terms of a plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits, is a curtailment (see 3.4). The amended standard includes plan withdrawals and all plan changes except now more narrowly defined curtailments as part of plan amendments that give rise to past service cost. However, since under the amended standard plan amendments and curtailments are accounted for similarly and disclosed together, as part of past service cost, that change has no practical impact.

IAS 19.96

Currently under IAS 19 an entity recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. Vested past service cost is recognised immediately when the change in benefit occurs.

IAS 19R.103

Under the amended standard, past service cost is recognised immediately, at the earlier of the following:

- when the related restructuring costs are recognised – if a plan amendment arises as part of a restructuring;
- when the related termination benefits are recognised – if a plan amendment is linked to termination benefits; and
- when the plan amendment occurs (see 3.4).

Insight – The linkage between plan amendments, restructuring and termination benefits

The amended standard recognises that, in many cases, plan amendments that result in past service cost are economically linked to a restructuring transaction or other termination benefits and therefore requires those linked components to be recognised at the same time.

IAS 19R.107, 19.100

Both the current and amended standards recognise that a reduction in certain benefits under an existing defined benefit plan and an increase in other benefits payable under the plan for the same employees are linked. Therefore, these should be accounted for as a single net change. However, the current IAS 19 does not extend this to a linkage with other benefits such as termination benefits or to restructuring costs (except for curtailment – see 3.4).

3.3 Other implications of immediate recognition

IAS 19R.8, 19.108, 109

As a direct result of the requirements to recognise remeasurements and past service cost immediately:

- the asset ceiling calculation is simplified, relating only to benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and no longer to unrecognised net actuarial losses and past service cost;
- the gain or loss on any curtailment and settlement calculation is simplified by no longer including any related unrecognised actuarial gains and losses in the computation; and
- the guidance with respect to the recognition of post-employment benefit assets and liabilities upon a business combination is deleted since it is redundant due to the abolition of the corridor method for actuarial gains and losses and deferral of unvested past service costs in the amended standard.

IAS 19.108

Under the current IAS 19, in a business combination the acquirer recognises the assets and liabilities arising from post-employment benefits at the present value of the obligation less the fair value of any plan assets (subject to the asset ceiling test), even if the acquiree had deferred the recognition of amounts with respect to actuarial gains and losses and past service cost.

3.4 Curtailments that give rise to past service cost

IAS 19.111

Under the current IAS 19, a curtailment occurs when an entity either:

- is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or
- amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

IAS 19.109, 111

Currently under IAS 19 entities recognise a curtailment when it occurs. However, when a curtailment is linked with a restructuring, it is accounted for at the same time as the related restructuring.

IAS 19R.105

Under the amended standard, a curtailment occurs when there is a significant reduction in the number of employees covered by the plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

IAS 19R.8, 103

Under the amended standard, a curtailment gives rise to past service cost (see 3.2) and, as such, it is recognised at the earlier of the following:

- when the related restructuring costs are recognised – if a curtailment arises as part of a restructuring;
- when the related termination benefits are recognised – if a curtailment is linked to termination benefits; and
- when the curtailment occurs.

IAS 19R.BC158

For plan amendments (see 3.2) and curtailments, the amended standard refers to the time when they 'occur'. The IASB was asked whether this means when the change is announced, when it is executed or when it is effective. The IASB noted that determining when a plan amendment or curtailment occurs is a matter of judgement but that it would depend upon the individual facts and circumstances and how they interact with the constructive obligation requirements of the amended standard. It concluded that providing further guidance on this matter was beyond the scope of its limited current project.

Insight – Change in curtailment definition

Curtailment has been narrowed down to include only cases in which an entity makes a significant reduction in the number of employees covered by the plan. As a result, amendments to the terms of a defined benefit plan will be considered plan amendments and will be accounted for as past service cost (see 3.2). This affects only their description, not the location or – taken alone – the timing of their recognition.

Insight – Changing the timing of recognition

Firstly, the amended standard requires the recognition of a curtailment when it occurs, removing the current statement that a curtailment occurs when an entity is *demonstrably committed* to make a significant reduction in the number of employees covered by the plan. Our first impression is that this change might mean that some curtailments (those that are not linked to a restructuring or to termination benefits) might be recognised later than they would have been under the current IAS 19, i.e. when the significant reduction in the number of employees covered by the plan actually takes place, rather than when the entity is demonstrably committed to such a reduction.

Secondly, the amended standard slightly amends the recognition requirements for a curtailment when it occurs together with a restructuring. Currently under IAS 19 a curtailment that is linked to a restructuring would be recognised at the same time. The amended standard provides that this is the case only if the restructuring takes place before the curtailment occurs. Therefore, if the curtailment occurs before the restructuring costs are recognised, then they would not be linked together, and the related past service cost would be recognised when the curtailment occurs. In addition, the amended standard requires that if a related termination occurs before the curtailment takes place, then the related past service cost would be recognised at the same time as the termination benefits.

Insight – Practice issue

IAS 19R.113

The dividing line between past service cost, in particular negative past service cost, and a curtailment gain or loss can be difficult to determine under the current IAS 19, despite the changes introduced by the IASB's *Annual Improvements* in 2008. By grouping plan amendments and curtailments together under past service cost, and not requiring separate disclosure of each when they occur together (see 7.1), the amended standard removes this difficulty.

3.5 Settlements

In May 2008 the Interpretations Committee (previously referred to as the IFRIC) published in its *IFRIC Update* a decision not to take onto its agenda the issue of treatment of optionality introduced in the plan. The Interpretations Committee noted that when an existing plan gives plan members the option to choose to receive a lump-sum payment at retirement instead of ongoing payments, that optionality is covered by the actuarial assumptions underlying the measurement of the defined benefit obligation and therefore a lump-sum payment is not treated as a settlement under IAS 19.

IAS 19R.8, 76

The amended standard changes the definition of settlements in order to distinguish between settlements and remeasurements. A *settlement* is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions. Under the amended standard, actuarial assumptions include an assumption about the proportion of plan members who will select each form of settlement option available under the plan terms.

IAS 19R.8, 76, 111

A payment of benefits to, or on behalf of, employees that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan would generally be a settlement. However, when those payments are being made in a way that is allowed for in the terms of the plan and in respect of which an actuarial assumption has been made, this results instead in a remeasurement being recognised.

For example, if the terms of the plan allow plan participants to take a lump-sum cash payment in exchange for their rights to receive specified annual post-employment benefit payments, then the entity will have made an actuarial assumption about how many participants will choose to take the lump sum in calculating the defined benefit obligation. Therefore, when lump-sum cash payments are made to participants under this plan term this does not result in a settlement, even though the payment will have eliminated the entity's obligations in respect of the benefits given up. Instead, an actuarial gain or loss will arise if the choice of settlement taken by the employee is not the one that the entity has assumed will be taken (see 4.4).

IAS 19R.110

The amended standard does not change the recognition requirements for settlements.

Insight – How might this change affect you?

As discussed in our publication *Insights into IFRS* (4.4.280.40), in our experience an entity's expectation of an employee's choice to receive a lump-sum payment at retirement instead of ongoing payments generally is covered by the actuarial assumptions underlying the measurement of the defined benefit obligation. However, we note that there may be circumstances in which settlement accounting may be more appropriate under the current IAS 19, e.g. in a situation in which a large number of individuals choose the lump-sum payment option at the same time in response to the entity's actions, such as offering enhanced lump-sum payments.

Our first impression is that, under the amended standard, such cases will need careful consideration as to whether the payments remain within the terms of the plan. If they do, then the payments will not be considered as settlements: instead, they may give rise to an actuarial gain or loss. However, if the payments go beyond the terms of the plan, then settlement accounting might apply for at least part of the total cost.

Since settlements are recognised in profit or loss and actuarial gains and losses are recognised in other comprehensive income, determining which classification applies will be important. From a timing point of view, the distinction will be less important under the amended standard, since both actuarial gains and losses and settlements will be recognised when they occur.

3.6 Summary

In terms of recognition, the amended standard introduces two significant changes:

- immediate recognition of all changes in the defined benefit liability (asset); and
- recognition of curtailments and other plan amendments at the same time as recognition of a related restructuring or related termination benefits, when those occur before the curtailment or other plan amendments occur.

The table below summarises the effects of the amended standard's recognition requirements on the net defined benefit plan liability (asset) in the statement of financial position.

Existing policy under the current IAS 19	Actuarial gains and losses recognised in profit or loss on a deferred basis under the corridor method	Actuarial gains and losses recognised immediately in profit or loss/other comprehensive income
	Amended IAS 19	
	Unvested past service cost deferred	
Immediate recognition of actuarial gains and losses	Change to the net defined benefit plan liability (asset)	No effect on the net defined benefit plan liability (asset)
Immediate recognition of past service cost	Change to the net defined benefit plan liability (asset)	

Insight – How might these changes affect you?

For entities that currently apply the corridor method, the amended standard will generally have a significant effect. We expect that applying the immediate recognition approach will not present practical measurement difficulties, since the necessary information is already required to be prepared in order to calculate and disclose the effect of the corridor method. However, this amendment might change substantially the net defined benefit liability (asset) recognised in the statement of financial position and the amounts that are recognised in the statement of comprehensive income.

Furthermore, the amendment may cause a high level of volatility in reported net assets. On the other hand, we note that the requirement to report remeasurements in other comprehensive income will remove from profit or loss the volatility resulting from occasional recognition under the current IAS 19 of actuarial gains and losses that exceed the corridor. Presentation of actuarial gains and losses outside profit or loss may result in greater prominence being given to the 'other' section of the statement of comprehensive income. As a result, some entities may decide to change the financial ratios used to evaluate their position and/or performance.

Insight – Potential impact on covenant compliance

Entities may need to consider the impact of the amendment on their financing arrangements, including on their ability to meet covenants, and may wish to discuss the impact of the amendment with their lenders.

In some jurisdictions the change may affect an entity's ability to pay dividends, if there are legal restrictions based on the amounts recognised in the financial statements that are affected by the amended standard. Alternatively, amounts now being recognised under the amended standard may need in part to be disregarded when determining the ability to pay dividends and entities will need to identify these amounts.

4. Post-employment benefits – measurement

The amended standard introduces some changes to the measurement of defined benefit obligations as follows:

- taxes payable by the plan (see 4.1)
- administration costs (see 4.2)
- risk-sharing features and contributions from employees or third parties (see 4.3)
- optionality introduced by the plan (see 4.4).

IAS 19R.81, 82, 90, 19.73, BC142

The amended standard also includes some limited changes to other actuarial assumptions that are not expected to change current practice significantly. One of these is with respect to mortality assumptions: under the amended standard, an entity includes assumptions that take into account currently-expected changes in mortality assumptions, meaning that, in the view of the IASB, current mortality tables might need to be adjusted for expected changes in mortality. The current IAS 19 requires only that an actuarial assumption is made about mortality, both during and after employment, without specifying whether or not expected changes in mortality should be taken into account. Another example is that the amended standard notes various factors that should be taken into account in estimating future salary increases, such as inflation, promotion, and supply and demand in the employment market.

IAS 19R.91

Another change is with respect to the effect of limits to the contributions that an entity is required to make. Under the amended standard, any such limits should be included in the calculation of the ultimate cost of the benefit, over the shorter of the expected life of the entity and the expected life of the plan. The current IAS 19 does not include this specific requirement.

IAS 19R.8, 123

The amended standard also changes the manner in which the interest cost is calculated. Although this change is considered to be a change to the presentation of costs related to the plan, since it results from revising the split of the total return on plan assets between profit or loss and other comprehensive income, its impact may suggest that it is more of a measurement change in its nature. See 5.2 for further discussion.

IFRS 13.D62, IAS 19R.8, 113, A6

The standard's requirements in respect of fair value measurement of plan assets have not been changed directly. However, the wording of the current IAS 19 has been amended slightly as part of the consequential amendments made by IFRS 13 *Fair Value Measurements*, the recently published standard (see our publication *First Impressions: Fair value measurement*). Similar consequential amendments are made to the amended standard.

4.1 Taxes payable by the plan

IAS 19.7

The current definition of return on plan assets includes the deduction of any taxes payable by the plan itself.

IAS 19R.8, BC124

The amended standard distinguishes between taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service and all other taxes payable by the plan. The IASB noted that there is a wide variety of taxes payable on pension costs, both by the entity and by the plan itself, but that it would restrict itself at this stage to considering only taxes payable by the plan.

IAS 19R.76(b)(iv)

An actuarial assumption is made about the first type of taxes, those payable by the plan on contributions or benefits, which are taken into account in measuring current service cost and the defined benefit obligation. This is because the IASB sees such contribution and benefit taxes as part of the cost of providing the benefits.

Illustrative example – Taxes payable on contributions relating to service before the reporting date

A plan is required to pay a 10 percent tax on all contributions it receives – a ‘contributions tax’. Without considering the impact of investment earnings that might also fund the future benefits, the plan must receive contributions of 100 in order to retain sufficient post-tax plan assets to pay a benefit of 90, effectively increasing the employer’s ‘cost’ of the benefit. The amended standard requires that this type of tax be included in determining the defined benefit obligation at each reporting date. Changes in the expected timing or amount of contributions tax payable will lead to actuarial gains and losses, which are recognised in other comprehensive income.

Insight – Estimating contribution and benefit taxes

Estimating the amount of contributions tax payable to be included in the calculation of the defined benefit obligation will involve making assumptions about, for example:

- the expected timing of contributions tax payments, which might occur periodically over the employment period; and
- the level of plan assets already held by the plan, which limit the need for additional contributions and the related taxes.

All other taxes payable by the plan, such as taxes on investment income, are included in the return on plan assets. As a result, they are charged to other comprehensive income as part of the excess or shortfall of the overall return on plan assets over the amount included in net interest on the net defined benefit liability (asset) (see 5.3).

Illustrative example – Taxes that are included in the return on plan assets

Opening fair value of plan assets		2,000
Interest income (actual)	200	
Other fair value changes (actual)	100	
Gross return on plan assets	300	
Tax payable on gross return (at 15% of gross return)	(45)	
Change in fair value of plan assets, net of taxes payable (net change)		255
Closing fair value of plan assets:		2,255
Portion of net change in value recognised in profit or loss as part of net interest (2,000 x 6% (the actuarial assumption of the discount rate on the defined benefit obligation))		120
Portion of net change recognised in other comprehensive income as part of remeasurements		135
		255

Insight – Accounting for taxes payable by the plan based on their nature

In our publication *Insights into IFRS* (4.4.480), we discuss the issue of taxes payable by the plan and state that such taxes generally are deducted to calculate the expected return on plan assets. However, we note there our view that consideration should be given to the nature of any taxes payable by the plan to determine whether it is more appropriate for any of those taxes to be included in the measurement of the defined benefit obligation rather than as part of the expected return on plan assets.

The accounting for taxes payable by the plan according to the amended standard is consistent with this view, as, effectively, it accounts for taxes payable by the plan based on the nature of the tax.

Insight – Consistent classification of taxes

Our first impression is that this clarification should result in the following.

- Taxes on contributions consistently being included in the calculation of the defined benefit obligation and current service cost. This will result in the recognition of actuarial gains and losses in other comprehensive income when there are changes in the expected amount of the taxes payable or differences in the amount of taxes actually paid and the previously expected amount.
- Other taxes consistently being excluded from the calculation of the defined benefit obligation, and instead being included as part of remeasurements recognised in other comprehensive income, as the taxes become payable.

Insight – How might this change affect you?

The accounting for taxes payable by the plan may require a change in practice for some entities. This could cause an increase in the defined benefit obligation and current service cost.

Our first impression is that taxes payable on the interest income of the plan are not primarily taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service, and as a result are included in the return on plan assets. Therefore they are charged to other comprehensive income as part of the excess or shortfall of the overall return on plan assets over the amount included in net interest on the net defined benefit liability (asset).

4.2 Administration costs

IAS 19.7, 73, BC75

Currently under IAS 19 plan administration costs (not only investment administration costs) reduce the return on plan assets unless those costs are included in the actuarial assumptions used to measure the defined benefit obligation. The current IAS 19 also includes the costs of administering claims and benefit payments related to medical benefits as an example of matters about which actuarial assumptions are made when measuring the defined benefit obligation. As a result, some entities currently include estimated administration costs also in respect of other types of benefit in their measurement of the related defined benefit obligation. Others take them into account when estimating the expected return on plan assets, with the result that differences between that estimated amount and the actual administration costs form part of actuarial gains and losses.

IAS 19R.8, 76(b)(iii), 130

Under the amended standard, costs of managing plan assets reduce the return on plan assets (see 5.3). It does not provide any specific requirements regarding the accounting for other administration costs, other than to state that they are not deducted from the return on plan assets and to retain a reference to claim handling costs of medical benefits.

IAS 19R.BC125, 127

However, it is clear from the Basis for Conclusions that administration costs are now required to be recognised when the administration services are provided. Therefore, the treatment currently permitted of making an actuarial assumption about such costs and including them within the measurement of the defined benefit obligation is no longer allowed under the amended standard.

Insight – Costs of managing plan assets

The amended standard eliminates the implied choice of accounting that exists in the current IAS 19 for the costs of managing plan assets and they can no longer be included in determining the defined benefit obligation. Instead, by being included in the return on plan assets they will be charged to other comprehensive income as part of remeasurements.

Insight – Administration costs other than costs of managing plan assets

IAS 1.88

Since administration costs are now required to be recognised when the administration services are provided, and in view of the requirement of IAS 1 *Presentation of Financial Statements* that all expenses are recognised in profit or loss unless an IFRS requires or permits otherwise, our first impression is that administration costs other than the costs of managing plan assets will be charged to profit or loss.

Insight – How might this change affect you?

The accounting for costs of managing plan assets will require a change in practice for entities that currently include those costs in the measurement of the defined benefit obligation. This could cause a decrease in the defined benefit obligation and current service cost. Entities that currently include their estimate of such costs in the expected return on plan assets will need to consider the classification of these costs under the amended standard.

Entities will also have to change how they account for other plan administration costs.

4.3 Risk-sharing features and contributions from employees or third parties

IAS 19.91, 104A

The current IAS 19 does not state specifically how to deal with employee and third-party contributions and risk-sharing features, except for third-party contributions that relate to reimbursement rights and contributions to some post-employment health care plans that require employees to contribute to the medical costs covered by the plan.

IAS 19R.87(d)

Under the amended standard, the measurement of the defined benefit obligation takes the two matters into consideration as set out below.

4.3.1 Employee and third-party contributions

IAS 19R.87, 92-94

The amended standard distinguishes between discretionary contributions and contributions that are set out in the formal terms of the plan, and provides guidance on accounting for both, as follows.

- Discretionary contributions by employees or third parties reduce service cost upon payment of the contributions to the plan, i.e. the increase in plan assets is recognised as a reduction of service costs.

- Contributions that are set out in the formal terms of the plan either:
 - reduce service cost, if they are linked to service, by being attributed to periods of service as a negative benefit (i.e. the net benefit is attributed to periods of service); or
 - reduce remeasurements of the net defined liability (asset), if the contributions are required to reduce a deficit arising from losses on plan assets or actuarial losses.

IAS 19R.BC150

The Basis for Conclusions notes that a portion of future employee contributions may be connected with salary increases included within the measure of the defined benefit obligation. If so, then the same method of attribution should be applied to that portion of the future employee contributions and to the future salary increases to avoid an inconsistency arising.

IAS 19R.92

The amended standard specifically requires an entity to consider whether third-party contributions reduce the cost of benefits to the entity, or are instead a reimbursement right.

Insight – Contributions from employees and third parties

Since the current IAS 19 does not generally specify the treatment of employee and third-party contributions, there may be current diversity in practice in how they are treated. Our first impression is that judgement will continue to be important in determining the most appropriate treatment of these contributions under the amended standard.

4.3.2

Performance targets or other criteria

IAS 19R.88(c)

Under the amended standard, actuarial assumptions include the best estimate of the effect of performance targets or other criteria. For example, the terms of a plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. These kinds of criteria are reflected in the measurement of the defined benefit obligation, regardless of whether the changes in benefits resulting from the criteria either being or not being met are automatic or are subject to a decision by the entity, by the employee, or by a third party such as the trustee or administrators of the plan.

IAS 19R.BC144, 145

The IASB is aiming to clarify that risk-sharing features such as performance targets should be incorporated into the determination of the best estimate of the defined benefit obligation. In the IASB's view, features in a plan that result in sharing the risks between the entity and the plan participants (e.g. sharing the benefit of a surplus or the cost of a deficit) do not change the fact that the plan is a defined benefit plan. It is not a defined contribution plan, since the entity is exposed to some risk. However, the shared-risk features (including any conditional indexation features) would be taken into consideration when determining the best estimate of the defined benefit obligation.

Insight – Careful consideration of the substance of the arrangement

It will be important to ensure that there is substance to the risk-sharing arrangement before the entity's defined benefit obligation is reduced to reflect this sharing of risk.

In November 2007 the Interpretations Committee published in its *IFRIC Update* a decision not to take onto its agenda the issue of the treatment of employee contributions when the cost of providing the benefits is shared between the entity and the employees. The amended standard effectively codifies the comments made by the Interpretations Committee in that Update. We address the accounting treatment to be adopted when a surplus is shared under the terms of the plan in our publication *Insights into IFRS* (4 4.325.10) and reach the same conclusion.

Illustrative example

Sponsor A provides to its employees a shared risk pension plan with the following characteristics:

- Benefits granted to employees are contingent on the funding level (plan assets divided by defined benefit obligation). If the funding level is above 100 percent, then the benefits are increased and if the funding level is less than 100 percent, then the benefits are decreased, though not below a specified minimum level.
- New employees are informed that every benefit granted is contingent on funding levels.

The actuarial assumptions used in the measurement of the defined benefit obligation include the best estimate of the effect of the funding criteria.

4.4 Optionality included in the plan

'Optionality' refers to there being a choice of settlement options available to members under the plan terms. The current IAS 19 does not state specifically how to deal with optionality permitted by a plan.

*IAS 19R.8, 76(a)(iv),
111*

As explained in 3.5, under the amended standard actuarial assumptions include an assumption about the proportion of plan members who will select each form of settlement option available under the plan terms. Therefore, when the employees are able to choose the form of the benefit, e.g. lump sum payment versus annual pension, the entity would make an actuarial assumption about what proportion would make each choice. As a result, an actuarial gain or loss will arise if the choice of settlement taken by the employee is not the one that the entity has assumed will be taken.

Insight – What if the expectation is that no employees will opt for the lump-sum option?

We note that entities might expect none of their employees to opt for the lump-sum option provided under the terms of the plan and therefore apply a zero assumption, but that eventually some employees may take that option. These lump-sum payments will not be considered a settlement, as a zero assumption is an assumption that an entity was required to make based on the terms of the arrangement. Instead, they will result in an actuarial gain or loss.

4.5 Summary

In terms of measurement, the amended standard introduces a number of changes to the current IAS 19. The most significant changes are with respect to accounting for taxes payable by the plan and plan administration costs.

IAS 19R.BC272

The IASB proposed in the exposure draft that, in determining whether the benefit formula is back-end loaded, an entity would consider estimates of all factors that affect the level of benefits, including expected future salary increases and the best estimate of benefits that are contingent on performance hurdles. This issue is discussed in our publication *Insights into IFRS* (4.4.270.80). The IASB decided to withdraw this proposal as part of its redeliberations on the project. As a result, our first impression is that entities will continue to apply their existing approach to this issue.

5. Post-employment benefits – presentation

IAS 19R.120

Under the amended standard, the cost of defined benefit plans includes the following components:

- service cost – recognised in profit or loss (see 5.1);
- net interest on net defined benefit liability (asset) – recognised in profit or loss (see 5.2); and
- remeasurements of the net defined benefit liability (asset) – recognised in other comprehensive income (see 5.3).

IAS 19R.134, 19.61

Currently under IAS 19, service cost, interest expense on the defined benefit obligation and expected return on plan assets are presented in profit or loss by all entities, although the standard does not specify whether they should be presented in a single item of income or expense. Similarly, the amended standard does not specify where service cost and net interest should be presented. It also does not specify whether an entity should present them separately or as components of a single item of income or expense.

IAS 2.12, 16.16, 17,
19R.120, 121, 19.62

Under the amended standard, the cost components are recognised in profit or loss and other comprehensive income, except to the extent that another standard requires or permits their inclusion in the cost of an asset. For example, under IAS 16 *Property, Plant and Equipment* certain employee benefit costs are capitalised within the cost of property, plant and equipment. Any post-employment costs included in the cost of such assets include the appropriate proportion of all cost components. Whilst the current IAS 19 contains this same requirement, the amount of the cost components in question will now be assessed on the amended basis. Similarly, costs are included in the cost of inventories under IAS 2 *Inventories*.

Insight – Amount of cost to be capitalised

IAS 16.16, 17

An example of directly attributable costs to be included in the cost of an item of property, plant or equipment in IAS 16 is 'costs of employee benefits arising directly from the construction or acquisition of the item'. The interaction of this requirement with the requirement in IAS 19 to capitalise only 'the appropriate proportion' of each of service cost, net interest and remeasurements may be complex, since that proportion might vary between the components of the overall cost. This is not a new issue, as the current IAS 19 contains the same requirement, but our first impression is that entities previously deferring the recognition of actuarial gains and losses under the corridor method and now recognising them in full immediately in other comprehensive income may need to consider with care the appropriate proportion of these gains or losses to be capitalised.

The amended standard changes the split of the overall cost between profit or loss and other comprehensive income. In particular, for many entities the presentation change resulting from the revised split of the return on plan assets has the effect of a significant measurement change in its impact on profit or loss.

The table below summarises the amended standard's presentation requirements compared to the presentation requirements of the current IAS 19.

Cause of movement in net defined benefit liability (asset)	Current IAS 19	Amended IAS 19
Service cost	Profit or loss	Profit or loss
Interest cost on the obligation	Profit or loss (finance or operating)	Net interest income or expense on the net liability (asset) recognised in profit or loss, calculated on a different basis (see 5.2)
Expected return on plan assets	Profit or loss (finance or operating)	
Past service cost, curtailment and settlement	Profit or loss (excluding unvested past service cost)	Profit or loss (now including unvested past service cost), as part of service cost
Actuarial gains and losses/remeasurements, including difference between actual return on plan assets and amount recognised in profit or loss	Recognition in profit or loss under corridor method <i>or</i> faster recognition in profit or loss <i>or</i> immediate recognition in other comprehensive income, depending on policy choice	Immediate recognition in other comprehensive income (see 5.3)
Effect of asset ceiling, including minimum funding requirement liability for past service	Profit or loss <i>or</i> other comprehensive income, depending on policy choice for actuarial gains and losses	Immediate recognition, partly in net interest and the remainder in other comprehensive income as part of remeasurement (see 5.2)

5.1 Service cost

IAS 19R.8

Service cost comprises:

- current service cost – the increase in the present value of the defined benefit obligation resulting from employee service in the current period;
- past service cost – the change in the present value of the defined benefit obligation for employee service provided in prior periods, resulting from a plan amendment or a curtailment (see 3.2 and 3.4); and
- any gain or loss on settlement (see 3.5).

IAS 19R.120

The amended standard does not change the presentation of service costs. These continue to be recognised in profit or loss unless some other standard requires their capitalisation (e.g. IAS 16).

Insight – How might this change affect you?

The amended standard does not change the presentation of service costs. However, the amount to be recognised in profit or loss in a particular period for service costs often might be different from the amount determined under the current IAS 19, due to other amendments. Service costs will now:

- always reflect in current service cost an actuarially assumed amount of taxes payable by the plan in respect of contributions and benefits for service during the period (see 4.1);
- reflect any changes in the way the entity accounts for administration costs (see 4.2);

- be adjusted to reflect other changes to the measurement of the defined benefit obligation (see section 4);
- include past service cost recognised in full immediately according to the amended standard, rather than only that part of the past service cost that has vested, as under the current IAS 19 (see 3.2); and
- include or exclude curtailments that might previously have been recognised in a different period (see 3.4).

5.2 Net interest

IAS 19.61, 82

Under the current IAS 19, entities recognise in profit or loss the interest cost that is the unwinding of the discount on the present value of the defined benefit obligation.

IAS 19.106

Additionally, entities currently recognise in profit or loss an expected return on plan assets that is based on market expectations of the returns expected on the plan assets over the entire life of the related obligation. The difference between the actual and expected return on assets forms part of actuarial gains and losses that are accounted for according to the entity's policy choice as discussed in the previous sections.

The amended standard does not change the presentation of finance costs, which will continue to be recognised in profit or loss. However, the amended standard changes the manner in which they are calculated.

IAS 19R.8, 123

Under the amended standard, *net interest on the net defined benefit liability (asset)* is the change during the period in the net defined benefit liability (asset) that arises from the passage of time. Specifically, under the amended standard, the net interest income or expense on the net defined benefit liability (asset) is determined by applying the discount rate used to measure the defined benefit obligation at the start of the annual period to the net defined benefit liability (asset) at the start of the annual period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

The net defined benefit liability (asset) on which net interest is calculated will include the effect of the asset ceiling, with the balance of the asset ceiling movement being presented in other comprehensive income. Under the current IAS 19, the interest element of the movement in the effect of the asset ceiling is not calculated separately. Hence, it is included as part of the total change in the effect of the asset ceiling, either within other comprehensive income or within profit or loss, depending on the entity's accounting policy for recognising actuarial gains and losses.

IAS 19R.124

The net interest on the net defined benefit liability (asset) can be disaggregated into:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

IAS 19R.125

The difference between the return on plan assets and the interest income on plan assets is included in the remeasurement of the net defined benefit liability (asset) component (see 5.3).

ED.BC23-32

The revised approach to recognising and measuring the net interest income or expense is based on the IASB's logic that the growth in the plan assets offsets the growth in the defined benefit obligation over time and that the part of the change in the plan assets that arises from the passage of time offsets the interest cost that arises on the defined benefit obligation due to the passage of time.

IAS 19R.BC77

In effect, this approach divides the change in the value of the plan assets into two parts:

- the change that arises from the passage of time, which is recognised in profit or loss; and

- all other changes, which are recognised in other comprehensive income.

IAS 19R.BC81

However, the 'passage of time' element is required to be calculated using the rate used to discount the defined benefit obligation, which often will be the market yield on high quality corporate bonds. This is based on the IASB's view that the interest cost should be calculated on the *net* position with regard to the defined benefit plan, as reported in the statement of financial position, as it would be if the plan were seen as a financing amount owed by the entity to the plan or the employees. In the view of the IASB this approach represents the economics of the entity's decision on how to finance the plan, using a simple and pragmatic calculation.

Example 3 – The effect of the asset ceiling – in 5.4 sets out the detailed computation of net interest and remeasurements under the amended standard, in comparison to the computation of interest cost and actuarial gains and losses under the current IAS 19.

Insight – How might this change affect you?

The application of the net approach will have no effect on entities with unfunded defined benefit plans, as they have no return on plan assets to report.

However, its application will affect almost all entities that provide benefits to their employees through funded defined benefit plans. This is because the nature of the assets held in the investment portfolio will no longer influence the amount recognised as part of net interest in profit or loss, since management's expectations about the long-term return that might be achieved on those plan assets will no longer be reflected in profit or loss under the amended standard. This long-term expected return may be higher than the rate used to discount the obligation, for example if equities are held, or lower if, for example, government securities are held.

The impact on profit or loss may be material, particularly for those entities whose plans hold a significant proportion of equities since the rate of return expected on equities generally is higher than the return expected on high quality corporate bonds. The inclusion of the long-term 'equity premium' return within profit or loss under the current IAS 19 has been subject to some criticism, both by those who view it as taking the reward for holding riskier assets before that reward is achieved and by those who believe that the expected returns estimated might in some cases have been unduly optimistic.

Entities reporting a significantly different level of profits as a result of this change to the calculation of interest income may wish to reconsider what performance measures are used in, for example, employee remuneration arrangements.

IAS 19.61

The current IAS 19 does not specify whether interest expense on the defined benefit obligation and expected return on plan assets should be presented in a single item of income or expense. As set out in our publication *Insights into IFRS* (4.4.1130.10), in our view the interest expense and expected return on plan assets may be included with interest and other financial income respectively, or the net total may be shown as personnel expenses.

IAS 19R.134

In the exposure draft, the IASB proposed that the net interest element of the cost should be presented as part of finance costs. However, this proposal was met with resistance from commentators and the standard does not specify where service cost and net interest should be presented. It also does not specify whether an entity should present them separately or as components of a single item of income or expense.

Insight – Classification of net interest

Our first impression is that the existing diversity in practice on classifying net interest either as a financing item or as personnel expenses will continue.

Some entities with a net defined benefit liability that are recognising a net interest credit within personnel expenses under the current IAS 19 might reconsider this classification, since they will be recognising a net interest *charge* under the amended standard.

Insight – Summary of possible impacts

The following table summarises the possible impacts of the changes. The table assumes that under both the current and the amended IAS 19, finance costs are not presented as part of personnel expenses but as part of financing.

Aspect of the statement of comprehensive income affected	Possible impact
Finance costs – revised basis of calculation	<p>The impact on entities' net finance costs will be greater when the gap between the expected rate of return on plan assets and the rate used to discount the obligation is greater. This will depend on the risk level of and expected return on the plan assets of the defined benefit plan.</p> <p>When plan assets include mostly low-risk/low-return investments with a rate of return that is close to the rate on a high-quality corporate bond or government bond, whichever is used as the liability discount rate, the effect of the changes to the net finance costs will be less. This is because the calculation of net interest income or expense will be based on the discount rate as required by the current IAS 19; the closer the expected return on assets is to that discount rate, the lesser the impact of the changes to IAS 19.</p>
Finance costs – presentation in two line items	<p>The net interest income or expense will be presented in one line item, as opposed to the current presentation that is sometimes adopted of including the gross amounts of interest cost and expected return on plan assets with interest and other financial income respectively.</p>
Amount of net profit or loss	<p>The impact could be material, depending on both the changes to interest costs and the policy choice that is applied under the current IAS 19 with respect to actuarial gains and losses.</p>

Example 1 – Elimination of the corridor method for post-employment benefits – in 5.4 shows the effect these changes might have.

5.3 Remeasurements

IAS 19R.8, 127

Under the amended standard remeasurements of a net defined benefit liability (asset) are recognised in other comprehensive income and comprise:

- actuarial gains and losses on the defined benefit obligation;
- the return on plan assets, excluding amounts included in the net interest on the net defined benefit liability (asset); and
- any change in the effect of the asset ceiling, excluding amounts included in the net interest on the net defined benefit liability (asset).

Insight – Change in content of actuarial gains and losses

IAS 19R.127, 19.94

Under the current IAS 19, actuarial gains and losses may arise both from the actuarial assumptions underlying the calculation of the defined benefit obligation and from the difference between the expected and the actual return on plan assets. Under the amended standard they arise only on the former.

However, although no longer called actuarial gains and losses, the difference between the total return on plan assets and the amount recognised in profit or loss continues to be presented in the same way as actuarial gains and losses since it is part of the remeasurements presented within other comprehensive income.

IAS 19.92-94

Under the current IAS 19, the presentation of actuarial gains and losses depends on the accounting policy choice adopted by the entity (see 3.1). The choices currently available for recognition and presentation of actuarial gains and losses are:

- immediate recognition in other comprehensive income;
- deferred recognition in profit or loss under the corridor method; or
- a method that results in faster recognition in profit or loss, e.g. immediate recognition in profit or loss.

IFRIC 14.26

Any changes in the effect of the asset ceiling, including in the amount of any additional liability, are currently recognised immediately in other comprehensive income or profit or loss, depending on the accounting policy choice adopted by the entity for recognising actuarial gains and losses. Under the amended standard, the changes in the effect of the asset ceiling are presented both in profit or loss within net interest, for the interest effect on the asset ceiling (see 5.2), and in other comprehensive income as part of remeasurements for the remainder. Example 3 – The effect of the asset ceiling – in 5.4 illustrates the impact of this presentation.

IAS 19R.8

The amended standard defines return on plan assets as:

- interest, dividends and other income derived from the plan assets, together with realised and unrealised gains and losses on the plan assets; less
- any cost of managing plan assets (see 4.2); less
- any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (see 4.1).

Insight – Change in treatment of taxes payable by the plan

IAS 19R.8, 19.7, 76(b)
(iv)

The current definition of return on plan assets includes the deduction of *any* taxes payable by the plan itself. The amended standard distinguishes between taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service and all other taxes. An actuarial assumption is made about the first type of taxes, which are taken into account in measuring current service cost and the defined benefit obligation. All other taxes payable by the plan are included in the return on plan assets. See 4.1 for a further discussion of taxes payable by the plan.

Insight – Change in treatment of administrative costs

IAS 19R.8, 19.7, 130

Under the current IAS 19, the return on plan assets is reduced by any costs of administering the plan that have not been included in the calculation of the defined benefit obligation. Now the only administrative costs taken into account in arriving at the return on plan assets are the costs of managing the plan assets. See 4.2 for a further discussion of administrative expenses.

IAS 19R.120, 122,
19.93D

Remeasurements are recognised immediately in other comprehensive income and are not reclassified subsequently to profit or loss. The amended standard permits, but does not require, a transfer within equity of the cumulative amounts recognised in other comprehensive income. The current IAS 19 contains the same prohibition on reclassifying to profit or loss actuarial gains and losses and any effects of the asset ceiling recognised in other comprehensive income. However, it does not permit any transfer within equity, instead requiring that these amounts are recognised in retained earnings.

IAS 19R.BC88, BC90

In the IASB's view, whilst those changes in the net defined benefit liability (asset) that are classified as remeasurements may provide more information about the uncertainty and risk of future cash flows, they provide less information about the likely amount and timing of those cash flows. It concluded that inclusion of remeasurements in other comprehensive income is the most informative way to disaggregate the different components of defined benefit cost with different predictive values.

Insight – No reclassification through profit or loss

Some users of accounts may be uncomfortable with the absence of reclassification as they might expect that *all* costs of providing a defined benefit to employees should at some stage pass through profit or loss. However, other users may welcome the separation of these more volatile amounts, which have a different predictive value, from the other elements of the overall cost of providing the benefit.

Insight – How might this change affect you?

The change in accounting for actuarial gains and losses and the other elements of remeasurements will have a two-layer impact:

- **Change in presentation of remeasurements.** This will affect entities that previously recognised actuarial gains and losses in profit or loss (immediately or under the corridor method). For those entities, the volatility arising from the nature of actuarial gains and losses will now be excluded from profit or loss.
- **Change in the amount of remeasurements.** The amount of remeasurements under the amended standard is different from the amount calculated under the current IAS 19; this will affect all entities with funded plans. The difference in the remeasurements amount is mainly a result of the revised basis of calculation of the finance costs (see 5.2). However, the inclusion of any changes in the effect of the asset ceiling (either to limit a net defined benefit asset or to recognise an additional liability) in the remeasurement component, other than changes caused by net interest on the asset ceiling effect, also might change the remeasurement amount: the precise impact will depend on the entity's current presentation of asset ceiling movements (see above).

5.4 Illustrative examples of presentation under the amended standard

Example 1 – Elimination of the corridor method for post-employment benefits

This example illustrates a possible effect on entities currently applying the corridor method. It shows the difference between the calculation of the cumulative actuarial gains and losses at 31 December 2011 for Company W's defined benefit plan (assuming W applies the corridor method and that, for purposes of illustration, there are no unrecognised actuarial gains and losses at 31 December 2010) and the calculation of the remeasurement amount according to the amended standard.¹

Plan assets	Current IAS 19	Amended IAS 19
Fair value at 31 December 2010 (actual market values at 31 December 2010)	14,000	14,000
Expected return (based on market return at 1 January 2011 and expected long-term rate of return; 7% x 14,000)	980	N/A
Calculated return on plan assets (based on market value at 1 January 2011 and discount rate used to measure the defined benefit obligation; 6% x 14,000)	N/A	840²
Contributions for the period (actual amounts received by the fund)	1,050	1,050
Employee benefits paid during the period (actual benefits paid by the fund)	(1,500)	(1,500)
Expected fair value of assets at 31 December 2011	14,530	14,390
Actual fair value at 31 December 2011 (actual market values at 31 December 2011)	14,920	14,920
Cumulative (unrecognised) actuarial gain on plan assets at 31 December 2011	390	N/A
Remeasurements recognised in OCI³ in respect of plan assets at 31 December 2011	N/A	530

Defined benefit obligation	Current IAS 19	Amended IAS 19
Obligation at 31 December 2010 (based on actuarial calculation at 31 December 2010)	15,000	15,000
Interest cost (based on interest rates and obligation at 1 January 2011 ² ; 6% x 15,000)	900	900
Current service cost (based on actuarial calculation at 1 January 2011)	800	800
Employee benefits paid during the period (actual benefits paid by the fund)	(1,500)	(1,500)
Expected obligation at 31 December 2011	15,200	15,200
Obligation at 31 December 2011 (based on actuarial calculation at 31 December 2011)	17,410	17,410
<i>Cumulative (unrecognised) actuarial loss on plan obligations at 31 December 2011</i>	2,210	N/A
<i>Remeasurements recognised in OCI in respect of plan obligation at 31 December 2011</i>	N/A	2,210
<p>1 Tax implications and administration costs are ignored.</p> <p>2 The interest cost is based on the obligation at the beginning of the year assuming that there are no changes during the year. For purposes of this example the expected return on plan assets is based only on plan assets at the beginning of the period and does not take into account contributions made into and benefits paid out of the plan during the period.</p> <p>3 Other comprehensive income.</p>		

Under the current IAS 19, W recognised finance income of 980 in respect of plan assets and no actuarial gain or loss in profit or loss or the statement of other comprehensive income. Under the amended standard, W recognises finance income of only 840 (as part of a net interest cost of 60) and a remeasurement loss of 1,680 (2,210 - 530) in total on the defined benefit obligation and plan assets in other comprehensive income.

This example assumes that there are no unrecognised actuarial gains or losses at 31 December 2010. If there were an amount of unrecognised actuarial gains or losses at 31 December 2010 under the current IAS 19, then part of it may have been recognised in 2011 according to the corridor method.

Current IAS 19		
The impact on the statement of financial position is as follows:		
	2011	2010
Plan assets	14,920	14,000
Defined benefit obligation	(17,410)	(15,000)
Plan deficit	(2,490)	(1,000)
Cumulative unrecognised actuarial gains (losses) – off balance sheet	(1,820)	-
Balance sheet liability	(670)	(1,000)

Amended IAS 19

The impact on the statement of financial position is as follows:

	2011	2010
Plan assets	14,920	14,000
Defined benefit obligation	(17,410)	(15,000)
Plan deficit	(2,490)	(1,000)
Cumulative unrecognised actuarial gains (losses) – off balance sheet	-	-
Balance sheet liability	(2,490)	(1,000)

Example 2 – Accounting for defined benefit plans including past service costs

The following information relates to Company K's pension plan:¹

Plan assets at 1 January 2011	95,000
Defined benefit obligation at 1 January 2011	100,000
Unrecognised net actuarial loss at 1 January 2011	20,000
Average remaining working life of employees at 1 January 2011	10 years
Service cost for 2011	9,000
Discount rate at 1 January 2011	10%
Expected return on plan assets at 1 January 2011	10,000
Net actuarial loss arising in 2011 (current IAS 19)	2,000
Remeasurement loss arising in 2011 (amended IAS 19) ²	1,500
Past service cost arising on 1 January 2011	3,000
Vesting period for past service cost	3 years

Under the current IAS 19, K chooses to recognise the minimum amount of actuarial gains and losses under the corridor method.

Current IAS 19

The pension cost recognised for the year will be made up as follows:

Current service cost	9,000
Net interest	-
Interest cost (10% x 100,000)	10,000
Expected return on plan assets	(10,000)
Net interest	-
Past service cost (3,000 / 3)	1,000
Actuarial loss recognised ((20,000 - (100,000 x 10%)) / 10)	1,000
Net cost for the year recognised in profit or loss	11,000

Amended IAS 19

The pension cost recognised for the year will be made up as follows:

Current service cost	9,000
Net interest cost ³ (10% x 5,000)	500
Past service cost	3,000
Net cost for the year recognised in profit or loss	12,500
Remeasurements recognised in OCI	1,500
Net cost for the year recognised in total comprehensive income	14,000

- 1 Tax implications are ignored.
- 2 The difference of 500 between the net actuarial loss arising in 2011 under the current IAS 19 and the remeasurement loss arising in 2011 under the amended standard arises because the expected return on plan assets is higher than the discount rate, meaning that more of the total return on plan assets is excluded from profit or loss under the amended standard.
- 3 The interest cost is based on the net defined benefit liability at the beginning of the year assuming that there are no material changes during the year (100,000 - 95,000).

The following illustrates one possible way of presenting the amounts calculated based on the amended standard in the statement of comprehensive income:

Profit or loss	2011
Revenue	XXX
Cost of goods sold ¹	12,000
Gross margin	XXX
Other business expenses	XXX
Total operating income	XXX
Finance costs	500
Profit before tax	XXX
Tax expenses	XXX
Profit for the year	XXX
Other comprehensive income	
Remeasurements of defined benefit plan	1,500
Tax on remeasurements	XXX
Total other comprehensive income	XXX
Total comprehensive income	XXX

- 1 Assuming the benefits are attributable wholly to production employees and that no amounts are capitalised. This amount includes the current service cost of 9,000 and the past service cost of 3,000.

Example 3 – The effect of the asset ceiling

Company B provides its employees with benefits under a defined benefit plan. The amounts recognised in respect of that plan in B's consolidated financial statements at 31 December 2010 and 31 December 2011 and their reconciliation are set out below. B has determined that the ceiling on recognising a net defined benefit asset in relation to the plan is 100 at both the start and end of the period.

	Defined benefit obligation	Fair value of plan assets	The effect of the asset ceiling	Net defined benefit asset
Opening balances determined at 31 December 2010	(1,000)	1,300	(200)	100
Service cost	(50)			(50)
Net interest cost based on 10% discount rate	(100)	130	(20)	10
	(1,000 × 10%)	(1,300 × 10%)	(200 × 10%)	(100 × 10%)
Total amounts before computing the remeasurements	(1,150)	1,430	(220)	60
Remeasurements	(50)	70	20	40
	(1,200 - 1,150)	(1,500 - 1,430)	(200 - 220)	
Closing balances determined at 31 December 2011	(1,200)	1,500	(200)	100

Current IAS 19

The total interest income is 30, comprising:

- interest cost on the defined benefit obligation of 100; and
- assuming that the expected return on plan assets is also 10 percent, the interest income on plan assets is 130.

Amended IAS 19

The net interest income for the year 2011 is 10 and it can be disaggregated as follows:

- interest cost on the defined benefit obligation of 100;
- interest income on plan assets of 130; and
- interest cost on the effect of the asset ceiling of 20.

These amounts are recognised under both the current and the amended standard in profit or loss. The difference between the amounts results from the interest calculated on the effect of the asset ceiling. Whilst under the amended standard this amount is part of net interest, under the current IAS 19 it is part of the actuarial gains and losses.

Current IAS 19

The actuarial gain of 20 is recognised according to B's accounting policy choice, and comprises the following:

- actuarial loss on the defined benefit obligation of 50; and
- actuarial gain on plan assets of 70 (actual return of 200 less expected return of 130).

Amended IAS 19

The remeasurement gain of 40 is recognised in other comprehensive income and comprises the following:

- actuarial loss on the defined benefit obligation of 50;
- the return on plan assets, excluding amounts included in net interest on the net defined benefit asset, of 70; and
- the change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit asset, of 20.

Again, the difference between the amounts results from the interest calculated on the effect of the asset ceiling. It also should be noted that if the expected rate of return on assets under the current IAS 19 had been different to the discount rate, then that would give rise to a further difference between the amounts recognised under the two versions of the standard.

6. Other matters

6.1 Clarifying interim reporting

The exposure draft did not propose any change to interim reporting under IAS 34 *Interim Financial Reporting* in respect of defined benefit plans. However, respondents to the exposure draft raised various issues including:

- how often the net defined benefit liability (asset) needs to be remeasured, i.e. whether it is to be remeasured at each interim reporting date or only when a significant event occurs such as a settlement or curtailment;
- if remeasurement were judged by the entity to be necessary during an interim reporting period or required by IAS 34 at each interim reporting date, then whether the assumptions underlying the calculation of current service cost and net interest for the next interim period should be fixed at the beginning of the year or updated to the assumptions used at the interim remeasurement date; and
- whether the base on which net interest is determined, i.e. the net defined benefit liability (asset), that is multiplied by the discount rate should be remeasured at each interim reporting date and the remeasurement used as an updated base for net interest for the next interim period; or averaged over the period between the beginning of the annual period and the end of the reporting period.

IAS 19R.BC58

The IASB decided not to make any amendments regarding interim reporting.

IAS 19R.BC60, BC61

However, it has clarified that full remeasurement of plan assets and the defined benefit obligation is not always required in each interim period under the current IAS 19 and IAS 34, as both standards indicate that an entity needs to exercise judgement in determining whether such a remeasurement is required. The abolition of the corridor method, with the consequential recognition of remeasurements in the period in which they arise, will mean that remeasurements will be more likely to have a material effect on the amounts recognised within the financial statements. Nonetheless, in the view of the IASB, to require that the net defined benefit liability (asset) be remeasured at each interim reporting date would result in an exemption from the general principles within IAS 34.

IAS 19R.BC62-64, 34.28, 29

In relation to the question whether assumptions underlying the calculation of current service cost and net interest should be fixed at the beginning of the year or updated at any interim remeasurement, the IASB noted that to update the assumptions at any interim remeasurement would be inconsistent with the requirements of IAS 34. In particular, under IAS 34 the frequency of reporting should not affect the measurement of the entity's annual results.

IAS 19R.123

The requirements in the amended standard for calculating net interest on the net defined benefit liability (asset) make clear that it is determined by multiplying the net defined benefit liability (asset) by the specified discount rate, both *as determined at the start of the annual period*. The calculation takes into account changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments.

6.2 Multi-employer plans

IAS 19R.39, BC39

No changes have been made to the accounting for ongoing participation in a multi-employer plan. However, the amended standard now sets out the accounting to be applied when that participation ceases. The new requirement is that an entity should apply IAS 37 when determining when to recognise and how to measure a liability that arises from the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan.

The additional disclosure requirements for multi-employer plans introduced by the amended standard are discussed in section 7.

Insight – How might this change affect you?

Our first impression is that the usual timing requirements of IAS 37 will apply when participation ceases. Since the current IAS 19 does not address this, this new requirement may result in a different timing and/or a different measurement when this occurs.

6.3 IFRIC 14: Asset ceiling test

ED.BC80

The exposure draft proposed that the amended standard should incorporate, without substantive change, the requirements of IFRIC 14 as amended in November 2009. In addition, the exposure draft proposed to clarify that a minimum funding requirement is any *enforceable* requirement for the entity to make contributions to fund a long-term employee benefit plan.

IAS 19R.BC272

However, when the IASB finalised the amended standard, it decided neither to incorporate IFRIC 14 into the amended standard nor to introduce the proposed clarification as to what constitutes a minimum funding requirement. It concluded that incorporating IFRIC 14 into the amended standard would have required inevitable changes to the drafting used that might have been interpreted as substantively changing the requirements of the interpretation. This might have had unintended consequences and have led to diverse interpretations in some jurisdictions. The IASB therefore concluded that IFRIC 14 should remain as a stand-alone document.

Insight – Diversity in practice

ED.BC80

In proposing to clarify the definition of a minimum funding requirement, the IASB noted varied practice in the interpretation of that phrase. Our first impression is that the decision not to make this clarification means that diversity in practice is likely to continue in this area.

7. Disclosures

7.1 Defined benefit plans

The amended standard changes the disclosure requirements for defined benefit plans. Some of the specified disclosure requirements repeat or amend only slightly existing requirements but a number of the specified disclosures are new or considerably expanded requirements (as indicated by [#]).

IAS 19R.33, 34

When an entity participates in a multi-employer defined benefit plan and uses defined benefit accounting, the amended standard follows the approach of the current IAS 19 in requiring all of the disclosures listed below to be given. Additional disclosures introduced by the amended standard are set out in 7.2, together with the significantly expanded disclosures to be made when an entity uses defined contribution accounting for its participation in a multi-employer defined benefit plan.

IAS 19R.149

Subject to a new disclosure exemption discussed in 7.3, all of these disclosures are to be made by an entity that participates in a group defined benefit plan and accounts for an allocation of the net defined benefit cost. When it instead accounts for the contribution payable for the period as if the plan were a defined contribution plan (see 7.3), only the disclosures indicated below with [*] are required. This differential approach to disclosure is the same as that taken in the current IAS 19. The further disclosures also to be made in respect of group defined benefit plans are set out in 7.3.

IAS 19R.BC244

The amended standard removes some of the existing disclosure requirements. In particular, it removes the previous requirement to disclose five years' historical information about amounts in the statement of financial position and experience adjustments. The IASB concluded that this disclosure is redundant because this information is already available in previous years' financial statements.

IAS 19R.135

The disclosures in the amended standard are based around three objectives, being:

- the characteristics of, and risks associated with, defined benefit plans;
- identification and explanation of the amounts in the financial statements arising from defined benefit plans; and
- a description of how defined benefit plans may affect the amount, timing and uncertainty of future cash flows.

IAS 19R.136, 137

The disclosures required under the amended standard are extensive and, further, if the requirements set out in the standard are insufficient to meet the three objectives, then an entity is required to provide more detail in order that they are met. In considering the objectives, an entity considers whether the users of the financial statements need additional information to evaluate the quantitative information that is being disclosed. As an example, the amended standard provides that an entity could present an analysis of the present value of the defined benefit obligation into amounts that distinguish the nature, characteristics and risks of the obligation by distinguishing:

- between amounts owing to active members, deferred members, and pensioners;
- between vested benefits and accrued but not yet vested benefits; or
- between conditional benefits, amounts attributable to future salary increases and other benefits.

IAS 19R.139-147

The table below provides an overview of the significant disclosures required in the amended standard.

<p>[#] [*]</p> <p>[#] [*]</p> <p>[#] [*]</p>	<p>Characteristics of, and risks associated with, defined benefit plans</p> <p>Narrative description about the characteristics of the entity's defined benefit plans, including:</p> <ul style="list-style-type: none"> • the nature of the benefits provided by the plan; • a brief description of the regulatory framework in which the plan operates; and • details of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or board members of the plan. <p>Narrative description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk.</p> <p>Narrative description of plan amendments, curtailments and settlements.</p>
<p>[#]</p> <p>[#]</p> <p>[#]</p> <p>[#]</p> <p>[#]</p>	<p>Identification and explanation of amounts in the financial statements arising from the defined benefit plans</p> <p>Numerical reconciliation from the opening balance to the closing balance for each of the following:</p> <ul style="list-style-type: none"> • the net defined benefit liability (asset), showing separate reconciliations for: <ul style="list-style-type: none"> – plan assets; – the present value of the defined benefit obligation; and – the effect of the asset ceiling; and • any reimbursement rights (together with an explanation of the relationship between any reimbursement right and the related obligation). <p>For these reconciliations each of the following should be shown:</p> <ul style="list-style-type: none"> • current service cost; • interest income or expense; • remeasurements of the net defined benefit liability (asset), showing separately: <ul style="list-style-type: none"> – the return on plan assets, excluding amounts presented as interest income; – actuarial gains and losses and experience gains and losses arising from changes in demographic assumptions; – actuarial gains and losses and experience gains and losses arising from changes in financial assumptions; and – the effect of the asset ceiling limit on a defined benefit asset (together with details of how the entity determined the maximum economic benefit available, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both); • past service cost (which includes curtailments) and gains and losses arising from settlements, which need not be distinguished if they occur together; • the effect of changes in foreign currency exchange rates; • contributions to the plan, showing separately those by the employer and by plan participants; • payments from the plan, showing separately the amount paid in respect of any settlements; and • the effects of business combinations and disposals.

[#] [*]	Numerical disclosure disaggregating the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not. For example, the fair value of derivatives held might be disclosed, segregated by type of underlying risk.
[#] [*]	The fair value of the entity's own transferable financial instruments that are held as plan assets and fair value of plan assets used by the entity.
[*]	The significant actuarial assumptions used to determine the defined benefit obligation. Such disclosure is in absolute terms, i.e. as an absolute percentage, and not just as a margin between different percentages and other variables. When an entity provides disclosures in total for a grouping of plans, it provides such disclosures in the form of weighted averages or relatively narrow ranges.
How the defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows	
[#]	<p>Sensitivity analysis, as follows:</p> <ul style="list-style-type: none"> • the effect of a change to the defined benefit obligation for each significant actuarial assumption that is reasonably possible at the end of the reporting period; • the methods and assumptions used in preparing the above analysis and any limitations of those methods; and • details of any changes from the previous period in the methods and assumptions used, and the reasons for such changes.
[#]	<p>Narrative description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.</p> <p>To give an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity discloses:</p>
[#] [*]	<ul style="list-style-type: none"> • a narrative description of any funding arrangements and funding policy that affect future contributions;
[*]	<ul style="list-style-type: none"> • the expected contributions to the plan for the next annual reporting period; and
[#]	<ul style="list-style-type: none"> • information about the maturity profile of the defined benefit obligation.

IAS 19R.136, 138

Under the amended standard, an entity considers the level of detail necessary to satisfy its disclosure objectives and how much emphasis to place on each of the various requirements. It also assesses whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks.

IAS 19R.BC237

Under the amended standard, sensitivity analysis disclosures are provided only on the defined benefit obligation, even though the IASB acknowledges that sensitivity analysis on the net defined benefit liability (asset) would be more useful. However, it concluded that this potentially more useful analysis should not be required because, for example, showing how the fair value of equities would respond to changes in the assumptions used to measure the present value of the defined benefit obligation would be complex and difficult to perform.

Insight – How might this change affect you?*IAS 19.122*

On adoption of the amended standard, an entity will need to consider not only the level of detail necessary to satisfy the disclosure objectives of the amended standard but also the way that it presents the information. The aggregation or disaggregation of its disclosures needs to meet the objective, so that plans with materially different risks are correctly distinguished but in doing so needs to ensure that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. The aggregation or disaggregation may be different from that currently applied under the current IAS 19, which notes simply that any groupings should be 'the most useful' and provides certain examples.

The requirement to present the additional disclosures under the amended standard may involve considerable work to ensure that all the required information is obtained. In particular, when defined benefits are provided to employees in various countries, it might be a challenging task for entities to ensure that this information is obtained in a consistent manner in the different countries and to collate it at group level. Detailed and early planning will be key.

Insight – Transitional relief

For those adopting the amended standard before 1 January 2014, it provides some transitional disclosure relief in the first set of financial statements prepared under the amended standard in respect of comparative information for the disclosures required about the sensitivity of the defined benefit obligation (see section 11).

7.2 Multi-employer plans

IAS 19R.33, 19.29

If an entity participates in a multi-employer defined benefit plan and has sufficient information available to it to permit it to use defined benefit accounting, then the disclosures to be given include all those set out in 7.1. The full set of disclosures is given also under the current IAS 19.

IAS 19R.148

In addition, under the amended standard the entity is required to give the disclosures set out in the first three bullets of the table below.

IAS 19R.34

However, if an entity participates in a multi-employer defined benefit plan and instead accounts for the plan as if it were a defined contribution plan, then the only disclosures required are those set out in the table below.

IAS 19R.148

The disclosures in the amended standard specific to participation in a multi-employer defined benefit plan are as follows:

- a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements;
- a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan;
- a description of any agreed deficit or surplus allocation on wind-up of the plan or the entity's withdrawal from the plan; and
- if the entity accounts for its participation in a multi-employer defined benefit plan as if it were a defined contribution plan, then it discloses:
 - the fact that the plan is a defined benefit plan [^];
 - the reason why sufficient information is not available to enable it to account for the plan as a defined benefit plan [^];
 - the expected contributions to the plan for the next annual reporting period;
 - information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity [^]; and
 - an indication of the level of participation of the entity in the plan compared with other participating entities. The amended standard suggests several ways in which this might be determined.

IAS 19.30

[^] These requirements repeat the few disclosures required by the current IAS 19 when an entity accounts for participation in a multi-employer defined benefit plan as if it were a defined contribution plan.

Insight – How might this change affect you?

Whether an entity uses defined benefit or defined contribution accounting for its participation in a multi-employer defined benefit plan, additional disclosures are required by the amended standard. It may involve considerable work to ensure that all the required information is obtained. In particular, when defined benefits are provided to employees in various countries, it might be a challenging task for entities to ensure that this information is obtained in a consistent manner in the different countries and to collate it at group level. Detailed and early planning will be key.

7.3 Group plans

IAS 19R.40, 41

The approach to dealing with group plans (being defined benefit plans that share risks between various entities under common control, e.g. a parent and its subsidiaries) is unchanged in the amended standard.

The same is true of the required disclosures, except to the extent that the stand-alone defined benefit plan disclosures to be given also for group plans are themselves changed by the amended standard, and except for the exemption explained below.

IAS 19R.149

The disclosures required in respect of participation in a defined benefit group plan are as follows:

- the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;
- the policy for determining the contribution to be paid by the entity; and
- if the entity accounts for an allocation of the net defined benefit cost, then all the information about the plan as a whole required by the amended standard for a defined benefit plan (see 7.1); or
- if the entity accounts instead for the contribution payable for the period as if the plan were a defined contribution plan, then a specified part of the information about the plan as a whole required by the amended standard for a defined benefit plan, as indicated with [*] in 7.1.

IAS 19R.150

A new disclosure exemption is given in the amended standard for the final two sets of disclosures listed above. Under this, the information required can be disclosed instead by cross-reference to disclosures in another group entity's financial statements if:

- that group entity's financial statements separately identify and disclose the information required about the plan; and
- that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the reporting entity itself and at the same time as, or earlier than, the financial statements of the entity.

Insight – How might this change affect you?

Our first impression is that the new, and pragmatic, ability to cross-refer in certain cases to disclosures in another group entity's financial statements will be welcomed as it will avoid duplication of information between financial statements and assist, in a small way, in reducing the overall length of financial statements.

However, the need for this information to be made available on the same terms, and the timing criteria, may limit the practical use of this exemption.

7.4 Other post-employment benefit disclosures

The amended standard leaves unchanged the reminder in the current IAS 19 that certain disclosure requirements of other standards may be relevant.

IAS 19R.151

When required by IAS 24 *Related Party Disclosures* an entity discloses information about:

- related party transactions with post-employment benefit plans; and
- post-employment benefits for key management personnel.

IAS 19R.152

When required by IAS 37 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

8. Short-term vs other long-term employee benefits

IAS 19R.8

The amended standard changes the definition of both short-term and other long-term employee benefits so that it is clear that the distinction between the two depends on when the entity expects the benefit to become due to be settled. Currently, *short-term employee benefits* are those that are due to be settled within 12 months after the end of the period in which the employees render the related service.

The distinction between short-term and other long-term employee benefits affects the measurement and recognition of the obligation and not just its classification in the statement of financial position.

Under the amended definitions:

- *short-term employee benefits* are those employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service; and
- *other long-term employee benefits* are defined by default as being all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Three changes have therefore been made.

- Classification is based on when the entity *expects* the benefit to be settled, rather than when settlement is due.
- A 'wholly' requirement has been inserted.
- The term 'annual reporting' has been inserted before 'period' to help clarify the meaning of this term in the definition. This insertion clarifies that it is the 12 months after the end of the *annual reporting* period that should be considered, rather than the end of the entire period during which the benefit as a whole is earned.

IAS 19R.10

The amended standard also provides new guidance about the need or otherwise to reclassify between short-term and other long-term employee benefits. Reclassification of a short-term employee benefit as other long-term need not occur if the entity's expectations of the timing of settlement change temporarily.

However, the benefit will have to be reclassified if the entity's expectations of the timing of settlement change other than temporarily. This would involve changing the measurement and recognition basis of the benefit from the straight-forward approach to the more complex long-term approach.

IAS 19R.10

In addition, the amended standard includes a requirement to consider the classification of a benefit if its characteristics change, giving the example of a change from a non-accumulating to an accumulating benefit. The entity will need to consider whether the benefit still meets the definition of a short-term employee benefit.

Insight – Potential reclassification of benefits

On adoption of the amended standard, an entity will need to reconsider the existing classification of its employee benefits as either short-term or other long-term. Entities will also have to keep the classifications under review in case expectations change other than on a temporary basis.

As an example, consider an entity that allows holiday entitlement to be carried forward without restriction from one reporting period to another and utilised when the employee wishes, with holiday actually taken being recorded on a last-in-first-out basis. As such, holiday taken in year two will first be recorded against the employee's entitlement earned in that year and only if that year's entitlement is fully utilised will any amount carried forward from year one be utilised.

Previously the holiday provision at the end of year one would have been classified as a short-term employee benefit as the employee could have utilised the entire balance in year two. Under the amended standard, if the entity expects any of the holiday provision at the end of year one not to be taken in year two, then the paid holiday entitlement will be classified as an other long-term employee benefit (subject to the way in which the entity decides to apply the 'wholly' criterion, see Insight – Unit of account below).

Another example would be when an entity awards a bonus to its employees in respect of their service in year one. The employees are entitled to draw on the bonus payable to them from the middle of year two. However, due to tax rules that apply in the country where the entity is based, the employees will pay a lower level of tax on their bonus if they draw their bonus only after the end of year three, rather than prior to that date. Previously the bonus provision at the end of year one would have been classified as a short-term employee benefit as the employees could have drawn their full entitlement in year two. Under the amended standard, if the entity expects any of the bonus at the end of year one not to be drawn in year two, then the bonus provision will be classified as an other long-term employee benefit (subject to the way in which the entity decides to apply the 'wholly' criterion, see Insight – Unit of account below).

IAS 1.69

The entity will need to consider separately the presentation of the provision as either a current or a non-current liability, applying the normal IAS 1 criteria for such classification.

Given the change in focus from when the benefit is due to be settled to when settlement is *expected* to occur, and the introduction of 'wholly' into the definition of short-term employee benefits, our first impression is that entities may need to consider the level at which they will apply this requirement but that some benefits currently classified as short-term may need to be reclassified to other long-term on adoption of the revised standard.

Insight – Unit of account

The amended standard does not directly specify the unit of account by which to assess when a benefit is expected to be 'wholly settled'. Possibilities include, for example, at the overall benefit level for all employees; for each benefit for each individual employee; and for certain sub-groups of the workforce.

IAS 19R.BC20, BC21

However, the Basis for Conclusions of the amended standard states the IASB's conclusion that the classification should reflect the characteristics of the *benefits*, rather than the demographic or financial assumptions at a point in time. In addition, the IASB noted that classifying benefits on an employee-by-employee basis would not be practical. Our first impression, therefore, is that the classification needs to be done for the benefit as a whole, for all employees.

Insight – Temporary changes in expectations

IAS 19R.10

Under the amended standard, a short-term employee benefit need not be reclassified as long-term if the entity's expectations of the timing of settlement change only temporarily. It does not address reclassification from other long-term to short-term employee benefits. Our first impression is that the converse would apply, i.e. that there would be no need to reclassify an other long-term employee benefit as a short-term employee benefit if the entity's expectations of the timing of settlement change only temporarily.

IAS 19R.BC20

However, the IASB noted its view that such a reclassification of a benefit from other long-term to short-term is less of a concern because, in such a case, measuring the benefit at its undiscounted amount should not differ materially from measuring the benefit at its present value.

9. Other long-term employee benefits

The IASB proposed in the exposure draft to amend the definitions of post-employment benefits and other long-term employee benefits in order to remove all differences between the accounting for and disclosure of the two. In other words, the exposure draft proposed one category of long-term employee benefits that would combine the recognition, measurement and disclosure requirements of post-employment benefits and other long-term employee benefits.

Currently, other long-term employee benefits are measured in a manner similar to defined benefit post-employment benefits, but all actuarial gains and losses and past service costs are recognised immediately in profit or loss as part of a single amount charged to profit or loss.

IAS 19R.5(c), 152

In finalising the amended standard, the IASB decided not to carry forward the proposed amendment, such that other long-term employee benefits remain a separate class of employee benefits. In addition the recognition, measurement and disclosure requirements of other long-term employee benefits are broadly unchanged from the current requirements.

10. Termination benefits

IAS 19R.159

Under the amended standard, termination benefits continue to be classified separately from other employee benefits because the event that gives rise to the obligation to pay them is the termination of employment rather than employee service. Termination benefits can result from either the entity's decision to terminate an employee's employment before normal retirement date or an employee's decision to accept an offer of benefits in exchange for termination of employment.

IAS 19R.161

Termination benefits are usually lump-sum payments, but sometimes also include:

- enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly; or
- salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

IAS 19R.162

The amended standard helpfully provides two indicators that an employee benefit is provided in exchange for services:

- whether the benefit is conditional on future service being provided, including whether the benefit increases if further service is provided; and
- whether the benefit is provided in accordance with the terms of an employee benefit plan.

IAS 19R.163

It provides an example: if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, then the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan might be termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.

Insight – Classification of benefit

Our first impression is that the inclusion of this example in the amended standard will help to determine the appropriate classification in practice between termination benefits, post-employment benefits and short-term employee benefits.

10.1 Recognition

IAS 19.133

Under the current IAS 19, termination benefits are recognised when the entity is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The amended standard removes the concept of demonstrable commitment as the basis for recognition of termination payments, in the same way as it is removed for curtailments (see 3.4).

IAS 19R.165

Under the amended standard, an entity recognises a liability and an expense for termination benefits at the earlier of the following dates:

- when it recognises costs for a restructuring within the scope of IAS 37 that includes the payment of termination benefits; and
- when it can no longer withdraw the offer of those benefits.

IAS 19R.167

For termination benefits payable as a result of an entity's decision to terminate an employee's employment, under the amended standard an entity can no longer withdraw the offer when the entity has communicated a plan of termination to the affected employees meeting all of the following criteria:

- actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;
- the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (although the plan need not identify these for individual employees), and the expected completion date; and
- the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

IAS 19R.166

When the termination benefits are payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, under the amended standard an entity can no longer withdraw the offer of termination benefits at the earlier of:

- when the employee accepts the offer; and
- when a restriction (such as a legal, regulatory or contractual requirement) on the entity's ability to withdraw the offer takes effect.

10.2 Measurement

IAS 19R.169

Under the amended standard, termination benefits are measured on initial recognition, and subsequent changes are measured and presented, in accordance with the nature of the employee benefit provided. Hence:

- if the termination benefits are provided as an enhancement to a post-employment benefit plan, then an entity applies the requirements for post-employment benefits;
- if the termination benefits are expected to be settled wholly before 12 months after the end of the annual reporting period in which the termination benefit is recognised, then an entity applies the requirements for short-term employee benefits; and
- if the termination benefits are not expected to be settled wholly before 12 months after the end of the annual reporting period, then an entity applies the requirements for other long-term employee benefits.

Currently, when termination benefits fall due more than 12 months after the end of the reporting period, they are discounted using a rate that generally is that of a high-quality corporate bond. The amended standard expands upon the measurement rules when the termination benefits are not expected to be settled within 12 months after the end of the reporting period and provides new requirements if the termination benefits are provided as an enhancement to a post-employment benefit plan.

Insight – How might this change affect you?

The changes in respect of the recognition and measurement requirements for termination benefits are relevant to all entities that incur termination benefits, although they will be most significant to those entities that carry out restructurings as terminations are often associated with these events.

Currently, the recognition of termination benefits occurs when the entity is demonstrably committed to the termination event. The amended standard requires recognition at the earlier of when the entity recognises related restructuring costs and when it can no longer withdraw the offer of those benefits. Depending on the details of the termination this might result in either earlier or later recognition, and entities will need to consider carefully the facts and circumstances of their precise arrangements.

As an example, an entity has met the criteria for recognising a restructuring provision under IAS 37 but has not yet communicated to the affected employees that the restructuring will involve redundancies. Under the current IAS 19, the entity has an obligation for restructuring costs before it has an obligation for the related employee termination costs. Under the amended standard, both will be recognised at the earlier date.

11. Effective date and transition

IAS 8.30, 19R.172,

The effective date for the application of the amended standard is annual periods beginning on or after 1 January 2013. Earlier application is permitted, subject to making disclosure of this fact. For those entities choosing not to early adopt, disclosure is required of this fact and the known or reasonably estimable information relevant to assessing the possible impact that the application of the amended standard will have on the entity's financial statements.

IAS 19R.173

The amendments generally are to be applied retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, for existing IFRS preparers there are two exceptions to this application requirement:

- An entity need not adjust the carrying amount of assets outside the scope of IAS 19 (such as inventories and property, plant and equipment) for changes in employee benefit costs that were included in their carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts the amended standard.

This exception is being given on the basis that restating the cost of these amounts may be difficult. For example, without the exception for property, plant and equipment the entity would need to establish the depreciated amount of employee costs included in the carrying amount of property, plant and equipment at the date of initial application and revise that amount to reflect the potentially different amounts that might have been capitalised had the amended standard always been in place. This might be complex and time-consuming to do.

IAS 19R.BC269(b)

- In financial statements for periods beginning before 1 January 2014, an entity need not present comparative information for the disclosures required about the sensitivity of the defined benefit obligation. Without this exception, entities might not have had sufficient lead time to compile the necessary information.

By a consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the relief from providing comparative sensitivity disclosures is available also to first-time adopters of IFRSs in periods beginning before 1 January 2014, if they either are required to or choose to adopt the amended standard on transition. However, those entities not adopting the amended standard at that stage, or becoming first-time adopters of IFRSs in periods beginning on or after 1 January 2014, will have no relief from this disclosure.

Insight – Collating comparative information

Those entities not eligible for the transitional relief from disclosure of comparative sensitivity analysis will need to ensure that the necessary data is obtained as part of their planning for adoption of the amended standard, whether as part of a general transition to IFRSs or otherwise.

About this publication

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

Content

Our *First Impressions* publications are prepared upon the release of a new IFRS, interpretation or other significant amendment to the requirements of IFRSs. They include a discussion of the key elements of the new requirements and highlight areas that may result in a change of practice. Examples are provided to assist in assessing the impact of implementation.

This edition of *First Impressions* considers the requirements of the amended IAS 19. The text of this publication is referenced to the amended IAS 19 (2011) (IAS 19R), the current IAS 19, IFRIC 14 and selected other current IFRS literature, standards and interpretations in issue at 30 June 2011. References in the left-hand margin identify the relevant paragraphs of the standards and interpretations.

In many cases further interpretation will be needed in order for an entity to apply IFRSs to its own facts, circumstances and individual transactions. Further, some of the information contained in this publication is based on the initial observations of IFRSs developed by the KPMG International Standards Group, and these observations may change as practice develops.

We will update and supplement the interpretative guidance and examples in this publication by adding additional interpretative guidance to *Insights into IFRS*, our practical guide to IFRSs. References throughout this publication are made to the 2010/2011 edition of *Insights into IFRS*.

Abbreviations

Throughout this publication we use the following abbreviations:

IASs	International accounting standards
IASB	International Standards Accounting Board
IFRSs	International financial reporting standards
Interpretations Committee	IFRS Interpretations Committee

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