KPMG

Pensions

Clearer accounting for defined benefit plans

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"Some may see major changes in the areas being clarified, particularly the requirement to recalculate current service cost and net interest in response to changes in the plan."

Kim Heng
KPMG's global IFRS employee benefits deputy leader

Proposed amendments to IAS 19 and IFRIC 14 clarify two specific issues

Highlights

- Right to a refund – The effect of third party powers to use a surplus for other purposes
- Plan amendment, curtailment or settlement – Calculating the gain or loss on settlement, past and current service costs and net interest
- Next steps

Defined benefit plan accounting under current IFRS lacks clarity in some areas, according to stakeholder feedback received by the IASB.

To address this, the Board has proposed targeted amendments to IAS 19 and IFRIC 14 on two issues:

- determining an entity's right to a refund when other parties, such as trustees, have powers to enhance pension benefits and/or wind up the plan without the entity's consent; and
- accounting for a plan amendment, curtailment or settlement.

Right to a refund

A pension trustee (or other third party) may have powers affecting the amount of a defined benefit plan surplus that can be recognised as an asset – i.e. when applying the asset ceiling.

The proposals clarify the effects of such third party powers as follows.

- When an entity considers its right to a refund from the plan, it would not include amounts that a third party can use for other purposes – e.g. to enhance pension benefits – without the entity's consent.
- An entity would not be able to assume a right to a refund on the basis of gradual settlement of plan liabilities if a third party can wind up the plan without the entity's consent.

In addition, a third party's power to buy annuities, or make other investment decisions without changing the benefits for plan members, does not affect the economic benefit available as a refund. This is because investment decisions relate to the amount of – not to the right to – a surplus.

Plan amendment, curtailment or settlement

The proposals clarify that if a plan amendment, curtailment or settlement occurs:

- the past service cost, or gain or loss on settlement, would be calculated excluding the effect of the asset ceiling – i.e. based on the whole deficit or surplus in the plan; and
- the current service cost and net interest for the remaining period after the event would be based on the actuarial assumptions applied when remeasuring the net defined benefit liability (or asset).

For example, if an entity undertook a plan amendment half way through the year, the current service cost and net interest for the remaining six months of the year would be recalculated. The new calculations would be based on the same actuarial assumptions used to remeasure the net defined benefit liability (or asset) for the amendment.

Next steps

Read our comment letter.