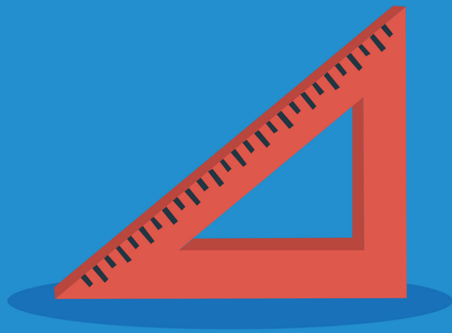
KPMG

Clearer accounting for defined benefit plans



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Amendment to IAS 19 clarifies current service and net interest accounting

Highlights

- Clarifications issued
- How you might be affected
- Effective date – 1 January 2019

Clarifications issued

To address stakeholder feedback, the IASB has made targeted amendments to IAS 19 *Employee Benefits*. The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

"Some may see major changes from the requirement to recalculate current service cost and net interest for changes in the plan."

Kim Heng
KPMG's global IFRS employee benefits leader

How you might be affected

Consistent with the calculation of a gain or loss on a plan amendment, a company now uses updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, it would not have updated its calculation of these costs until the year-end.

For example, if an amendment is made to a defined benefit plan half way through the year, the current service cost and net interest for the remaining six months of the year are recalculated using the same actuarial assumptions as those used to remeasure the net defined benefit liability (or asset).

Further, if a defined benefit plan was settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

For example, a company has a defined benefit plan with plan assets of 1,000 and a defined benefit obligation (DBO) of 900. It does not recognise the plan surplus of 100 because the asset ceiling applies – i.e. it has a net defined benefit asset of zero. If it then settles the plan, the amount of plan assets it transfers to settle its DBO is 1,000 and it will record a loss of 100 on settlement in profit or loss. The assessment of the asset ceiling is a distinct step from the calculation of the settlement loss, not a part of it. The company reverses the effect of the asset ceiling separately through OCI.

Effective date – 1 January 2019

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied (earlier application is permitted).