

EXPOSURE DRAFT – DEFINED BENEFIT PLANS

Frequently Asked Questions

<i>About the project</i>	
Scope of the ED	
Future work on pensions <ul style="list-style-type: none">• When is the IASB planning to do a comprehensive review?• Will this mean that we will change the accounting for pensions twice?	<p>After the middle of 2011, the Board in conjunction with the Advisory Council will have to consider its agenda priorities. This will include considering both the need for a comprehensive review of IAS 19 and the scope of any such project.</p> <p>The IASB expects to retain this project’s fundamental conclusion that a company must account for its obligation to provide benefits as a result of services already rendered by employees.</p>
Why isn’t the IASB doing a comprehensive review of IAS 19 now?	<p>The IASB agrees that there is a need for a comprehensive review of the accounting for employee benefits but will not begin any further work on the defined benefit accounting before mid-2011.</p> <p>A comprehensive review that addresses all areas of post-employment benefit accounting would take many years to complete. In the meantime, the IASB thinks that the targeted improvements proposed in the ED would yield significant improvements to the transparency and comparability of pension obligations.</p>
What happened to contribution-based promises?	<p>The discussion paper <i>Preliminary Views on Amendments to IAS 19</i> contained proposals on the accounting for contribution-based promises.</p> <p>Feedback on the discussion paper indicated that there were significant unresolved issues relating to the measurement proposals for contribution-based promises and that the proposals would result in the classification of more plans as contribution-based than was intended.</p> <p>The IASB will consider whether to develop further proposals for contribution-based promises after it has completed the amendments proposed in the exposure draft. It may do this as part of a comprehensive review of pensions accounting. However, the IASB will not undertake further work on this aspect of accounting for post-employment benefits before mid 2011.</p>

<p>Does the project consider measurement of the defined benefit obligation?</p>	<p>The IASB is not considering fundamental changes in the way defined benefit obligations are measured in this project. Any fundamental review of measurement of the defined benefit obligation will be part of a comprehensive review.</p>
<p>Why have you addressed some issues and not others?</p>	<p>The scope of this project is limited to short-term improvements. At this time, neither the IASB nor respondents to the IASB's proposals have the resources to consider complex issues that would be better dealt with in a comprehensive review of employee benefits accounting. The ED proposes amendments only for issues that:</p> <ul style="list-style-type: none"> • could be addressed expeditiously • do not require a fundamental review of defined benefit obligation measurement and • would lead to a worthwhile improvement in the reporting of defined benefit plans.
<p>Interaction with the FASB's activities</p>	
<p>Convergence</p> <ul style="list-style-type: none"> • Will this project be a joint project with the FASB? • Is the FASB taking a similar approach to this ED? 	<p>Both the IASB and FASB regard a converged standard on post-employment benefits as an ultimate goal. Although this project is not currently a joint project, FASB staff are monitoring our work and we intend to consider whether to undertake a joint project after we complete the amendments to IAS 19 proposed in the ED. However, any such joint project would have to go through the agenda setting process both at the IASB and at the FASB.</p>
<p>Will the proposals support convergence between IFRS and US GAAP?</p>	<p>US GAAP requires changes in the net defined benefit liability or asset to be recognised in the balance sheet when they occur. The proposals eliminate the deferred recognition option in the current requirements of IAS 19, therefore the proposals converge with the US GAAP regarding immediate recognition in the balance sheet.</p> <p>However US GAAP recycles changes presented in OCI into P&L while the ED does not propose recycling of amounts presented in OCI. This reflects the historical treatment of amounts presented in OCI under US GAAP and IFRS.</p> <p>The measurement of the liability under US GAAP and IFRSs also differ.</p>

About the proposals

General

What does the ED propose to change?

The exposure draft proposes short-term, targeted improvements to IAS 19 in the following areas:

1. recognition of changes in defined benefit obligations and in plan assets
2. disaggregation and presentation of changes in defined benefit obligations and in plan assets
3. disclosures about defined benefit plans
4. miscellaneous issues relating to accounting for employee benefits, including
 - a. the classification of employee benefits as long- or short-term
 - b. when tax and administrative costs are included in the measurement of a defined benefit obligation
 - c. the effect of expected future salary increases on the attribution of benefits
 - d. how risk sharing and conditional indexation features affect the measurement of defined benefit obligations

What will happen to the accounting for other long-term employee benefits?

The ED proposes to combine the benefits that IAS 19 currently classifies as other long-term employee benefits and post-employment benefits into a single category: long-term employee benefits. These benefits will be accounted for as defined benefit plans or defined contribution plans as appropriate. This means that the changes to presentation proposed in the ED will also apply to other long-term employee benefits, as will the disclosures proposed in paragraphs 125A-125K.

Recognition	
<p>Will we now expect to see far more volatility in income statements?</p>	<p>While recognising the changes immediately will introduce some volatility in the balance sheet, volatility that arises due to variations in the value of plan assets and changes in assumptions used to calculate the DBO have been addressed by the changes to presentation.</p> <p>The ED proposes that changes that are part of the remeasurement component (which includes the volatile component stakeholders are concerned about) have different predictive value to changes arising from service cost and financing and should be presented in OCI. Thus, much of the volatility will not be presented in profit or loss.</p>
Presentation	
<p>Estimating the expected return is no different to other accounting estimates – why is it being eliminated?</p>	<p>The proposals in the ED are consistent with the view that the net defined benefit liability (asset) is the amount owed to (from) the plan by the reporting entity. Taking this view, the assets of the plan are not the assets of the entity, instead the entity accounts for the amount owing to and from the plan. If this amount is a deficit or a surplus then the financing income or cost of that amount is reflected in the net financing cost. Other changes in the plan assets (such as changes in fair value) result in a remeasurement of the amount owing to (or from) the plan.</p>
<p>Why doesn't the IASB continue to permit the two options in IAS 19 that are consistent with immediate recognition?</p>	<p>The Board believes that retaining options in IAS 19 would not meet its objective of improving comparability between entities with defined benefit plans.</p>

<p>Do the proposals to recognise interest income on the plan assets imply that the actual return is not recognised?</p>	<p>The proposals will split the actual return on plan assets into two components: an amount based on the discount rate used to calculate the liability and a residual amount. The amount of the actual return that is based on the discount rate is part of the net finance cost, while the residual is part of the remeasurements component.</p>
<p>Actuarial gains and losses will no longer classified into profit and loss - is that correct?</p>	<p>The proposals remove the current option in IAS 19 to present actuarial gains and losses in profit and loss. The Board believes that having options reduces comparability and therefore has proposed a single basis of presentation.</p>
<p>Disclosure</p>	
<p>How have the disclosures changed?</p>	<p>The main differences between the disclosures proposed in the ED and those currently required by IAS 19 are:</p> <ol style="list-style-type: none"> 1. a new statement of disclosure objectives. 2. enhanced disclosure about the type of plan. 3. requirements to disclose risk information, both narrative and quantitative (for actuarial risk), including a sensitivity analysis. 4. streamlining of the reconciliations required by IAS 19. 5. additional disclosures about: <ol style="list-style-type: none"> a. the process used to determine demographic actuarial assumptions. b. the present value of the defined benefit obligation modified to exclude the effect of project salary growth. c. expected contributions to plan. d. participation in multi-employer plans. 6. deleted disclosures relating to deferred recognition (now redundant). 7. deleted disclosures relating to expected return (now redundant).

<p>The volume of disclosure on defined benefit plans has attracted criticism.</p> <p>Do the proposed disclosure requirements increase the overall disclosure?</p>	<p>The proposed disclosures introduce disclosure objectives to assist preparers in determining the amount of disclosures required. Some additional disclosure requirements have been included about the characteristics and risks of defined benefit plans. However an entity needs to apply the materiality requirements of IAS 1 in determining the overall level of disclosure required in the context of the financial statements as a whole.</p>
<p>Interactions with other projects/standards</p>	
<p>How do these proposals interact with the ED <i>Presentation of items of Other Comprehensive Income</i>?</p> <p>Will there be future changes related to updates in the financial statement presentation project?</p>	<p>The proposal complements more general improvements that the IASB will propose in its exposure draft on the <i>Presentation of Items of Other Comprehensive Income</i>.</p> <p>The IASB will consider feedback received for all the presentation proposals in the <i>Defined Benefit Plans</i>, the <i>Financial Statement Presentation</i> and the <i>Presentation of items of Other Comprehensive Income</i> EDs during its re-deliberations.</p>
<p>Does the requirement to present remeasurements in OCI indicate the Board will use OCI more in the future, for other types of remeasurement?</p>	<p>The Board considers the presentation of components in OCI on a project by project basis. This project does not establish a broad principle in determining whether a change should be presented in OCI or profit and loss.</p>
<p>Has the IASB proposed changes to IFRIC 14?</p>	<p>The exposure draft proposes to bring into the main text of IAS 19 the conclusions published by the IFRIC to date, in compliance with paragraph 46 of the IFRIC Due Process Handbook.</p> <p>The IASB does not intend substantive changes from the requirements of IFRIC 14.</p>

Transition and effective date	
What are the transitional requirements? Will entities be required to restate comparative figures?	The exposure draft proposes an entity apply the new requirements on a retrospective basis. This will require an entity to adjust the opening balance of each component of equity for the earliest comparative period presented and restate its comparative figures.
Will early adoption be permitted?	Yes.
When will the amendments be effective?	Assuming all goes to plan, we expect to publish a final amendment in June 2011, with an effective date of periods beginning on or after 1 January 2013.