



# The future of IAS 19

## IASC Foundation

The views expressed in this presentation are those of the presenter, not necessarily those of the IASC Foundation or the IASB



# Outline

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- Background
- Summary of short-term proposals in discussion paper as at July 2009
- Next steps



## Reasons for project

- Issues with accounting model
  - Delays in recognition of gains and losses
  - Inadequate measurement methodology

## Response

- Discussion paper issued in March 2008
  - Limited scope project
  - Deliver improvements before MoU deadline 2011
  - Comment period closed 26 September 2008





# Forthcoming ED

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# Summary of forthcoming ED proposals

## Recognition and presentation

- All changes in plan assets and in DBO recognised in period in which they occur
- All changes in plan assets and in DBO recognised in Statement of Comprehensive Income

## Disclosures

- Improve disclosures by proposing principle-based disclosures and aligning risk disclosures with IFRS 4 and IFRS 7

## Other issues





# Recognition and presentation

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# Feedback from DP–Recognition

Most respondents support recognising all changes in DBO and in plan assets in the period in which they occur

✓ Necessary and sufficient improvement

**BUT**

✗ Presentation best left till financial statement presentation project completed



## Main themes

- Need to separate operating from financing and remeasurements
- Need to achieve consistency between this project and the financial statement presentation project
- Pension assets and liabilities appear more risky than others because they are measured at current value
- Must not increase divergence with SFAS 158





# Tentative decisions of IASB

## Recognition

- Recognise:
  - all changes in the fair value of plan assets and changes in the DBO in the period in which they occur
  - unvested past service cost in the period of the related plan amendment



## Presentation

- An entity shall disaggregate changes in the net defined benefit asset or liability into three components:
  - service cost, including the gain or loss on curtailment
  - interest cost on the DBO
  - remeasurements, comprising:
    - other changes in the DBO and in plan assets (eg return on plan assets)
    - the gain or loss on settlement
    - the effect of the asset ceiling



# Tentative decisions of IASB

- disclose the *service cost* and *interest cost* on the DBO either in the income statement or in the notes
- present the *interest cost* on the DBO in the same way as other finance costs
- present the *remeasurements* component separately in the income statement net of tax effects



# Example

<b>Revenue</b>	<b>X</b>
Business expenses (including service cost)	(X)
<b>Finance costs</b> (including interest costs on pensions)	<b>X</b>
Profit on continuing operations before tax and pension remeasurement	X
<b>Tax expense excluding tax included in items below</b>	<b>X</b>
Profit from continuing operations before pension remeasurement	X
Net remeasurements arising from changes in pension assumptions	X
<b>Net profit from discontinued operations</b>	<b>X</b>
<b>Profit or loss</b>	<b>X</b>
<b>Components of other comprehensive income</b>	<b>X</b>
<b>Total comprehensive income</b>	<b>X</b>





# Disclosures

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## Respondents support review of disclosures

- ✗ Must not merely add to already onerous requirements
- ✓ Principles-based approach
- ✓ More sensitivity analysis
- ✓ Look to best practice
  - US FAS 158
  - UK ASB Reporting Statement
  - PAAinE discussion paper



## Disclosures

- + Improve disclosures
  - + Principles-based disclosures
  - + Risk disclosures aligned with IFRS 4 *Insurance Contracts* and IFRS 7 *Financial Instruments: Disclosures*
- + Increase disclosures about the risks of participation in multi-employer plans
- No additional guidance on materiality for disclosures





# Other issues

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## On other issues

- No blanket exemption from defined benefit accounting for multi-employer plans
- Clarify
  - expected future increases in salaries considered when assessing whether benefits attribute higher benefits to later years
  - risk-sharing and/or conditional indexation features considered when determining the best estimate of the defined benefit obligation
  - definitions of *short-term employee benefits* and *other long-term employee benefits* based on the timing of when the entity expects the benefit to become due to be settled



## Other issues (contd)

- Tax payable by the plan included in the return on plan assets, or in the measurement of the obligation, depending on the nature of the tax
- Costs of administering the plan included in the return of plan assets if:
  - they relate to the management of plan assets, and
  - the benefit promise depends on return on those plan assets



## Curtailments and settlements

- Delete references to curtailments and settlements
  - No longer a need to distinguish curtailments from negative past service cost and settlements from other remeasurements
- Disclose narrative description of effect of plan amendments
- Disclose non-routine settlements



# Decisions yet to take

## July 2009 meeting

- Discount rate
  - remove the requirement to use a government bond rate when there is no deep market in high-quality corporate bonds
  - include guidance that refers to the fair value hierarchy for entities estimating a high-quality corporate bond rate
- Transition
  - Retrospective application consistent with IAS 8



# Next steps

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# Two separate exposure drafts

## Part 1

- Recognition & presentation of changes in the defined benefit obligation and in plan assets
- Disclosures
- Other issues raised that can be addressed expeditiously

ED published Q4 2009

## Part 2

- Contribution-based promises
  - potentially as part of a comprehensive review of pension accounting.

Project commencing post-2011



# Expected timetable

Date	Milestone
July 2009	Recent Board discussion
Q4 2009	Publish Exposure Draft (Part 1)
2011	Publish final standard (Part 1)



# Other relevant projects

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- **Proposed amendments to IFRIC 14 *Prepayments of minimum funding contributions* ED**
  - Comment deadline 27 July 2009
- **Fair value measurements ED**
  - plan assets included in its scope
  - Comment deadline 28 September 2009
- **Credit Risk in Liability Measurement DP**
  - May affect any comprehensive project on the measurement of the defined benefit obligation
  - Comment deadline 1 September 2009





# Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

