Project **Post-employment benefits**

Topic **Transitional provisions**

## Purpose of this paper

1. This paper addresses the proposed transition requirements for the amendment to IAS 19 *Employee Benefits*. This paper does not address the effective date which we will consider when we finalise the proposals as a final amendment.

## Staff recommendation

2. The staff recommends that the exposure draft includes no specific transitional provisions. Therefore, in accordance with the general requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 1 *First-time Adoption of International Financial Reporting Standards*, all entities would apply the amendments to IAS 19 retrospectively.

3. The staff also recommends that paragraphs 153-156 of IAS 19 and paragraph D10 of Appendix D of IFRS 1 are deleted (reproduced in Appendix A).

## Staff analysis and recommendation

### *Summary of the amendments*

4. The main amendments to post-employment benefits to be proposed in the exposure draft are as follows:

   (a) immediate recognition of changes in the net defined benefit asset or liability in the period in which they occur (ie the removal of the corridor and deferred recognition);

   (b) presentation of changes in the net defined benefit asset or liability within profit and loss;

   (c) minor amendments arising from issues that were raised by comment letters that the Board could address expeditiously including:

This paper has been prepared by the technical staff of the IASB for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

Decisions made by the Board are reported in IASB *Update*.

Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

(i) that an entity should consider risk-sharing and or conditional indexation features when determining the best estimate of the defined benefit obligation.

(ii) that an entity should consider expected future increases in salaries when assessing whether benefits attribute higher benefits to later years.

(iii) that the definitions of short-term employee benefits and other long-term employee benefits are based on the timing of when the entity expects the benefit to become due to be settled.

(iv) that plan administration costs and tax payable by the plan should be included in the return on plan assets or in the measurement of the obligation depending on their nature;

(d) revised disclosures about post-employment benefits;

(e) the incorporation of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* and various IFRIC rejections; and

(f) depending on the Board's decision in Agenda Paper 5A, there may be an amendment removing the requirement to use a government bond rate when there is no deep market in high quality corporate bonds.

***Initial application of amendments for entities already applying IFRSs***

5. The initial application of the amendments may result in a change in accounting policy.

6. IAS 8 states that entities apply change in accounting policy resulting from the initial application of an IFRS retrospectively. When applying a new IFRS, IAS 8 requires the reporting entity to adjust the opening balance of retained earnings for the earliest period presented for any difference between the amounts recognised before and after the application of the new IFRS, as would be the case if the new IFRS had always been applied (IAS 8.22). A change in accounting policy is not applied retrospectively to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change (IAS 8.23).

7. In the staff's view:

(a) it would not be unduly burdensome for entities to apply the changes resulting from the amendments on recognition, the other minor amendments and the possible change to the discount rate retrospectively. Although some of the proposed amendments will change the amounts recognised, entities will not have to recalculate amounts for dates earlier than the date of the beginning of the first period presented in the financial statements. The amounts depend solely on conditions at that date, not on assessments made on previous dates.

(b) the revised requirements for presentation and the revised disclosure paragraphs also do not require any information beyond that which would already have been prepared by entities to apply the existing version of IAS 19. Some disclosures may require information from an earlier date. We will consider whether those decisions require any specific transition once the Board has concluded on disclosure at this meeting.

(c) When the proposed amendments are finalised, entities will already be applying IFRIC 14.

Accordingly, we do not think that there is any reason for the proposed amendments to be difficult to apply retrospectively.

***Existing transition paragraphs in IAS 19***

8. Paragraphs 153 to 156 of the existing version of IAS 19 contain transitional provisions that would have applied when entities first adopted IAS 19 in 1999 and their effect expired after five years. These are no longer necessary as entities adopting IAS 19 for the first time in the future would be within the scope of IFRS 1. Therefore, we propose these paragraphs are deleted.

***First-time adopters of IFRSs***

9. Paragraph D10 of Appendix D of IFRS 1 deals with the application of the corridor approach for first-time adopters of IFRS. In the light of the Board's proposal to abolish the corridor approach, this paragraph is redundant.

10. Paragraph D11 of Appendix D of IFRS 1 allows prospective application of the 5 year disclosure requirements of IAS.19.120A(p). The allowance was made as this paragraph requires disclosure of the previous four years' comparatives and it was considered impractical for a first-time adopter of IFRSs to apply. We see no reason to change this exemption.

11. There are no other specific transitional provisions relating to IAS 19 or IFRIC 14. This means that first-time adopters would be required to apply the amended IAS 19 retrospectively, except for paragraph 120A(p).

12. The staff believes that this is appropriate. The application of IAS 19 at the date of transition to IFRSs depends solely on conditions at the reporting date, not on assessments made on previous dates. No calculations for earlier dates are required.

| **Staff Recommendations and Questions for Board** |
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| Based on the above, the staff recommends that:<br><br>1. the exposure draft includes no specific transitional provisions. Therefore, in accordance with the general requirements of IAS 8 and IFRS 1, all entities would apply the amendments to IAS 19 retrospectively.<br><br>2. paragraphs 153 to 156 of IAS 19 and paragraph D10 of Appendix D of IFRS 1 are deleted.<br><br>Does the Board agree? |

# Appendix A

A1. Relevant paragraphs proposed to be deleted from IAS 19:

153 This section specifies the transitional treatment for defined benefit plans. Where an entity first adopts this Standard for other employee benefits, the entity applies IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

154 On first adopting this Standard, an entity shall determine its transitional liability for defined benefit plans at that date as:

(a) the present value of the obligation (see paragraph 64) at the date of adoption;

(b) minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102–104);

(c) minus any past service cost that, under paragraph 96, shall be recognised in later periods.

155 If the transitional liability is more than the liability that would have been recognised at the same date under the entity's previous accounting policy, the entity shall make an irrevocable choice to recognise that increase as part of its defined benefit liability under paragraph 54:

(a) immediately, under IAS 8; or

(b) as an expense on a straight-line basis over up to five years from the date of adoption. If an entity chooses (b), the entity shall:

(i) apply the limit described in paragraph 58(b) in measuring any asset recognised in the statement of financial position;

(ii) disclose at the end of each reporting period: (1) the amount of the increase that remains unrecognised; and (2) the amount recognised in the current period;

(iii) limit the recognition of subsequent actuarial gains (but not negative past service cost) as follows. If an actuarial gain is to be recognised under paragraphs 92 and 93, an entity shall recognise that actuarial gain only to the extent that the net cumulative unrecognised actuarial gains (before recognition of that actuarial

gain) exceed the unrecognised part of the transitional liability; and

(iv) include the related part of the unrecognised transitional liability in determining any subsequent gain or loss on settlement or curtailment.

If the transitional liability is less than the liability that would have been recognised at the same date under the entity's previous accounting policy, the entity shall recognise that decrease immediately under IAS 8.

156 On the initial adoption of the Standard, the effect of the change in accounting policy includes all actuarial gains and losses that arose in earlier periods even if they fall inside the 10% 'corridor' specified in paragraph 92.

A2. Relevant paragraphs from Appendix D of IFRS 1:

D10 In accordance with IAS 19 Employee Benefits, an entity may elect to use a 'corridor' approach that leaves some actuarial gains and losses unrecognised. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRSs into a recognised portion and an unrecognised portion. However, a first-time adopter may elect to recognise all cumulative actuarial gains and losses at the date of transition to IFRSs, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans.

D11 An entity may disclose the amounts required by paragraph 120A(p) of IAS 19 as the amounts are determined for each accounting period prospectively from the date of transition to IFRSs.