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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.  
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:**        **March 2009, London**

**Project:**                **Post-employment Benefits**

**Subject:**                **Presenting the remeasurement component in the income statement (Agenda paper 8A)**

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## **Purpose of this paper**

1. At its January meeting, the Board decided that entities should:
  - a. disaggregate the changes in the defined benefit obligation and in plan assets into employment, financing and remeasurement components, and recognise the components in the income statement.
  - b. disclose the employment and financing components either in the income statement or in the notes, and present the remeasurement component in the income statement
2. At that meeting, some Board members expressed the view that the Board could gain acceptance for its decision only if entities were permitted to present a subtotal representing profit before tax and pension remeasurements.
3. At its February meeting, the Board decided that the remeasurement component should include the total return on plan assets and actuarial gains and losses on the defined benefit obligation.
4. The Board noted that it had not yet decided how entities should present the remeasurement component in the income statement, including whether it should require entities to present the remeasurement component as a single line item.

5. This paper asks the Board to make decisions on:
  - a. disaggregation of the remeasurement component, including whether to prohibit disaggregation of the actual return on plan assets; and
  - b. whether to permit entities to present a subtotal on the income statement that represents profit from continuing operations excluding tax and specified components of pension remeasurements.
6. The appendix gives examples to illustrate the discussion in this paper.

## **Summary of staff recommendations**

7. The staff recommends that the Board:
  - a. allows entities to either:
    - i. present the remeasurement component as one line item (paragraph 14).
    - ii. disaggregate the remeasurement component and present the disaggregated components in separate line items on the face of the income statement (paragraph 19).
  - b. prohibits entities from disaggregating the actual return on plan assets on the face of the income statement (paragraph 21).
  - c. amends IAS 1 to enable entities to present a subtotal that represents profit from continuing operations excluding tax and specified components of pension remeasurements (paragraph 28). This would permit entities to present specified components of pension remeasurements net of tax effects.

## **Further disaggregation of the remeasurement component**

8. At the February Board meeting, the Board decided that the remeasurement component should
  - a. exclude service cost and interest cost
  - b. include the actual return on plan assets and actuarial gains and losses on the defined benefit obligation.
9. The Board also noted that it had not yet discussed whether it should require entities to present the remeasurement component as a single line item.

10. Example 1 in the appendix shows how an entity might present the remeasurement component as a single line item in the income statement. Examples 2 and 3 show how an entity might present the remeasurement component as more than one line item.
11. We note that IAS 1 currently permits disaggregation of the pension cost on the face of the income statement and IAS 19 currently requires disaggregation of the pension cost in the notes.<sup>1</sup> The discussion in the following paragraphs is only about the display on the face of the income statement.
12. We would like to ask the Board whether it wishes to require or prohibit any specific presentations of pension remeasurements on the face of the income statement. In particular:
  - a. whether to *require* entities to present the remeasurement component as one line item
  - b. whether to *require* entities to present the effect of changes in assumptions other than the discount rate in the same section of the income statement as the service cost.
  - c. whether to *prohibit* entities from disaggregating the actual return on plan assets on the face of the income statement.
13. Example 1 illustrates the remeasurement component presented as a single line item in the income statement. Such a presentation is allowed under IAS 1, and we think that should continue. However, we think that the Board should not *require* entities to present the remeasurement component in one line item for the following reasons:
  - a. IAS 1 permits entities to present additional line items when such presentation is relevant to an understanding of the entity's financial performance. We think it would be inconsistent with IAS 1 to prohibit disaggregation of the remeasurement component.
  - b. Some argue that the actuarial gains and losses on the defined benefit obligation (excluding the effect of changes in the discount rate) should be shown next to the service cost because they relate to changes in the estimate of employee service. Others argue that such gains and losses are not related to the cost of employment but arise only as a consequence of deferring payment. A requirement for a single line item for

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<sup>1</sup> When we come to disclosures, we will need to consider whether to continue to require that entities disclose the expected return on assets and other changes in the value of plan assets.

remeasurements would mean that entities could not present the remeasurement changes in different locations in the income statement if they think that better reflects their situation (subject to the discussion in paragraphs 22-28).

- 14. We recommend that the Board does not require (but does not prohibit) entities to present the remeasurement component as a one line item.**
15. If the Board decides not to require entities to present the remeasurement component as one line item, the next question is whether the Board should limit the level of disaggregation permitted on the face of the income statement.
16. For example, some argue that the actuarial gains and losses on the defined benefit obligation that relate to changes in the discount rate are a financing expense and that the other actuarial gains and losses are a cost of employment. Accordingly, they argue that entities should display the actuarial gains and losses arising from changes in the discount rate with other employment costs and display other actuarial gains and losses as a finance cost. Example 2 illustrates such a presentation.
17. As stated in paragraph 13, we generally think it would be inconsistent with IAS 1 to prohibit disaggregation. Thus, we think that disaggregation of the remeasurement component, and in particular, of the actuarial gains and losses on the defined benefit obligation should be allowed.
18. However, we also do not think that such disaggregation should be required because to do so would give excessive weight to remeasurements related to pensions cost. Although significant to many entities, the changes in pensions cost are only one aspect of an entity's performance. Requiring two line items for those changes in all circumstances is excessive.
- 19. Accordingly, we recommend that the Board allows but does not require entities to disaggregate the remeasurement component and present the disaggregated components in separate line items on the face of the income statement. The disaggregated components could include:**
  - a. the actual return on plan assets;**
  - b. actuarial gains and losses on the defined benefit obligation that arise from changes in the discount rate; and**
  - c. the actuarial gains and losses on the defined benefit obligation that arise from changes other than changes in the discount rate.**

## **Actual return on plan assets**

20. Given that we think the remeasurement aspect of the change in the defined benefit obligation could be disaggregated, the question arises as to whether the remeasurement of plan assets could be disaggregated. Although the arguments in paragraph 13 apply equally to disaggregation of the actual return on plan assets, in our view, permitting such disaggregation would be inconsistent with the direction indicated by the Board at the February meeting. At that meeting, the Board rejected the disaggregation of the actual return on plan assets into an interest income (financing) component and a remeasurement component because it decided that the resulting interest income amount would be an arbitrary amount and potentially misleading. We think it follows that any disaggregation of the actual return on plan assets on the face of the income statement would be undesirable<sup>2</sup>.
21. **We recommend that the Board prohibit entities from disaggregating the actual return on plan assets on the face of the income statement.**

## **A subtotal representing profit before tax and specified pension remeasurements**

22. At the January meeting, some Board members expressed a view that constituents would more readily accept the proposal to present all the components of changes in the defined benefit obligation and plan assets in the income statement if they could present a subtotal representing profit before tax and pension remeasurements.
23. This view was supported by members of the Employee Benefits Working Group (EBWG). The EBWG met immediately after the Board's January meeting. We have also had informal feedback from constituents supporting this view.
24. We think that there are two options:
- a. The entity could present a single line item representing all pension remeasurements net of tax effects. Example 4 illustrates one such possible presentation.
  - b. The entity could present part of the pension remeasurement component net of tax effects. Example 5 illustrates a possible presentation.
25. In the staff's view, it would be an important improvement in the financial reporting of pensions if all components of pension cost are presented in the income statement. Accordingly, we think that if the suggested presentation helps to

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<sup>2</sup> We note that these arguments also suggest that we prohibit disaggregation of the actual return on assets in the notes to the financial statements. We will consider this further when we discuss disclosures.

increase acceptability of this improvement to constituents, the Board should permit it.

26. If the Board decides to permit such a presentation, it would need to amend paragraph 82 of IAS 1 as follows:

As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:

- (a) revenue;
- (b) finance costs;
- (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
- (d) tax expense, excluding any amounts included in parts (e) and (e1);
- (e) a single amount comprising the total of:
  - (i) the post-tax profit or loss of discontinued operations and
  - (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;
- (e1) remeasurements arising from defined benefit promises as defined in IAS 19 (in one or more line items);
- (f) .....

27. We note that IAS 12 defines “tax expense” as “the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax”. Thus, the requirements of paragraph 82 of IAS 1 double count the tax on discontinued operations. As a result, an amendment similar to that proposed for paragraph 82(d) is already required.
28. **The staff recommends that the Board amend IAS 1 to enable entities to present a subtotal that represents profit from continuing operations excluding tax and specified components of pension remeasurements.**

## Appendix

This appendix includes the following examples:

**Example 1:** how an entity might present the remeasurement component as a single line item in the income statement

**Example 2:** how an entity might present the remeasurement component divided into three line items

**Example 3:** how an entity could use a columnar format

**Example 4:** how an entity could present the remeasurement component as a single line item net of tax effects

**Example 5:** how an entity could present part of the remeasurement component net of tax effects

### ***Showing all of it above the tax line (net of tax examples are given below)***

#### **Example 1: how an entity might present the remeasurement component as a single line item in the income statement.**

<b>Revenue</b> <sup>3</sup>	X
Business expenses (including pensions employment expense)	(X)
<b>Finance costs</b> (including finance costs on pensions)	X
<i>Remeasurements relating to pensions</i> <sup>4</sup>	X
Profit before tax	<hr/> X
<b>Tax expense</b>	X
Profit from continuing operations	<hr/> X
<b>Post-tax gains or losses on discontinued operations</b>	X
<b>Profit or loss</b>	<hr/> X
<b>Components of other comprehensive income</b>	X
<b>Total comprehensive income</b>	<hr/> X

<sup>3</sup> Bold headings indicate those required by IAS 1.

<sup>4</sup> We have indicated all pension line items in italics.

**Example 2: how an entity might present the remeasurement component divided into three line items**

<b>Revenue</b>	<b>X</b>
Business expenses (including pensions employment expense, but excluding pensions remeasurements)	(X)
<i>Actuarial gains and losses on pensions relating to changes in assumptions other than the discount rate</i>	<i>X</i>
<b>Finance costs</b> (including finance costs on pensions)	<b>X</b>
<i>Actuarial gains and losses on pensions relating to changes in the discount rate</i>	<i>X</i>
<i>Actual return on plan assets</i>	<i>X</i>
Profit before tax	<hr/> X
<b>Tax expense</b>	<b>X</b>
Profit from continuing operations	<hr/> X
<b>Post-tax gains or losses on discontinued operations</b>	<b>X</b>
<b>Profit or loss</b>	<hr/> <b>X</b>
<b>Components of other comprehensive income</b>	<b>X</b>
<b>Total comprehensive income</b>	<hr/> <b>X</b> <hr/>

**Example 3: how an entity could use a columnar format**

	Excluding pension remeasure ments	<i>Pension remeasure ments</i>	Total
<b>Revenue</b>	<b>X</b>	-	<b>X</b>
Business expenses (including pensions employment expense)	(X)	<i>X</i>	X
<b>Finance costs</b> (including finance costs on pensions)	<b>X</b>	<i>X<sup>1</sup></i>	<b>X</b>
Profit before tax	<hr/> X	<hr/> X	<hr/> X
<b>Tax expense</b>	<b>X</b>	-	<b>X</b>
Profit from continuing operations	<hr/> X	<hr/> X	<hr/> X
<b>Post-tax gains or losses on discontinued operations</b>	<b>X</b>	-	<b>X</b>
<b>Profit or loss</b>	<hr/> <b>X</b>	<hr/> X	<hr/> <b>X</b>
<b>Components of other comprehensive income</b>	<b>X</b>	-	<b>X</b>
<b>Total comprehensive income</b>	<hr/> <b>X</b> <hr/>	<hr/> X <hr/>	<hr/> <b>X</b> <hr/>

<sup>1</sup>This includes the actual return on plan assets and the effect of changes in the discount rate.



## Showing some of it net of tax

### Example 4: how an entity could present the remeasurement component as a single line item net of tax effects

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

### Example 5: how an entity could present part of the remeasurement component net of tax effects

<b>Revenue</b>	<b>X</b>
Business expenses (including pensions employment expense)	(X)
<i>Actuarial gains and losses on pensions relating to changes in assumptions other than the discount rate</i>	X
<b>Finance costs</b> (including finance costs on pensions)	<b>X</b>
Profit on continuing operations before tax and non-business remeasurements of pensions	<u>X</u>
<b>Tax expense excluding tax included in items below</b>	<b>X</b>
Profit from continuing operations before non-business remeasurement of pensions	<u>X</u>
<i>Net non-business remeasurements of pensions<sup>2</sup></i>	X
<b>Net profit from discontinued operations</b>	<b>X</b>
<b>Profit or loss</b>	<u>X</u>
<b>Components of other comprehensive income</b>	<u>X</u>
<b>Total comprehensive income</b>	<u>X</u>

<sup>2</sup>Includes the actual return on plan assets and actuarial gains and losses arising from changes in the discount rate