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International
Accounting Standards
Board

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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: Additional issues raised in comment letters - Multi-employer plans (Agenda paper 8E)

Purpose of this paper and staff recommendation

1. The purpose of this paper is to analyse and recommend whether entities participating in defined benefit multi-employer plans should be exempt from accounting for their participation under the defined benefit plan requirements of IAS 19.
2. **In paragraph 23, the staff recommends that a blanket exemption from the defined benefit accounting requirements in IAS 19 is introduced for entities that participate in multi-employer plans and that additional disclosures are developed.**

The issue

3. For a multi-employer defined benefit plan, IAS 19 requires an entity to account for its proportionate share of the defined benefit obligation, plan assets, and costs associated with the plan in the same way as for a single-employer defined benefit plan.
4. However, IAS 19.30 states:

When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:

- (a) account for the plan under paragraphs 44–46 as if it were a defined contribution plan;**
- (b) disclose:**
 - (i) the fact that the plan is a defined benefit plan; and**
 - (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and**
- (c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:**
 - (i) any available information about that surplus or deficit;**
 - (ii) the basis used to determine that surplus or deficit; and**
 - (iii) the implications, if any, for the entity.**

5. Some respondents have questioned whether it is ever practicable for entities to apply defined benefit accounting to a multi-employer plan. Many preparers use the exemption available, but some argue that the requirement in IAS 19 to justify why sufficient information is not available is onerous and does not provide useful information to users of financial statements. Some also argue that the ability to use the exemption for multi employer plans depends on the interpretation of “no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.” That results in diverse interpretations. For example:

“In some countries industry wide employer plans are treated as defined contribution by definition or by nature. Sometimes this treatment is based on a consensus between parties involved (reporting entities, accountants, enforcement authorities). In other countries the plans are considered as defined benefit plans, but companies make use of IAS 19.32a because they are not provided, despite their requests, with the necessary information to make the IAS 19 calculations. And in other cases or countries, companies make use of IAS 19.32b (no consistent or reliable basis for allocation) or receive letters from the

board of the MEPs [multi employer plans] in which this argument is used. In other MEPs the allocation of the plan is effected according to IAS 19.29. There is even an example in which in the allocation is only done for one participating company based on a specific agreement between this company and the MEP. The other companies in the plan make use of the IAS 19.32a exemption.”¹

6. Some also argue that any allocation of the surplus or deficit among the sponsors of the multi-employer plan is arbitrary and economically meaningless as the actuarial and investment risks are shared among them all. Measurement of the obligation should take into account the effect of these risks on the future contributions required by a participating entity in order to determine the ‘ultimate cost’ as required by IAS 19. However it would be difficult, if not impossible, to obtain the necessary information to determine the effect of these risks as they would include factors dependent on other participating employers, such as their financial health. Hence it is argued that a participating employer’s liability in these circumstances more closely resembles that of a contingent liability and, therefore, disclosures would be more appropriate.
7. Very few constituents think that it would be possible to achieve an allocation of the plan to participating entities that reflects the extent to which the surplus or deficit in the plan will affect their future contributions.
8. Some argue that defined benefit accounting is more useful than defined contribution accounting with additional disclosures *but only if* a reliable allocation can be made. Very few constituents think this is possible. It is also argued that, even if there were a clear policy on determining current contributions, the link between the current position of the plan and the entity’s ultimate cost is weakened to a degree that defined contribution accounting supplemented by disclosures about the plan as a whole becomes the most meaningful

Possible solutions

9. Some respondents have suggested a blanket exemption, so that all multi-employer plans would be accounted for as defined contribution plans, would be a possible solution. The existing multi-employer disclosures would still be

¹ IFRIC submission received in November 2008

required and the Board could also consider whether other disclosure requirements should be added. These might include expected future contributions to the plan and relevant terms of the plan funding agreement.

10. Another solution would be to give guidance on what is meant by ‘a consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities’. The IFRIC developed a draft interpretation on this, *D6 Multi-employer Plans*, in 2004. However, the responses to D6 led the IFRIC to conclude that very few participants in multi-employer plans would have a consistent and reliable basis for allocation under those proposals. The IFRIC therefore did not proceed with the proposals in D6 and suggested instead that the Board give a blanket exemption to participants in multi-employer plans. The Board rejected this suggestion in 2004 because some plans had an agreement that determined how a surplus would be distributed or a deficit funded. This decision was noted in paragraph BC9D:

The IASB therefore decided to clarify in IAS 19 that, if a participant in a defined benefit multi-employer plan:

- (a) accounts for that participation on a defined contribution basis in accordance with paragraph 30 of IAS 19 because it had insufficient information to apply defined benefit accounting but
 - (b) has a contractual agreement that determined how a surplus would be distributed or a deficit funded,
- it recognises the asset or liability arising from that contractual agreement.

Feedback from the Employee Benefits Working Group

11. At its January meeting, the Employee Benefits Working Group was asked for feedback on the above proposal. Most members did not support a blanket exemption for multi-employer plans.
12. Members that did not support a blanket exemption raised the following concerns:
 - (a) It should not be assumed that most entities use the exemption already available. Some plans are able to provide the information required for entities to apply the requirements for defined benefit accounting. Under these circumstances the current requirements provide decision

useful information, this information would be lost if a blanket exemption was introduced. The staff are investigating how widely defined benefit accounting is used by participants in multi-employer plans.

- (b) The requirement to give reasons why sufficient information is not available when using the current exemption can be a useful exercise because management is forced to consider the nature and risks of the plan. There are often greater risks in participating in a multi-employer plan, thus it is appropriate for entities to have to justify the use of the exemption.
- (c) If the Board decided to provide a blanket exemption, there would be a need to consider the definition of a multi-employer plan carefully. Meeting the definition of a multi-employer plan could be seen as a ‘get out of jail free’ card.
- (d) The introduction of a blanket exemption would need to be accompanied with additional detailed disclosures. Specifically more disclosures of the risks of the plan would be required, such as the risk that the entity will have to meet the entire deficit of the multi-employer plan (last-man-standing risk).
- (e) There will be industry wide multi-employer plans for which the liability will not be recognised in any financial statements.
- (f) Any exemption should be restricted, eg so that it would not be available if the entity plays a dominant role in the plan.

13. Some members were supportive of a blanket exemption for multi-employer plans for the following reasons:

- (a) They believed there was a need to distinguish between plans with different risk-sharing characteristics. The current standard only draws a line between defined benefit and defined contribution plans.
- (b) In some jurisdictions these types of plans are pervasive and information is not generally available.

- (c) Additional good quality disclosures can be useful if an exemption is introduced.

Staff analysis and recommendation

- 14. If the Board were to proceed with a blanket exemption for multi-employer plans the following will need to be considered:
 - a) the definition of multi-employer plans
 - b) additional disclosures

The definition of multi-employer plans

- 15. Paragraph 7 of IAS 19 defines multi-employer plans as:

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

- (a) **pool the assets contributed by various entities that are not under common control; and**
 - (b) **use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.**
- 16. Members of the employee benefits working group expressed concerns that the definition may be open to abuse. For example, some suggested that a blanket exemption may introduce structuring opportunities.
- 17. However, paragraph 33 of IAS 19 distinguishes between multi-employer and group administration plans based on whether these plans ‘...expose the participating entities to actuarial risks associated with the current and former employees of other entities.’
- 18. The staff also notes that a blanket exemption is currently available under US GAAP. Paragraph 67 of FAS 87 *Employers’ Accounting for Pensions* defines a multi-employer plan is as follows:

“...a **multiemployer plan** is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one

participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer.”

19. FAS 87 also makes a distinction between *multi-employer* and *multiple-employer* plans. Multiple-employer plans are in substance the same as the group administration plans described in IAS 19 however FAS 87 does not refer to the sharing of actuarial risks when making this distinction. The staff is not aware of any significant abuse of the exemption under US GAAP.

Additional disclosures

20. If the Board decides to proceed with a blanket exemption, then our review of disclosures will need to address what additional disclosures will be required to ensure that users are informed of the risks and implications of an entity’s involvement in a multi-employer plan.

Recommendation

21. The staff argues that the Board should introduce a blanket exemption for multiemployer plans for the following reasons:
 - (a) The information given by an allocation of the defined benefit obligation, plan assets and costs of the plan is not useful as described in paragraph 8. Additional disclosures about future contributions and the risks associated with the plan would be more useful in enabling users of financial statements to assess the future cash flows associated with the plan.
 - (b) The requirement to justify why sufficient information is not available is onerous and does not provide useful information to users of financial statements. Additional disclosures would be more useful.
 - (c) There are diverse interpretation of “no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan” even within employer sponsors participating in the same multi-employer plan.

(d) Very few sponsors of multi-employer plans use the defined benefit requirements of the standard.

22. The staff does not agree that:

(a) introducing a blanket exemption needs to lead to a loss of decision useful information from these entities. The Board could require that the entity provide additional disclosure if it thinks that this information is important to an understanding of its pension obligation.

(b) an exemption would result in entities no longer considering the risks and implications of their involvement in a multi-employer plan. If additional disclosures about multi-employer plans were introduced, that targeted the risks more directly, entities would continue to consider the risks of entering into multi-employer arrangements.

(c) A blanket exemption would be open to abuse. Experience in the US, which has a similar exemption, does not suggest that there would be significant abuse. We think that the requirement that multi-employer plans share actuarial risk would restrict the ability for entities to structure their pension plans to obtain the exemption.

23. The staff recommends that a blanket exemption from the defined benefit accounting requirements is introduced for entities that participate in multi-employer plans and that additional disclosures are developed. Does the Board agree with the staff recommendation?