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|---------|---------------------------------|
| Project | Post-employment benefits |
| Topic | Presentation |

Purpose of this paper

1. This paper discusses the presentation of pension (and other post-employment benefit) costs.
2. The Board is developing an ED on recognition, presentation and disclosure of pension costs, planned to be published in Q1 2010. The Board has tentatively decided that an entity should:
 - (a) recognise all components of pension cost in the period in which they occur, ie to eliminate the deferred recognition options in IAS 19 *Employee Benefits*.
 - (b) disaggregate the pension cost into an employment component (service cost), a financing component (interest cost) and a remeasurement component (actuarial gains and losses on the defined benefit obligation and the total return on plan assets).
 - (c) present all those components in profit or loss, displaying the remeasurement component separately, net of related income tax.
3. In September, the Board noted that it planned to consider presentation of other comprehensive income (OCI) at the joint October meeting. The Board decided that it should consider after that meeting whether its decisions have any implications for presentation of the pensions remeasurement component. This paper considers those decisions and Board decisions on presentation in other projects.

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

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

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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Summary of staff recommendation

4. The staff recommends that the pensions ED includes no proposals on presentation. Instead the Board should proceed with its proposal to eliminate the options in IAS 19 for deferred recognition but retain the two options that accommodate immediate recognition. They are (a) presentation of all components in profit or loss and (b) presentation in OCI of actuarial gains and losses (and the effect of the asset ceiling) with all other components recognised in profit or loss.

Board decisions***OCI project***

5. At the joint meeting, the Boards unanimously decided to work together to develop a requirement for a single statement of comprehensive income. The IASB also tentatively decided that it will propose that an entity should (a) display together those components of OCI that will not be reclassified into profit or loss in future periods (non-recyclable OCI) and (b) display together those components of OCI that might be reclassified into profit or loss in future periods (recyclable OCI).
6. The boards plan to publish an ED on these proposals early in 2010.

Financial Instruments

7. IFRS 9 *Financial Instruments* (soon to be finalised) allows an entity to make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not *held for trading*. Dividends are recognised in profit or loss. Gains and losses recognised in OCI are not recycled.

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Financial Statement (FSP) project

8. At the joint meeting in October, the FASB tentatively agreed to require disaggregation of remeasurements on the face of the statement of comprehensive income (SCI) in a columnar format. The IASB expressed a preference for presenting information about remeasurements in the notes to financial statements. The IASB agreed to reconsider the issue after the staff analyse current disclosures of remeasurement information and disclosures being considered in other projects. The Boards expect to publish the FSP ED in April 2010.

Staff analysis

9. The Board proposes to define pension remeasurements as (a) actuarial gains and losses on the defined benefit obligation plus (b) the total return on plan assets.
10. The Board proposal to require pension remeasurements to be presented in profit or loss was made in the context of existing practice, in which most entities present profit and loss and OCI in two separate statements. In that context many Board members wished to ensure that entities:
 - (a) do not present pension remeasurements in a separate OCI statement.
 - (b) present pension remeasurements separately from other items in profit or loss
 - (c) present pension remeasurements in a manner that would allow preparers and/or users to draw a subtotal of profit after tax but before pension remeasurement.
11. The Board concluded that separate presentation of pension remeasurements in profit or loss, net of tax, would achieve these objectives. The Board believed that this presentation was sufficiently transparent and separate from other items in profit or loss to overcome objections from constituents. Those objections have in the past focused on the size and volatility of the pension

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remeasurements, and the fact that they are different in nature to other gains and losses.

12. The staff thinks that the Board's decisions on OCI, Financial Instruments and FSP change the context for the decision on pension remeasurements. Under the OCI proposals, we are now considering presentation in a single statement of comprehensive income. Further, the FSP project is now considering the presentation of remeasurements generally.
13. Given this, the staff would like the Board to consider the following options on pension presentation:
 - (a) continue with its original tentative decision that remeasurements should be presented separately net of tax in profit or loss
 - (b) propose instead that remeasurements should be presented in a non-recyclable OCI section of a single statement of comprehensive income or
 - (c) include no proposals on presentation, leaving the options for immediate recognition that currently exist in IAS 19 (but eliminating the option for deferred recognition, ie the corridor).

Appendix A illustrates these options.

14. Option (a): the Board's proposal on pension remeasurements created a new category in profit or loss, just for pensions. The staff thinks this no longer appropriate given the developments in other projects. We should instead use one of the methods of presenting remeasurements being developed in those projects.
15. Option (b): the proposed single statement of comprehensive income now enables us to meet the objectives listed in paragraph 10 by including pension remeasurements in the non-recycled section of OCI. This approach would be consistent with the presentation of strategic equity investments in IFRS 9, except for the treatment of dividends on such investments (see paragraph 17(a) below).

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16. Option (c): the staff thinks that the most important aspect of this stage of the pension project is the immediate recognition of all gains and losses. Two of the options already in IAS 19 accommodate that proposal: the option to recognise everything immediately in profit or loss and the option to recognise actuarial gains and losses in OCI.
17. The staff acknowledges that retaining those two options currently in IAS 19 would lose two aspects of the Board's current proposals:
 - (a) the existing options in IAS 19 require an entity to split the total return on plan assets into (i) an expected return and (ii) the difference between that expected return and the actual return. The expected return is presented in profit or loss and the difference is presented in OCI. The Board has previously discussed whether any part of the return on plan assets should be treated as a finance cost (see Agenda Paper 5A for the February 2009 Board meeting) and concluded that it should not. The Board's current proposal is therefore that the total return on plan assets should be treated as a remeasurement.
 - (b) the existing options permit but do not require disaggregation of the employment cost and the finance cost. The Board's current proposal requires this disaggregation.
18. Despite this, the staff thinks that including no proposals on presentation has advantages. Given the changes on presentation generally being considered by the Board, it might be better to stick with these options now, and leave any changes in pension presentation to be decided once the OCI and FSP projects are completed. Many respondents to the pensions Discussion Paper argued that this would be the most appropriate way to approach the issue. Further, the staff does not wish the Board's proposals on immediate recognition to be delayed further if difficulties arise in other projects. Achieving immediate recognition alone will bring a huge improvement in the transparency of pension cost information. The Board could then consider presentation when it has finalised or at least further developed its FSP and OCI projects.

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19. The staff therefore recommends that the pensions ED includes no proposals on presentation. Instead the Board should retain the two options currently in IAS 19 that accommodate immediate recognition.

Presentation

Does the Board agree that the pensions ED should include no proposals on presentation?

This would mean the continuation of the two options currently in IAS 19 that accommodate immediate recognition. They are (a) presentation of all components in profit or loss and (b) presentation in OCI of actuarial gains and losses (and the effect of the asset ceiling) with all other components recognised in profit or loss.

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Appendix A: comparison of approaches

Option 1 – The Board’s tentative decisions to date on pensions and OCI

| | |
|--|----------|
| Revenue | X |
| Operating expenses (including pensions employment expense) | (X) |
| Finance costs (including finance costs on pensions) | X |
| Profit before tax | <u>X</u> |
| Tax expense | X |
| Profit from continuing operations | <u>X</u> |
| Remeasurements arising from changes in pension assumptions (net of tax) | X |
| Post-tax gains or losses on discontinued operations | X |
| Profit or loss | <u>X</u> |
| Components of other comprehensive income (not recyclable) | X |
| Components of other comprehensive income (recyclable) | X |
| Total comprehensive income | <u>X</u> |

Option 2 – Present remeasurements in non-recyclable OCI

| | |
|--|----------|
| Revenue | X |
| Operating expenses (including pensions employment expense) | (X) |
| Finance costs (including finance costs on pensions) | X |
| Profit before tax | <u>X</u> |
| Tax expense | X |
| Profit from continuing operations | <u>X</u> |
| Post-tax gains or losses on discontinued operations | X |
| Profit or loss | <u>X</u> |
| Components of other comprehensive income (not recyclable): | |
| Remeasurements arising from changes in pension assumptions (net of tax) | X |
| Components of other comprehensive income (recyclable) | X |
| Total comprehensive income | <u>X</u> |

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Example 3 - The current requirements of IAS 19 (OCI option)¹

| | |
|---|----------|
| Revenue | X |
| Operating expenses (including pensions employment expense) | (X) |
| Finance costs (including expected return on plan assets and finance costs on pensions) | X |
| Profit before tax | <u>X</u> |
| Tax expense | X |
| Profit from continuing operations | <u>X</u> |
| Post-tax gains or losses on discontinued operations | X |
| Profit or loss | <u>X</u> |
| Components of other comprehensive income (not recyclable): | |
| Actuarial gains and losses (net of tax) | X |
| Components of other comprehensive income (recyclable) | X |
| Total comprehensive income | <u>X</u> |

¹ We note that IAS 19 does not include any requirements for the presentation of components within profit and loss. This example presents the interest cost and expected return as financing items, but they could instead be included as operating items.