
Project **Post-employment benefits**

Topic **Multi-employer plans**

Objective

1. This paper provides the following for the multi-employer plan exemption:
 - (a) Background, including an overview of the current requirements in IAS 19 *Employee Benefits* (paragraphs 4 – 5),
 - (b) an overview of responses to the ED (paragraphs 6 – 8); and
 - (c) a staff analysis and recommendation (paragraphs 9 – 10)
2. This paper provides the following for the multi-employer plan disclosures:
 - (a) Background, including an overview of the proposals in the ED (paragraphs 11 – 15),
 - (b) an overview of responses to the ED (paragraphs 16 – 19); and
 - (c) together with a staff analysis and recommendation (paragraphs 20 – 33).
3. In summary, the staff recommends that the Board:
 - (a) retain the requirement in IAS 19 that an entity account for its shares of a defined benefit multi-employer plan in the same way as for any other defined benefit plan unless sufficient information is not available, in which case an entity accounts for the plan as if it were a defined contribution plan.
 - (b) amend paragraph 32 of IAS 19 to reflect that the ability to account for multi-employer plans as defined benefit plans is not common

This paper has been prepared by the technical staff of the IFRS Foundation 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 IFRS Interpretations Committee 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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- (c) confirm the disclosures proposed in the ED that apply to all multi-employer plans with an amendment to limit the disclosure of the withdrawal liability to qualitative information.
- (d) specify that an entity should recognise and measure any withdrawal liability in accordance with IAS 37.
- (e) confirm the disclosures proposed in the ED that apply to multi-employer plans accounted for as if they were defined contribution plans with the following amendments:
 - (i) reduce the period for the required disclosure of future contributions from 5 years to 1 year.
 - (ii) require an indication of an entity's level of participation in a plan. Such a requirement could be met by disclosing the proportion of total members or the proportion of total contributions.

Multi-employer plan exemption

Background

4. In March 2009, the Board considered whether to permit all entities participating in multi-employer plans to account for those plans as if they were defined contribution plans. IAS 19 requires that entities should account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.
5. In the Board's view this would apply to many plans that meet the definition of a multiemployer plan. The Board concluded that extending the exemption from defined benefit accounting would be unnecessary and contrary to its general approach of limiting exceptions. The Board also believes that such an exemption

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would not be appropriate for all multi-employer plans. For example, the Board concluded that when an entity becomes a dominant participant in a multi-employer plan, perhaps because other participants leave the plan, it should not be exempt from accounting for the plan as a defined benefit plan. Consequently the Board decided not to permit all entities participating in multi-employer plans to account for those plans as if they were defined contribution plans, however the Board decided to improve the disclosures for multi-employer plans.

Feedback received

6. Question 14 of the ED asked:

Question 14

IAS 19 requires entities to account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. In the Board's view, this would apply to many plans that meet the definition of a defined benefit multiemployer plan. (Paragraphs 32(a) and BC75(b))

Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?

7. Many respondents noted that, while accounting for multi-employer plans as defined benefit plans is uncommon, it does occur and a blanket exemption would not be appropriate. Some have suggested that the Board amend the relevant paragraphs to reflect that the ability for an entity to account for multi-employer plans as defined benefit plans is rare. Paragraph 32 of IAS 19 currently states that 'in *some* cases, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes' (emphasis added).

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8. Some suggested further guidance regarding when a consistent and reliable basis of allocation exists in accordance with paragraph 32(b) of IAS 19. Respondents noted that while a particular basis may be consistent and reliable (such as by proportion of total contributions or members), it may not be a *relevant* measurement of the entity's obligation due to the arbitrary allocation. These respondents suggested clarifying that a consistent and reliable basis does not exist when the resulting asset or liability does not reflect the extent to which the surplus or deficit in the plan will affect an entity's future contributions.

Staff analysis and recommendation

9. Question 14 in the ED was a request for information on how the current exemption is being applied and whether any entities are applying defined benefit plan accounting for their proportionate share of a defined benefit multi-employer plan.
10. The feedback from the comment letters has been consistent with the view of the Board that while cases are rare, there are still occasions where there is sufficient information and a consistent and reliable basis for accounting for a multi-employer plan as a defined benefit plan. The staff suggests that paragraph 32 of IAS 19 is amended to reflect that the ability to account for multi-employer plans as defined benefit plans is less common than currently implied by the words 'some cases'.

Question 1

Does the Board agree to retain the requirement in IAS 19 that an entity account for its share of a defined benefit multi-employer plan in the same way as for any other defined benefit plan unless sufficient information is not available, in which case an entity accounts for the plan as if it were a defined contribution plan?

Does the Board agree to amend paragraph 32 of IAS 19 to reflect that the ability to account for multi-employer plans as defined benefit plans is not common?

If not, what do you propose and why?

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Multi-employer plan disclosures**Background**

11. IAS 19 requires no additional disclosure for defined benefit multi-employer plans unless the entity uses the exemption in paragraph 30 to account for a defined benefit multi-employer plan as if it were a defined contribution plan.
12. Some respondents to the discussion paper *Preliminary Views on Amendments to IAS 19* believed that entities participating in a defined benefit multi-employer plan face greater risks than other entities, for example, risks that result from actions by other participants in the plan. They stated that the disclosures in IAS 19 are insufficient to inform users of financial statements about an entity's participation in defined benefit multi-employer plans; in particular, the risks associated with such participation and the potential effect on the amount, timing and uncertainty of future cash flows. Accordingly, the exposure draft proposes additional disclosures about participation in a multi-employer plan.
13. The exposure draft included the following disclosures:
 - 33A If an entity participates in a defined benefit multi-employer plan, it shall disclose:
 - (a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.
 - (b) the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.
 - (c) the total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available.
 - (d) details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan.
 - (e) if the entity accounts for its proportionate share of the defined benefit obligation, plan assets and cost

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associated with the plan in accordance with paragraph 29A, all the information required by paragraphs 125A-125K for that proportionate share

- (f) if the entity accounts for the plan as if it were a defined contribution plan in accordance with paragraph 30:
 - (i) the fact that the plan is a defined benefit plan.
 - (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.
 - (iii) the expected contributions to the plan for the next five annual reporting periods, and a description of the contractual agreement or other basis used to determine the expected contributions.
 - (iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

14. On 1 September 2010, the US Financial Accounting Standards Board (FASB) published an exposure draft proposing to expand disclosures about an employer's participation in a multiemployer plan that would give better information about the risks an entity faces by participating in a multiemployer plan. The proposed disclosures in the FASB exposure draft are similar to the proposals in the Board's ED. Appendix A provides a comparison between the proposed disclosures in the two exposure drafts. The comment letter period ended on 1 November 2010 and the FASB received over 340 comment letters.
15. The staff understands that the FASB will begin discussing the comment letters received in the first quarter of 2011 with a view to publishing a final Accounting Standards Update in the first half of 2011.

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Feedback received

16. Question 10 of the ED asked:

Question 10

The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? (Paragraphs 33A and BC67–BC69) Why or why not?

17. Respondents and users have generally welcomed the proposed disclosures for multi-employer plans (MEPs). Some respondents were concerned about the general increase in disclosure requirements and the additional cost that will be required to meet these requirements. Others were concerned about the approach to disclosures, suggesting that if the entity has a small participation in a multi-employer plan (such as less than 5% of the total contributions), then the resulting risks are less likely to be material and therefore the disclosure requirements should not apply to that participation.
18. Some respondents are concerned about the proposed requirements:
- (a) to quantify a withdrawal liability because:
 - (i) they are concerned about the additional cost of this disclosure and whether, in practice, it will be possible to gather this additional information for the majority of multi-employer plans.
 - (ii) the withdrawal liability is typically determined using assumptions different to the IAS 19 measurement and different plans specify different allocation methods using different assumptions. An entity participating in many multi-employer plans could have a wide range of assumptions underlying the determination of each plan's withdrawal liability. As a result, the information presented may be of limited relevance to users due to the lack of comparability between entities (or even for different plans of a single entity) and it would be difficult to aggregate multi-employer disclosures.

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- (iii) they question whether the disclosure would provide useful information if there was very little probability of withdrawal. Some also noted that withdrawal is not always an option because of restrictions in some jurisdictions. Some respondents noted that disclosing a withdrawal liability could be misleading when an entity is not committed to withdrawing from a plan because the terms under which an entity withdraws from a plan are typically subject to negotiation at the time of withdrawal.
 - (b) to disclose the expected contributions for the next five years because it could be difficult to comply with this requirement and it would contain too much forward looking information.
 - (c) to disclose the entity's proportion of the total number of members of the plan. Some noted that determining the proportion of members may be difficult as employees would have worked for many of the employers that participate in a given multi-employer plan. Respondents noted that this disclosure should be required only if an entity accounts for a defined benefit multi-employer plan as if it were a defined contribution plan. If the entity can use this information to reliably allocate a surplus or deficit then defined benefit accounting would be required and the disclosure would not be necessary. Some respondents argued that a more relevant measure of the level of the entity's participation in a multi-employer plan accounted for as a defined contribution plan would be the entity's proportion of the total contributions paid to the plan.
19. One respondent suggested that it may be helpful to disclose whether the entity can exit from the multi-employer arrangement.

Staff analysis and recommendation

20. The Board has already discussed the overall approach to disclosures in its meeting in November 2010. The analysis below will focus on the particular

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disclosure requirements that were commented on by respondents as noted in the overview of feedback received above. Apart from those particular disclosures, respondents were generally supportive of the proposals in the ED and the staff recommends the Board confirm those proposals subject to the amendments discussed below and drafting suggestions from respondents.

21. The rest of this section considers the following:

- (a) Withdrawal obligations
- (b) Future contributions
- (c) Proportion of members

Withdrawal obligations

22. As noted above, the ED proposed that an entity disclose details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan.

23. The staff believes that the Board's intention was to require either quantitative or qualitative information about an entity's obligation if it decides to withdraw from a plan. Such disclosure was intended to provide users with information about the effect on the cash flows of an entity in the event of a withdrawal or wind-up of the plan.

24. The staff agrees with the views from respondents that disclosure of the withdrawal liability should be limited to qualitative information for the following reasons:

- (a) If an entity is not committed to withdrawing from the plan, or the plan is not committed to winding up or a withdrawal liability has not been agreed between the entity and the plan, determining the withdrawal liability would be difficult and additional measurement requirements would have to be developed as well as further disclosure about the assumptions used.

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- (b) Withdrawal is not always an option for an entity, therefore there is no potential withdrawal liability, however the staff believes that an entity should disclose if it is unable to withdraw from a plan because it would be important information for a user of the financial statements.
 - (c) The cost and possible inability of an entity to obtain the information would make the disclosure onerous if it was required for all entities in all circumstances.
25. If it is probable that the entity will withdraw from the plan, any additional liability should be recognised and measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Paragraph 32B of IAS 19 already requires an entity to disclose information about a contingent liability arising from multi-employer plans.
26. The FASB Accounting Standards Codification (ASC) paragraph 715-80-35-2 states that:
- In some situations, withdrawal from a multiemployer plan may result in an employer having an obligation to the plan for a portion of the unfunded benefit obligation of the pension or other postretirement benefit plans. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of Topic 450 [Contingencies] shall apply.
27. The staff recommends that requiring an entity to apply IAS 37 to a withdrawal liability should be made explicit in IAS 19.
28. As noted in paragraph 18(a)(ii) above, some respondents argued that disclosure of a withdrawal liability should not be required because different plans or jurisdictions use different assumptions to determine the withdrawal amount, and therefore the amounts are not comparable. The staff does not agree with that argument. The staff believes that the amount required to withdraw from a plan faithfully represents the obligation, whether that amount is determined on the same or different basis as another plan. Because the amounts are determined using different assumptions, the amounts required to withdraw will be different for each plan.

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Future contributions

29. The staff agrees with the views that disclosing the contributions for the next five years would require an entity to forecast future levels of employee service and therefore the amount would be difficult to determine and the disclosure would also result in the disclosure of forward looking information.
30. The staff recommends that the Board align this disclosure with the tentative decision made in November 2010 that an entity disclose the expected contribution for a defined benefit plan for the next annual period. Such a disclosure would be consistent with the proposals in the FASB's exposure draft. The staff notes that a narrative description of any funding arrangement and funding policy is required under proposed paragraph 33A(a).

Proportion of members

31. The ED proposed the disclosure of an entity's proportion of the total number of members of the plan in order to provide users with some information about the relative level of participation of an entity relative to other participants in a multi-employer plan. However it may be difficult to determine an entity's proportions of active members, inactive members and pensioners if employees frequently switch between the employers that participate in a multi-employer plan.
32. Some suggested that a better indicator of an entity's level of participation in a multi-employer plan would be its proportion of the total amount of contributions. Such a disclosure would be consistent with the proposals in the FASB's exposure draft. Information on the proportion of the total contributions may be easier and less costly to determine than the proportion of plan members.
33. The staff believes that the disclosure should focus on the objective of providing information about the effect of any surplus or deficit on the amount, timing and uncertainty of an entity's future cash flows. If an entity does not account for its participation in a multi-employer plan as a defined benefit plan, providing users with information about the entity's relative level of participation in a plan would

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help meet this objective. Indicators of an entity's level of participation in the plan include the proportion of the total members or the proportion of total contributions. The staff agrees with the views that this information is relevant only if the entity accounts for a defined benefit multi-employer plan as if it were a defined contribution plan and that consequently it should only be applicable under those circumstances.

Question 2

(a) Does the Board agree to confirm the disclosures proposed in the ED that apply to all multi-employer plans amended to limit the required disclosure of the withdrawal liability to qualitative information.

(b) Does the Board agree to specify that an entity should recognise and measure any withdrawal liability in accordance with IAS 37?

(c) Does the Board agree to confirm the disclosure requirements proposed in the ED for multi-employer plans accounted for as if they were defined contribution plans with the following amendments:

(i) reduce the period for the disclosure of future contributions from 5 years to 1 year?

(ii) require an indication of the entity's level of participation in a plan? And that such a requirement could be met by disclosing the proportion of total members or the proportion of total contributions?

If not, what do you propose and why?

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Appendix A – Comparison with proposed FASB multi-employer plan disclosures

This appendix compares the proposals in the FASB’s recent ASU on multi-employer plans with the disclosures proposed in the ED Defined Benefit Plans.

- A1. The IASB proposals distinguish between defined benefit multi-employer plans accounted for as defined benefit plans and accounted for as defined contribution plans.
- A2. The IASB proposals do not include any disaggregation requirements specifically for multi-employer plans. The FASB proposals include the following disaggregation requirements in proposed paragraph 715-80-50-1A:

Narrative information required by the following paragraph shall be disaggregated for plans or groups of plans with significantly different risk characteristics or contractual commitments. For example, it may be appropriate to describe plans that are required to adopt funding improvement plans separately from plans without funding improvement plans. The basis for disaggregation shall be disclosed. To determine the appropriate level of disaggregation, an employer needs to exercise judgment and strike a balance between obscuring important information as a result of too little disaggregation and overburdening financial statement users with excessive detail that may not assist them in understanding the risks and commitments associated with participating in the plans or groups of plans. Quantitative information required by the following paragraph shall be provided for each annual period for which a statement of income or statement of financial position is presented. Quantitative information shall be provided separately for individually material plans. For immaterial plans that are material when presented in the aggregate, it may be appropriate to describe a range that spans the population that is aggregated.

ED <i>Defined Benefit Plans</i> paragraph 33A	Equivalent requirement in Paragraph 715-80-50-1B of the proposed FASB ASU:
If an entity participates in a defined benefit multi-employer plan, it shall disclose:	An employer shall disclose the following. If any information is not obtainable, an employer shall provide an explanation of why

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	<p>it is not obtainable.</p> <p>c. Narrative descriptions of all of the following:</p>
<p>(a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.</p>	<p>g. A description of the contractual arrangement(s), including all of the following:</p> <ol style="list-style-type: none"> 1. The term of the current arrangement(s). 2. For each future year covered by a contract, the agreed-upon basis for determining contribution(s). 3. Any minimum contribution(s) required by the agreement(s).
<p>(b) the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.</p>	<ol style="list-style-type: none"> 1. The employer's exposure to significant risks and uncertainties arising from its participation in the plan(s). That narrative description shall include the extent to which, under the terms and conditions of the plan(s), the employer can be liable to the plan(s) for other participating employer's obligations.
<p>(c) the total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available.</p>	<p>f. Employer's contributions as a percentage of total contribution to the plan(s), if obtainable, for the year ended as of the employer's latest statement of financial position date or most recent date available before the statement of financial position date and, for comparability, that percentage for the corresponding prior periods.</p> <p>h. Percentage of the employer's employees covered by such plan(s).</p> <p>i. Quantitative information about the employer's participation in the plan(s), for example, the number of its employee participants as a percentage of total plan participants disaggregated between active and retired participants, if obtainable, as of the most recent date available.</p>
<p>(d) details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan.</p>	<p>m. For plans for which an amount is required to be paid on withdrawal from the plan or windup of the plan:</p> <ol style="list-style-type: none"> 1. Details of any agreed deficit or surplus allocation to participating employers on windup. 2. The amount that is required to be paid on

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	<p>withdrawal from the plan as of the most recent date available, if that information is obtainable.</p> <p>3. If the amount required to be paid on withdrawal is not obtainable, information about the employer's relative participation in those plans (such as percentage of total contributions to such plans or percentage of participants covered by such plan(s)).</p>
(e) if the entity accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in accordance with paragraph 29A, all the information required by paragraphs 125A-125K for that proportionate share.	Not applicable
(f) if the entity accounts for the plan as if it were a defined contribution plan in accordance with paragraph 30:	Not applicable
(i) the fact that the plan is a defined benefit plan.	2. How benefit levels for plan participants are determined.
(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.	Not applicable
(iii) the expected contributions to the plan for the next five annual reporting periods, and a description of the contractual agreement or other basis used to determine the expected contributions.	<p>j. Amount of contributions for the current reporting period.</p> <p>k. Expected contributions for the next annual period.</p>
(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.	<p>e. Total assets and the accumulated benefit obligation of the plan(s), if obtainable, as of the most recent financial statement plan year-end and, for comparability, those amounts for the corresponding prior periods.</p> <p>1. Known trends in contributions, including the extent to which a surplus or deficit in the plan may affect future contributions.</p> <p>5. Any funding improvement plan(s) or rehabilitation plan(s), including the expected effects on the employer. For plans in regulatory warning zones, the warning status and remedies being considered by the plan(s) should be described, if known.</p>
Not required	a. The number of plans in which the

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	<p>employer participates.</p> <p>b. For individually material plans, the name of the plan(s).</p> <p>3. Whether the employer is or is not represented on the board of trustees of the plan(s) or a similar body.</p> <p>4. The consequences the employer may face if it ceases contributing to the plan(s).</p> <p>d. A description of the nature and effect of any changes affecting comparability from period to period, including both of the following:</p> <ol style="list-style-type: none">1. A business combination or a divestiture.2. The rate of employer contributions for each period for which a statement of income is presented.
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