

## International Financial Reporting Standards



# The future of IAS 19

### IASC Foundation

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## Reasons for project

- Accounting model broken
  - Delays in recognition of gains and losses
  - Inadequate measurement methodology

## Response

- Discussion paper issued in March 2008
  - Deliver improvements before MoU deadline 2011
  - Limited scope project – does not address measurement



# Summary of forthcoming ED proposals

## Recognition

- All changes in value of plan assets and in defined benefit obligation recognised in period in which they occur

## Presentation

- All changes in value of plan assets and in PEB obligation recognised in Statement of Comprehensive Income

## Disclosures

- Improve disclosures, including new disclosures on risk and cashflows

## Other issues

- Practice issues that can be dealt with expeditiously



## Recognition

- No corridor
- No deferred recognition
- No expected return on plan assets



## Presentation

- An entity shall disaggregate changes in the net defined benefit asset or liability into three components:
  - service cost
  - net interest on the defined benefit asset or liability
  - re-measurements, comprising:
    - other changes in the defined benefit obligation and in plan assets
    - the gain or loss on settlement
    - the effect of the asset ceiling.



## Presentation – net interest

- Calculate by:
  - applying discount rate used to measure dbo to
  - net defined benefit asset/liability
- Hence, return in plan assets is divided into:
  - amount of net interest attributable to plan assets and
  - re-measurement



# Net interest example

- Opening DBO 1000, Plan assets 700, discount rate 5%
  - Net interest =  $(1000-700) \times 5\% = 15\text{dr}$
- Analysed into:
  - 50dr interest cost on DBO
  - 35cr interest income on plan assets
- Total return on plan assets 100cr
  - 35cr included in net interest, 65cr in re-measurements



## Presentation

- An entity shall present **service cost** as an employment cost in profit or loss
- An entity shall present the **net interest cost** in the same way as other finance costs.
- An entity shall present the **re-measurements** component in other comprehensive income.





## Disclosures

- + Clarify disclosure objectives to align with information users want and aligning requirements to those objectives
- + Streamline reconciliation requirements
- + New disclosures:
  - + sensitivity analysis for actuarial risk
  - + increase disclosures for participants in multi-employer plans
  - + present value of the defined benefit obligation modified to exclude the effect of projected salary growth
- Delete disclosures relating to deferred recognition



## On other issues

- No blanket exemption from defined benefit accounting for multi-employer plans
- Clarify
  - expected future increases in salaries considered when assessing whether benefits attribute higher benefits to later years
  - treatment of risk-sharing and or conditional indexation features
  - definitions of short-term employee benefits and other long-term employee benefits
  - treatment of admin costs and tax



# Two separate phases

## Part 1

- Recognition & presentation of changes in the defined benefit obligation and in plan assets
- Disclosures
- Other issues raised that can be addressed expeditiously

ED expected Q1 2010

## Part 2

- Contribution-based promises
  - potentially as part of a comprehensive review of pension accounting.
- Comprehensive review

Project commencing post-2011

