Project	**Annual Improvements - 2009-2011 Cycle**
Topic	**IAS 26 *Accounting and Reporting by Retirement Benefit Plans* – Presentation of retirement benefit plan investments**

Objective of this paper

1. The objective of this paper is to address the presentation of retirement benefit plan investments (plan assets) in the financial statements of retirement benefit plans in accordance with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

2. Clarification has been requested on whether changes in the fair value of these plan assets should be presented:

   (a) in the statement of changes in net assets available for benefits in accordance with IAS 26; or

   (b) in profit or loss **or** other comprehensive income (OCI), depending on how the individual plan assets are classified in accordance with paragraph 55 of IAS 39 *Financial Instruments: Recognition and Measurement*, or paragraph 5.4.1 of IFRS 9 *Financial Instruments*, after its application.

3. This paper asks the IFRIC to consider as part of the *Annual Improvements Project* (AIP) clarifying that plan assets should be presented in accordance with IAS 26 by excluding these plan assets from the scope of IAS 39.

4. This paper:

   (a) provides background information on the issue;

   (b) analyses the issues raised in the context of IFRSs;

   (c) makes a staff recommendation for a proposed amendment to IFRS; and

   (d) asks the IFRIC whether they agree with the staff recommendation.

Background information

5. The staff received a request to clarify whether changes in the fair value of plan assets recognised in the financial statements of retirement benefit plans in accordance with IAS 26 should be presented in accordance with IAS 39 or IAS 26.

6. These constituents have identified the following views on presenting gains and losses arising from a change in the fair value of plan assets:

   (a) **View 1** - **<u>always</u>** present them in the statement of changes in net assets available for benefits in accordance with the disclosure guidance in paragraph 35 of IAS 26.

   (b) **View 2 –** present them in profit or loss **<u>or</u>** in OCI depending on how the individual plan assets are classified in accordance with paragraph 55 of IAS 39, or paragraph 5.4.1 of IFRS 9 *Financial Instruments*, after its application.

Staff Analysis

7. IAS 26.1 states the scope of the standard:

   > shall be applied in the financial statements of retirement benefit plans where such financial statements are prepared.

8. IAS 26.32 requires plan assets to be carried at **<u>fair value</u>** for all retirement benefit plans.

View 1 - recognition of gains and losses from a change in fair value of the plan assets in accordance with IAS 26

9. In accordance with View 1, gains and losses from a change in the fair value of the plan assets should be recognised and disclosed in accordance with IAS 26.35. This states that financial statements provided by retirement benefit plans include:

> (b) a statement of changes in net assets available for benefits showing the following: …
>
> (iii) investment income such as interest and dividends:
>
> (ix) profits and losses on disposal of investments and changes in value of investments;

10. The recognition and measurement of plan assets in the financial statements of retirement benefit plans would be **outside the scope** of IAS 39.

11. This view is supported by the following arguments:

    (a) The principle in IAS 26.34 is for disclosure to focus on a statement of changes in net assets available for benefits, rather than on a statement of comprehensive income identifying profit or loss items separately from OCI items in accordance with IAS 1 *Presentation of Financial Statements*.

    (b) The principle in paragraph 7 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which states that:

    > When an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the IFRS.

    IAS 8.11 then explains that in the absence of an IFRS that specifically applies to a transaction, application of IFRSs dealing with similar and related issues should be considered as a priority over other sources of guidance.

(c) On initial application, IAS 39 did not propose any amendments to the guidance on the presentation of plan assets within the scope of IAS 26.

(d) IAS 26.4, which acknowledges that it complements IAS 19 *Employee Benefits*, given the scope of IAS 39 states that it:

> shall be applied by all entities to all types of financial instruments except: …
>
> (c) employers' rights and obligations under employee benefit plans, to which IAS 19 Employee Benefits applies.

View 2 - recognition of gains and losses from a change in fair value of the plan assets in accordance with IAS 39

12. In accordance with View 2, gains and losses from a change in the fair value of the plan assets should be recognised in accordance with IAS 39.55.

13. Consequently, these gains and losses may be recognised in either profit or loss **<u>or</u>** in OCI, depending on whether the plan assets are classified at fair value through profit or loss or as available-for-sale.

14. This view is supported by the following arguments:

(a) IAS 26.2 states that:

> All other Standards apply to the financial statements of retirement benefit plans to the extent that they are not superseded by this Standard.

(b) Consistency with IAS 26.35 (a) (i) which requires disclosures of assets at the end of the period suitably classified. The staff understands that in practice this categorisation is often in accordance with IAS 39.

(c) IAS 39.2 provides a number of specific exceptions to the scope of the standard. Reference to the accounting and reporting of financial statements for retirement benefit plans in accordance with IAS 26 is **<u>not</u>** made in these exceptions.

Staff recommendation

15. The staff believe that entities should apply View 1.

16. The staff believe that this reflects the intent of IAS 26, as highlighted in IAS26.35 (iii) and (ix), to provide complete guidance on the recognition, measurement, presentation and disclosure of the plan assets in the financial statements of retirement benefit plans.

Annual Improvements criteria assessment

17. The staff believe that the most efficient way to clarify guidance on the recognition, measurement, presentation and disclosure of these plan assets is to amend the scope of IAS 39 through the AIP. We believe that the issue meets the AIP criteria because it is a necessary amendment to IFRSs.

18. The staff note that the Board recently reaffirmed its commitment to address the scope of IAS 39 as part of a later phase of the IAS 39 replacement project. The intent is to have IAS 39 (including its scope) replaced by the end of 2010.

19. Following discussions with the Financial Instruments project team, the staff recommend that the amendment is made as part of the 2009-2011 AIP Cycle.

20. However, the staff propose that it may determine that the amendment is included in the IAS 39 replacement project, rather than the 2009-2011 AIP Cycle, if this will lead to an earlier effective date for the amendment.

Question 1 for the IFRIC
1. Does the IFRIC agree that the issue should be added to the Annual Improvements Project unless inclusion within the IAS 39 replacement project would address the issue within a shorter period of time? 2. Do you have any comments on the proposed amendment to IAS 39 *Financial Instruments: Recognition and Measurement* in Appendix A?

Effective date and transition

21. The staff propose that an entity shall apply the amendment retrospectively for annual periods beginning on or after 1 January 2012. Earlier application shall be permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

22. The staff do not believe that additional transition guidance is required for first-time adoption of IFRS.

Question 2 for the IFRIC
Does the IFRIC agree with the proposed effective date and transition?

Consequential amendments

23. The staff have mixed views on whether consequential amendments are needed.

24. The staff agree that an amendment to the scope of IFRS 9 is **not** required because IFRS 9 is applied to all assets within the scope of IAS 39.

25. Some staff though propose a consequential amendment to IAS 32 *Financial Instruments: Presentation*, consistent with the proposed amendment to IAS 39. This reflects the:

    (a) arguments put forward in View 1 of the staff analysis;

    (b) objective of IAS 32 to complement IAS 39; and

    (c) analogy to the existence in IAS 39 and IAS 32, of a scope exception for employers' rights and obligations under employee benefit plans to which IAS 19 *Employee Benefits* applies.

26. Other staff would argue that a consequential amendment to IAS 32 is not required. They observe that the proposed amendment to the scope of IAS 39 relates to instruments that are financial assets, rather than instruments that may be either financial liabilities or equity of the retirement benefit plans.

27. The staff also has mixed views on whether a consequential amendment, identical to the wording proposed as an amendment to IAS 39, should be made to IFRS 7 *Financial Instruments: Disclosures*.

28. Some staff consider that the amendment should be made. They argue that the amendment is consistent with the:

(a) Board's decision, as noted in paragraph BC 8 of IFRS 7, that the scope of IFRS 7 should be the same as that of IAS 32 with only one exception.

(b) notion that IAS 26 should be considered a 'self-contained' standard addressing recognition, measurement, presentation and disclosures relating to financial statements of retirement benefit plans.

29. Other staff believe that a consequential amendment to IFRS 7 is inappropriate. They argue that the inclusion of IFRS 7 disclosures within financial statements prepared in accordance with IAS 26 provides useful information to users of the financial statements.

30. For example, disclosure of information regarding the fair value hierarchy applied in determining the fair value of plan assets, as required by paragraph 27B of IFRS 7, is relevant information.

31. These staff note that there is currently no scope exception from IFRS 7 for plan assets held by entities reporting in accordance with IAS 26, and do not believe a valid argument has been made to introduce an exception now.

Question 3 for the IFRIC
Does the IFRIC believe that consequential amendments should be made to IAS 32 or IFRS 7?

Appendix A – Proposed amendment to IAS 39 Financial Instruments: Recognition and Measurement

Paragraph 2 (k) is added.

2 This Standard shall be applied by all entities to all types of financial instruments except:

(k) Retirement benefit plan investments, in the financial statements of retirement benefit plans where such financial statements are prepared in accordance with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

Appendix B – Consequential amendments

Consequential amendments to IAS 32 *Financial Instruments: Presentation*

Paragraph 4 (g) is added.

4 This Standard shall be applied by all entities to all types of financial instruments except:

(g) Retirement benefit plan investments, in the financial statements of retirement benefit plans where such financial statements are prepared in accordance with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

Consequential amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraph 3 (g) is added.

(g) Retirement benefit plan investments, in the financial statements of retirement benefit plans where such financial statements are prepared in accordance with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

Appendix C – Basis for Conclusions on proposed amendment to IAS 39 *Financial Instruments: Recognition and Measurement*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Scope exclusion: Retirement benefit plan investments, to which IAS 26 *Accounting and Reporting by Retirement Benefit Plans* applies

BC1 The Board received a request to clarify the presentation of changes in the fair value of retirement benefit plan investments (plan assets), in the financial statements of retirement benefit plans where such financial statements are prepared in accordance with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

BC2 The Board noted that two views exist in current practice. The first view is that all changes in the fair value of the plan assets should be presented in the statement of changes in net assets available for benefits in accordance with IAS 26. The second view is that changes in the fair value of the plan assets should be presented in either profit or loss, or other comprehensive income (OCI) in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. In applying this second view, the presentation of these fair value changes will depend on whether the individual plan assets are classified as fair value through profit or loss, or as available-for-sale in accordance with paragraph 55 of IAS 39, or paragraph 5.4.1 of IFRS 9 *Financial Instruments*, after its application.

BC3 The Board agreed with the first view and proposes to clarify that plan assets presented in the financial statements of retirement benefit plans where such financial statements are prepared in accordance with IAS 26 are outside the scope of IAS 39.