Project	**Post-employment benefits**
Topic	**Presentation of remeasurements**

Objective

1. This paper:

   (a) summarises the tentative decisions to date and provides additional background and context regarding the presentation of the remeasurements component of defined benefit cost and sets out the issues that the staff are considering as a consequence of those tentative decisions; and

   (b) asks the Board whether to revert to the proposal in the ED, whether to revert to the current requirements of IAS 19 or whether the staff should continue exploring ways to restrict the presentation of remeasurements in the statement of comprehensive income.

Background

The proposals in the ED

2. The overall objective of the exposure draft *Defined Benefit Plans* (the ED) was to improve transparency, comparability and understandibility by removing the existing options in IAS 19 for the recognition and presentation of defined benefit cost. The proposals in the ED were intended as short-term, limited scope improvements in advance of a more fundamental review of IAS 19 (including a review of measurement), which would occur at some point in the future.

3. The objective of the proposal to present remeasurements in OCI was to reduce the current options in IAS 19 of presenting the components of defined benefit cost in different parts of the statement of comprehensive income.

4. In finalising the ED, the Board concluded that although the changes included in the remeasurement component may provide information that helps with an assessment of the uncertainty of future cash flows, many regard those changes as not providing useful information about the likely amount and timing of future cash flows. Therefore, to separate the remeasurement component from service cost and finance cost in an informative way, the ED proposed that entities should present the remeasurement component as an item of other comprehensive income. This would remove from IAS 19 the option for entities to recognise in profit or loss all changes in defined benefit obligations and in the fair value of plan assets.

5. When the Board was developing the ED, the Board was also discussing its financial statement presentation (FSP) project. Therefore the proposals in the ED were aligned to some degree with the Board's tentative decisions to date on FSP, including notions such as operating and financing sections of the statement of comprehensive income. Although the FSP project was not addressing other comprehensive income, a related project resulting in the exposure draft *Presentation of items of Other Comprehensive Income* sought to improve the visibility and presentation of items presented in other comprehensive income.

6. The Board has previously acknowledged that it has yet to address the presentation of the statement of comprehensive income fundamentally, which would include considering the conceptual basis for other comprehensive income, what items should be presented there, and whether items presented in other comprehensive income should be reclassified to profit or loss in a subsequent period.

Response to proposals in the ED

7. As discussed in Agenda Paper 11C of November 2010, most of the respondents supported these objectives and the Board's proposal that an entity should present the remeasurements component in other comprehensive income (some agreed with the proposal, but with the caveat that these amounts should be recycled to profit or loss). Of those that agreed, some noted the consequences of doing so, including the presentation mismatch that results due to unfunded plans, and hedging relationships. A small number of others did not support the Board addressing the presentation of defined benefit cost before a more fundamental review of the presentation of items in the statement of comprehensive income and the financial statement presentation project. An even smaller number of others did not support the proposal because they:

   (a) believed presentation in profit or loss was the correct answer;

   (b) would like to retain the corridor; or

   (c) were concerned about the mismatch.

8. Presentation of the remeasurements component was also discussed at the Employee Benefits Working Group (EBWG) meeting in September 2010. EBWG members' views were consistent with the views in the comment letters regarding whether the Board should confirm the proposals in the ED. Many EBWG members believed that requiring remeasurements to be presented in OCI would improve comparability, whereas providing options for the presentation of the remeasurements would reduce comparability. Some EBWG members had concerns about the accounting mismatch that could arise and were more sympathetic to the view that the Board should permit presentation of remeasurements in profit or loss in particular circumstances.

Tentative decisions to date

9. The Board confirmed the ED proposals for the recognition (including the elimination of the corridor) and disaggregation of defined benefit cost (including the calculation of the finance cost component based on the discount rate used to

measure the defined benefit obligation multiplied by the net defined benefit asset or liability).

10. The Board discussed the presentation of the components of defined benefit cost at its meeting in November 2010 and tentatively decided:

    (a) to confirm the proposals in the ED that an entity should present the service cost and finance cost components in profit or loss;

    (b) to withdraw the proposal in the ED that an entity should present the finance cost component together with other finance costs as defined in IAS 1 *Presentation of Financial Statements.* Instead the Board tentatively decided that an entity could present the components in profit or loss according to the requirements of IAS 1. This decision was due to, among other reasons, the interaction between the proposal in the ED, the proposals at the time the ED was developed in the financial statement presentation project and the existing requirements of IAS 1; and

    (c) to withdraw the proposal in the ED that an entity should present the remeasurements component in other comprehensive income (OCI). Instead the Board tentatively decided that an entity could present the remeasurements component in either profit or loss or OCI.

11. In January 2011 the Board tentatively decided that:

    (a) although remeasurements should be presented in other comprehensive income, in some circumstances it would be appropriate to allow an entity to elect to present remeasurements in profit or loss (primarily to address accounting mismatches) for a given plan.

    (b) the election to present remeasurements in profit or loss would need to be irrevocable.

    (c) when an entity makes that election, amounts previously recognised in other comprehensive income should not be reclassified to profit or loss.

Next steps

Consequences of irrevocability and plan-by-plan

12. The Board's tentative decision to date is that the election to present remeasurements in profit or loss would be on a plan-by-plan basis and would be irrevocable.

13. However, making the election irrevocable on a plan-by-plan basis introduces additional challenges. The Board will have to consider whether and when an entity could revisit its election if there are changes in facts.

14. Changes of facts that the Board could consider include:

    (a) A merger of two plans using different elections.

    (b) Plan amendments, curtailments and settlements.

    (c) Plans switching between funded, and unfunded status.

    (d) Business combinations.

    (e) A change in the measurement or presentation basis for an entity's assets held to back a pension plan that has no plan assets (an unfunded liability) if that change creates or eliminates an accounting mismatch.

    (f) The purchase or disposal of a hedging instrument.

15. The staff is considering the above consequences, however the staff notes that addressing the above consequences would add complexity to the requirements in IAS 19.

Whether the option to present remeasurements in profit or loss should be limited to specified circumstances

16. Agenda Paper 9D of the January meeting sets out an analysis of the circumstances where presentation of remeasurements in profit or loss may address some of the concerns raised by respondents to the proposal in the ED to present remeasurements only in other comprehensive income.

17. Those circumstances focused on whether an accounting mismatch existed, however during the discussion several Board members raised concerns about how an entity would identify whether an accounting mismatch exists.

18. It is not clear whether the accounting mismatch arises due to the presentation of defined benefit remeasurements in other comprehensive income or the requirements of other IFRSs for the presentation of remeasurements in profit or loss. Therefore it is unclear whether the mismatch should be addressed as part of this project, or as part of another project (such as hedge accounting).

19. The suggestion to limit the option to circumstances where an accounting mismatch exists was based on existing requirements in IAS 39 and IFRS 9 regarding the fair value option for assets and liabilities.

20. Criteria for identifying a mismatch could be developed further perhaps along the lines of the IAS 39 application guidance, or perhaps criteria for limiting the option could be based on other characteristics of the plans the Board intends to target, such as whether the plan is funded or unfunded. The staff is currently exploring such alternatives.

21. However the staff notes that the introduction of different presentation requirements for different circumstances would be different from the current IAS 19 requirements. Introducing criteria to identify an accounting mismatch would add complexity to the requirements in IAS 19.

Summary

22. The staff recommendation in Agenda Paper 11C of the November meeting was to confirm the proposal in the ED that the remeasurements component should be presented in other comprehensive income. In the staff's view, this would be the simplest, most understandable alternative and has received wide support from respondents to the ED. However, this option has its drawbacks, including:

    (a) introducing an accounting mismatch for a small number of entities;

(b) expanding the use of other comprehensive income when the Board has yet to consider the presentation of the statement of comprehensive income more broadly;

(c) proceeding with changes to the presentation of defined benefit cost when the Board has yet to consider the measurement of defined benefit plans; and

(d) eliminating presentation in profit or loss for first-time adopters who currently recognise all defined benefit cost through profit or loss.

23. The staff do not think that limiting the presentation of remeasurements to other comprehensive income would pre-empt a fundamental review of the presentation of the statement of comprehensive income or a fundamental review of the measurement of defined benefit plans. However, confirming the proposals in the ED may lead to entities having to change the presentation of costs now, and again in the future if a fundamental review of presentation of the statement of comprehensive income or a fundamental review of measurement of defined benefit plans causes the Board to reach a different conclusion. The ED proposed to limit the presentation of remeasurements to other comprehensive income (one of the existing options in IAS 19) in order to improve comparability.

24. Allowing a free choice of presentation of remeasurements would be consistent with the current requirements of IAS 19 relating to the presentation of actuarial gains and losses if actuarial gains and losses are recognised immediately. However the Board has previously stated that perpetuating the options in IAS 19 would not improve financial reporting.

25. Limiting the choice of presentation to specified circumstances would improve the comparability of financial statements when those circumstances do not apply. Such a limitation would address the concerns expressed by respondents that requiring entities to present remeasurements in OCI may have unintended consequences. Such a limitation may also reduce comparability less than a free choice would. However, limiting the choice to particular circumstances would

require the establishment of criteria and would add substantial complexity to the presentation requirements for defined benefit cost.

26. Based on the above, the overall staff recommendation would remain that the Board confirm the proposals in the ED. In the staff's view this would be the approach that best meets the objectives of the ED. However, if the Board does not agree with the staff recommendation, then the Board can either:

(a) agree to permit an entity to present remeasurements in other comprehensive income or profit or loss (similar to the current IAS 19 requirement); or

(b) ask the staff to continue to explore ways to limit the presentation of remeasurements in profit or loss (whether based on particular circumstances, making the election irrevocable or some other limitation not yet considered). The staff does not think that this paper contains enough analysis for the Board to make an informed decision on how to limit an election to present remeasurements in profit or loss.

Questions for the Board
Does the Board agree with the staff recommendation to confirm the proposal in the ED? If not: (a) Does the Board agree to permit an entity to present remeasurements in other comprehensive income or profit or loss; or (b) Should the staff continue to explore whether any other restrictions should be placed on such an election?