STAFF PAPER

July 2014

IFRS Interpretations Committee Meeting

Project	**IAS 19—*Employee Benefits***
Paper topic	Remeasurement at a plan amendment or curtailment

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Introduction

1. The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify the accounting treatment in accordance with IAS 19 for issues related to the remeasurement of the net defined benefit liability (asset) (hereafter 'net DBL') in the event of a plan amendment or curtailment in IAS 19.

2. In May 2014, the Interpretations Committee discussed two issues. If a significant plan amendment or curtailment of a defined benefit plan occurs, should an entity:

   (a) take account of the remeasurement of the net DBL at the event date when determining net interest for the post-event period? (Issue1); and

   (b) use the updated actuarial assumptions for the calculation of service cost and net interest in the post event period? (Issue 2)[1].

3. The Interpretations Committee noted that paragraph BC64 of IAS 19 implies that an entity should not use the updated assumptions for the calculation of service cost and net interest in the post-event period, even if a significant event or change to the pension plan occurs. However, the Interpretations Committee raised a

[1] For further details on these issues, see Agenda Paper 15 for the May 2014 meeting: http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2014/May/AP15%20-%20IAS%2019%20Remeasurement%20at%20curtailment.pdf

concern that this would result in presenting current service cost and net interest in the post-event period, ignoring the effects of the significant event or change.

4. The Interpretations Committee tentatively decided to develop an amendment to address this concern. It thought that updating the net DBL and using the updated actuarial assumptions to determine current service cost and net interest in the post-event period if a significant event or change occurs would result in more relevant information. It also thought that such an amendment would result in greater consistency between IAS 19 and paragraph B9 of IAS 34 *Interim Financial Reporting*. Paragraph B9 of IAS 34 explains that an entity adjusts pension cost for an interim period for significant market fluctuations and for significant one-off events, such as plan amendments, curtailments and settlements.

5. The Interpretations Committee's initial thoughts are that such an amendment should not result in considerable additional costs, because of the existing requirement[2] to remeasure the net DBL as of the date of a plan amendment or curtailment for the purpose of determining the past service cost.

6. However, the Interpretations Committee asked the staff to consider this further when developing the proposals.

7. The objective of this Agenda Paper is to:

   (a) provide a proposal for an amendment to IAS 19;

   (b) provide an analysis of its costs and benefits; and

   (c) ask questions to the Interpretations Committee on whether it agrees with the staff recommendation.

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[2] Paragraph 99 of IAS 19 requires an entity to remeasure the net DBL at the date of the plan amendment, curtailment or settlement using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and prices) to calculate past service cost or a gain or loss on settlement accurately. Consequently, an entity updates assumptions and fair value of plan assets for this purpose and this is the reason that we think that such an amendment should not result in considerable additional costs.

Paper structure

8. This Agenda Paper is structured as follows:
   (a) staff analysis;
   (b) staff recommendation;
   (c) questions for the Interpretations Committee;
   (d) Appendix A—Proposed amendment; and
   (e) Appendix B—Assessment against the Interpretations Committee's agenda criteria and the additional criteria for annual improvements.

Staff analysis

9. Before we suggest our proposal in detail, we would like to consider the costs and benefits of our proposal.

Benefits expected from our proposal

10. In its meeting in May 2014, the Interpretations Committee thought more relevant information would result from updating the net DBL and using the updated assumptions to determine current service cost and net interest in the post-event period if a significant event or change occurs.

11. It also thought that such an amendment would result in greater consistency between IAS 19 and paragraph B9 of IAS 34. (Paragraph B9 of IAS 34 explains that an entity adjusts pension cost for an interim period for significant market fluctuations and for significant one-off events, such as plan amendments, curtailments and settlements.)

12. In short, benefits expected from our proposal are:
   (a) providing more relevant information when a significant change or event occurs during a period;

(b) enhancing comparability, though eliminating diversity and difficulty implied by our outreach result[3]; and

(c) enhancing understandability by:

(i) eliminating inconsistency between the calculation for net interest and current service cost and the most recent remeasurement; and

(ii) greater consistency between IAS 19 and paragraph B9 of IAS 34. (See the *Supplementary consideration* section on page 5, to confirm the consistency between IAS 19 and IAS 34.)

Costs expected from our proposal

13. We note that our proposal would not change the current requirement to decide how frequently an entity should perform a detailed measurement in IAS 19 and IAS 34.

14. Paragraph 99 of IAS 19 requires an entity to remeasure the net DBL at the date of a plan amendment, curtailment or settlement using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and prices) to calculate past service cost or a gain or loss on settlement accurately.

15. Paragraph B9 of IAS 34 also explains that an entity adjusts pension cost for an interim period for significant market fluctuations and for significant one-off events, such as plan amendments, curtailments and settlements.

16. Consequently, an entity is already required to update assumptions and fair value of plan assets in accordance with paragraph 99 of IAS 19 or paragraph B9 of IAS 34 or both. This is the reason that Interpretations Committee thought that such an amendment should not result in considerable additional costs.

[3] For further details on our outreach result, see Agenda Paper 15 for the May 2014 meeting.

17. In practice, an entity often relies on various pragmatic approaches in accordance with paragraph 60 of IAS 19, although paragraph 99 of IAS 19 requires detailed computations. Paragraph 60 of IAS 19 states:

> In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

18. Our proposal would not change paragraph 60 of IAS 19.

19. Consequently, we think that we continue to allow an entity to use pragmatic approaches; full valuations are not always necessary if pragmatic approaches provide a reliable approximation.

Supplementary consideration

20. In May 2014, the Interpretations Committee noted that an amendment would result in greater consistency between IAS 19 and paragraph B9 of IAS 34, as discussed in paragraphs 11–12 of this paper.

21. However, we note that paragraphs BC 63–64 of IAS 19 implied that there was a concern about inconsistency between the accounting that our proposal would require and the principles described in paragraphs 28–29 of IAS 34.

22. Paragraph BC 63–64 of IAS 19 explains that measurement of the entity's annual amounts should not be affected by how frequently the entity reports, (ie whether the entity reports quarterly, half-yearly or with no interim period) in accordance with paragraphs 28–29 of IAS 34.

23. However, we do not think that our proposal would be inconsistent with the principles described in paragraphs 28–29 of IAS 34, because we are not proposing that an entity should update assumptions to determine current service cost and net interest for each interim reporting. We think that updating assumptions when there is a significant event such as a plan amendment, curtailment or settlement is independent from 'frequency of reporting'.

24. We also think that frequency of valuations in IAS 19 should be determined in accordance with paragraph 58–59 of IAS 19, and hence is also differently

determined from ‘frequency of reporting’. In accordance with paragraph 58 of IAS 19, an entity should determine net DBL with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amount that would be determined at the end of the reporting period. As a result of a judgement for each plan and its circumstances, frequency of valuations in IAS 19 is often different from ‘frequency of reporting’.

25. Consequently, we think that our proposal would be consistent with the principles described in paragraphs 28–29 of IAS 34.

26. A majority of the members at the Interpretations Committee in May 2014 thought that our proposal should be consistent with paragraph B9 of IAS 34 and it should include the case for a significant market fluctuation that may cause updating discount rates or prices of plan assets, in addition to the case of significant events such as plan amendments, curtailments and settlements.

27. Our proposal in this paper is consistent with this tentative decision described in the previous paragraph.

Staff conclusion

28. In accordance with the Interpretations Committee’s tentative decision in May 2014, we propose that an entity should consistently determine net interest and current service cost for the subsequent period, using ‘the most recent assumptions and remeasurement of the net DBL’, as described in detail in Appendix A.

29. Our proposal would not change the current requirement on how frequently an entity should perform a detailed measurement in IAS 19 and IAS 34. Such an amendment would not result in considerable additional costs, because remeasurement of the net DBL and updating assumptions are already required by the existing requirement in IAS 19 and IAS 34.

30. In addition, we think that an entity could legitimately continue to use practical methods, as permitted in paragraph 60 of IAS 19.

31. We think that the benefits expected from our proposal are clear: they would provide more relevant information and enhance comparability and understandability.

32. Consequently, we think that the benefits would not outweigh the additional cost.

33. Our proposal would be consistent with Interpretations Committee’s tentative decision in May.

Comments from IASB members

34. We reported the issue and Interpretations Committee’s tentative decision at its May meeting to IASB members.

35. Many members that we spoke to supported Interpretations Committee’s tentative decision to propose an amendment to require an entity to use consistent assumptions to determine current service cost and net interest for post-event periods, if a ‘significant’ event or change occurs.

36. We think that this proposal could be closer to the main objective of the amendment to IAS 19 in 2011 to provide more relevant information for users.

Staff recommendation

37. We suggest an amendment to IAS 19, as described in Appendix A.

38. On the basis of our assessment, we think that our proposed amendment meets the criteria for inclusion in the **Annual Improvements cycle for 2013-2015**. (Refer to **Appendix B** of this paper for the details of the agenda criteria and the revised assessment of the issue against the agenda criteria and the additional agenda criteria for annual improvements.)

Transition provisions and effective date

39. We propose that an entity should apply the amendment retrospectively to increase the expected benefits by this amendment. Earlier application should be permitted.

We think that the additional costs of retrospective application of this amendment are limited and do not outweigh the benefits.

First-time adopters

40. The basic principle in IFRS 1 *First-time Adoption of International Financial Reporting Standards* is full retrospective approach. For IAS 19, there are no exemptions or exceptions other than those for the changes in employee benefit costs that were included in the carrying amount of assets outside the scope of IAS 19 (for example, those within the scope of IAS 2 *Inventories*) and for disclosure about the sensitivity (see paragraph E5 of IFRS1). Because we did not identify any justification for additional exemptions, we think that an amendment to IFRS 1 is unnecessary.

Consequential amendments

41. We have reviewed other Standards for potential consequential amendments triggered by this proposed amendment. As a result of this review, we do not propose any consequential amendments.

Questions for the Interpretations Committee

Questions
1. Does the Interpretations Committee agree with the staff's analysis in paragraphs 9–33?
2. Does the Interpretations Committee agree with the staff's recommendation on this issue as an item for annual improvements?
3. Does the Interpretations Committee agree with the proposed amendment in Appendix A of this Agenda Paper?

Appendix A—Proposed amendment

Proposed amendment to IAS 19 *Employee Benefits*

Paragraphs 67, 99 and 123 are amended. New text is underlined and deleted text is struck through. Paragraphs 58—60 have not been amended but have been included for ease of reference.

58 An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

59 This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

60 In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Actuarial valuation method

67 An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The current service cost shall be determined using assumptions at the start of the current service period. If the present value of the defined benefit obligation is remeasured in a reporting period, for example, as a consequence of a curtailment, the current service cost after the remeasurement is determined using assumptions in the valuation at the remeasurement date. The past service cost shall be determined in accordance with paragraphs 99-108.

Past service cost and gains and losses on settlement

99 Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement. An entity shall determine current service cost and net interest for the reporting period following a plan amendment, curtailment or settlement using the assumptions for this remeasurement of the net defined benefit liability (asset).

Net interest on the net defined benefit liability (asset)

123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83.~~,~~ ~~both as~~ Both the net defined benefit liability (asset) and the discount rate are determined at the start of the annual reporting period, ~~taking~~ but an entity shall take account of significant ~~any~~ changes in the net defined benefit liability (asset) and shall update the discount rate if the present value of the defined benefit obligation is remeasured during the period ~~as a result of contribution and benefit payments~~.

Appendix B—Assessment against the Interpretations Committee's agenda criteria and against the additional criteria for annual improvements

B1. In the following table, we have assessed the issue against the agenda criteria of the Interpretations Committee as described in paragraphs 5.14–5.22 of the IFRS Foundation *Due Process Handbook*.

Agenda criteria of the Interpretations Committee	
We should address issues (see paragraph 5.16 of the IFRS Foundation *Due Process Handbook*):	
that have widespread effect and have, or are expected to have, a material effect on those affected;	**Met** Plan amendments, curtailments or both are common or exist in many jurisdictions. The issues could have a material impact on profit or loss and OCI for one period, if a significant event or change occurs during a period.
in which financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and	**Met** It would reduce diverse reporting methods.
that can be resolved efficiently within the confines of existing Standards and the *Conceptual Framework for Financial Reporting*.	**Met** This would be resolved within IAS 19.
In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRS (see paragraph 5.17 of the IFRS Foundation *Due Process Handbook*)?	**Met** The issue is appropriately narrow. The scope is the case in which remeasurement of the net DBL occurs during a period due to a significant event or change.

Will the solution developed by the Interpretations Committee be effective for a reasonable time period (see paragraph 5.21 of the IFRS Foundation *Due Process Handbook*)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified).	**Met** The issue is not being addressed in any forthcoming Standard.

B2. In the following table, we have assessed the issue against the additional criteria for annual improvements as described in paragraphs 6.11–6.14 of the *Due Process Handbook*.

Additional criteria for annual improvements	
In addition to the implementation and maintenance criteria, an annual improvement should (see paragraphs 6.11-6.14)	
(a) replace unclear wording; (b) provide missing guidance; or (c) correct minor unintended consequences, oversights or conflicts.	**Met.** The proposal would address a conflict between IAS 19 and paragraph B9 of IAS 34.
not change an existing principle or propose a new principle ; and	**Met.** This proposal would only provide limited guidance in the case of significant events or changes during a period
not be so fundamental that the IASB will have to meet several times to conclude.	**Met.** It is not so fundamental that the IASB will have to meet several times.