STAFF PAPER

November 2014

IFRS Interpretations Committee Meeting

Project	**IAS 19—*Employee Benefits***
Paper topic	Remeasurement at a plan amendment, curtailment or settlement: Sweep issue—Significant market fluctuations

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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 *Employee Benefits* 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. The Interpretations Committee discussed this issue at its May and July 2014 meetings.

2. At its May 2014 meeting, the Interpretations Committee tentatively agreed to develop an amendment to require an entity to:

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

   (b) use the updated actuarial assumptions for the calculation of current service cost and net interest for the post-event period.

3. The Interpretations Committee thought that this would result in more relevant information and greater consistency between IAS 19 and paragraph B9 of IAS 34 *Interim Financial Reporting*, if an entity remeasures the net DBL during a period because of a significant event (plan amendment, curtailment or settlement) or a significant market fluctuation.

4. At the July 2014 meeting, the Interpretations Committee reaffirmed that the benefits expected from the proposed amendment are clear: it would provide more relevant information and enhance comparability and understandability. It noted that additional costs resulting from the proposal would not outweigh the expected benefits, because of the existing requirement to remeasure the net DBL in IAS 19 and IAS 34 when significant events or changes occur.

5. The Interpretations Committee noted that the proposal would not change how frequently an entity should remeasure the net DBL during a period. The frequency of remeasurement is determined in accordance with the existing guidance, such as paragraphs 58 and 99 of IAS 19 and paragraph B9 of IAS 34. This proposal intends to clarify that an entity should determine current service cost and net interest for the remaining portion of the reporting period after a remeasurement, using the updated assumptions and taking account of significant changes in the net DBL.

6. The Interpretations Committee concluded that the proposed amendment to IAS 19 meets the criteria for Annual Improvements. It requested the staff to revise its proposed amendment to IAS 19 to clarify the intended requirements and to reflect the points raised during that meeting.[1]

Issues raised following the July 2014 meeting

7. During the preparation of a revised proposal, some of the Interpretations Committee members questioned whether an entity is required to remeasure net DBL if a significant market fluctuation occurs.

8. They are concerned that, when preparing annual financial statements, IAS 19 neither requires nor permits to remeasure net DBL if a significant market fluctuation occurs during the annual period. This is because paragraph B9 of IAS 34 uses the words ‘significant market fluctuations’ but IAS 19 does not mention significant market fluctuations.

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[1] For further details of the discussions on these issues, visit: http://www.ifrs.org/Current-Projects/IASB-Projects/IAS-19-Remeasurement-amendment-curtailment/Pages/Home.aspx

9. Consequently, some Interpretations Committee members thought that IAS 19 and paragraph B9 of IAS 34 should also be amended to clarify whether an entity should remeasure the net DBL if a significant market fluctuation occurs. They thought that this would eliminate what they observe as inconsistency between IAS 19 and IAS 34 with regard to significant market fluctuations.

10. The staff noted that the Interpretations Committee did not discuss this point thoroughly so far.

Purpose of this paper

11. The purpose of this paper is to:

    (a) analyse:

        (i) whether IAS 19 requires an entity to remeasure the net DBL if significant market fluctuations occur; and

        (ii) whether IAS 19 is consistent with paragraph B9 of IAS 34 with regard to significant market fluctuations.

    (b) present a revised proposal of amendments that are related to this sweep issue.

Paper structure

12. This Agenda Paper is structured as follows:

    (a) staff analysis;

    (b) staff recommendation; and

    (c) questions for the Interpretations Committee.

Staff analysis

Does IAS 19 require an entity to remeasure net DBL at the end of a period as a consequence of market fluctuations?

13. Paragraph 58 of IAS 19 requires that the amounts recognised in the financial statements should not differ materially from the amounts that would be determined at the end of the reporting period. Paragraph 58 of IAS 19 states:

> 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.

14. Paragraph 59 of IAS 19 requires that the last valuation should be 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. Paragraph 59 of IAS 19 states:

> 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.** [Emphasis added]

15. We think that IAS 19 requires an entity to remeasure net DBL if material market fluctuations occur from the last valuation until the end of the reporting period. This is because we think that material market fluctuations are included in 'material changes in circumstances' in paragraph 59 of IAS 19.

Is IAS 19 consistent with paragraph B9 of IAS 34 with regard to significant market fluctuations?

16. Paragraph B9 of IAS 34 states that:

> Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension

> cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant one-off events, such as plan amendments, curtailments and settlements.

17. We note that paragraph B9 is an illustrative example. We think that it is not an additional requirement, but just an example.

18. Paragraph B9 refers to an application of IAS 19 in interim reporting. If a significant change, for example, a significant market fluctuation, has occurred, we think that IAS 34 requires an entity to update the IAS 19 valuation result at the end of the interim period. We think that this is consistent with the requirements in paragraph 59 of IAS 19.

19. Further, we think that paragraph BC59 of IAS 19 explains that the requirements of IAS 19 and IAS 34 to remeasure net DBL are event-driven and judgement is needed to identify if those events occur up to the end of reporting period. Paragraph BC59 of IAS 19 states that:

> The Board noted that an entity is not always required to remeasure a net defined benefit liability (asset) for interim reporting purposes under IAS 19 and IAS 34. **Both indicate that the entity needs to exercise judgement in determining whether it needs to remeasure the net defined benefit liability (asset) at the end of the (interim or annual) reporting period.** [Emphasis added]

20. We also noted that paragraph B9 of IAS 34 was not revised when IAS 19 was revised in 2011. Paragraph BC61 of IAS 19 states that:

> **The Board considered setting out explicitly whether an entity should remeasure a net defined benefit liability (asset) at interim dates. However, in the Board's view, such a change would be an exemption from the general requirements of IAS 34 and consequently it decided against such an amendment.** The Board is not aware of concerns with the application of these interim reporting requirements for entities that applied the

> immediate recognition option under the previous version of IAS 19. [Emphasis added]

Staff conclusions

21. We understand that some are concerned that there might be inconsistency between paragraph B9 of IAS 34 and IAS 19 in the context of market fluctuations.

22. However, we think that both Standards are consistent on the issue of market fluctuations. We think that:

    (a) paragraph 59 of IAS 19 requires an entity to remeasure the net DBL if there is a material change in circumstances (including changes in market prices and interest rates) from the last valuation until the end of the period. We think a material market fluctuation is an example of a material change in circumstances.

    (b) paragraph B9 of IAS 34 is an example of a change in circumstances and not an additional requirement and therefore does not conflict with IAS 19 on this matter.

Staff recommendation

23. In the Agenda Paper 5 discussed at the July 2014 meeting, we proposed an amendment to paragraphs 67, adding the following statements.

> <u>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.</u> [New text is underlined. Emphasis is added to the part related to the sweep issue.]

24. We propose that the above amendment be modified to additionally clarify our observation stated in the section for *Staff Conclusions* of this paper. Consequently, we propose the addition of paragraph 67A to IAS 19 which would state:

> **Current service cost shall be determined using the assumptions at the start of the annual reporting period**. **However, if the net defined benefit liability (asset) is remeasured during the annual reporting period, when it is required by paragraph 59 or 99,** the current service cost for the remaining portion of the annual period after this remeasurement shall be determined using the assumptions applied to the remeasurement. The assumptions used to determine current service cost for the period before this remeasurement shall not be revised. The current service cost for the period before the remeasurement shall be excluded from past service cost, which shall be determined in accordance with paragraphs 99–108. [New text is underlined. Emphasis is added to the part related to the sweep issue.]

25. Similarly, we also propose to amend paragraph 123 of IAS 19 as follows:

> 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 takes account of any changes in the net defined benefit liability (asset) during the period as a result of contribution~~ and~~, benefit payments and a remeasurement **when it is required by paragraph 59 or 99**. If the net defined benefit liability (asset) is remeasured during the annual period, the net interest for the remaining portion of the annual period after this remeasurement shall be determined using the discount rate applied to the remeasurement. [New text is underlined

and deleted text is struck through. Emphasis is added to the part related to the sweep issue.] [2]

26. Paragraph 99 of IAS 19 is referred in the above modified amendments, because we think that this paragraph also requires an entity to remeasure the net DBL during an annual period. The sweep issue itself does not affect the amendment to paragraph 99 of IAS 19 in our proposal but, for your ease of reference, paragraph 99 of IAS 19 in our proposal would be:

> **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. <u>An entity shall determine current service cost and net interest in accordance with paragraphs 67A and 123.</u> [New text is underlined. Emphasis is added to the part related to the remeasurement.]

27. We propose that the Basis for Conclusions on our proposal would include the following explanation:

> The IASB also noted that paragraph 59 of IAS 19 requires an entity to remeasure the net defined benefit liability (asset) if there is a material change in circumstances from the last valuation until the end of the period. The IASB noted that a significant market fluctuation stated in paragraph B9 of IAS 34 is an example of a change in circumstances.

28. We will not propose any amendments to IAS 34, because we think that paragraph B9 of IAS 34 does not conflict with IAS 19 on this sweep issue.

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[2] Amendments to paragraph 125 and 126 of IAS 19 would be added in our proposal, to keep wording consistency with paragraph 123 of IAS 19.

Questions for the Interpretations Committee

Questions
1. Does the Interpretations Committee agree with the staff’s analysis in paragraphs 13–22? 2. Does the Interpretations Committee agree with the staff’s recommendation to clarify the staff conclusion in our proposal?