STAFF PAPER

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IASB Meeting

Project	**Narrow-scope amendments to *IAS 19 Employee Benefits***
Paper topic	Remeasurement at a plan amendment, curtailment or settlement

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Introduction

1. The IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify the calculation of current service cost and net interest when a plan amendment or curtailment occurs and an entity remeasures the net defined benefit liability (asset) (net DBL) in accordance with paragraph 99 of IAS 19 *Employee Benefits*.

2. The Interpretations Committee discussed this issue at its May, July and November 2014 meetings and decided to recommend that amendments should be made to IAS 19.

Purpose of this paper

3. The objective of this paper is to:
   (a) provide a brief description of the issue;
   (b) explain the rationale for the Interpretations Committee's decision to recommend that the IASB should amend IAS 19;
   (c) analyse the transition provisions and first-time adoption; and
   (d) ask the IASB whether it agrees with the Interpretations Committee's recommendation and the staff recommendation.

Overview of the issue

4. The Interpretations Committee received a request to clarify the calculation of current service cost and net interest when a plan amendment or curtailment occurs and an entity remeasures the net DBL in accordance with paragraph 99 of IAS 19.

5. Paragraph 99 of IAS 19 states that:

> 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.

6. Paragraph BC64 of IAS 19 implies that an entity should not revise any assumptions during the period for the calculation of current service cost and net interest, even if an entity remeasures the net DBL as required by paragraph 99. Paragraph BC 64 states that (emphasis added):

> Similarly, in the Board's view, there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in determining current service cost and net interest, ie determining how much service the employee has rendered to date and the effect of the time value of money to date. The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement. In accordance with paragraph B9 of IAS 34 **the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year.**

7. When an entity determines net interest, paragraph 123 of IAS 19 does not require the entity to take account of changes in the net DBL as a result of the remeasurement required by paragraph 99 of IAS 19, although it requires an entity to

take account of changes in the net DBL as a result of contribution and benefit payments. Paragraph 123 of IAS 19 states that (emphasis added):

> 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 determined at the start of the annual reporting period, **taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.**

8. Because some think that the applications of paragraphs 123 and BC64 of IAS 19 would not result in sensible accounting if a significant event (a plan amendment, curtailment or settlement) occurs during a period, diversified views in practice are observed.

The Interpretations Committee's conclusions and their rationales [1]

9. The Interpretations Committee noted that, after the amendments issued in 2011, paragraphs 123 and BC64 of IAS 19 imply that an entity should not revise any assumptions for the calculation of current service cost and net interest during the period, even if an entity remeasures the net DBL as required by paragraph 99 of IAS 19.

10. The Interpretations Committee is concerned that ignoring the effects of material events during the period when calculating the current service cost and net interest would not result in useful information.

11. Consequently, the Interpretations Committee concluded that IAS 19 should require an entity to:

    (a) use updated assumptions to determine current service cost and net interest for the post-event period; and

[1] For further detail, visit our web page:
http://www.ifrs.org/Current-Projects/IASB-Projects/IAS-19-Remeasurement-amendment-curtailment/Pages/Discussion-and-papers-stage-1.aspx

(b) take account of the remeasurement of the net DBL to determine net interest for the post-event period.

12. The Interpretations Committee thought that the amendments would provide relevant information, enhance understandability and eliminate diversity in accounting when a plan amendment, curtailment or settlement occurs.

13. The Interpretations Committee considered concerns about the costs of implementing the proposed amendments. The Interpretations Committee concluded that the expected benefits would outweigh any additional costs from the amendments, because paragraph 99 of IAS 19 already requires an entity to remeasure the net DBL.

14. The Interpretations Committee also observed that the requirement to apply IFRS only to material items, as described in paragraph 8 of IAS 8, would continue to apply. Paragraph 8 of IAS 8 states that:

> IFRSs set out accounting policies that the IASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Significant market fluctuations and the scope of the proposal

15. The Interpretations Committee also discussed whether it should address accounting in IAS 19 when ‘significant market fluctuations’, which are referred to in paragraph B9 of IAS 34 *Interim Financial Reporting*, occur during the annual reporting period. Paragraph B9 of IAS 34 states that (emphasis added):

> 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.

16. The Interpretations Committee noted that the IASB did not revise paragraph B9 of IAS 34 when the IASB revised IAS 19 in 2011, as explained in paragraphs BC58-63 of IAS 19.

17. In particular, paragraph BC 63 of IAS 19 states that:

> The Board noted that if assumptions for each interim reporting period were updated to the most recent interim date, the measurement of the entity's annual amounts would be affected by how frequently the entity reports, ie whether the entity reports quarterly, half-yearly or with no interim period. In the Board's view this would not be consistent with the requirements of paragraphs 28 and 29 of IAS 34.

18. The Interpretations Committee noted that the event (a plan amendment, curtailment or settlement) is different from significant market fluctuations, because the event occurs at any time depending on decisions made, and is not related to the frequency of reporting. In contrast to the event, market fluctuations occur independently of management decisions. In addition, the entity's judgements on the significance of market fluctuations are, in common practice, made only at the end of an annual or interim period (ie they could be related to the frequency of reporting).

19. The Interpretations Committee was concerned that addressing the issue on significant market fluctuations might be too broad for it to deal with and could lead to a significant change in the application of IAS 19 and a significant burden on entities.

20. Consequently, the Interpretations Committee concluded that the proposed amendments should only address accounting to determine current service cost and net interest when a plan amendment, curtailment or settlement occurs during a period.

21. This means that the proposed amendments do not change IAS 19's requirements on when and whether an entity should remeasure the net DBL, because the existing guidance in paragraph 99 of IAS 19 requires an entity to remeasure the net DBL when a plan amendment, curtailment or settlement occurs.

22. The intention of the amendments is to clarify that an entity should determine current service cost and net interest for the remaining portion of the period after the relevant event by using the updated assumptions used in the event-driven measurement required by paragraph 99 of IAS 19.

Calculation of current service cost and past service cost

23. The Interpretations Committee also proposed to clarify the calculation of current service cost and past service cost, when a plan amendment or curtailment occurs during a reporting period, because a question had been raised on the distinction in practice between current service cost and past service cost.

24. The Interpretations Committee observed that paragraph 102 of IAS 19 explains that past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. Paragraph 8 of IAS 19 defines current service cost as the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

25. Consequently, the Interpretations Committee noted that service cost in the current reporting period before a plan amendment or curtailment is current service cost and should not be affected by, or be included in, past service cost.

Plan-by-plan basis determination

26. During its deliberations, the Interpretations Committee also noted that the requirement to remeasure the net DBL is determined on a plan-by-plan basis (not on a country basis or an overall entity basis). This is because the last sentence of paragraph 57 implies that the unit of account for accounting for defined benefit plans should be a plan-by-plan basis and paragraph 99 of IAS 19 explains that the calculation reflects the benefits offered under 'each plan'.

27. The Interpretations Committee observed that these points are sufficiently clear in IAS 19. Consequently, it thought that no additional amendments should be made but the observation should be explained in the basis for conclusions on the proposed amendments.

Assessment against the agenda criteria

28. The Interpretations Committee has assessed the issues against the agenda criteria of the Interpretations Committee and against the additional criteria for Annual improvements. It concluded that the issues and the proposed amendments meet the agenda criteria of the Interpretations Committee and the agenda criteria for Annual improvements.[2]

29. As stated in Agenda Paper 12A, we have proposed combining these issues with issues proposed for narrow scope amendments, rather than including the issue within Annual improvements.

Staff analysis and recommendation on transition provisions and first-time adopters

Transition provisions

30. We propose that an entity should apply the amendments retrospectively to achieve comparability between periods, in accordance with the general requirement of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. We think that the amendments do not require new estimates to be made. Consequently, we expect that the amendments can be applied retrospectively without significant difficulty in most circumstances.

31. We note, however, that the amendments may affect the carrying amount of assets outside the scope of IAS 19 that include employee benefit costs (for example, those within the scope of IAS 2 *Inventories*). We think that the cost of adjusting the carrying amount of such assets retrospectively might outweigh the benefit of the adjustment. We note that relief from retrospective adjustment of the carrying amount of such assets was granted in respect of the revisions to IAS 19 made in 2011 (see paragraph 173(a) of IAS 19). A similar relief is already provided for first-time adopters of IFRS in paragraph E5 of IFRS 1 *First-time Adoption of*

[2] For details of the agenda criteria and the assessment, see Appendix B of Agenda Paper 5 discussed at July 2014 Interpretations Committee meeting.
http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2014/July/AP05-%20IAS%2019%20Remeasurement%20at%20curtailment.pdf

International Financial Reporting Standards. Consequently, we propose that a similar relief is provided for existing preparers in respect of these amendments.

32. We think that earlier application should be permitted.

First-time adopters

33. The basic principle in IFRS 1 is full retrospective application. For IAS 19 and IFRIC 14, there are no exemptions or exceptions other than that for:

    (a) 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

    (b) disclosure about sensitivity (see paragraph E5 of IFRS1).

34. Because we did not identify any justification for additional exemptions, we think that an amendment to IFRS 1 is unnecessary.

Questions to the IASB

Questions
1. Does the IASB agree with the Interpretations Committee's recommendation to propose narrow-scope amendments to IAS 19, adding guidance in line with the conclusions of the Interpretations Committee?
2. Does the IASB agree with the staff recommendation on transition provisions and first-time adopters?