STAFF PAPER

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IFRS® Interpretations Committee Meeting

Project	**Exposure Draft of proposed amendments to IAS 19 and IFRIC 14**
Paper topic	Analysis of proposed transition requirements, first-time adoption and effective date

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Purpose

1. This paper analyses the proposed transition requirements of the proposed amendments to IAS 19 *Employee Benefits* and IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* included in the Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (the ED). This paper also outlines our analysis of the transition requirements for first-time adopters and the effective date of the proposed amendments.

Structure of the paper

2. This paper is structured as follows:

   (a) summary of staff recommendations;

   (b) proposed transition requirements;

   (c) transition requirements for first-time adopters; and

   (d) effective date.

Summary of staff recommendations

3. We recommend that the Interpretations Committee recommend to the Board that:
   (a) an entity would apply the proposed amendments to IFRIC 14 and IAS 19 retrospectively (with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19);
   (b) no transition relief would be provided for first-time adopters; and
   (c) an entity would apply the proposed amendments for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

Proposed transition requirements

Summary of proposed transition requirements

4. The ED proposed that an entity would apply the proposed amendments to IAS 19 and IFRIC 14 retrospectively. Nonetheless, the ED proposed providing an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit costs that are included in inventories). This exemption is similar to the exemption provided in respect of the amendments made to IAS 19 in 2011.

Transition requirements for the amendments to IFRIC 14

Overview of feedback

5. A large number of respondents agree with the proposed transition requirements for the proposed amendments to IFRIC 14. Although a number of respondents express concerns about the proposed transition requirements outlined in the ED, most of these issues relate to the proposed amendments to IAS 19[1].

[1] See paragraphs 12-15 of this paper for more information.

6. Respondents who agree with the transition requirements for the proposed amendments to IFRIC 14 say that they:

   (a) enhance the comparability and clarity of financial information provided; and

   (b) are justified, because, in their view, the benefits outweigh the costs.

7. Nonetheless, some respondents disagree with, or express reservations about, the proposed transition requirements. These respondents say that retrospective application would be complex, and the cost of retrospective application is likely to exceed any benefit.

Staff analysis

8. A large number of respondents agree with the proposed transition requirements for the proposed amendments to IFRIC 14. Notwithstanding the concerns raised by some respondents, in our view, retrospective application of the proposed amendments to IFRIC 14 is appropriate (with the exemption for adjustments to the carrying amount of assets outside the scope of IAS 19).

9. An entity would be required to assess other parties' powers over its defined benefit plans when it applies the proposed amendments to IFRIC 14. As outlined in paragraph 69 of Agenda Paper 5 of the Interpretations Committee's meeting in September 2014 and paragraph 36 of Agenda Paper 12B of the Board's meeting in January 2015, we do not expect these powers to change significantly each period. Accordingly, we do not expect preparers to incur significant additional costs in applying the proposed amendments on a retrospective basis.

10. In our view, the benefit of retrospective application, in the form of greater comparability between reporting periods and across entities, outweighs the cost of retrospective application.

Staff recommendation

11. We recommend confirming that an entity would apply the proposed amendments retrospectively (with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19).

Transition requirements for the amendments to IAS 19

Overview of feedback

12. Sixty-seven respondents commented on the transition requirements for the proposed amendments to IAS 19 (Q5). More than half of the respondents agree with the proposed transition requirements. Of the remaining respondents, approximately half disagree and the remainder express concerns about specific aspects of the proposed transition requirements.

13. Respondents who agree say that the proposed transition requirements:

    (a) would enhance the comparability and clarity of financial information provided; and

    (b) are justified because, in their view, the benefits outweigh the costs.

14. Respondents who disagree with retrospective application of the proposed amendments raise the following issues:

    (a) *cost versus benefit considerations (Issue I)*—some respondents say that the benefits do not outweigh the costs. These respondents say that retrospective application of the proposed amendments would require new calculations which may be costly to obtain and the benefits derived from retrospective application would be limited. This is because, for plan events that occured in a prior reporting period, the proposed amendments would affect only the amounts recognised in profit or loss and other comprehensive income (ie there would be no effect in the statement of financial position).

    (b) *nature of a plan event as a one-off event (Issue II)*—some respondents think that retrospective application is particularly useful for recurring and ongoing items/events. These respondents say that a plan event is a unique/one-off event and retrospective application would not necessarily improve comparability.

    (c) *separate presentation of cumulative remeasurements as a component of equity (Issue III)*—some respondents say that entities that chose to present the cumulative amount of remeasurements recognised in OCI as a separate component of equity would have to revisit transactions that potentially occurred several years ago and will incur significant costs. These respondents ask the Board to provide relief from retrospective application for these equity components.

15. Paragraphs A20-A28 of Agenda Paper 3E provide further detail on the feedback on Issue I—Issue III.

Staff analysis

16. Notwithstanding the concerns raised by some respondents, we maintain our view that retrospective application of the proposed amendments to IAS 19 is appropriate (with the exemption for adjustments to the carrying amount of assets outside the scope of IAS 19).

17. The proposed amendments to IAS 19 affect the amounts recognised in profit or loss and OCI in any given period, and do not affect the amounts recognised on the statement of financial position. Accordingly, in applying these proposed amendments, an entity would be required to make adjustments for plan events only in the comparative period statements of profit or loss and OCI, and would generally not be required to restate opening retained earnings or other balances in the statement of financial position.

18. Our recommendation is conditional on the Interpretations Committee's agreement with our recommendation that 'minor' plan events be excluded from the scope of the proposed amendments (see paragraph 23 of Agenda Paper 3B of this meeting for further details).

19. We are of the view that this recommendation will alleviate the concerns raised by some respondents in terms of the additional costs *(Issue I)*. We understand that for minor plan events, entities often adopt computational short-cut methods as permitted by paragraph 60 of IAS 19 to calculate the past service cost or gain or loss on settlement. It is unlikely that an entity would have been able to make extensive use of these short-cut methods in situations other than 'minor' plan events. An entity would, in such situations, have access to the information necessary to update its current service cost and net interest after a plan event, and it would not be unduly burdensome for an entity to retrospectively apply these proposed amendments.

20. In addition, although plan events are unique/one-off events *(Issue II)*, retrospective application would:

    (a) provide relevant information for the comparative periods;

    (b) enhance understandability; and

    (c) improve comparability.

21. Finally, we understand the concerns raised by some respondents regarding entities that chose to present the cumulative amount of remeasurements recognised in OCI as a separate component of equity *(Issue III)*. However, paragraph 122 of IAS 19 states (emphasis added):

    > Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. *However, the entity may transfer those amounts recognised in other comprehensive income within equity*.

22. Paragraph 122 of IAS 19 permits an entity to transfer those amounts within equity but does not contain any requirements for entities that chose to present cumulative amount of remeasurements as a separate component of equity. In addition, the proposed amendments would not require an entity to restate any equity balances as a result of retrospectively applying the proposed amendments to IAS 19. Consequently, we do not recommend providing any transitional relief for these balances. We will clarify in the Basis for Conclusions that an entity is not required to restate these equity balances when retrospectively applying the proposed amendments to IAS 19.

Staff recommendation

23. We recommend confirming that an entity would apply the proposed amendments retrospectively (with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19).

Question 1 for the Interpretations Committee
Does the Interpretations Committee agree with the staff recommendation to confirm that an entity would apply the proposed amendments to IAS 19 and IFRIC 14 retrospectively (with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19)?

Transition requirements for first-time adopters

Staff analysis

24. Paragraph BC21 and BC22 of the ED state:

> [BC21] Consequently, the IASB proposes that an entity should apply the amendments to IFRIC 14 and IAS 19 retrospectively. However, it also decided that it should provide an exemption that would be similar to the exemption granted in respect of the amendments to IAS 19 issued in 2011 (see paragraph 173 of IAS 19), taking account of the costs and benefits. Consequently, the IASB proposed the exemption for adjustments of the carrying amount of assets outside the scope of IAS 19 (for example, economic benefit expenses that were included in inventories). Because the amendments do not affect the defined benefit obligation, the IASB did not propose the exemption for disclosure requirements about the sensitivity of the defined benefit obligation.
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> [BC22] A similar relief is already provided for first-time adopters of IFRS in paragraph E5 of IFRS 1 *First time Adoption of International Financial Reporting Standards*. The IASB concluded that no additional exemption to the requirements of IFRS 1 would be required.

25. We did not receive any comments on the transition requirements for first-time adopters. However, we observe that paragraph BC22 of the ED was incorrect. This is because paragraph E5 of IFRS 1 states that a first-time adopter may apply the

transition provisions in paragraph 173(b) of IAS 19. Paragraph 173(b) of IAS 19 provides an entity with relief only from presenting comparative information for some sensitivity related disclosures.

26. IFRS 1 does not provide entities with an exemption from the requirement to adjust the carrying amount of assets outside the scope of IAS 19. When finalising the amendments to IAS 19 in 2011, the Board specifically discussed whether first-time adopters should be exempted from the requirement to adjust the carrying amount of assets outside the scope of IAS 19. The Board decided against providing this exemption[2].

27. We think that such an exemption is not needed for first-time adopters. This is because:

    (a) a first-time adopter applies the relevant standards (such as IAS 16 *Property, Plant & Equipment*, IAS 40 *Investment Property*, etc.) and any related exceptions and exemptions (such as the use of fair value as deemed cost for some assets) to determine the appropriate carrying amount of these assets on the date of transition to IFRSs. Accordingly, an exemption from applying the requirements of one particular aspect of IAS 19 is not very helpful when an entity is required to apply the requirements of all other IFRS Standards.

    (b) a first-time adopter applies all other requirements of IAS 19 to the carrying amount of assets outside the scope of IAS 19. We do not therefore see any benefit in creating an exemption solely for these proposed amendments.

Staff recommendation

28. We recommend not providing transition relief for first-time adopters.

[2] See Agenda Paper 7D of the Board's meeting in February 2011 and the IASB Update summarising the tentative decisions reached by the Board at that meeting.

Question 2 for the Interpretations Committee
Does the Interpretations Committee agree with the staff recommendation not to provide transition relief for first-time adopters?

Effective date

Staff analysis

29. We plan to issue the amendments to IFRIC 14 together with the amendments to IAS 19. We recommend that the Board align the effective dates of the IFRIC 14 and IAS 19 amendments to the extent possible to allow preparers to apply both sets of amendments concurrently.

30. Paragraph 6.35 of the *Due Process Handbook* states:

> …The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

31. Subject to the outcome of our discussions with the Interpretations Committee and the Board, we expect to issue the final amendments to IFRIC 14 and IAS 19 in the first half of 2017. The amendments are narrow in scope and are expected to reduce diversity in the application of IFRIC 14 and IAS 19.

32. We think that entities should apply the proposed amendments to IFRIC 14 and IAS 19 to annual reporting periods beginning on or after 1 January 2019. We think entities should be allowed to apply these amendments earlier, provided that they apply the amendments to both IFRIC 14 and IAS 19 at the same time. We think an effective date of 1 January 2019 would provide jurisdictions with sufficient time to incorporate the new requirements into their legal systems. It would also provide entities with sufficient time to prepare for the new requirements.

Staff recommendation

33. We recommend that an entity would apply the proposed amendments to IFRIC 14 and IAS 19 to annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

Questions 4 for the Interpretations Committee
Does the Interpretations Committee agree with the staff recommendation to require an entity to apply the proposed amendments to IFRIC 14 and IAS 19 to annual reporting periods beginning on or after 1 January 2019 with earlier application permitted?