IFRS

STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**Proposed amendments to IAS 19 – Plan amendments, curtailments or settlements**		
Paper topic	Minor plan events		
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Introduction

1. At its December 2016 meeting, the International Accounting Standards Board (the Board) discussed recommendations made by the IFRS Interpretations Committee (the Committee) to finalise the proposed amendments to:

   (a) IAS 19 *Employee Benefits* included in the Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement/ Availability of a Refund from a Defined Benefit Plan* (the Exposure Draft); and

   (b) IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* included in that Exposure Draft.

2. At that meeting, the Board tentatively decided to finalise the proposed amendments to IFRIC 14, subject to drafting changes recommended by the Committee. For the amendments to IAS 19, it asked the Committee to consider the implications of including minor plan events (ie plan amendments, curtailments or settlements for which the past service cost, or gain (loss) on settlement, is immaterial) within the scope of these amendments. Other than the topic of minor plan events, the Board agreed to finalise the proposed amendments to IAS 19, subject to drafting changes recommended by the Committee.

3. The purpose of this paper is to:

   (a) analyse the implications of including minor plan events within the scope of the proposed amendments to IAS 19; and

   (b) ask the Committee if it agrees to recommend that the Board finalise the proposed amendments to IAS 19, with no substantive changes in respect of minor plan events.

Structure of the paper

4. This paper includes the following:

   (a) a summary of the proposed amendments to IAS 19;

   (a) background information;

   (b) staff analysis; and

   (c) staff recommendation.

5. Appendix A includes an extract from the Exposure Draft—the proposed amendments to IAS 19.

Summary of the proposed amendments to IAS 19

6. The proposed amendments to IAS 19 address how an entity accounts for defined benefit plans when a plan event occurs during a reporting period. The proposed amendments specify that:

   (a) when an entity remeasures the net defined benefit liability (asset) applying paragraph 99 of IAS 19 (ie when a plan event occurs), the entity would determine:

      (i) the current service cost and the net interest for the remainder of the annual reporting period using the assumptions used for the remeasurement; and

(ii) the net interest for the remainder of the annual reporting period on the basis of the remeasured net defined benefit liability (asset).

(b) the current service cost and the net interest in the reporting period before a plan event would not be affected by, or included in, the past service cost or gain (loss) on settlement.

7. Appendix A to this paper includes the proposed amendments to IAS 19.

Background information

8. The Committee considered the feedback on the proposed amendments at its September 2016 meeting. One of the main issues discussed by the Committee was the consequences of the proposed amendments for minor plan events.

Overview of feedback on minor plan events

9. Some respondents expressed concerns about the consequences of the proposed amendments for minor plan events. In particular, respondents identified the following:

(a) *the interaction of the proposed amendments with the concept of materiality*—some respondents said it is unclear how an entity would apply the general materiality requirements in the context of the proposed amendments. These respondents said the proposed amendments could lead to more frequent remeasurements of the net defined benefit liability, which in their view would be an unintended consequence of the amendments. This is because the proposed amendments would result in a plan event affecting current service cost and net interest for the period after the plan event, not only past service cost or gain (loss) on settlement.

For example, an entity might make a change to a plan that affects only a small portion of plan members. Paragraph 99 of IAS 19 requires an entity to remeasure its net defined benefit liability (asset) before determining past service cost. However, if the effect of the change on past service cost is considered immaterial, the entity need not remeasure its net defined benefit liability (asset). This is because, applying existing requirements in IAS 19, the change to the plan affects only the measurement of past service cost or gain (loss) on settlement. When developing the proposed amendments, the Board thought that, in these situations, an entity would not update current service cost and net interest for the remainder of the reporting period. However, if there has been a significant change in financial conditions since the start of the year (for example, a significant change in the discount rate), then the change to the plan could have a material effect on current service cost and net interest for the remainder of the reporting period. In these situations, an entity would not be able to assert that the effect of the change to the plan is immaterial (even though its effect on past service cost or gain (loss) on settlement is immaterial). Accordingly, in these situations, the entity may be required to remeasure the net defined benefit liability (asset) when the change to the plan occurs.

(b) *the unit of account and lack of comparability*—some respondents said the proposed amendments may reduce comparability in situations in which one entity has a minor plan event during a reporting period and another entity, with a similar plan, does not.

(c) *additional costs resulting from the proposed amendments*—some respondents said, for minor plan events, entities often adopt computational short-cut methods to calculate the past service cost or gain (loss) on settlement, as permitted by paragraph 60 of IAS 19. These respondents said the amendments may result in an entity no longer being able to use short-cut methods and might require a more detailed, expensive and onerous approach.

(d) *the potential to make changes to achieve a particular accounting outcome*—some respondents said, in response to changes in market conditions during the year, an entity could make minor changes to a plan solely to achieve a particular accounting outcome.

Discussion at the September 2016 Committee meeting

10. Paragraph BC19 of the Exposure Draft states:

> Consequently, the amendments do not change the requirements in IAS 19 on whether and when an entity should remeasure the net defined benefit liability (asset); the existing guidance in paragraph 99 requires an entity to remeasure the net defined benefit liability (asset) when a plan amendment, curtailment or settlement occurs. The intention of the amendments is to confirm that an entity should determine the current service cost and net interest for the remaining portion of the period by using the updated assumptions used in the more recent measurement required by paragraph 99.

11. Further, paragraph BC17 of the Exposure Draft states:

> …the IASB concluded that the expected benefits would outweigh any additional costs from the amendments, because paragraph 99 of IAS 19 already requires the net defined benefit liability (asset) to be remeasured.

12. When developing the proposed amendments, the Board thought there would be no change to whether and when an entity remeasures the net defined benefit liability (asset) applying paragraph 99 of IAS 19. However, as explained in paragraph 9(a) of this paper, the proposed amendments could change the frequency and timing of that remeasurement because of materiality considerations on a wider set of reported amounts.

13. Accordingly, in response to the concerns raised by respondents, the staff initially proposed that the amendments to IAS 19 exclude minor plan events. Paragraphs 14-23 of Agenda Paper 3B from the Committee's September 2016 meeting explain the basis for the staff's proposals. The staff proposed that an entity use updated assumptions to measure current service cost and net interest after a plan event if:

    (a) the net defined benefit liability (asset) is remeasured as required by paragraph 99 of IAS 19; and

    (b) the plan event affects a significant number of members covered by the plan.

14. Five Committee members agreed with the concerns raised by respondents and noted that the proposed amendments, as drafted, could change whether and when entities remeasure the net defined benefit liability. These members were in favour of the staff proposal to exclude minor plan events from the scope of the amendments.

15. However, a majority of Committee members (nine) thought the amendments should not specifically exclude minor plan events. Rather, determining whether a plan event is material (and, accordingly, whether the entity remeasures the net defined benefit liability (asset)) is better left to management's judgement.

16. These members thought introducing any additional criteria to exclude minor plan events could be subjective, and would add complexity to the amendments. They thought the proposed amendments did not require any substantive change in this respect.

17. Accordingly, the Committee recommended that the Board finalise the proposed amendments to IAS 19, with no substantive change in respect of minor plan events.

Discussion at the December 2016 Board meeting

18. Paragraph 18 of Agenda Paper 12C of the Board's December 2016 meeting stated:

> Nonetheless, if the amendments are finalised as drafted, we [staff] think that the amendments could change whether and when entities remeasure the net defined benefit liability applying paragraph 99 of IAS 19. This is because…entities will not only look at the effect of a plan event on past service cost or gain or loss on settlement (as they are currently required to do). Instead, they will also consider the consequential effect on current service cost and net interest for the remainder of the reporting period. We think this would change the intention of the amendments. Accordingly, we would update the explanation in paragraphs BC17 and BC19 of the Exposure Draft [reproduced in paragraphs 10 and 11 above]...

19. Some board members had reservations about the staff proposal to update the explanation in the basis for conclusions to the final amendments. These board

members thought such a change may not reflect the views of Committee members, ie these board members thought the Committee members may not agree with the staff's view expressed in paragraph 18 above.

20. Accordingly, the Board directed the staff to discuss with the Committee the implications of finalising the proposed amendments to IAS 19 with no substantive changes in respect of minor plan events.

Staff analysis

Could the proposed amendments change whether and when an entity remeasures the net defined benefit liability (asset)?

21. Paragraph 99 of IAS 19 (see Appendix A) requires an entity to remeasure the net defined benefit liability (asset) when there is a plan event in order to determine past service cost or gain (loss) on settlement.

22. Paragraph 8 of IAS 8 specifies that an entity need not apply an accounting policy when the effect of applying the accounting policy is immaterial. This means that entities apply paragraph 99 of IAS 19 (and, thus, remeasure the net defined benefit liability (asset)) when a plan event has a material effect on past service cost or gain (loss) on settlement. However, if the plan event has an immaterial effect (or no effect) on past service cost or gain (loss) on settlement, then the entity need not apply the requirements in paragraph 99 of IAS 19.

23. Although the proposed amendments do not directly change the requirements in paragraph 99 of IAS 19, they widen the consequences of remeasuring the net defined benefit liability (asset). This is because the proposed amendments (see proposed paragraphs 67A and 123 of IAS 19 in Appendix A to this paper) would require an entity to use updated assumptions from the remeasured net defined benefit liability (asset) when it measures current service cost and net interest for the remainder of the reporting period.

24. Accordingly, when an entity assesses whether the effect of a plan event is material (and thus whether it applies paragraph 99 of IAS 19 and remeasures the net defined benefit liability (asset)), it would also consider any consequential effects of

remeasuring the net defined benefit liability (asset) on current service cost and net interest for the remainder of the reporting period.

25. For example, as highlighted by respondents (see paragraph 9 of this paper), if an entity changes the terms of a plan for some, but not all, plan members, it may conclude that the effect of this change on past service cost or gain (loss) on settlement is immaterial. Applying existing requirements, the entity need not remeasure the net defined benefit liability (asset) applying paragraph 99 of IAS 19.

26. However, if the amendments are finalised with no substantive changes in respect of such plan events, then the entity would also be required to consider any consequential effect of the change to the plan on current service cost and net interest for the remainder of the reporting period. Although the change to the plan has an immaterial effect on past service cost or gain (loss) on settlement, remeasuring the net defined benefit liability (asset) could have a material effect on net interest or current service cost for the period after the remeasurement, if, for example, there has been a change in discount rates. In this situation (and assuming that the change to the plan has a material effect on net interest or current service cost for the remainder of the reporting period), the entity would not be able to assert that the effect of the change to the plan is immaterial. Accordingly, the entity would be required to remeasure the net defined benefit liability (asset) applying paragraph 99 of IAS 19.

27. Through additional research, we have also identified that the proposed amendments could have a similar effect on some plan events that do not affect past service cost or gain (loss) on settlement. For example, an entity may make a change to a plan that affects only future benefit accruals for plan members. This plan event does not affect benefits that members have accrued to date. Accordingly, the plan event does not affect past service cost (because it affects only future benefit accruals). Applying existing requirements, the entity need not apply paragraph 99 (and, thus, not remeasure the net defined benefit liability (asset)).

28. However, if the Board finalises the amendments as drafted, depending on particular facts and circumstances, the plan event may have a material effect on current service cost for the remainder of the reporting period. If this is the case, the entity would be required to remeasure the net defined benefit liability (asset) applying paragraph 99 of IAS 19.

29. The shaded area in the following chart illustrates the situations in which we think the proposed amendments, if finalised with no substantive changes, could change whether and when entities remeasure the net defined benefit liability (asset):

<table>
<tr><td colspan="2" rowspan="2"></td><th colspan="2">Effect of plan event on past service cost or gain (loss) on settlement</th></tr>
<tr><th>Material</th><th>Immaterial or no effect</th></tr>
<tr><th rowspan="2">Effect of plan event on current service cost and/or net interest</th><th>Material</th><td>ER**: remeasure NDBL**

PA**: remeasure NDBL</td><td>ER: not required to remeasure NDBL

PA: remeasure NDBL</td></tr>
<tr><th>Immaterial or no effect</th><td>ER: remeasure NDBL

PA: remeasure NDBL</td><td>ER: not required to remeasure NDBL

PA: not required to remeasure NDBL</td></tr>
</table>

** ER—Existing requirements; PA—Proposed amendments; NDBL—Net defined benefit liability (asset);

30. Accordingly, in our view, the proposed amendments, if finalised with no substantive changes in respect of minor plan events, could change whether and when entities remeasure the net defined benefit liability (asset).

Is the outcome (ie potentially more frequent remeasurements) appropriate?

31. The main objective of proposing that entities would update current service cost and net interest for the remainder of the reporting period was to provide more relevant and useful information to users of the financial statements. Paragraph BC13 of the Exposure Draft states:

> …The IASB is concerned that ignoring the effects of such an event (ie a plan amendment, curtailment or settlement) in the period following the event when calculating the current service cost and net interest would not result in useful information.

32. Further, paragraph BC17 of the Exposure Draft states:

> The IASB identified that the expected benefits from the amendments include providing more relevant information, enhanced understandability and eliminating diversity in accounting when a plan amendment, curtailment or settlement occurs...

33. We suggest that the resulting outcome (ie potentially more remeasurements of the net defined benefit liability (asset)) is an appropriate outcome because it results in the provision of more relevant and useful information, which is consistent with the main objective of the proposed amendments. This is particularly the case for the type of plan events identified in paragraph 27 of this paper—ie a plan event that affects future benefit accruals for all (or a significant proportion of) plan members but does not change benefits accrued to date.

34. To illustrate with an example: on 30 June 20X7, an entity with a 31 December year-end closes a defined benefit plan to future accruals (ie members are not entitled to any future benefits under the plan). This change does not affect accrued benefits—plan members continue to be entitled to receive benefits accrued under the plan until 30 June 20X7.

35. IAS 19 does not require the entity to update current service cost for the remainder of the reporting period after the plan event. Accordingly, the entity might continue to recognise current service cost on the defined benefit plan for the period 1 July 20X7 to 31 December 20X7 using assumptions at the start of the annual reporting period. However, because members are not entitled to future benefits under the plan, the entity does not incur any current service cost for the period 1 July 20X7 to 31 December 20X7. In our view, it is neither useful nor relevant for the entity to continue to recognise current service cost after 1 July 20X7 (ie after the change to the plan occurs).

36. If the proposed amendments were finalised as drafted, the entity in this example would consider the effect of the plan event on current service cost. Assuming the effect of the remeasurement on current service cost for the period 1 July 20X7 to 31 December 20X7 is material, the entity would remeasure the net defined benefit liability (asset) and update its current service cost for the remainder of the reporting period following the plan event. In this example, the entity would recognise no current service cost for the period 1 July 20X7 to 31 December 20X7, which in our view appropriately reflects the change to the plan.

37. We acknowledge respondents' concerns that the proposed amendments could lead to more frequent remeasurements of the net defined benefit liability (asset) in situations such as those highlighted in paragraph 25 of this paper (ie a change to a plan that

affects some but not all members of a plan and has an immaterial effect on past service cost or gain (loss) on settlement). However, an entity would be required to remeasure the net defined benefit liability (asset) only if the plan event has a material effect on current service cost or net interest for the remainder of the reporting period. If this is the case, we think using updated assumptions to calculate current service cost and net interest results in the provision of more relevant and useful information, which is consistent with the main objective of the amendments (see paragraphs 31 and 32 of this paper).

38. On the basis of our analysis, we think that the expected benefits of the amendments outweigh the costs (and any concerns about cost raised by respondents (see paragraph 9 of this paper)). The expected benefits include providing more relevant and useful information, enhancing understandability of the financial statements and eliminating diversity.

39. We also agree with the Committee's previous conclusion that excluding minor plan events from the scope of the amendments would introduce additional criteria that could be subjective and would add complexity to the amendments.

Staff recommendation

40. Finalising the proposed amendments to IAS 19 with no substantive changes in respect of minor plan events could change whether and when entities remeasure the net defined benefit liability (asset). As explained earlier in this paper, we suggest that this is an appropriate outcome, aligned with the main objective of proposing the amendments.

41. Accordingly, we recommend that the Board:

    (a) finalise the proposed amendments with no substantive changes in respect of minor plan events; and

    (b) update the explanation in paragraphs BC17 and BC19 of the Exposure Draft to reflect the conclusion that the amendments could lead to more frequent remeasurements.

Questions for the Committee

Does the Committee agree with the staff recommendation to:

a. finalise the proposed amendments to IAS 19 with no substantive changes in respect of minor plan events; and
b. update the explanation in paragraphs BC17 and BC19 of the Exposure Draft to reflect its conclusion that the amendments could lead to more frequent remeasurements?

Appendix A

Extract from the Exposure Draft—the proposed amendments to IAS 19

[Draft] Amendments to IAS 19 *Employee Benefits*

Paragraphs 99, 123 and 125–126 are amended and paragraphs 67A, 99A and 178 are added. New text is underlined and deleted text is struck through. Paragraphs 67 and 124 have not been amended but have been included for ease of reference.

Recognition and measurement: present value of defined benefit obligations and current service cost

...

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.

67A Ordinarily, the 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 as required by paragraph 99, the current service cost for the remaining portion of the annual reporting period after the remeasurement shall be determined using the assumptions used to measure the defined benefit obligation that reflects the benefits offered after the plan amendment, curtailment or settlement. The remeasurement that is required by paragraph 99 shall not affect the current service cost for the period before this remeasurement.

...

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 also shall remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan after the plan amendment, curtailment or settlement.

99A An entity shall determine the current service cost and net interest in accordance with paragraphs 67A and 123. The current service cost and net interest shall be excluded from the past service cost and from the gain or loss on settlement.

...

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~~ unless the net defined benefit liability (asset) is remeasured as required by paragraph 99. Ordinarily, both the net defined benefit liability (asset) and the discount rate are determined at the start of the annual reporting period. ~~, taking~~ However, an entity takes account of any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments and as a result of any remeasurement that is required by paragraph 99. If the net defined benefit liability (asset) is remeasured as required by paragraph 99, the net interest for the remaining portion of the annual reporting period shall be determined by applying the discount rate used to remeasure the net defined benefit liability (asset) that reflects the benefits offered after the plan amendment, curtailment or settlement. The remeasurement that is required by paragraph 99 shall not affect net interest for the period before this remeasurement.**

124 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 64.

125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate ~~specified in paragraph 83, both as~~. Ordinarily, the fair value of the plan assets is determined at the start of the annual reporting period. ~~, taking~~ However, an entity takes account of any changes in the plan assets held during the period as a result of contributions and benefit payments and as a result of any remeasurement of the plan assets that is required by paragraph 99. An entity shall use the discount rate(s) that were applied in accordance with paragraph 123. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

126 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate ~~specified in paragraph 83, both as~~. Ordinarily, the effect of the asset ceiling is determined at the start of the annual reporting period, however, an entity takes account of any changes in the effect of the asset ceiling as a result of the accounting that is required by paragraph 64A. An entity shall use the discount rate(s) that were applied in accordance with paragraph 123. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

...