



Project:	Plan Amendment, Curtailment or Settlement: Amendments to AASB 119	Meeting	AASB March 2018 (M163)
Topic:	Consider how to finalise ED 266	Agenda Item:	9.1
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		Decision-Making:	Low
		Project Status:	Ballot Draft of Standard

Objective of this paper

- 1 The objective of this paper is to seek the Board's decision as to how to finalise one of the proposals exposed in AASB ED 266 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (issued in June 2015).

Attachments

- Agenda Paper 9.2 Ballot Draft of Accounting Standard AASB 2018-X *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement*

Background

- 2 AASB ED 266 incorporates IASB ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (issued in June 2015), which included 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* to clarify:
 - (a) the calculation of current service cost and net interest when an entity remeasures the net defined benefit liability (asset) when a plan event (i.e. plan amendment, curtailment or settlement) occurs; and
 - (b) whether a trustee's power to augment benefits or to wind up a plan affects the employer's unconditional right to a refund and thus, in accordance with IFRIC 14, restricts recognition of an asset¹.

¹ The IASB is finalising the proposals on the right to a refund separately in the narrow-scope project *Availability of a Refund* (Amendments to IFRIC 14). Those proposals are not addressed in this agenda item.

Summary of feedback received on the ED

- 3 The AASB generally agreed with the amendments proposed in ED/2015/5 and tentatively decided at its September 2015 meeting to make a submission to the IASB, subject to constituent feedback on AASB ED 266, supporting the IASB's efforts to address diversity in practice arising from the application of IAS 19. The AASB received four comment letters on ED 266, from the Actuaries Institute, Deloitte, EY and PwC². The respondents broadly agreed with and supported the proposed amendments to clarify the remeasurement on a plan amendment, curtailment and settlement.
- 4 The IASB received 78 comment letters on ED/2015/5 from its worldwide constituents³. Three of the comment letters received were from Australian constituents, being the AASB, Group of 100 and Telstra, all of which broadly supported the proposed amendments to IAS 19 but raised a few concerns as identified below.
- 5 *The proposed amendments to IAS 19 – Accounting when a plan amendment, curtailment or settlement occurs.* Out of 71 respondents who commented on this proposal, almost half – including the AASB – agreed with the principles underlying the proposed amendments to IAS 19, saying that the proposed amendments would result in more useful information to users; help reduce diversity in practice; and result in no significant additional cost to preparers. The main issues identified by other respondents were the consequences of a 'minor' plan event (i.e. plan events for which the past service cost, or gain or loss on settlement, would not be material) and the inconsistency with the requirements in IAS 34 *Interim Financial Reporting* in relation to 'significant market fluctuations'.
- 6 *The proposed amendments to IAS 19 – Interaction between the asset ceiling and past service cost or gain or loss on settlement.* Out of 69 respondents who commented on this proposal, most respondents – including the AASB – agreed with the principles underlying the proposed amendments, saying that the proposed amendments would provide helpful clarification of existing requirements and promote consistent application. The main issues identified by some respondents were the inappropriate recognition of a gain or loss on settlement and the effective recycling of amounts recognised in Other Comprehensive Income.
- 7 *The proposed transition requirements.* The ED proposed that an entity apply IAS 19 amendments retrospectively, providing an exemption for adjustments to the carrying amounts of assets outside the scope of IAS 19. Out of 67 respondents who commented on the proposed transition requirements, more than half – including the AASB – agreed with the proposed retrospective transition requirements, saying that they would enhance the comparability and clarity of financial information provided and are

2 The comment letters on ED 266 are available on the AASB's website at <http://www.aasb.gov.au/Work-In-Progress/Pending.aspx?id=1888>.

3 The comment letters on ED/2015/5 are available on the IFRS Foundation's website at <http://www.ifrs.org/projects/2018/remeasurement-on-a-plan-amendment-curtailment-or-settlement/comment-letters-projects/ed-remeasurement-of-a-plan---availability-of-a-refund/>.

justified because, in their view, the benefits outweigh the costs. Respondents who disagreed with the proposed transition requirements were concerned with cost versus benefit considerations; the nature of a plan event as a one-off event; and the separate presentation of cumulative remeasurements as a component of equity.

Decisions made by the IASB

- 8 At its December 2016 meeting, the IASB decided that the accounting when ‘significant market fluctuations’ occur is beyond the scope of the narrow-scope amendments. The IASB also decided to retain the clarification that recognising past service cost, or a gain or loss on settlement, is a separate step from assessing the asset ceiling. The IASB agreed to consider at a future meeting the implications of including minor plan events within the scope of the amendments, together with transition, first-time adoption, effective date and due-process steps.
- 9 At its April 2017 meeting, the IASB decided to finalise the proposed amendments to IAS 19 subject to some drafting changes. The IASB decided not to exclude minor plan events from the scope of amendments, noting that remeasurement requirements would apply only when the effect was material. The only substantive change in respect of the amendments related to the transition requirements. Having considered comments on the ED, the IASB decided that an entity should apply the IAS 19 amendments prospectively to plan events occurring on or after the effective date. The IASB concluded that the benefits of retrospective application in this instance would not outweigh the costs. The IASB also decided not to provide any transition relief for first-time adopters, consistent with the existing requirement for retrospective first-time adoption of IAS 19.
- 10 At its September 2017 meeting, the IASB decided to require entities to apply the amendments to IAS 19 to annual reporting periods beginning on or after 1 January 2019, with earlier application permitted, to provide jurisdictions with sufficient time to incorporate the new requirements into their legal systems and entities with sufficient time to prepare for the new requirements. The IASB also discussed the due process steps on the amendments to IAS 19 and decided to finalise, without re-exposing, those amendments separately from the amendments to IFRIC 14.

Issuance of the IFRS Standard

- 11 The IASB issued the IFRS Standard *Plan Amendment, Curtailment or Settlement* in February 2018, which includes narrow-scope amendments to IAS 19 to clarify the accounting for defined benefit plans when a plan event occurs during a reporting period. The likely effect of the amendments is greater consistency in the application of IAS 19.
- 12 The IASB set an effective date of annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

Accounting when a plan amendment, curtailment or settlement occurs

- 13 The amendments specify that:

- (a) when an entity remeasures the net defined benefit liability (asset) applying paragraph 99 of IAS 19 (i.e. 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.

Interaction between the asset ceiling and past service cost or gain or loss on settlement

- 14 The accounting for a plan event may reduce or eliminate a surplus, which may mean that the effect of the asset ceiling also changes. The amendments clarify that, when a plan event occurs, an entity would:
- (a) recognise and measure the past service cost, or a gain or loss on settlement, in profit or loss as required by paragraphs 99–112 of IAS 19, before recognising the changes in the effect of the asset ceiling; and
 - (b) recognise changes in the effect of the asset ceiling in other comprehensive income as required in paragraph 57(d)(iii) of IAS 19.
- 15 The amendments confirm that an entity recognises the past service cost or a gain or loss on settlement separately from its reassessment of the asset ceiling.

Staff recommendations

- 16 AASB staff support the amendments made by the IASB. Staff are not aware that the proposed amendments would cause any significant issues for Australian entities. Staff do not consider that any not-for-profit (NFP) or public sector specific modification is needed as the amendments are clarifications to existing requirements that apply to both for-profit and not-for-profit entities.
- 17 Acknowledging the feedback received by the AASB and the basis for the IASB's decisions, staff recommend the AASB finalise the project by making an amending standard incorporating the IASB's Standard *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19). Except for the change to prospective transitional requirements, all of the AASB's comments in its submission to the IASB are reflected in the IASB's amendments.
- 18 Therefore, the staff recommend that Board members vote to make Accounting Standard AASB 2018-X on the basis of the ballot draft provided as Agenda Paper 9.2. In accordance with our usual practice, the amendments to the IASB's Basis for Conclusions would be published on the AASB website as IASB supporting material, accessible only to website users in Australia (as per our copyright agreement with the IASB).

Question for Board members

Do Board members agree with the staff recommendation to issue an Amending Standard AASB 2018-X incorporating the IASB's Standard *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19)?