

## **Broad outline of progress to date on the revision to IAS 19 / AASB 119 up to the end of February 2011**

Where considered relevant this broad outline mentions:

- \* the requirements in IAS 19 / AASB 119 *Employee Benefits*;
- \* the proposals in ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19*;
- \* Australian constituents' comments<sup>1</sup> on the proposals;
- \* the AASB's comments to the IASB on ED/2010/3; and
- \* recent IASB tentative decisions.

### **Removal of 'corridor' approach and amended presentation requirements**

Under AASB 119 an entity can choose to recognise the movements relating to experience being different from that assumed and changed assumptions (actuarial gains and losses) immediately or using a 'corridor' approach. When recognising them immediately, there is a further option to present the movements in profit and loss or other comprehensive income (OCI).

ED/2010/3 proposed to remove the corridor approach and require defined benefit cost to be presented as:

- \* service cost in profit or loss;
- \* net interest on the defined benefit liability as finance costs in profit and loss; and
- \* remeasurements in OCI (with remeasurements including actuarial gains and losses and some components of return on plan assets).

Many of those commenting on ED 195 agreed with the proposal, but some noted that a clearer basis for presentation in profit and loss versus OCI is needed (perhaps as part of the project on Financial Statement Presentation). One commentator opposed the proposals on the grounds of complexity.

The AASB:

- \* supported the removal of the corridor treatment;

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<sup>1</sup> The AASB received written comment on ED 195 from seven constituents

- \* supported the presentation proposals only as an interim measure until a generally accepted principle is established regarding the types of items that are presented in profit and loss versus OCI; and
- \* expressed concern over mismatches that might occur in respect of plan assets and recommended having an irrevocable option for presentation in either profit and loss or OCI.

At its January 2011 meeting, the IASB tentatively decided to permit remeasurements to be presented in profit and loss to avoid creating an accounting mismatch. However, at the IASB's mid-February 2011 meeting, that decision was reversed, and it was tentatively decided to retain the proposals.

### **Curtailments and settlements**

In broad terms, AASB 119 currently requires the recognition in profit and loss of the impact of curtailments and settlements when they occur.

ED/2010/3 proposes that:

- \* the impact of settlements (elimination of further obligations) that are either routine or non-routine should be presented in the remeasurement component (and presented in OCI) and
- \* the impact of curtailments (reduction in exposure to obligations) should be presented in profit and loss.

Some of those commenting on ED 195 agreed with the proposal, but others considered the distinction between curtailments and settlements may be difficult to determine.

The AASB did not support the proposals. The AASB recommended gains or losses from non-routine settlements, curtailments or plan amendments be determined on the basis of the defined benefit obligation at transaction or event date and presented in the same as manner as other defined benefit obligation changes – split between service cost, net interest and remeasurements. The AASB also recommended that the impact of routine settlements be presented in profit and loss.

At its December 2010 meeting, the IASB tentatively decided to retain the basic proposals, but narrow the definitions of:

- \* 'curtailment' to a significant reduction in the number of plan members;

- \* ‘settlements’ to exclude plan amendments resulting in past service cost or curtailments; and
- \* ‘non-routine settlements’ to exclude payments in accordance with plan terms.

The IASB also tentatively agreed to:

- \* require past service cost and gains and losses on curtailments and non-routine settlements to be presented as ‘service cost’; and
- \* require gains and losses on routine settlements to be presented as remeasurements (in OCI).

At its January meeting, the IASB tentatively decided that costs associated with a restructuring or termination benefits should be recognised at the earlier of their occurrence or the time of the restructuring or termination event.

### **Past service cost**

Under AASB 119, unvested past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested.

ED/2010/3 proposes that unvested past service cost be recognised in the period of a plan amendment. This is consistent with the view that a curtailment is similar to a plan amendment because it occurs when an entity takes an action that changes the benefits provided by the plan to employees.

In its comment letter, the AASB supported the proposal, and the IASB has tentatively decided to proceed with it.

### **Impacts of proposals on long-service leave**

Under the current AASB 119, although the measurement requirements applying to ‘other long-term employee benefits’ are similar to those for defined benefit obligations, there is an acknowledgement that other long-term benefits don’t involve the same level of uncertainty as defined benefit obligations and fewer disclosure and presentation requirements apply to other long-term benefits such as long service leave.

The ED/2010/3 proposals extend the treatment of defined post-employment benefits to other similar long-term employee benefits. Accordingly, in an Australian context, the relatively

complex requirements for defined benefit obligations may need to be considered by a much wider range of entities.

Many of those commenting on ED 195 expressed concern about additional costs that might be imposed on entities that don't presently gather sufficient information on long-service leave to separately identify the re-measurement component in the liability movement. They argued that there is less risk associated with movements in long-service leave liabilities (compared to 'defined benefit obligations') and long-service leave costs are more in the nature of 'business expenses' that should all be recognised in profit and loss.

The AASB commented to the IASB that it does not support extending all the requirements that relate to defined benefit obligations to liabilities such as long service liabilities, notwithstanding that they have the same characteristics as defined benefit obligations, on the basis that:

- \* it is premature, given that there is no settled principle about which items should be presented in OCI; and
- \* it will increase the level of complexity of the accounting for many entities.

At its November 2010 meeting, the IASB tentatively decided to revert to the existing IAS 19 classifications, and consequently keep the existing recognition, presentation and disclosure requirements for other long-term employee benefits.

### **Mutli-employer defined benefit plans**

AASB 119 currently requires an employer involved in multi-employer defined benefit plans to account for its proportionate share of defined benefit obligations, plan assets and costs, as for any other defined benefit plans, but if insufficient information is available, account as if it's a defined contribution plan.

ED/2010/3 proposes extending the disclosures regarding:

- \* funding arrangements;
- \* the extent of any plan liability for other employers' obligations; and
- \* detail of any agreed deficit or surplus on wind-up or withdrawal.

Those commenting on ED 195 had mixed views. Some opposed the proposals on cost-benefit grounds, because:

- \* most such plans are in the public sector and risks tend to lie with the relevant government rather than the individual employers;
- \* members can change employers;
- \* allocation on winding up may depend on many as yet unknown factors; and
- \* when treating as a defined contribution plan, it would be unreasonable to require disclosure of expected contributions for the next five years.

At its December 2010 meeting, the IASB tentatively agreed to reduce the expected contributions disclosure to one year, but ask for an indication of an entity's level of interest in the plan (perhaps the proportion of total members).

The entities most likely to be affected by the proposals are government departments, and most of the proposed additional disclosures seem likely to be irrelevant to government departments.

Staff note that government departments can prepare Tier 2 financial statements,<sup>2</sup> and the Tier 2 Supplement to ED 195 issued in February 2011 proposes removing the majority of the relevant ED/2010/3 disclosure proposals for Tier 2 entities.

Furthermore, AASB 1004 *Contributions* includes the following at paragraph 39:

**A liability of a government department that is assumed by the government or other entity shall be accounted for as follows:**

- (a) **on initial incurrence of the liability by the government department, the government department shall recognise a liability and an expense;**
- (b) **on assumption of the liability by the government or other entity, the government department shall extinguish the liability and:**
  - (i) **when the assumption is not in the nature of a contribution by owners, the government department shall recognise income of an amount equivalent to the liability assumed; or**
  - (ii) **when the assumption of the liability is in the nature of a contribution by owners, the government department shall make a direct adjustment to equity of an amount equivalent to the liability assumed.**

At this stage, AASB staff consider that there should be no need to consequentially amend AASB 1004 if the IASB's proposals proceed.

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<sup>2</sup> Subject to their regulator not requiring Tier 1 financial statements

## **Taxes paid by the plan**

Debate over the issue of accounting for the Australian (15%) contributions tax dates back to the adoption of IFRS in 2005. At one stage, the AASB was in the process of developing an Australian Interpretation, but discontinued that activity once the IASB agreed to deal with the issue (at the urging of the AASB and possibly others).

Presently, superannuation contributions tax could arguably be treated in at least two different ways when accounting for a defined benefit liability.

AASB 119 currently defines the phrase ‘return on plan assets’ as including any tax payable by the plan itself. As superannuation contributions tax is paid by a plan on behalf of its members, some constituents consider that contributions tax paid and payable should be deducted from the investment earnings of the plan and recognised as a component of any actuarial gains and losses for the period.

Alternatively, some constituents argue that the definition of the phrase ‘return on plan assets’ should be read as referring to taxes paid and payable by the plan in respect of the items mentioned earlier in the definition, namely interest, dividends and other revenue derived from the plan’s assets and realised and unrealised gains and losses on the plan’s assets. These constituents generally think that the contributions tax should be factored into the defined benefit obligation.

The amendments proposed in ED/2010/3 to the definition of ‘return on plan assets’ and to paragraph 73(b)(iv) may help resolve the treatment of superannuation contributions tax. That definition is proposed to be amended as follows:

**The return on plan assets is:**

- (a) **interest, dividends and other ~~revenue~~ income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less**
- (b) **any costs of managing plan assets ~~administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation)~~ and less any tax payable by the plan itself, other than tax on contributions relating to service before the reporting date or on benefits resulting from that service.**

All of the respondents to ED 195 commenting on this matter considered that the proposed amendments would help resolve the issue. Most of those respondents also asked that the issue of investment tax be clarified.

### **Disclosure of PV without salary adjustment**

ED/2010/3 proposes the disclosure of the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth.

All the respondents to ED 195 did not support this proposed disclosure on the basis that it would not provide useful information and most also considered it could be misleading. The actuaries among the respondents noted that it would not be difficult to calculate.

The AASB commented to the IASB that it does not support the proposals for the same reasons expressed by ED 195 respondents.

It appears the IASB is retaining the proposed disclosure.

### **GAAP/GFS harmonisation issues**

ED 195 specifically sought comments on the possible GAAP/GFS harmonisation implications of the proposals.

Most respondents on this question considered there would be few implications, and some noted the proposals appear closer to GFS on the basis that those respondents seem to be equating OCI with 'other economic flows'. However, one respondent noted that, if the Australian Bureau of Statistics (ABS) does not agree that all 'remeasurements' should be in 'other economic flows' there could be GAAP/GFS complications.

In the HoTARAC response, it was noted that a minority of HoTARAC members believe that, as GFS does not advocate netting, the proposal to present a net interest expense may have implications for GAAP/GFS.

AASB staff have had initial discussions with ABS staff on the proposed requirements, but will need to undertake further work on these matters for the Board's consideration.

### **Effective date and transition**

ED/2010/3 simply asks if the proposed changes should be applied retrospectively.

There were mixed views from Australian constituents, and a particular concern about having to retrospectively apply the sensitivity disclosures.

The AASB commented in favour of retrospective application with the exception of the sensitivity disclosures, which it suggested should not be required to be made for comparative periods.

At the mid-February IASB meeting, the IASB tentatively decided that:

- \* the revisions should mandatorily apply no earlier than 1 January 2013;
- \* entities already applying IFRSs would need to apply the revised requirements retrospectively; with a few exceptions, including the sensitivity disclosures; and
- \* first-time adopters of IFRSs would need to apply the revised requirements retrospectively in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

### **Planned issue date**

The IASB's plan is to issue the revised IAS 19 by the end of March 2011, with changed paragraph numbers. AASB staff are considering whether AASB 119 should be re-issued or amended via an Amending Standard.