International Financial Reporting Standard

Plant Amendment, Curtailment or Settlement

February 2018

BASIS FOR CONCLUSIONS – AMENDMENTS

[IAS 19]

[Related to AASB 2018-2]

Amendments to the Basis for Conclusions on IAS 19 *Employee Benefits*

Paragraph BC64 has been deleted and a footnote has been added. After paragraph BC173, a heading and paragraphs BC173A–173H are added. After paragraph BC271C, a heading and paragraphs BC271D–BC271E are added. Deleted text is struck through.

Interim reporting: effects of the amendments issued in 2011

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BC64 [Deleted]~~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.~~*

* *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19), issued in February 2018, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset) in accordance with paragraph 99. Paragraphs BC173A–BC173F explain the Board's rationale for the amendments. Before the amendments, IAS 19 did not require an entity to use updated assumptions to determine current service cost and net interest for the period after the plan amendment, curtailment or settlement. Paragraph BC64 explained the Board's rationale for those previous requirements. Because the previous requirements no longer apply, the Board deleted paragraph BC64.

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Plan Amendment, Curtailment or Settlement—amendments issued in 2018

BC173A Paragraph 99 requires an entity to remeasure the net defined benefit liability (asset) when there is a plan amendment, curtailment or settlement, to determine past service cost or a gain or loss on settlement. The amendments specify that when an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity determines:

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

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

BC173B The Board concluded that it is inappropriate to ignore the updated assumptions when determining current service cost and net interest for the remainder of the annual reporting period. In the Board's view, using updated assumptions to determine current service cost and net interest for the remainder of the annual reporting period provides more useful information to users of financial statements and enhances the understandability of financial statements.

BC173C The Board considered whether the amendments could change whether and when an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99. An entity applies paragraph 99 when the effect of a plan amendment, curtailment or settlement on past service cost, or a gain or loss on a settlement, is material. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity need not apply the requirements in paragraph 99 when the effect of applying those requirements is immaterial. The amendments require an entity to use updated assumptions to determine current service cost and net interest for the period after a plan amendment, curtailment or settlement. Accordingly, when an entity assesses whether remeasuring its net defined benefit liability (asset) in accordance with paragraph 99 has a material effect, the entity considers not only the effect on past service cost, or a gain or loss on settlement, but also the effects of using updated assumptions for determining current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement.

BC173D The Board concluded that the amendments could change whether and when an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99. The Board decided that this is appropriate because in situations in which the application of paragraph 99 would have a material effect on financial statements, the amendments would result in providing more relevant information for users of financial statements, in keeping with the objective of the amendments (see paragraph BC173B).

BC173E During its deliberations, the Board considered specifying that an entity applies the requirements in paragraph 99 on a plan-by-plan basis (and not, for example, on a country-by-country basis or an entity-by-entity basis). The Board decided against this approach because paragraph 57 already states that an entity accounts separately for each material defined benefit plan.

BC173F The Board also considered whether it should address the accounting for 'significant market fluctuations', which are discussed in paragraph B9 of IAS 34. Plan amendments, curtailments or settlements generally result from management decisions and thus differ from significant market fluctuations, which occur independently of management decisions. The Board decided that the accounting for 'significant market fluctuations' is outside the scope of these amendments. Consequently, the amendments address only the measurement of current service cost and net interest for the period after a plan amendment, curtailment or settlement.

Effect on the asset ceiling requirements

BC173G The accounting for a plan amendment, curtailment or settlement may reduce or eliminate a surplus, which may cause the effect of the asset ceiling to change. The Board added paragraph 101A to clarify how the requirements on accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.

BC173H In the Board's view, the amendments are consistent with and clarify the requirements in IAS 19. The amendments:

(a) do not reclassify amounts recognised in other comprehensive income. This is because recognising past service cost, or a gain or loss on settlement, is distinct from determining the effect of the asset ceiling.

(b) could result in entities recognising past service cost, or a gain or loss on settlement, that reduces a surplus that was not previously recognised. In the Board's view, recognising past service cost, or a gain or loss on settlement, in this situation faithfully represents the transaction because the surplus has in effect been made available to, and recovered by, the entity either through a change in the defined benefit obligation or through a settlement.

(c) result in similar outcomes, regardless of whether an entity makes a payment to a plan just before a settlement or makes payments directly to employees as part of a settlement.

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Transition

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Plan Amendment, Curtailment or Settlement—amendments issued in 2018

BC271D The Board decided that an entity would not apply *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19) retrospectively. The Board concluded that the benefits of applying the amendments retrospectively were unlikely to exceed the cost of doing so because retrospective application:

(a) might result in significant cost for some entities that choose to present, as a separate component of equity, the cumulative amount of remeasurements recognised in other comprehensive income. As explained in paragraphs BC173C–BC173D, the amendments could change whether and when an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99. Accordingly, such entities might have had to revisit plan amendments, curtailments and settlements that occurred several years previously and remeasure the net defined benefit liability (asset) as of those dates.

(b) would not provide useful trend information to users of financial statements because plan amendments, curtailments and settlements are discrete one-off events.

(c) would affect only amounts recognised in profit or loss or in other comprehensive income for prior periods presented—it would affect neither total comprehensive income nor the amounts recognised in the statement of financial position for those periods.

BC271E The Board did not provide an exemption for first-time adopters. This is because IFRS 1 does not exempt a first-time adopter from applying the requirements in IAS 19 retrospectively. The Board concluded there would be little benefit in providing a first-time adopter with relief from applying these amendments retrospectively when it would have to retrospectively apply all the other requirements in IAS 19.

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