

International Financial Reporting Standard

Employee Benefits

June 2011

BASES FOR CONCLUSIONS – AMENDMENTS

[IFRS 1, 2, 9, 10 & 13 and IAS 36 & 40 and IFRIC 5 & 14]

[Related to AASB 2011-10]

International Financial Reporting Standards together with their accompanying documents are issued by the International Accounting Standards Board (IASB).

COPYRIGHT

Copyright © 2011 IFRS Foundation

Reproduction of this extract within Australia in unaltered form (retaining this notice) is permitted for non-commercial use subject to the inclusion of an acknowledgment of the IFRS Foundation's copyright.

All other rights reserved. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia or for any purpose outside Australia should be addressed to the IFRS Foundation at www.ifrs.org.

Appendix

Amendments to the Basis for Conclusions on other IFRSs

This appendix contains amendments to the Basis for Conclusions (and related appendices) on other IFRSs that are necessary in order to ensure consistency with IAS 19 and the related amendments to other IFRSs. Amended paragraphs are shown with new text underlined and deleted text struck through.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

BCA1 Paragraphs BC48 and BC52 are deleted.

IFRS 2 *Share-based Payment*

BCA2 In paragraph BC244 the quotation is footnoted as follows:

- * IAS 19 *Employee Benefits* (as amended in June 2011) renumbered and amended paragraphs BC11–BC14 as paragraphs BC52–BC55. The amendments changed the terminology for consistency with IAS 19.

IFRS 9 *Financial Instruments (November 2009)*

BCA3 Paragraph BCA10 and the related heading are deleted.

IFRS 9 *Financial Instruments (October 2010)*

BCA4 Paragraphs BCA11 and BCA12 and the related heading are deleted.

IFRS 10 *Consolidated Financial Statements*

BCA5 Paragraph BCA9 and the related heading are deleted.

IFRS 13 *Fair Value Measurement*

BCA6 Paragraphs BCA54 and BCA55 and the related heading are deleted.

IAS 36 Impairment of Assets

BCA7 Paragraph BCZ6 is amended and footnoted to read as follows:

BCZ6 IAS 19 *Employee Benefits* contains an upper limit on the amount at which an enterprise should recognise an asset arising from employee benefits. Therefore, IAS 36 does not deal with such assets. The limit in IAS 19 is determined on a discounted basis that is broadly compatible with the requirements of IAS 36. ~~The limit does not override the deferred recognition of certain actuarial losses and certain past service costs.*~~

* sentence deleted when IAS 19 *Employee Benefits* was amended in 2011.

IAS 40 Investment Property

BCA8 Paragraph B56 is footnoted as follows:

* Paragraph 57 was renumbered as paragraph 59 when IAS 19 was amended in 2011.

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

BCA9 Paragraph BC8(c) is footnoted as follows:

* Paragraph BC68I was renumbered as paragraph BC186 when IAS 19 was amended in 2011.

IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

BCA10 In paragraphs BC2, BC31, BC34, BC35 and BC41 the references to ‘paragraph 58’ are replaced with references to ‘paragraph 64’.

BCA11 Paragraph BC5 is amended as follows:

BC5 Funding requirements would not normally affect the accounting for a plan under IAS 19. However, paragraph ~~58~~ 64 of IAS 19 limits the amount of the net defined benefit asset to the available

economic benefit ~~plus unrecognised amounts~~. The interaction of a minimum funding requirement and this limit has two possible effects:

- (a) the minimum funding requirement may restrict the economic benefits available as a reduction in future contributions, and
- (b) the limit may make the minimum funding requirement onerous because contributions payable under the requirement in respect of services already received may not be available once they have been paid, either as a refund or as a reduction in future contributions.

BCA12 In paragraph BC20 the reference to ‘paragraph BC77 of the Basis for Conclusions on IAS 19’ is footnoted as follows:

- * As a result of the amendments to IAS 19 in June 2011, paragraph BC77 was deleted.

BCA13 Paragraphs BC36 and BC37 are deleted.

BCA14 The reference to ‘paragraph 58A’ in paragraph BC39 is footnoted as follows:

- * IAS 19 (as amended in June 2011) eliminated deferred recognition of actuarial gains and losses and deleted paragraph 58A.

BCA15 Paragraph BC41(e) is added as follows:

...

- (e) In June 2011 the Board issued an amended IAS 19 that eliminated the deferred recognition of actuarial gains and losses. As a consequence of that amendment, the Board deleted paragraphs 25 and 26, amended paragraphs 1, 6, 17, 24 and amended Examples 1–4 in the illustrative examples accompanying IFRIC 14. As a result of those changes paragraphs BC36 and BC37 of this Basis for Conclusions were deleted and paragraph BC5 was amended. Lastly, cross-references to IAS 19 were updated.

Dissenting opinions

Dissent of James J Leisenring and Tatsumi Yamada from the issue in December 2004 of *Actuarial Gains and Losses, Group Plans and Disclosures* (Amendment to IAS 19)*

Mr Leisenring

- DO1 Mr Leisenring dissents from the issue of the Amendment to IAS 19 Employee Benefits—*Actuarial Gains and Losses, Group Plans and Disclosures*.
- DO2 Mr Leisenring dissents because he disagrees with the deletion of the last sentence in paragraph 40 and the addition of paragraphs 41 and 42. He believes that group entities that give a defined benefit promise to their employees should account for that defined benefit promise in their separate or individual financial statements. He further believes that separate or individual financial statements that purport to be prepared in accordance with IFRSs should comply with the same requirements as other financial statements that are prepared in accordance with IFRSs. He therefore disagrees with the removal of the requirement for group entities to treat defined benefit plans that share risks between entities under common control as defined benefit plans and the introduction instead of the requirements of paragraph 41.
- DO3 Mr Leisenring notes that group entities are required to give disclosures about the plan as a whole but does not believe that disclosures are an adequate substitute for recognition and measurement in accordance with the requirements of IAS 19.

Mr Yamada

- DO4 Mr Yamada dissents from the issue of the Amendment to IAS 19 Employee Benefits—*Actuarial Gains and Losses, Group Plans and Disclosures*.
- DO5 Mr Yamada agrees that an option should be added to IAS 19 that allows entities that recognise actuarial gains and losses in full in the period in which they occur to recognise them outside profit or loss in a statement of recognised income and expense, even though under the previous IAS 19 they can be recognised in profit or loss in full in the period in which they occur. He agrees that the option provides more transparent information than the deferred recognition options commonly chosen

* Cross-references have been updated.

under IAS 19. However, he also believes that all items of income and expense should be recognised in profit or loss in some period. Until they have been so recognised, they should be included in a component of equity separate from retained earnings. They should be transferred from that separate component of equity into retained earnings when they are recognised in profit or loss. Mr Yamada does not, therefore, agree with the requirements of paragraph 93D.*

- DO6 Mr Yamada acknowledges the difficulty in finding a rational basis for recognising actuarial gains and losses in profit or loss in periods after their initial recognition in a statement of recognised income and expense when the plan is ongoing. He also acknowledges that, under IFRSs, some gains and losses are recognised directly in a separate component of equity and are not subsequently recognised in profit or loss. However, Mr Yamada does not believe that this justifies expanding this treatment to actuarial gains and losses.
- DO7 The cumulative actuarial gains and losses could be recognised in profit or loss when a plan is wound up or transferred outside the entity. The cumulative amount recognised in a separate component of equity would be transferred to retained earnings at the same time. This would be consistent with the treatment of exchange gains and losses on subsidiaries that have a measurement currency different from the presentation currency of the group.
- DO8 Therefore, Mr Yamada believes that the requirements of paragraph 93D mean that the option is not an improvement to financial reporting because it allows gains and losses to be excluded permanently from profit or loss and yet be recognised immediately in retained earnings.

* The amendments to IAS 19 made in 2011 deleted paragraph 93D.

Dissent of Jan Engström and Tatsumi Yamada from the issue in June 2011 of IAS 19 as amended

Mr Engström

- DO1 Mr Engström voted against the amendments made to IAS 19 in 2011. The project was a limited scope project focused on bringing the full post-employment benefit onto the statement of financial position and on eliminating the corridor approach.
- DO2 In Mr Engström's view, during the project it has become increasingly clear that a review of the measurement principles is much needed—something not included in the limited scope of the project. During the recent financial crisis the defined benefit obligation could be as much as 50 per cent higher in one company compared with an identical defined benefit obligation in another company operating in an adjacent country, with basically equal macroeconomic parameters, due to the imperfections in measurement requirements of IAS 19.
- DO3 In Mr Engström's view, the amendments to IAS 19 made in 2011 introduce some radical changes from a principle point of view by not requiring some income and expenses truly related to a company's activities ever to be presented in profit or loss, indeed actually prohibiting such presentation. The adjustments of the defined benefit obligation, and of the plan assets, have for many companies been a very significant amount and by presenting income and expenses resulting from these adjustments only in other comprehensive income this project continues the gradual erosion of the concept of profit or loss.
- DO4 Mr Engström sees no reason why the remeasurements component could not be subsequently reclassified to profit or loss on a reasonable basis consistently with the assumptions used to measure the defined benefit obligation.
- DO5 Mr Engström would favour a comprehensive review of IAS 19, including a review of measurement, and he would prefer presentation to be decided only after the IASB has taken a stance on what profit or loss is, what other comprehensive income is and what should be subsequently reclassified into profit or loss.
- DO6 As a consequence of these amendments made to IAS 19, and of the option introduced in IFRS 9 *Financial Instruments*, some material amounts may never be presented in profit or loss. IFRS 9 introduced an option to present some gains and losses on equity instruments not held for trading in other comprehensive income, without subsequent reclassification to

profit or loss. In Mr Engström's view, these recent ad hoc decisions push financial reporting de facto towards a single income statement as some matters truly related to a company's activities are never to be presented in profit or loss.

Mr Yamada

- DO7 Mr Yamada voted against the amendments made to IAS 19 in 2011.
- DO8 Mr Yamada agrees with the Board's view in paragraph BC70 that immediate recognition of all changes in the fair values of plan assets and in the defined benefit obligation in the period in which those changes occur provides information that is more relevant to users of financial statements than the information provided by deferred recognition. Mr Yamada also agrees that immediate recognition provides a more faithful representation of defined benefit plans and is easier for a user to understand.
- DO9 However, Mr Yamada does not agree with:
- (a) the disaggregation of defined benefit cost (see paragraph DO10);
 - (b) the definition of net interest and remeasurements of the net defined benefit liability (asset) (see paragraphs DO11–DO14); and
 - (c) the presentation of remeasurements of the net defined benefit liability (asset) in other comprehensive income (see paragraphs DO15–DO17).

Disaggregation of defined benefit cost

- DO10 In Mr Yamada's view the disaggregation of defined benefit cost into components (ie service cost, net interest and remeasurements) in profit or loss and other comprehensive income in paragraph 120 is not consistent with the presentation of plan assets and the defined benefit obligation in the statement of financial position. In his view, to be consistent with the presentation of a single net defined benefit liability (asset) in the statement of financial position, the presentation of changes in the net defined benefit liability (asset) should be a single net amount presented in profit or loss. Therefore, he does not agree with paragraph 134 not to specify how to present service cost and net interest on the net defined benefit liability (asset). He understands the usefulness of disaggregated information, but believes that an appropriate way of providing information on the components of defined benefit cost is to show them in the notes to the financial statements.

Definition of net interest and remeasurements on the net defined benefit liability (asset)

- DO11 Mr Yamada sees no principle behind the disaggregation described in paragraph 120 (ie service cost, net interest and remeasurements). In particular, in his view the approach for calculating net interest on the net defined benefit liability (asset) is not an improvement in financial reporting.
- DO12 In Mr Yamada's view there is no reason for requiring the component of the return on plan assets presented in profit or loss to be determined using the rate used to discount the defined benefit obligation as is in paragraph 125. He agrees with the respondents' concerns summarised in paragraph BC82 that plan assets may be made up of many different types of investments, and that 'the return on high quality corporate bonds would be arbitrary and would not be a faithful representation of the return that investors require or expect from each type of asset.' Therefore, in his view, it does not provide more useful information to use the rate used to discount the defined benefit obligation in place of the previous requirement to use expected return on plan assets.
- DO13 Mr Yamada does not agree that the Board should require 'using the same rate [for plan assets] as the rate used to discount the liability [as] a practical approach that ... would not require an entity to make a subjective judgement on how to divide the return on plan assets into an interest component and a remeasurement' (paragraph BC82). He agrees that determining the 'expected return on plan assets' that is used by the previous version of IAS 19 requires judgement by management, but this does not mean that the 'expected return on plan assets' is unreliable. In his view, estimating the 'expected return on plan assets' requires the same degree of judgement as do other accounting estimates.
- DO14 In Mr Yamada's view, there is no clear explanation about the nature of the remeasurements component, nor why disaggregation of this amount is appropriate. In the previous version of IAS 19, actuarial gains and losses on plan assets were defined as experience adjustments, ie the effects of differences between the previous actuarial assumptions (the expected return on assets) and what actually occurred. However, paragraph BC86 explains the nature of the remeasurements component as being a residual after determining the service cost and net interest components, and simply restates the definition of remeasurements in paragraph 7.

Presentation of remeasurements in other comprehensive income

- DO15 Paragraph BC88 sets out the Board's reasoning that the remeasurement component should be presented in other comprehensive income because 'although changes included in the remeasurements component may provide more information about the uncertainty and risk of future cash flows, they provide less information about the likely amount and timing of those cash flows'. Mr Yamada does not agree with that reasoning because, in his view, the actual return on plan assets provides information about the performance of plan assets during the period, but the disaggregation of the actual return into interest income and a remeasurements component does not provide information about the likely timing and amount of future cash flows. Therefore, in his view, it does not represent faithfully the performance of plan assets if the actual returns on plan assets in excess of the interest income on plan assets are presented in other comprehensive income and not presented in profit or loss when they occur. Instead, all the components should be presented in profit or loss when they occur. Therefore, he does not agree with paragraph 120(c). In his view the amount representing remeasurements does not have a clearly defined characteristic that justifies its presentation in other comprehensive income.
- DO16 Mr Yamada notes that the definition of net interest on the net defined benefit liability (asset) results in the difference between the rate used to discount the defined benefit obligation applied to plan assets and the actual return on plan assets being presented in other comprehensive income. To do so eliminates from profit or loss the effects of differences between the actual return on plan assets and the rate applied to the defined benefit obligation. In his view the elimination of these differences introduces a type of smoothing mechanism. Thus, in his view the proposal is not an improvement on the previous version of IAS 19.
- DO17 Given that the Board decided to present part of the defined benefit cost (ie remeasurements) in other comprehensive income, he is of the view that the Board should have retained the notion of actuarial gains and losses in the previous version of IAS 19 (paragraphs 93A–93D) rather than introduce a similar but not clearly better new notion of 'remeasurements'. This would mean that the expected return on plan assets is recognised in profit or loss and the difference between the expected return on plan assets and the actual return on plan assets is recognised in other comprehensive income. As stated in paragraph DO15, in Mr Yamada's view, this difference gives better information than the revised remeasurement component.