

# IFRS ALERT 2011/02

## JUNE 2011

### IAS 19: EMPLOYEE BENEFITS



On June 16, 2011 the International Accounting Standards Board (IASB) completed its limited scope project to improve the accounting for pensions and other post-employment benefits by issuing an amended version of IAS 19 Employee Benefits.

While the project was described as being limited in scope, the effects of some of the changes are substantial and result in significant changes to the accounting for defined benefit plans. The focus of the limited scope amendments were:

- recognition of changes in the net defined benefit liability (asset) including:
  - *Immediate recognition of defined benefit cost*: Prior to the amendments, IAS 19 permitted an accounting policy choice on how to account for actuarial gains or losses. One option was to defer the recognition of gains and losses, known as the corridor method. The amendments eliminate this option for recognition of gains and losses. As a result gains and losses are recognised immediately.
  - *Disaggregation of defined benefit cost into components*: These components are service cost, net interest on the net defined benefit liability (asset), and remeasurements of the net defined benefit liability (asset).
  - *Recognition of remeasurements in other comprehensive income (OCI)*: This effectively requires the separation of remeasurement changes from changes that many perceive to be the result of an entity's day to day operations. Remeasurements of defined benefit plans are recognised as a component of OCI and are not reclassified to profit or loss in subsequent periods.
  - *Return on scheme assets*: Prior to the amendment, IAS 19 included the expected return on scheme assets and the interest cost on the defined benefit obligation within profit or loss. This is now replaced with a single net interest component. A deficit will result in interest expense and a surplus will result in interest income. Under the previous approach, a deficit could result in net finance income if the expected return on plan assets exceeded the interest cost on the defined benefit obligation.
- *Plan amendments, curtailments and settlements*: If a plan is amended, all past service costs (both vested and unvested) are required to be recognised immediately in the period the plan is amended.
- *Disclosures about defined benefit plans*: There are updated disclosure requirements in relation to the characteristics of the defined benefit plan and amounts in the financial statements, the amount, timing and uncertainty of the entity's future cash flows, and multi-employer defined benefit plans.
- *Accounting for termination benefits*: Additional guidance is provided on what are, and what are not, termination benefits and amendments have been made to the timing of the initial recognition of a liability.

#### STATUS

Final

#### EFFECTIVE DATE

Annual periods beginning on or after 1 January 2013

#### ACCOUNTING IMPACT

Changes to the accounting for defined benefit plans.

– *Miscellaneous issues, including*

- The classification of employee benefits: these clarify that employee benefits not settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services are 'other long term benefits' rather than 'short term benefits'.
- Current estimates of mortality rates: the requirements have been amended to require an explicit statement that this rate is based on an entity's best estimate of the mortality of plan members both during and after employment.
- Tax and costs: the estimate of the defined benefit obligation includes the present value of taxes payable by the plan if they relate to service before the reporting date or are imposed on benefits resulting from that service, with other taxes being included as a reduction in the return on plan assets.
- Risk-sharing and conditional indexation features: it has been clarified that employee and third-party contributions are considered in determining the defined benefit cost, the present value of the defined benefit obligation and the measurement of any reimbursement rights, the benefit to be attributed to periods of service is net of the effect of any employee contributions, any conditional indexation should be reflected in the measurement of the defined benefit obligation, whether the indexation or changes in benefits are automatic or are subject to a decision by the employer, the employee or a third party, such as trustees or administrators of the plan, and if any limits exist on the legal or constructive obligation to pay additional contributions, the present value of the defined benefit obligation should reflect those limits.

The project formed part of the Memorandum of Understanding (MoU) between the IASB and Financial Accounting Standards Board (FASB), the US National standard setter. The elimination of the corridor method further aligns IFRSs and US generally accepted accounting principles.

The revised IAS 19 is effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. If an entity applies the amendments for an earlier period it is required to disclose that fact.

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