Exposure draft
Defined benefit plans
Pensions conference – Celtic Manor, June 2010

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Outline

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- Why is the IASB revising its pensions standard?

- Where are we in the process?

- What does ED *Defined benefit plans* propose?

- Also of interest - Other IASB activities relevant to pensions accounting

- Find out more – how to stay informed

Problems with IAS 19

- Options for recognising gains and losses
  - Do not recognise within 10% corridor, spread gains and losses outside corridor
- Recognised amounts presented in different ways
  - Eg interest can appear in different positions
- Disclosures complex and voluminous

Example

- **What happens to a loss of CU20 million?**
  - Profit and loss: between CU0.8m and CU20m recognised
  - Up to CU19.2m smoothed out over the next nine years
- **What happens to increase in deficit of CU20 million?**
  - Statement of financial position: increased by between CU0.8m and CU20m

	CU million
•Plan assets: CU100m	
•Defined benefit obligation: CU120m	
Expected average remaining working life of the employees in the scheme: 10 years	
Loss in current year	20
Losses of prior periods	nil
less the corridor	(12)
Excess	8
Minimum amount to be recognised	0.8

How will the ED help?

- Increase understandability of reported changes in net defined benefit liability (asset)
- Improve comparability by eliminating some presentation options in IAS 19
- Reduce diverse practices in some areas
- Improve information about the risks

We are not changing the measurement model for pension assets or liabilities or their net presentation in the balance sheet
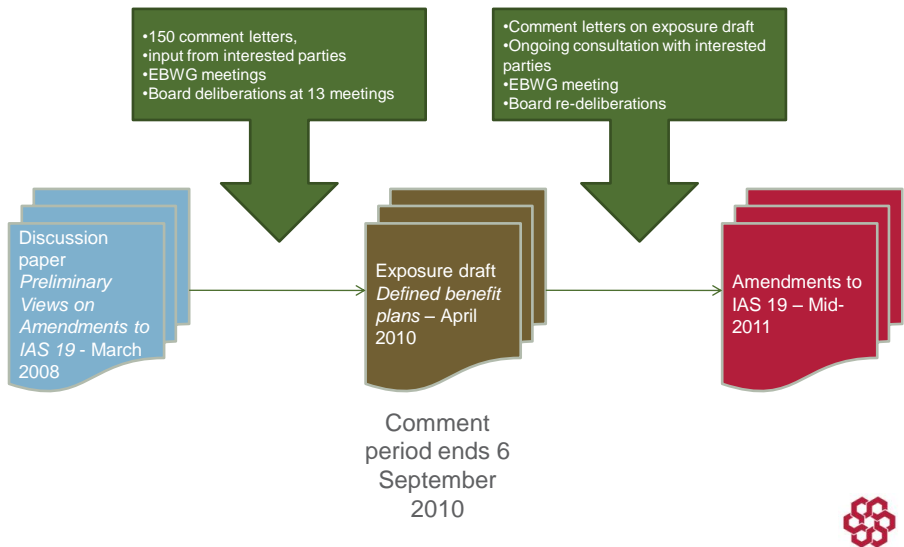
Impact on DB pension provision

- IASB focus is on providing relevant, transparent and unbiased information to investors and other users of the sponsors financial statements
- We do not take a view on:
  – The merits of DB pension provision
  – The merits of particular investment strategies

Process

- 150 comment letters,
- input from interested parties
- EBWG meetings
- Board deliberations at 13 meetings

- Comment letters on exposure draft
- Ongoing consultation with interested parties
- EBWG meeting
- Board re-deliberations

Discussion paper *Preliminary Views on Amendments to IAS 19* - March 2008

Exposure draft *Defined benefit plans* – April 2010

Amendments to IAS 19 – Mid-2011

Comment period ends 6 September 2010

International Financial Reporting Standards

The proposals

The proposals

- Recognition
- Disaggregation and presentation
- Disclosures
- Clarification of areas of diverse practice
  - Can be addressed expeditiously
  - Do not require a fundamental review of dbo measurement
  - Worthwhile improvement in the reporting of defined benefit plans

Recognition

- No corridor
- No deferred recognition
- No expected return on plan assets

Disaggregation

- Changes in net defined benefit liability (asset) disaggregated into three components:
  - Service cost
  - Finance cost
  - Remeasurements

Defining the finance cost component

- Finance cost is change arising from passage of time
- Two components
  - Interest cost on DBO – no change proposed
  - Interest income on plan assets
- Identifying interest income on plan assets
  - Expected return on plan assets (current IAS 19)
  - Dividends (but not capital gains) on equity plan assets and interest on debt plan assets
  - Actual return on plan assets
  - Rate used to discount the defined benefit obligation (equivalent to net interest approach)
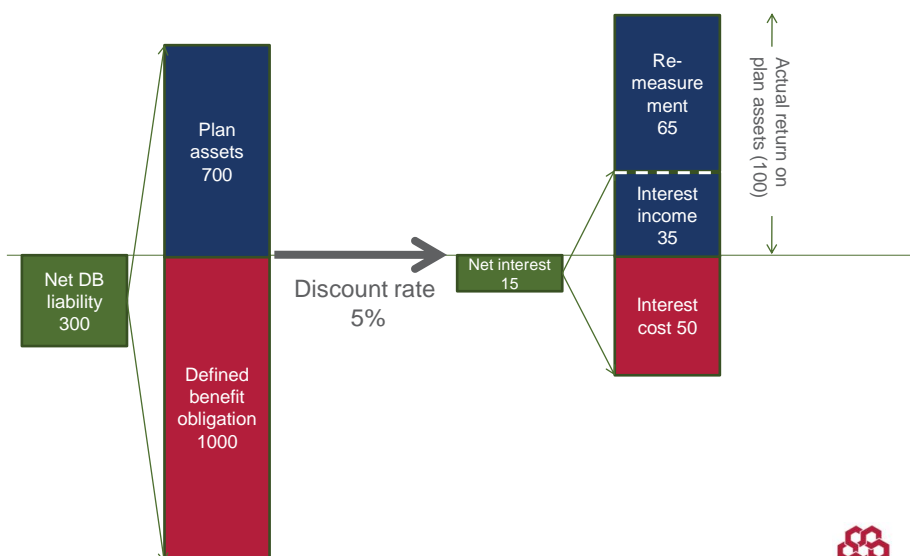
Net interest approach

- Finance cost = Net interest on the net defined benefit liability (asset)
- Calculate by:
  - applying discount rate used to measure dbo to
  - net defined benefit liability (asset)
- Hence, return in plan assets is divided into:
  - amount of net interest attributable to plan assets and
  - remeasurement

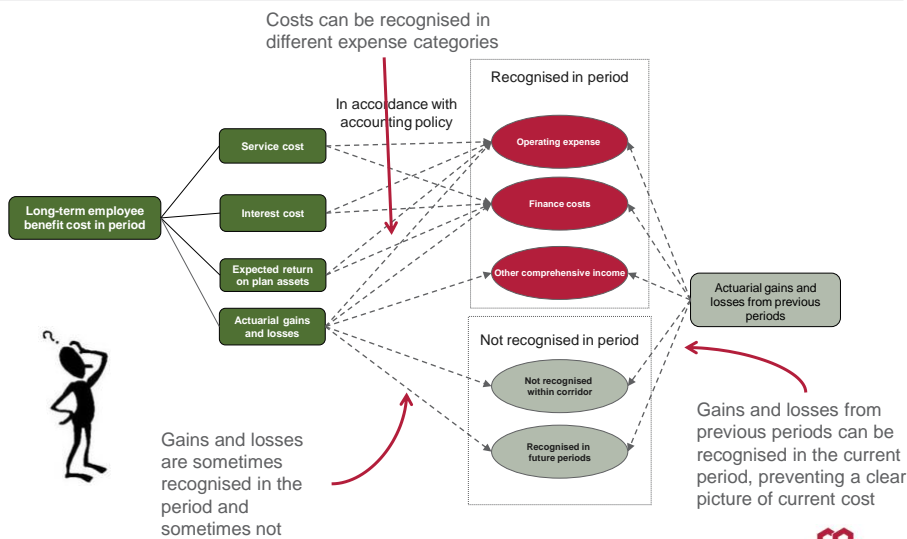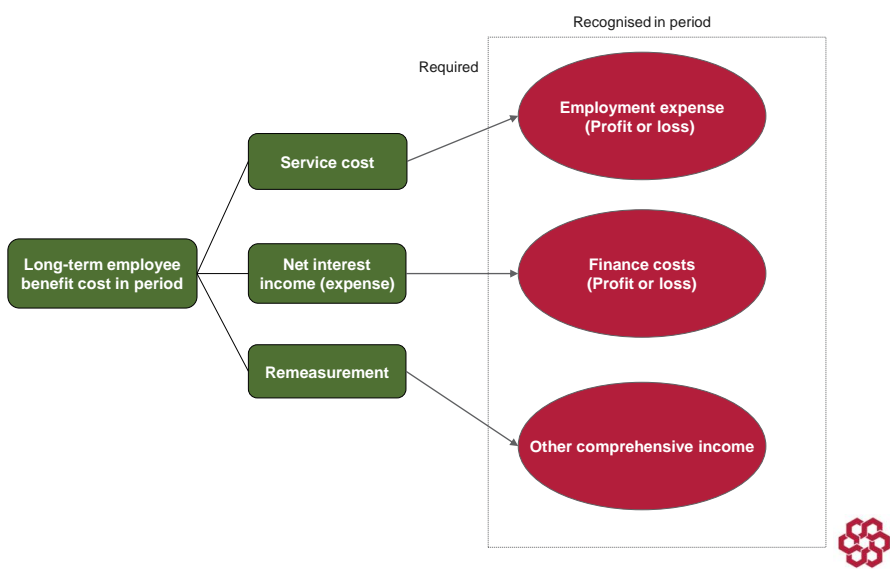## Net interest on the net defined benefit liability (asset)

Plan assets 700

Net DB liability 300

Defined benefit obligation 1000

Discount rate 5%

Net interest 15

Re-measurement 65

Interest income 35

Interest cost 50

Actual return on plan assets (100)

Presentation: Current IAS 19

Costs can be recognised in
different expense categories

In accordance with
accounting policy

Recognised in period

Long-term employee
benefit cost in period

Service cost

Interest cost

Expected return
on plan assets

Actuarial gains
and losses

Operating expense

Finance costs

Other comprehensive income

Not recognised in period

Not recognised
within corridor

Recognised in
future periods

Actuarial gains and
losses from previous
periods

Gains and losses
are sometimes
recognised in the
period and
sometimes not

Gains and losses from
previous periods can be
recognised in the current
period, preventing a clear
picture of current cost

Presentation: ED proposals

Recognised in period

Required

Long-term employee
benefit cost in period

Service cost

Net interest
income (expense)

Remeasurement

Employment expense
(Profit or loss)

Finance costs
(Profit or loss)

Other comprehensive income

Disclosures

+ Focused on disclosure objectives
    + Explain characteristics of defined benefit plans
    + Identify and explain amounts in financial statements resulting from defined benefit plans
    + Describe how defined benefit plans affects the amount, timing and variability of future cash flows.
+ New disclosures for all participants in multi-employer plans
- Delete disclosures relating to deferred recognition
× No additional guidance on materiality

New disclosures

+ Present value of the defined benefit obligation modified to exclude the effect of salary growth
+ Information about process used to determine demographic actuarial assumptions
+ Information about risk, including sensitivity analysis for actuarial risk
+ Information about asset-liability matching strategies
+ Information about factors that could cause contributions to differ from service cost

Impact on reported profit

- If OCI approach currently used
  - No (material) change in asset and liability measurement hence no overall effect on aggregate gain or loss
  - But likely reduction in profit combined with an increase in other comprehensive income
- If corridor method currently used
  - Further increase or reduction in profit due to removing the amortisation of past losses and gains

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International Financial Reporting Standards

Other relevant IASB activities
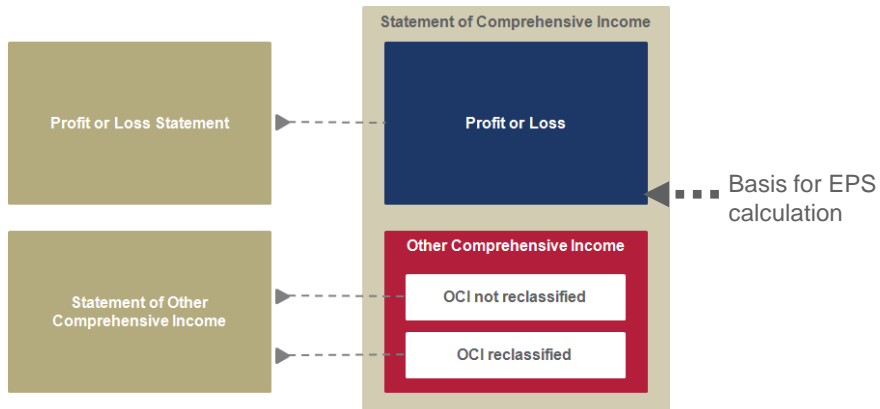
IASC Foundation

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ED *Presentation of Items of Other Comprehensive Income*

Statement of Comprehensive Income

Profit or Loss Statement ┈┈▶ Profit or Loss

◀┈┈ Basis for EPS calculation

Statement of Other Comprehensive Income

Other Comprehensive Income
- OCI not reclassified
- OCI reclassified

No recycling for remeasurements

- ED *Presentation of Items of Other Comprehensive Income* proposes distinguishing between recycled and non-recycled items

- But why do we recycle some items and not others?
  - Accounting mismatch (eg hedging)
  - Realisation (eg sale of an asset where remeasurements go through OCI)
  - No meaningful basis to recycle for pensions

ED *Financial Statement Presentation*

- Consistent presentation of information in financial statements
- Core principles
  - Cohesiveness: relationship between items in financial statements is clear and financial statements complement each other
  - Disaggregation: items that do not have similar economic characteristics are presented as separate line items
- Common sections and categories

Further ahead?

Contribution-based promises

- Significant unresolved issues on proposals in the discussion paper
- IASB will review after mid-2011

A future comprehensive review?

- Possibly in conjunction with FASB
- Proposals on recognition and presentation independent of any future work on measurement
- Will not commence before mid-2011

Where to get more information

- ED *Defined Benefit Plans* available on http://go.iasb.org/pensions
- Sign up to our email alert http://www.iasb.org/IASB+Registration.htm
- Project staff:
  - Andrea Pryde apryde@iasb.org
  - Manuel Kapsis mkapsis@iasb.org

Questions?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.