

## IFRS Developments

# IASB issues amendments to IAS 19 *Employee Benefits*

### What you need to know

- The IASB's amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a period.
- The amendments specify that current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement are determined based on updated actuarial assumptions.
- The amendments clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements.
- The amendments should be applied prospectively to plan amendments, curtailments or settlements that occur on or after 1 January 2019, with earlier application permitted.

### Highlights

In February 2018, the International Accounting Standards Board (IASB or the Board) issued amendments to IAS 19 *Employee Benefits* which address the accounting when a plan amendment, curtailment or settlement occurs during the reporting period.

The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event.

The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.

The amendments do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement.

The amendments apply to plan amendments, curtailments or settlements that occur on or after 1 January 2019, with earlier application permitted.

### Background

Previously, the Board noted that current IAS 19 implies that entities should not revise the assumptions for the calculation of current service cost and net interest during the period, even if an entity remeasures the net defined benefit liability (asset) in the event of a plan amendment, curtailment or settlement. That is, this calculation should be based on the assumptions as at the start of the annual reporting period.

However, the IASB 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 in this situation provides more useful information to users of financial statements and enhances the understandability of financial statements.

## Determining current service cost and net interest

When accounting for defined benefit plans under IAS 19, the standard generally requires entities to measure current service cost using actuarial assumptions determined at the start of the annual reporting period. Similarly, net interest is generally calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period.

However, when a plan amendment, curtailment or settlement occurs during the annual reporting period, the amendments to IAS 19 specify that an entity must:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: (i) the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and (ii) the discount rate used to remeasure that net defined benefit liability (asset)

## Effect on asset ceiling requirements

When an entity has a surplus in a defined benefit plan (because the fair value of plan assets exceeds the present value of the defined benefit obligation), it measures the net defined benefit asset at the lower of the surplus and the asset ceiling. 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 amendments to IAS 19 clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

## Accounting for 'significant market fluctuations'

Plan amendments, curtailments or settlements generally result from management decisions and thus differ from 'significant market fluctuations', which are discussed in IAS 34 *Interim Financial Reporting* and occur independently of management decisions. An example would be a significant increase in market yields on high-quality corporate bonds used to determine the discount rate.

The amendments to IAS 19 only address the measurement of current service cost and net interest for the period after a plan amendment, curtailment or settlement. The IASB decided that the accounting for 'significant market fluctuations' (in the absence of such an event) is outside the scope of these amendments.

## Transition and effective date

The amendments to IAS 19 must be applied to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Consequently, entities do not have to revisit plan amendments, curtailments and settlements that occurred in prior periods. Earlier application is permitted and should be disclosed.

It should be noted that first-time adopters are not provided with a similar relief from the retrospective application of the amendments. In accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, a first-time adopter must apply all the requirements in IAS 19 retrospectively.

### How we see it

As the amendments apply prospectively to plan amendments, curtailments or settlements that occur on or after the date of first application, most entities will likely not be affected by these amendments on transition. However, entities considering a plan amendment, curtailment or settlement after first applying the amendments might be affected and should update their accounting policies on a timely basis.

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