

# IAS19 -Revised 2011 - Changes and Implications

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# Presentation Path

- Background
- Walk Through- Key Changes with Comparisons
- Choice of Discount Rate
- Next Steps

# Background

- Revision Rationale (Two Pillars)
  - Create increased consistency in the accounting and reporting practices for employee benefits
  - Transition from a Prescriptive Disclosure Approach to a “Principles Based” Disclosure Approach
- These revisions are effective for annual periods beginning on or after 1 January, 2013

# Recognition of Actuarial Gains and Losses

Accounting Standard (AS)	Status	Driver and Impact
IAS 19	<ul style="list-style-type: none"> <li>• Post Employment Benefits Related Actuarial Gains and Losses :               <ol style="list-style-type: none"> <li>a. Immediate Recognition through OCI</li> <li>b. Immediate Recognition through profit or loss</li> <li>c. Deferred recognition through profit or loss using the corridor approach</li> </ol> </li>   <li>• Other Long Term Employee Benefits related Actuarial Gains and Losses               <ol style="list-style-type: none"> <li>a. Immediate Recognition through profit or loss and no corridor is applied</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• Corridor Approach leads to less volatility in the balance sheet</li> </ul>

# Recognition of Actuarial Gains and Losses

Accounting Standard (AS)	Status	Driver and Impact
IAS 19 R	<ul style="list-style-type: none"> <li>• Post Employment Benefits Related:</li> <li>✓ Immediate Recognition of Actuarial Gains and Losses through OCI</li> <li>• No subsequent recycling of amounts recognised in OCI into profit or loss</li> <li>• Other Long Term Employee Benefits Related :</li> <li>✓ Immediate Recognition of Actuarial Gains and Losses</li> </ul>	<ul style="list-style-type: none"> <li>• Elimination of Corridor Approach will vastly improve the comparability and the understandability of amounts reported by entities</li> <li>• Concerns about period to period fluctuations are addressed by requiring these fluctuations to be recognized through OCI</li> <li>• Change can result in increased balance sheet volatility for entities currently applying the corridor approach</li> </ul>

# Recognition of Actuarial Gains and Losses

Accounting Standard (AS)	Status	Driver and Impact
IND AS 19	<ul style="list-style-type: none"><li>• Immediate Recognition through OCI</li></ul>	
AS15 R	Immediate Recognition through profit or loss	

# Recognition of Past Service Cost

Accounting Standard (AS)	Status	Driver and Impact
IAS 19	<ul style="list-style-type: none"><li data-bbox="726 272 1248 408">• Vested Past Service cost are recognized when plan amendments occur</li><li data-bbox="726 475 1248 761">• Unvested Past Service cost (positive and negative) are recognized on a straight line basis over the average period until the benefits become vested</li><li data-bbox="726 828 1248 1222">• When a plan amendment reduces benefits<ul style="list-style-type: none"><li data-bbox="784 929 1190 1065">- only the effect of the reduction for future service is a curtailment.</li><li data-bbox="784 1079 1248 1222">-effect of any reduction for past service is a negative past service cost.</li></ul></li></ul>	

# Recognition of Past Service Cost

Accounting Standard (AS)	Status	Driver and Impact
IAS 19 R	<ul style="list-style-type: none"><li>• Past service cost is the change in the present value of the DBO resulting from a plan amendment or curtailment</li><li>• Past service cost is recognized as an expense at the earlier of the following dates<ol style="list-style-type: none"><li>a. When a plan amendment or curtailment occurs: and</li><li>b. When the entity recognizes related restructuring cost or termination benefits</li></ol></li></ul>	<ul style="list-style-type: none"><li>• Greater volatility in the balance sheet and the profit or loss when unvested past service cost arise as a result of plan amendments or curtailments</li><li>• Co-ordinates accounting treatments for plan amendments and curtailments from a timing perspective</li></ul>



# Recognition of Past Service Cost

Accounting Standard (AS)	Status	Driver and Impact
Ind AS 19	<ul style="list-style-type: none"><li>• Same as IAS 19</li></ul>	
AS15 R	<ul style="list-style-type: none"><li>• Accounting treatment for past service cost is same as IAS 19</li><li>• No explicit reference to negative past service cost in the context of curtailment</li></ul>	

# Net Interest Approach

Accounting Standard (AS)	Status	Driver and Impact
IAS 19	<ul style="list-style-type: none"><li>• Service cost , interest expense on DBO and expected return on plan assets are recognized in profit or loss</li></ul>	<ul style="list-style-type: none"><li>• Impact on profit or loss will depend on the composition of plan assets</li></ul>

# Net Interest Approach

Accounting Standard (AS)	Status	Driver and Impact
IAS 19 R	<ul style="list-style-type: none"><li>• Net interest on net DB liability (asset) is determined by multiplying the net DB liability (asset) by the discount rate determined at the start of the annual reporting period.</li><li>• Remeasurements related to return on plan assets are recognized through OCI</li></ul>	<ul style="list-style-type: none"><li>• The link between profit or loss and the risk profile of the plan assets is removed</li><li>• Financial impact of the change on profit or loss will be driven by the level of funding and composition of plan assets</li></ul>

# Net Interest Approach

Accounting Standard (AS)	Status	Driver and Impact
IND AS 19	<ul style="list-style-type: none"><li data-bbox="739 554 1141 592">• Same as IAS 19</li></ul>	
AS 15 R	<ul style="list-style-type: none"><li data-bbox="739 949 1141 988">• Same as IAS 19</li></ul>	

# Modified Disclosures

Accounting Standard (AS)	Status	Driver and Impact
IAS 19 R	<ul style="list-style-type: none"><li>• Creating disclosure objectives<ol style="list-style-type: none"><li>a. Provide sufficient disclosures about DB plans when those plans are material to the entity's operations</li><li>b. Provide users of financial statements with relevant information that is not obscured by excessive detail</li></ol></li></ul>	

# Modified Disclosures

Accounting Standard (AS)	Status	Driver and Impact
IAS 19 R	<p>Additional Disclosures :</p> <ul style="list-style-type: none"><li>✓ Describe the entity's risk exposure arising from its DB plans</li><li>✓ Segregate and disclose impact of actuarial gains and losses attributable to demographic assumptions and financial assumptions</li><li>✓ Disaggregate fair value of plan assets based on nature and risks of assets</li></ul>	

# Modified Disclosures

Accounting Standard (AS)	Status	Driver and Impact
IAS 19 R	<ul style="list-style-type: none"> <li>✓ Disclose maturity profile of the DBO including the weighted average duration of the DBO</li> <li>✓ Disclose details of any asset – liability matching strategies</li> <li>✓ Quantify sensitivity of the DBO to <u>reasonably possible changes</u> in <u>significant actuarial assumptions</u></li> </ul>	<ul style="list-style-type: none"> <li>• Principles based approach to disclosure</li> <li>• Calls for judgment in determining significant actuarial assumptions and assessing what constitutes a reasonably possible change in these assumptions</li> <li>• Calls for early communication with the plan actuary and the plan administrator</li> </ul>

Disclosure requirements under IAS 19, IND AS 19 and AS15 R are more or less identical

# Short Term Employee Benefits - Redefined

Accounting Standard (AS)	Status	Driver and Impact
IAS 19	<ul style="list-style-type: none"><li>Short term employee benefits are employee benefits (other than termination benefits) that are <u>due to be settled</u> within 12 months after the end of the period in which the employee renders the related service</li></ul>	



# Short Term Employee Benefits - Redefined

Accounting Standard (AS)	Status	Driver and Impact
IAS 19 R	<ul style="list-style-type: none"><li>Short term employee benefits are employee benefits (other than termination benefits) that are <u>expected to be settled wholly</u> before 12 months after the end of the period in which the employee renders the related service</li></ul>	<ul style="list-style-type: none"><li>Distinction between short term and “other long term employee benefits” will be determined by the expected timing of settlement as opposed to when the employees are entitled to the benefits</li><li>Hence some benefit plans currently classified as short term employee benefits may get reclassified as “Other long term employee benefits” under IAS 19 R</li></ul>

# Added Clarity on Termination Benefits

Accounting Standard (AS)	Definition and Measurement
IAS 19 R	<ul style="list-style-type: none"><li data-bbox="975 297 1721 534">• Termination benefits are amounts paid to employees in exchange for termination of employment . They exclude any amounts paid in exchange for future service</li><li data-bbox="975 601 1721 791">• Termination benefit in the context of a wider restructuring are recognized at the same time as the other restructuring costs</li><li data-bbox="975 858 1721 991">• Other termination benefits are recognized only when the offer cannot be withdrawn.</li><li data-bbox="975 1058 1721 1190">• Measurement criteria for termination benefits will mirror the measurement criteria applied to employee benefits</li></ul>

# Choice of Discount Rate

Accounting Standard (AS)	Current Status
IAS 19	<ul style="list-style-type: none"><li>• The discount rate is determined with reference to the market yield on high quality corporate bonds of relevant duration.</li><li>• In countries where there is no deep market in high quality corporate bonds, the market yield on Government bonds of relevant duration can be used</li><li>• The relevant duration is the estimated remaining term of the obligations</li></ul>
IAS 19R	<ul style="list-style-type: none"><li>• Same as above</li></ul>
IND AS 19	<ul style="list-style-type: none"><li>• The discount rate is determined with reference to the yield on Government bonds of relevant duration</li></ul>
AS15R	<ul style="list-style-type: none"><li>• Same as IND AS 19</li></ul>

# Next Steps

- Need to communicate early with the plan actuary and the plan administrators
- Modified Disclosure Requirements require additional data to be gathered -possibly through a standardized questionnaire- on aspects like
  - Characteristics of DB Plans
  - Entity's risk exposure arising from DB plans
  - Asset Break up
  - Asset Ceiling
  - Significant Actuarial Assumptions
  - Assumption Sensitivities (e.g.: Discount Rate – 1%, Salary Escalation +1%, Life Expectancy + n years , etc)
  - Maturity Profile of Assets
  - Asset- Liability Matching Strategies
- Need to develop an Actuarial Practice Standard (APS) related to Actuarial Reports Under IAS 19 R - possible convergence of IAS19R IND AS19 AND AS15R

# Deliberations

Thank You