

IAS19 Revised 2011

Global Conference of Actuaries

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Today's Discussion

- Changes and clarification – IAS 19, rev. 2011
- Additional disclosures

Changes and Clarifications - IAS 19, rev. 2011

Our Agenda – An overview of changes to IAS19

Comprehensive
Income
(P&L + OCI)

Immediate recognition of all changes in funded position

Financing Cost

Interest cost and expected return on plan assets replaced with net interest on net DB liability/asset

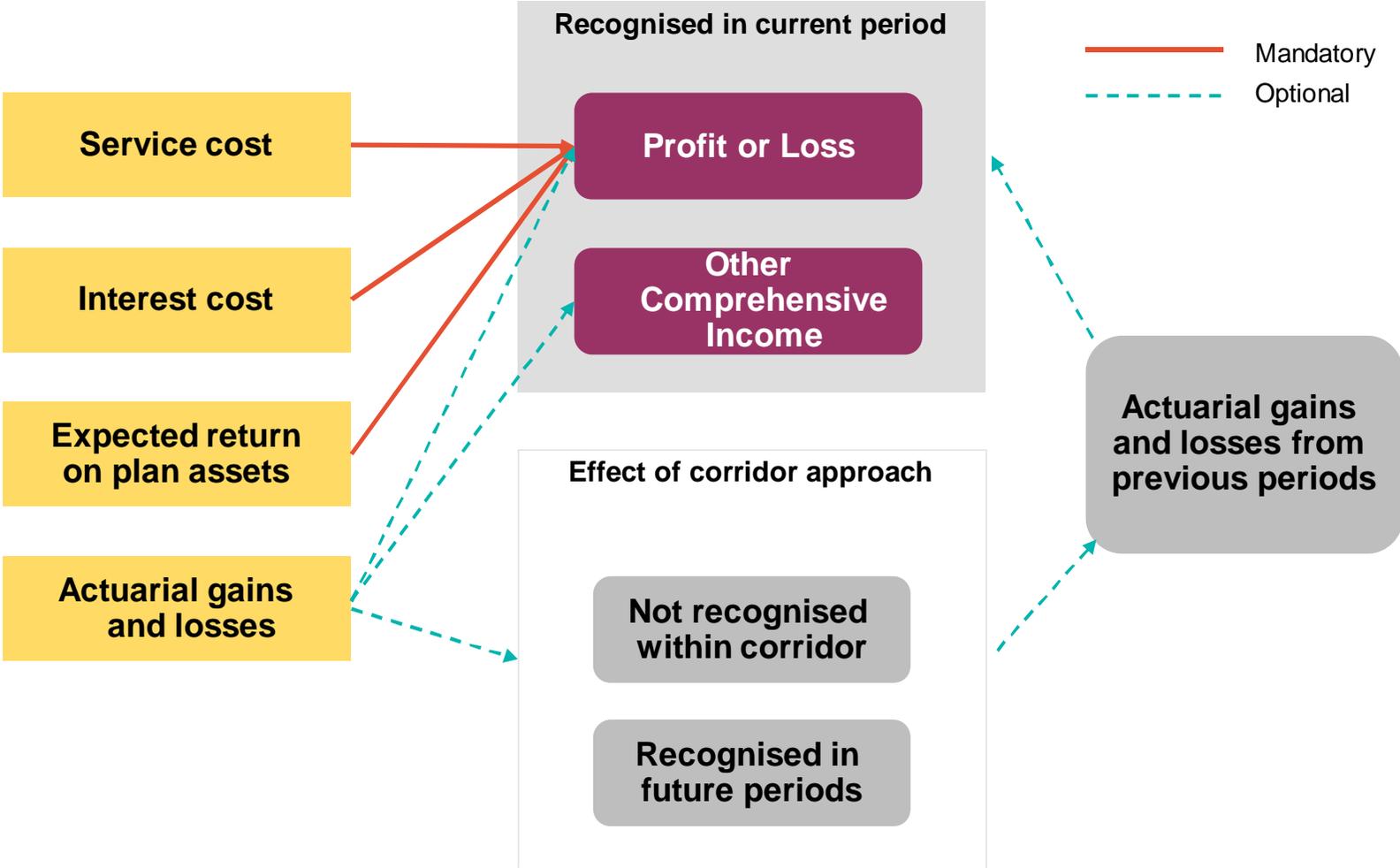
Clarification of
Measurement
Issues

Expanded guidance on recognition of plan expenses and special events

Financial
Reporting &
Disclosure

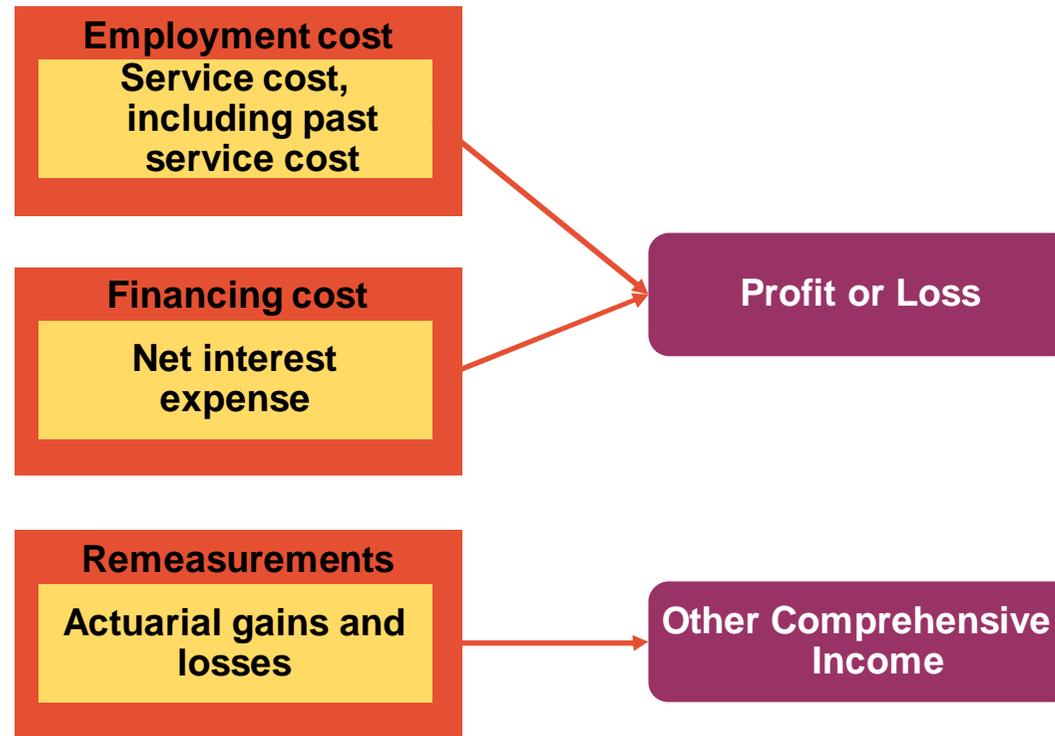
Disaggregate cost into employment, financing and remeasurement effects
Disclosures to provide more insight on plan risks

Current IAS19: Various recognition alternatives



Summary ignores plan changes and other special events

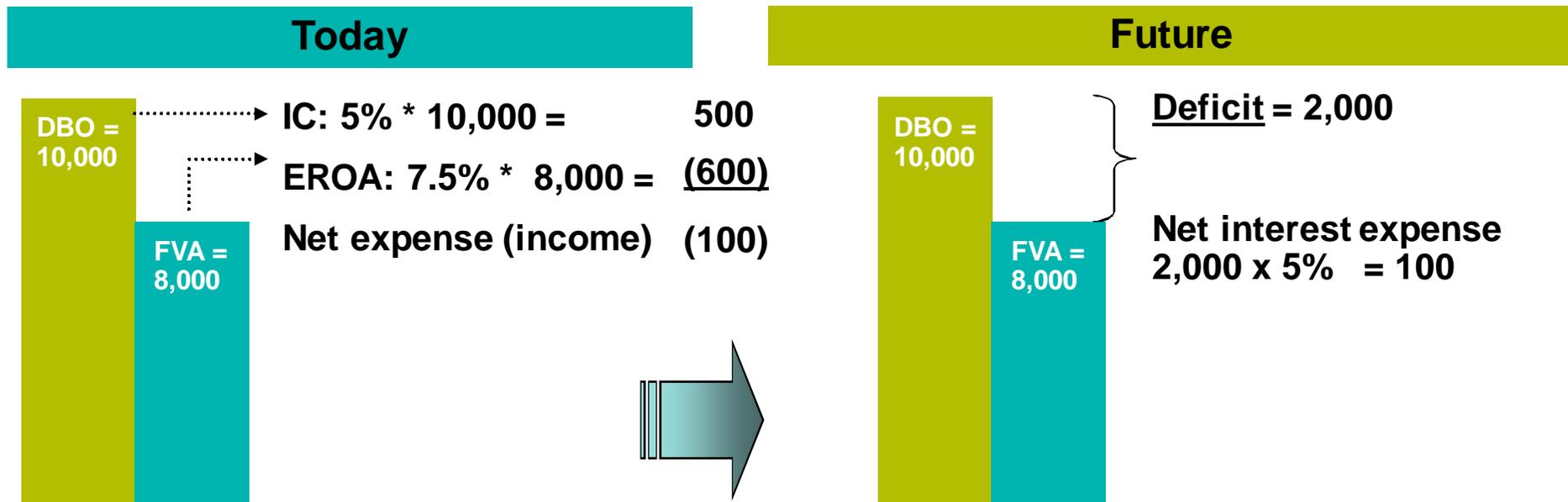
IAS19 (2011): Presentation of defined benefit cost



- Whilst the Employment Cost and Financing Cost pass into Profit or Loss, IAS19 (2011) does not, itself, specify they should be *presented* as a combined (i.e. single line item) or separate item
- Disclosures to provide more insight on plan risks

Overview: Net Interest on DB Liability/Asset

- Net interest on DB liability/asset replaces interest cost and EROA
- Assume 5% discount rate, 7.5% EROA and the following funded position:



Where EROA > Discount rate there will be an increase in the expense

Expanded disclosure

- Expanded disclosures focus on assessing risk
- Objectives – more principles-based rather than specific requirements
 - (i) Explain characteristics of plans and associated risks
 - (ii) Identify and explain amounts in financial statements
 - (iii) Describe how plans affect future cash flows (amount / timing / uncertainty)

Expanded disclosure –

1. Explain characteristics of plans and risks

Disclosure Item	Current IAS19 – Example	IAS19 (2011) Additional Requirements
Type of scheme	The Scheme provides benefits based on a multiple of a member's scheme salary and service. The costs of the benefits are solely funded by the Company	<ul style="list-style-type: none"> • Expands current requirements to provide more insight about amounts recognised and risk exposures • Consider how to broadly describe plans and identify primary risk considerations and exposures (e.g., major plans and significant exposures) • Examples of risks to describe: <ul style="list-style-type: none"> • benefit guarantees • funding requirements • concentration of investment risk (e.g. in a country, industry or property)

Expanded disclosure – 2. Identify and explain amounts in financial statements

Disclosure Item	Current IAS19 – Example	IAS19 (2011) Additional Requirements												
Principal actuarial assumptions used	<p>The principal actuarial assumptions adopted in the valuation are as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>As at 31 Dec 2010</th> <th>As at 31 Dec 2009</th> </tr> </thead> <tbody> <tr> <td>a) Discount rate</td> <td>3.00%</td> <td>2.50%</td> </tr> <tr> <td>b) Long-term expected return on Scheme assets</td> <td>8.00%</td> <td>8.00%</td> </tr> <tr> <td>c) Long-term salary increase rate</td> <td>5.00%</td> <td>5.00%</td> </tr> </tbody> </table>		As at 31 Dec 2010	As at 31 Dec 2009	a) Discount rate	3.00%	2.50%	b) Long-term expected return on Scheme assets	8.00%	8.00%	c) Long-term salary increase rate	5.00%	5.00%	Consistent with existing disclosure requirements
	As at 31 Dec 2010	As at 31 Dec 2009												
a) Discount rate	3.00%	2.50%												
b) Long-term expected return on Scheme assets	8.00%	8.00%												
c) Long-term salary increase rate	5.00%	5.00%												
Amount of investment in sponsoring companies' financial instruments	No assets of the Scheme are invested in the Company's own financial instruments or property as at 31 December 2010	Consistent with existing disclosure requirements												

Expanded disclosure – 2. Identify and explain amounts in financial statements

Disclosure Item	Current IAS19 – Example	IAS19 (2011) Additional Requirements												
Information of scheme assets by major asset class	<p>The major categories of Scheme assets as a percentage of total Scheme assets are as follows:</p> <table border="1"> <thead> <tr> <th>Categories</th> <th>As at 31 Dec 2010</th> <th>As at 31 Dec 2009</th> </tr> </thead> <tbody> <tr> <td>Equities</td> <td>77%</td> <td>79%</td> </tr> <tr> <td>Bonds and cash</td> <td>23%</td> <td>21%</td> </tr> <tr> <td>Total</td> <td>100%</td> <td>100%</td> </tr> </tbody> </table>	Categories	As at 31 Dec 2010	As at 31 Dec 2009	Equities	77%	79%	Bonds and cash	23%	21%	Total	100%	100%	<ul style="list-style-type: none"> Disaggregation of fair value of plan asset into asset classes based on nature and risks Further subdivided by quoted market price vs. no quoted price Expands current requirement to provide more insight on risk and valuation basis of plan assets No mandatory requirement in terms of asset classes to show but intended to be robust
Categories	As at 31 Dec 2010	As at 31 Dec 2009												
Equities	77%	79%												
Bonds and cash	23%	21%												
Total	100%	100%												
Expected employer contribution for next period	The expected employer contributions for the next financial year commencing 1 January 2011 are LC150m	Consistent with existing disclosure requirements												

Expanded disclosure – 3. Amount, timing and uncertainty of future cash flows

Disclosure Item	Current IAS19 – Example	IAS19 (2011) Additional Requirements																					
Sensitivity analysis for each significant actuarial assumption	Not required	<p>a) Sensitivity analysis showing effect on DBO of reasonably possible changes in each significant assumption at the end of the reporting period, e.g.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #768d4c; color: white;"> <th></th> <th>Sensitivity Analysis</th> <th>Effect on DBO</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>1% increase</td> <td>(72,000)</td> </tr> <tr> <td>Discount rate</td> <td>1% decrease</td> <td>85,000</td> </tr> <tr> <td>Salary increase rate</td> <td>1% increase</td> <td>75,000</td> </tr> <tr> <td>Price inflation</td> <td>1% increase</td> <td>75,000</td> </tr> <tr> <td>Pension increases</td> <td>1% increase</td> <td>65,000</td> </tr> <tr> <td>Mortality*</td> <td>Increase 1 yr in expected lifetime</td> <td>93,000</td> </tr> </tbody> </table> <p><i>* if significant (e.g. pension plan)</i></p> <p>b) Methods and assumptions used to determine sensitivity and their limitations</p> <p>c) Changes from previous period in methods/assumptions used in sensitivity analysis</p>		Sensitivity Analysis	Effect on DBO	Discount rate	1% increase	(72,000)	Discount rate	1% decrease	85,000	Salary increase rate	1% increase	75,000	Price inflation	1% increase	75,000	Pension increases	1% increase	65,000	Mortality*	Increase 1 yr in expected lifetime	93,000
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Expanded disclosure – 3. Amount, timing and uncertainty of future cash flows

Disclosure Item	Current IAS19 – Example	IAS19 (2011) Additional Requirements								
Asset-liability matching strategies	Not required	<ul style="list-style-type: none"> Narrative description of asset-liability matching strategies, including annuity purchases and other techniques, to mitigate risk 								
Information about future cash flows	Not required	<ul style="list-style-type: none"> Information about future cash flows <ul style="list-style-type: none"> description of funding arrangements & funding policy expected employer contributions for following year maturity profile of DBO, e.g. <table border="1" data-bbox="1368 999 1924 1241"> <thead> <tr> <th>Time Period</th> <th>Expected Benefit Payments</th> </tr> </thead> <tbody> <tr> <td>Within next 10 yrs</td> <td>7,500,000</td> </tr> <tr> <td>Within 10 – 20 yrs</td> <td>9,260,000</td> </tr> <tr> <td>Within 20 – 30 yrs</td> <td>10,400,000</td> </tr> </tbody> </table>	Time Period	Expected Benefit Payments	Within next 10 yrs	7,500,000	Within 10 – 20 yrs	9,260,000	Within 20 – 30 yrs	10,400,000
Time Period	Expected Benefit Payments									
Within next 10 yrs	7,500,000									
Within 10 – 20 yrs	9,260,000									
Within 20 – 30 yrs	10,400,000									

Others

- Exchange rate changes and implications
- Gain/ loss on liability assumptions broken by financial and demographic assumptions
- Derivation of asset ceiling
- Settlements recognition
- Special events

Summary

Proposed key changes IAS19

Recognition

- Immediate recognition of actuarial gains/losses

Presentation

Separate components

- Service cost
- Finance cost
- Re measurement component

**IAS
19**

Disclosures

- More suggested bringing closer to USA standards

Questions

