



# 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

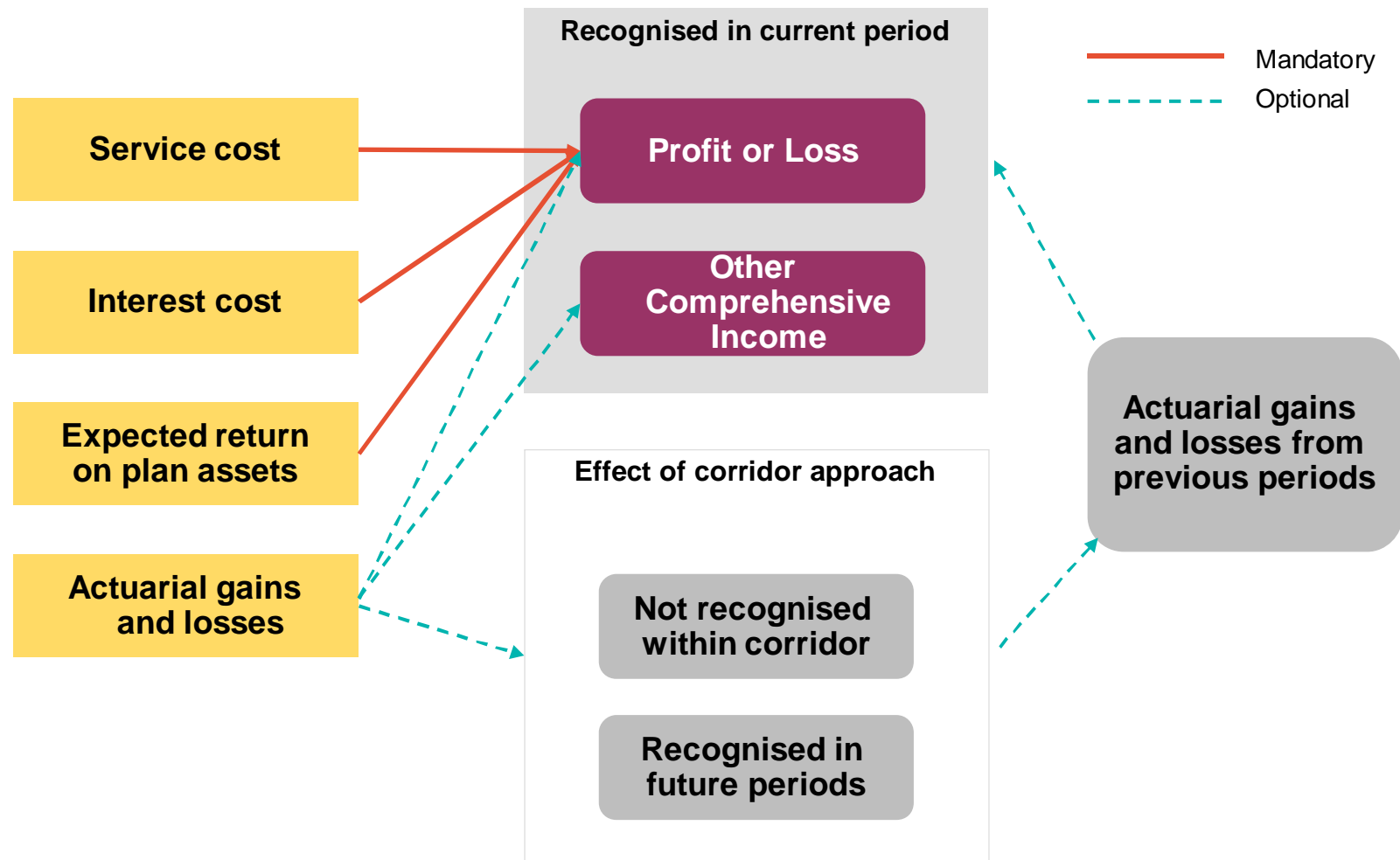
Clarification of  
Measurement  
Issues

Expanded guidance on recognition of plan expenses and special events

Financial  
Reporting &  
Disclosure

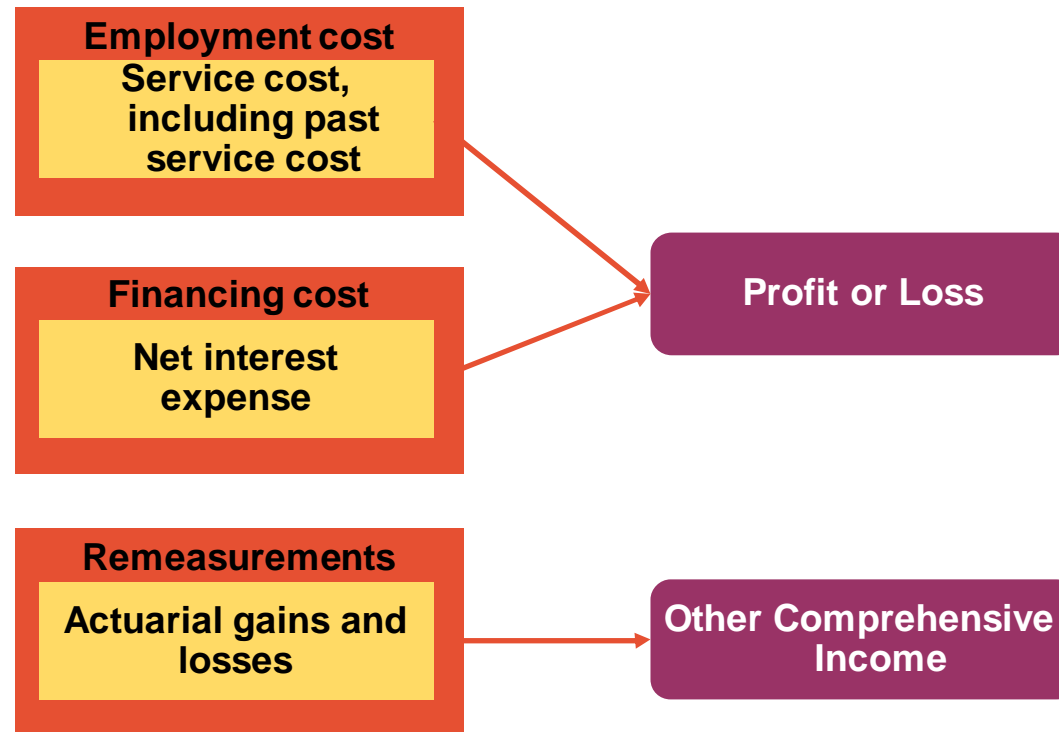
Disaggregate cost into employment, financing and remeasurement effects  
Disclosures to provide more insight on plan risks

# Current IAS19: Various recognition alternatives



Summary ignores plan changes and other special events

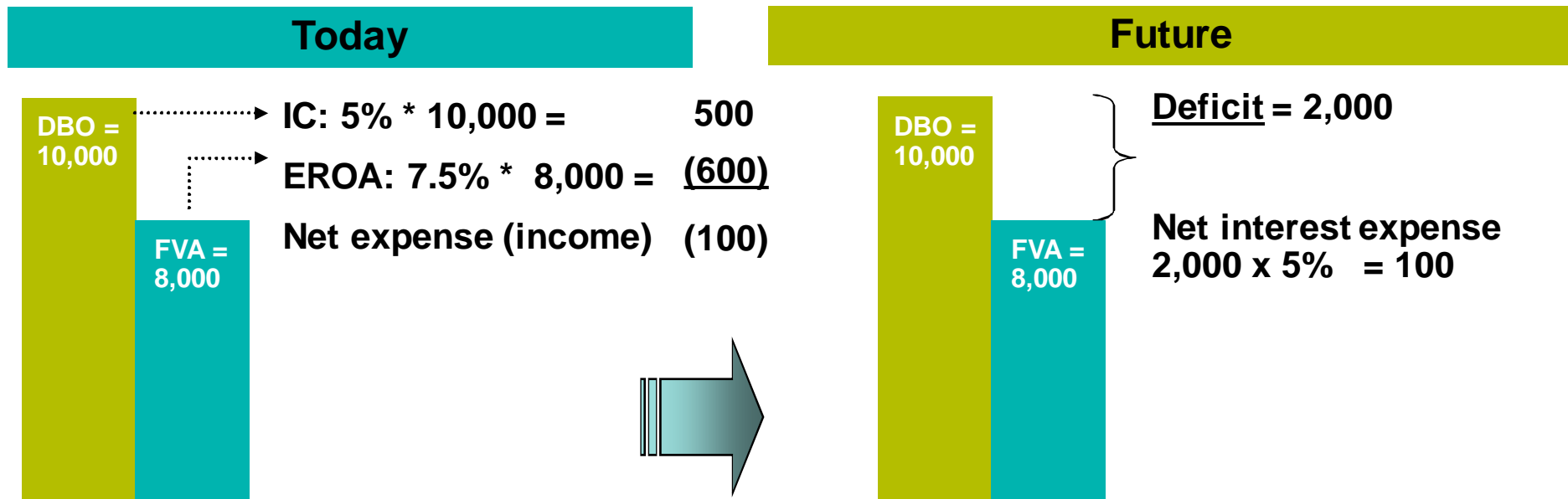
# IAS19 (2011): Presentation of defined benefit cost



- 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
<b>Type of scheme</b>	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"> <li>• Expands current requirements to provide more insight about amounts recognised and risk exposures</li> <li>• Consider how to broadly describe plans and identify primary risk considerations and exposures (e.g., major plans and significant exposures)</li> <li>• Examples of risks to describe: <ul style="list-style-type: none"> <li>• benefit guarantees</li> <li>• funding requirements</li> <li>• concentration of investment risk (e.g. in a country, industry or property)</li> </ul> </li> </ul>

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

Disclosure Item	Current IAS19 – Example	IAS19 (2011) Additional Requirements												
<b>Principal actuarial assumptions used</b>	<p>The principal actuarial assumptions adopted in the valuation are as follows:</p> <table> <tr> <th></th><th>As at 31 Dec 2010</th><th>As at 31 Dec 2009</th></tr> <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> </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%												
<b>Amount of investment in sponsoring companies' financial instruments</b>	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												
<b>Information of scheme assets by major asset class</b>	<p>The major categories of Scheme assets as a percentage of total Scheme assets are as follows:</p> <table> <tr> <th>Categories</th><th>As at 31 Dec 2010</th><th>As at 31 Dec 2009</th></tr> <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><b>Total</b></td><td><b>100%</b></td><td><b>100%</b></td></tr> </table>	Categories	As at 31 Dec 2010	As at 31 Dec 2009	Equities	77%	79%	Bonds and cash	23%	21%	<b>Total</b>	<b>100%</b>	<b>100%</b>	<ul style="list-style-type: none"> <li>Disaggregation of fair value of plan asset into asset classes based on nature and risks</li> <li>Further subdivided by quoted market price vs. no quoted price</li> <li>Expands current requirement to provide more insight on risk and valuation basis of plan assets</li> <li>No mandatory requirement in terms of asset classes to show but intended to be robust</li> </ul>
Categories	As at 31 Dec 2010	As at 31 Dec 2009												
Equities	77%	79%												
Bonds and cash	23%	21%												
<b>Total</b>	<b>100%</b>	<b>100%</b>												
<b>Expected employer contribution for next period</b>	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																					
<b>Sensitivity analysis for each significant actuarial assumption</b>	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> <tr> <th></th><th>Sensitivity Analysis</th><th>Effect on DBO</th></tr> <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> </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"><li>• Narrative description of asset-liability matching strategies, including annuity purchases and other techniques, to mitigate risk</li></ul>								
Information about future cash flows	Not required	<ul style="list-style-type: none"><li>• Information about future cash flows<ul style="list-style-type: none"><li>• description of funding arrangements &amp; funding policy</li><li>• expected employer contributions for following year</li><li>• maturity profile of DBO, e.g.<table><tr><th>Time Period</th><th>Expected Benefit Payments</th></tr><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></table></li></ul></li></ul>	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

