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Pension Accounting Changes—Volume 2

by Catherine Robertson

In the November 2007 issue of *International News,* we looked at the first steps that have been taken in the United States towards global convergence of pension accounting. This article will concentrate on updating the status of global convergence in Canada and also look at changes proposed in the International Accounting Standard, IAS 19.

The Horizon in Canada

In January 2006, the Accounting Standards Board (AcSB) in Canada announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards (IFRS) for years beginning on or after Jan. 1, 2011. This date will be confirmed by March 31, 2008.

Interim Changes in Canada

In late March 2007, the AcSB issued an exposure draft to the Canadian Institute of Chartered Accountant's standard 3461, *Employee Future Benefits.* The exposure draft proposed, in the AcSB's words, a significant improvement to financial reporting that would improve the completeness and understandability of balance sheet information. The proposed changes were consistent with the changes included in the U.S. Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, issued in September 2006 (which were detailed in the November 2007 issue of *International News*).

However, following the end of the comment period, the AcSB announced that they had elected not to proceed with the proposals. In rationalizing its decision, the AcSB noted that the timing was not right to implement changes to pension and benefits accounting standards, only to change them again in a few years during the planned transition to IFRS. The AcSB further justified the decision as, since the U.S. FASB had also announced plans to converge with IFRS, the Canadian and the U.S. standards should eventually become harmonized again.

Although the AcSB believed that the March proposals would have enhanced Canadian financial reporting, they pointed out that changed market conditions have made the new reporting requirements less urgent, and that the funded status of defined benefit plans is already disclosed in notes to financial statements even though it is not fully reflected in the balance sheet. The AcSB further noted that, under the current IFRS, a plan sponsor's opening balance sheet on transition to IFRS will, in many cases, reflect the funded status of a defined benefit plan, due to the options available for treating unamortized balances on transition and the limited ability to defer and to amortize past service costs.

The AcSB's focus is now on the implications of adopting IAS 19, Employee Benefits, on the date of transition to IFRS, and on the International Accounting Standards Board's current project to amend that standard.

A Short History of International Accounting Standards

On April 1, 2001, the International Accounting Standards Board (IASB) was formed as an independent accounting standard-setter based in London, U.K. The IASB assumed accounting standard-setting

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Catherine Robertson, FFA, FCIA, is a consulting actuary with Eckler Ltd. In Toronto, Ontario. She can be reached at crobertson@eckler.ca.

responsibilities from its predecessor body, the International Accounting Standards Committee (IASC). In particular, the IASB assumed responsibility for all existing standards issued by the IASC, which were known as International Accounting Standards (IAS). All accounting standards issued by the IASB since April 1, 2001 have been called International Financial Reporting Standards (IFRS).

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, South Africa and Singapore. Nearly 100 countries currently require or permit the use of, or have a policy of convergence with, IFRS.

Some Key Features of IAS 19

IAS 19, *Employee Benefits*, covers short term employee benefits such as salary costs and long term employee benefits and post employment plans, including defined benefit pension plans.

With specific regard to defined benefit plans, IAS 19 prescribes that the discount rate should be based on high quality corporate bonds. The amount recognized on the balance sheet is the surplus/deficit under the plan, adjusted for any unrecognized actuarial gains or losses and unrecognized past service costs, and subject to an asset limit.

At a minimum, unrecognized actuarial gains and losses that exceed 10 percent of the greater of the defined benefit obligation or the fair value of plan assets must be recognized over the expected average remaining working lives of the participating employees. Faster recognition is permitted. The recognition can either occur through profit or loss or outside of profit or loss, in a statement of recognized income and expense.

When there is a change to the benefits of the plan, IAS19 requires these to be amortized on a straight line basis over the period that the benefits vest. Hence, benefit improvements/ reductions that are immediately vested should be recognized immediately.

Future Developments under IAS 19

In July 2006, the IASB added a project on post-employment benefits to its agenda. The project is to be conducted in two phases.

The first phase will consider issues that could be resolved within the next four years, namely:

- Presentation and disclosure.
- Definition of defined benefit and defined contribution arrangements and accounting for cash balance plans.
- Smoothing and deferral mechanisms.
- Treatment of settlements and curtailments.

The aim is to issue an interim standard that would significantly improve pension accounting by 2011. The IASB expects to issue a discussion paper in the first quarter of 2008.

In addition, the IASB will monitor the U.S. Financial Accounting Standard Board's project to conduct a comprehensive review of all the accounting rules applicable to pensions and other post-employment benefits (OPEBs), which is also a two stage project. Although the timing and scope of the first phases of both projects is expected to differ, the objective of both Boards is ultimately to develop a converged standard. □