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New Canadian Accounting Rules for Employee Benefits

By Catherine Robertson

The Canadian Accounting Standards Board (AcSB) has released the final version of Section 3462, *Employee Future Benefits*, which will replace Section 3461 in Part II of the CICA Handbook. Section 3462 requires the immediate recognition of all gains and losses for defined benefit (DB) pension and post-employment plans as they occur—eliminating deferral and amortization accounting.

OVERVIEW OF SECTION 3462

Section 3462 will be effective for fiscal years that start on or after January 1, 2014. Earlier adoption is permitted provided it is applied to all of an organization's plans. It will increase income statement volatility by eliminating the ability of affected organizations to:

- amortize past service costs, and
- defer recognizing actuarial gains and losses.



Organizations must instead use the “immediate recognition approach,” which requires that any changes in the DB obligation, the fair value of assets and the valuation allowance be recognized as they occur. This approach could produce large swings in expense from one year to the next.

The recognition of plan cost in income is simplified into the following three components:

- *Current service cost* – total service cost to provide next year's benefit under the plan, less employee contributions;
- *Finance cost* – interest on the net DB liability or asset; and
- *Remeasurements and other items* – includes items such as actuarial gains or losses on the DB obligation, difference between actual and expected return on assets, past service costs, gains or losses arising from settlements and curtailments and changes to any valuation allowance.

The expected return on assets is further simplified by eliminating a separate return assumption, and instead requiring the use of the discount rate in the calculation. In addition, Section 3462 eliminates the three-month measurement window for plan assets and obligations.

Section 3462 allows the use of either: (i) a going concern funding valuation; or (ii) a valuation prepared for accounting purposes. The same approach must be used for all plans. However, organizations using approach (i) that have plans with no funding valuation can either use an accounting type valuation, or prepare and use an actuarial valuation using going concern type assumptions. Using a going concern valuation may reduce the volatility in the expense from year to year.

Section 3462 applies to private enterprises applying Part II of the CICA Handbook that have DB pension

and post-employment plans (including individual pension plans providing defined benefits). Pension plans applying Part IV of the CICA Handbook may also be affected by Section 3462. Not-for-profit organizations (NFPs) that choose to apply the standards in Part III of the CICA Handbook are also impacted, but the extent of the impact will be subject to further consultation.

STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

The AcSB has released an exposure draft on the application of Section 3462 to NFPs who report under Part III of the CICA Handbook. This exposure draft proposes that Section 3462 will apply to NFPs, but that remeasurements and other items will be presented in the statement of changes in net assets instead of the

statement of operations. In addition, NFPs will not reclassify remeasurements and other items from net assets to the statement of operations after their initial recognition. The proposed new standard would be applied retrospectively in a similar manner to Section 3462.

The AcSB intends to conduct further research on the needs of users of the financial statements of NFPs before concluding whether additional disclosures beyond those included in Section 3462 are required. The AcSB expects that the final standard for NFPs will be included in the CICA Handbook before the end of 2013, and will be effective for fiscal years beginning on or after January 1, 2014. □



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