



HKAS 19 (2011) Employee Benefits

HKICPA Standard Setting Department Staff Summary (July 2011)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. HKAS 19 (2011) *Employee Benefits* improves the accounting for pensions and other post-employment benefits, which provides investors and other users of financial statements with a much clearer picture of an entity's obligation resulting from the provision of defined benefit plans and how those obligations will affect its financial position, financial performance and cash flow.
2. Entities are required to apply the revised Standard for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Reasons for issuing HKAS 19 (2011)

3. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing HKAS 19 (2011) is to maintain international convergence arising from the issuance of amended version of IAS 19 by the International Accounting Standards Board's (IASB).
4. HKAS 19 (2011) requires a new approach to the recognition of gains and losses, which will improve the comparability and understandability of changes arising from defined benefit plans by removing options and requiring entities to recognise changes immediately.

Main features of HKAS 19 (2011)

5. The amendments made in 2011 require entities to recognise all changes in the net defined benefit liability (asset) in the period in which those changes occur, and to disaggregate and recognise defined benefit cost as follows:
 - a. Service cost (including past service cost and settlements), relating to the cost of the services received, in profit or loss;
 - b. Net interest on the net defined benefit liability (asset), representing the financing effect of paying for the benefits in advance or in arrears, in profit or loss; and



- c. Remeasurements, representing the period-to-period fluctuations in the amounts of defined benefit obligations and plan assets, in other comprehensive income.
6. Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
7. Under the amended standard, remeasurement of the net defined benefit liability (asset) comprise:
 - a. Actuarial gains and losses;
 - b. The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
 - c. Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).
8. The amended standard removes an option to defer the recognition of actuarial gains and losses, known as the 'corridor method' that arise from defined benefit plans (that is, all actuarial gains and losses shall be recognised immediately in the other comprehensive income and the option to recognise actuarial gains and losses in profit or loss has also been removed).
9. The revised standard finalise changes to the requirements for termination benefits which requires an entity to recognise a liability and expense for termination benefits at the earlier of the following date:
 - a. When the entity can no longer withdraw the offer of those benefits; and
 - b. When the entity recognises costs for a restructuring that is within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.
10. The definitions of short-term and other long-term employee benefits have been changed so that they will now be distinguished based on when the benefit is expected to be settled.
11. The amended HKAS 19 requires an entity to disclose information that:
 - a. Explains the characteristics of its defined benefit plans and risks associated with them;
 - b. Identifies and explains the amounts in its financial statements arising from its defined benefit plans; and
 - c. Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.



Other references on Amendments to HKAS 19 (2011)/amended IAS 19

1. Deloitte IFRS in Focus on amendments to accounting for post-employment benefits
<http://www.iasplus.com/iasplus/1106ifrs02.pdf>
2. Ernst & Young "IFRS developments" on significant changes to accounting for pensions
[http://www.ey.com/Publication/vwLUAssets/IFRS_Developments_Issue_6/\\$File/IFRS_Developments_Issue_6_GL_IFRS.pdf](http://www.ey.com/Publication/vwLUAssets/IFRS_Developments_Issue_6/$File/IFRS_Developments_Issue_6_GL_IFRS.pdf)
3. KPMG 'Financial reporting update' on revised HKAS 19 Employee Benefits
<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/Financial-Reporting-Update/Documents/Financial-Reporting-Update-1107-66.html>
4. KPMG 'In the headlines' on employee benefit accounting revised
<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/In-the-headlines/Documents/In-the-headlines-O-201106-20.pdf>
5. KPMG 'First Impressions' on employee benefit
<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/First-Impressions/Documents/First-Impressions-O-1107-Employee-Benefits.pdf>
6. PricewaterhouseCoopers IFRS/HKFRS News
http://www.pwchk.com/webmedia/doc/634447656475601398_hkfrs_news_jun2011.pdf
7. IASB Project Summary on Amendments to IAS 19 *Employee Benefits*
<http://www.ifrs.org/NR/rdonlyres/D06B86E4-8907-4209-A6DB-671948046C44/0/EmpBenFSIAS190611.pdf>

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