April 2004

EXPOSURE DRAFT OF PROPOSED

Amendments to IAS 19 Employee Benefits

Actuarial Gains and Losses, Group Plans and Disclosures

Comments to be received by 31 July 2004

International
Accounting Standards
Board®

Exposure Draft of Proposed

AMENDMENTS TO IAS 19

EMPLOYEE BENEFITS

ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES

Comments to be received by 31 July 2004

This Exposure Draft of Proposed Amendments to IAS 19 *Employee Benefits* is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as an amendment of IAS 19. Comments on the Exposure Draft should be submitted in writing so as to be received by **31 July 2004**.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to: **CommentLetters@iasb.org.uk** or addressed to:

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Introduction

IN1. This Exposure Draft proposes an additional recognition option for actuarial gains and losses in post-employment defined benefit plans. Actuarial gains and losses are defined in IAS 19 as experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. They include changes in the fair value of plan assets other than the expected return. Actuarial gains and losses can be large and volatile. IAS 19 requires actuarial gains and losses to be recognised in profit or loss either in the period in which they occur, or on a deferred basis.

IN2. The International Accounting Standards Board has reservations about IAS 19, including concerns about deferred recognition of actuarial gains and losses. The Board believes that deferred recognition is inconsistent with the IASB *Framework for the Preparation and Presentation of Financial Statements* because it results in amounts presented in the balance sheet that do not meet the definition of an asset or a liability. The Board is considering whether to include a major project on post-employment benefits in its current work programme.

IN3. The Board notes that the UK standard on post-employment benefits, FRS 17 *Retirement Benefits,* requires recognition of all actuarial gains and losses as they occur, outside profit or loss in a statement of total recognised gains and losses. The Board does not necessarily regard this as an ideal solution, but notes that FRS 17 produces transparent information about defined benefit plans in the financial statements. The Board believes that, pending (a) a comprehensive reconsideration of the accounting for post-employment benefits and (b) the development of a new format for the income statement, this option should be available as an alternative to deferred recognition or immediate recognition in profit or loss.

IN4. The other features of the Exposure Draft are:

(a) an extension of the provisions for multi-employer plans to specified entities within a consolidated group in their separate* or individual financial statements.

* Separate financial statements are defined in IAS 27 *Consolidated and Separate Financial Statements*

(b) additional disclosures that:

  (i) provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit cost; and

  (ii) bring the disclosures in IAS 19 closer to those required by the US standard SFAS 132 *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which was revised in December 2003.

Invitation to comment

The International Accounting Standards Board invites comments on any aspect of this Exposure Draft of its proposed amendments to IAS 19 *Employee Benefits*. It would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale, and, when applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing so as to be received no later than **31 July 2004**.

Question 1 - Initial recognition of actuarial gains and losses

IAS 19 requires actuarial gains and losses to be recognised in profit or loss, either in the period in which they occur or on a deferred basis. The Exposure Draft proposes that entities should also be allowed to recognise actuarial gains and losses as they occur, outside profit or loss, in a statement of recognised income and expense.

Do you agree with the addition of this option? If not, why not?

Question 2 - Initial recognition of the effect of the limit on the amount of a surplus that can be recognised as an asset

Paragraph 58(b) of IAS 19 limits the amount of a surplus that can be recognised as an asset to the present value of any economic benefits available to an entity in the form of refunds from the plan or reductions in future contributions to the plan (the asset ceiling).[*] The Exposure Draft proposes that entities that choose to recognise actuarial gains and losses as they occur, outside profit or loss in a statement of recognised income and expense, should also recognise the effect of the asset ceiling outside profit or loss in the same way, ie in a statement of recognised income and expense.

Do you agree with the proposal? If not, why not?

Question 3 - Subsequent recognition of actuarial gains and losses

The Exposure Draft proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should not be recognised in profit or loss in a later period (ie they should not be recycled).

[*] The limit also includes unrecognised actuarial gains and losses and past service costs.

Do you agree with this proposal? If not, why not?

Question 4 - Recognition within retained earnings

The Exposure Draft also proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should be recognised immediately in retained earnings, rather than recognised in a separate component of equity and transferred to retained earnings in a later period.

Do you agree with this proposal? If not, why not?

Question 5 - Treatment of defined benefit plans for a group in the separate or individual financial statements of the entities in the group

(a) The Exposure Draft proposes an extension of the provisions in IAS 19 relating to multi-employer plans for use in the separate or individual financial statements of entities within a consolidated group that meet specified criteria.

Do you agree with this proposal? If not, why not?

(b) The Exposure Draft sets out the criteria to be used to determine which entities within a consolidated group are entitled to use those provisions.

Do you agree with the criteria? If not, why not?

Question 6 - Disclosures

The Exposure Draft proposes additional disclosures that (a) provide information about trends in the assets and liabilities in the defined benefit plan and the assumptions underlying the components of the defined benefit cost and (b) bring the disclosures in IAS 19 closer to those required by the US standard SFAS 132 *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

Do you agree with the additional disclosures? If not, why not?

Question 7 - Further disclosures

Do you believe that any other disclosures should be required, for example the following disclosures required by SFAS 132? If so, why?

(a) a narrative description of investment policies and strategies;

(b) the benefits expected to be paid in each of the next five fiscal years and in aggregate for the following five fiscal years; and

(c) an explanation of any significant change in plan liabilities or plan assets not otherwise apparent from other disclosures.

SFAS 132 also encourages disclosure of additional asset categories if that information is expected to be useful in understanding the risks associated with each asset category.

Proposed Amendments to IAS 19 *Employee Benefits*

Proposed amendments are shown as marked changes to IAS 19. New text is underlined and deleted text is struck through.

Defined benefit plans that pool the assets contributed by various entities under common control

Paragraph 34 is amended as follows and paragraph 34A is added.

34. Defined benefit plans that pool the assets contributed by various ~~enterprises~~ entities under common control, for example~~,~~ a parent and its subsidiaries, are not multi-employer plans. ~~Therefore, an enterprise treats all such plans as defined benefit plans.~~ However, if the plan otherwise meets the definition of a multi-employer plan and the entity meets the following criteria, the entity may treat it as a multi-employer plan* in any separate or individual financial statements that it presents:

    (a) the entity is:

        (i) a parent that produces consolidated financial statements that are available for public use and comply with International Financial Reporting Standards; or

        (ii) a wholly-owned subsidiary of an ultimate or any intermediate parent that produces consolidated financial statements that are available for public use and comply with International Financial Reporting Standards; and

    (b) the entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); and

* Paragraphs 29-35 of IAS 19 set out the requirements for participants in multi-employer plans. Participants in defined benefit multi-employer plans are required to use defined benefit accounting unless sufficient information to do so is not available, in which case they use defined contribution accounting and make additional disclosures. Sufficient information may not be available if the entity does not have access to information about the plan or if there is no consistent and reliable basis for allocating the plan obligation, assets and cost.

(c) the entity did not file, nor is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

34A. If the entity does not meet the criteria in paragraph 34, it shall in any separate or individual financial statements make a reasonable and consistent allocation of defined benefit plans that pool the assets contributed by entities under common control.

Recognition of the Components of the Defined Benefit Cost in Profit or Loss

The heading above paragraph 61 is amended and paragraph 61 is amended as follows.

~~Income Statement~~ Profit or Loss

61. An ~~enterprise should~~ entity shall recognise the net total of the following amounts ~~as expense or (subject to the limit in paragraph 58(b)) income~~ in profit or loss, except to the extent that another ~~International Accounting~~ Standard requires or permits their inclusion in the cost of an asset:

(a) current service cost (see paragraphs 63-91[*]);

(b) interest cost (see paragraph 82[*]);

(c) the expected return on any plan assets (see paragraphs 105-107[*]) and on any reimbursement rights (paragraph 104A[*]);

(d) actuarial gains and losses, to the extent ~~that they are recognised under~~ required in accordance with the entity's accounting policy relating to paragraphs 92 ~~and 93~~ -93D;

(e) past service cost, to the extent that paragraph 96[*] requires an ~~enterprise~~ entity to recognise it; ~~and~~

(f) the effect of any curtailments or settlements (see paragraphs 109 and 110[*]) and;

[* These paragraphs of IAS 19 are not affected by the proposed amendments and are not, therefore, reproduced in the Exposure Draft.]

(g) the effect of the limit in paragraph 58(b)[*], unless it is recognised outside profit and loss in accordance with paragraph 93C.

Actuarial Gains and Losses

Paragraphs 92 and 93 are amended as follows. Paragraphs 93A-93D are added.

92. In measuring its defined benefit liability under paragraph 54[*], an ~~enterprise should~~ entity shall, subject to paragraph 58A[*], recognise a portion (as specified in paragraph 93) of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

(a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and

(b) 10% of the fair value of any plan assets at that date.

These limits should be calculated and applied separately for each defined benefit plan.

93. The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined under paragraph 92, divided by the expected average remaining working lives of the employees participating in that plan. However, an ~~enterprise~~ entity may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. An ~~enterprise~~ entity may apply such systematic methods to actuarial gains and losses even if they ~~fall~~ are within the limits specified in paragraph 92.

93A. If, as permitted by paragraph 93, an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them outside profit or loss, in accordance with paragraphs 93B-93D, providing it does so for:

(a) all of its defined benefit plans; and

(b) all of its actuarial gains and losses.

93B. Actuarial gains and losses recognised outside profit or loss as permitted by paragraph 93A shall be presented in a statement of changes in equity titled 'statement of recognised income and expense' that comprises only the items specified in paragraph 96 of IAS 1 *Presentation of Financial Statements* (as revised in 2003).[*] The entity is not permitted to present the actuarial gains and losses in a statement of changes in equity in the columnar format referred to in paragraph 100 of IAS 1 or any other format that includes the items specified in paragraph 97 of IAS 1.

93C. An entity that recognises actuarial gains and losses in accordance with paragraph 93A shall also recognise any adjustments arising from the limit in paragraph 58(b) outside profit and loss in the statement of recognised income and expense.

93D. Actuarial gains and losses and adjustments arising from the limit in paragraph 58(b) that have been recognised directly in the statement of recognised income and expense shall be recognised immediately in retained earnings. They shall not be recognised in profit or loss in a subsequent period.

Disclosure

Paragraph 120 and 121 are amended as follows.

120. An ~~enterprise should~~ entity shall disclose the following information about defined benefit plans:

(a) the ~~enterprise's~~ entity's accounting policy for recognising actuarial gains and losses.

(b) a general description of the type of plan.

(c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes, benefits paid, past service cost, business combinations, curtailments and settlements.

[*] Such a statement is depicted in the Illustrative Example accompanying these proposals.

(d) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.

(e) a reconciliation of opening and closing balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: expected return on plan assets, actuarial gains and losses, foreign currency exchange rate changes, contributions by the employer, contributions by plan participants, benefits paid, business combinations, and settlements.

(~~e~~f) a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the balance sheet, showing at least:

- ***~~(i) the present value at the balance sheet date of defined benefit obligations that are wholly unfunded;~~***
- ***~~(ii the present value (before deducting the fair value of plan assets) at the balance sheet date of defined benefit obligations that are wholly or partly funded;~~***
- ***~~(iii) the fair value of any plan assets at the balance sheet date;~~***
- ***(i~~iv~~) the net actuarial gains or losses not recognised in the balance sheet (see paragraph 92);***
- ***(ii~~v~~) the past service cost not yet recognised in the balance sheet (see paragraph 96);***
- ***(iii~~vi~~) any amount not recognised as an asset, because of the limit in paragraph 58(b);***
- ***(iv~~vii~~) the fair value at the balance sheet date of any reimbursement right recognised as an asset under paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation); and***
- ***(v~~viii~~) the other amounts recognised in the balance sheet~~;~~.***

~~(d) the amounts included in the fair value of plan assets for:~~

- ***~~(i) each category of the reporting enterprise's own financial instruments; and~~***

~~***(ii) any property occupied by, or other assets used by, the reporting enterprise;***~~

~~***(e) a reconciliation showing the movements during the period in the net liability (or asset) recognised in the balance sheet;***~~

(g~~f~~) the total expense recognised in the income statement for each of the following, and the line item(s) of the income statement in which they are included:

(i) current service cost;

(ii) interest cost;

(iii) expected return on plan assets;

(iv) expected return on any reimbursement right recognised as an asset under paragraph 104A;

(v) actuarial gains and losses;

(vi) past service cost; ~~and~~

(vii) the effect of any curtailment or settlement; and

(viii) the effect of the limit in paragraph 58(b).

(h) the total amount recognised in the statement of recognised income and expense for each of the following:

(i) actuarial gains and losses; and

(ii) he effect of the limit in paragraph 58(b).

(i~~g~~) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage that each constitutes of the fair value of total plan assets held and the expected rate of return as at the balance sheet date.

(j) the amounts included in the fair value of plan assets for:

(i) each category of the entity's own financial instruments; and

(ii) any property occupied by, or other assets used by, the entity.

(k) a narrative description of the basis used to determine the overall expected rate of return on assets.

(~~g~~l) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset under paragraph 104A.~~; and~~

(~~l~~m) the principal actuarial assumptions used as at the balance sheet date, including, whe~~re~~n applicable:

- ***(i) the discount rates;***
- ***(ii) the expected rates of return on any plan assets for the periods presented in the financial statements;***
- ***(iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset ~~under~~ in accordance with paragraph 104A;***
- ***(iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);***
- ***(v) medical cost trend rates; and***
- ***(vi) any other material actuarial assumptions used.***

An ~~enterprise should~~ entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

(n) the effect of an increase of one percentage point and the effect of a decrease of one percentage point (or, for plans operating in a high inflation environment, the effect of an increase or decrease of similar significance) in the assumed medical cost trend rates on (i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs and (ii) the accumulated post-employment benefit obligation for medical costs. (For the purposes of this disclosure, all other assumptions shall be held constant.)

(o) the amounts for the current period and previous four periods of:

- ***(i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and***
- ***(ii) the experience adjustments arising on:***
  - ***(A) the plan liabilities expressed as (1) an amount and (2) a percentage of the plan liabilities at the balance sheet date and***

(B) ***the plan assets expressed as (1) an amount and (2) a percentage of the plan assets at the balance sheet date.***

(p) ***the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the balance sheet date.***

121. Paragraph 120(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan shall include all the terms of the plan that are used in the determination of the defined benefit obligation. Further detail is not required.

Effective Date

Paragraph 159B is added and paragraph 160 is amended as follows.

159B. An entity shall apply the amendments in [draft] paragraphs 34, 34A, 61, 120 and 121 for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 January 2006, it shall disclose that fact. The option in [draft] paragraphs 93A-93D may be used for annual periods ending on or after [date of issue of amended standard]. An entity using the option for annual periods beginning before 1 January 2006 shall also apply the amendments in [draft] paragraphs 34, 34A, 61, 120 and 121.

160. IAS 8 ~~*Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*~~ *Accounting Policies, Changes in Accounting Estimates and Errors* applies when an ~~enterprise~~ entity changes its accounting policies to reflect the changes specified in paragraphs 159[*], ~~and~~ 159A[*] and [draft] 159B. In applying those changes retrospectively, as required by IAS 8, the ~~enterprise~~ entity treats those changes as if they had been ~~adopted~~ applied at the same time as the rest of this Standard.

Appendix F is inserted as follows.

[Draft] Appendix F: Amendment to IAS 1

The amendment in this [draft] appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies the [draft] amendments to IAS 19 for an earlier period, this amendment shall be applied for that earlier period.

A1. In IAS 1 *Presentation of Financial Statements,* paragraph 96 is amended to read as follows:

96. An entity shall present a statement of changes in equity showing on the face of the statement:

(a)…

(d)…

A statement of changes in equity that comprises only these items shall be titled a statement of recognised income and expense.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed Amendments to IAS 19.

Introduction

BC1. This Basis for Conclusions summarises the International Accounting Standard Board's considerations in reaching the conclusions in the Exposure Draft *Amendments to IAS 19 Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures*. Individual Board members gave greater weight to some factors than to others.

BC2. The Exposure Draft proposes the following amendments to IAS 19:

(a) an additional option for the recognition of actuarial gains and losses;

(b) an extension of the provisions for accounting for a multi-employer plan to entities within a consolidated group that meet specified criteria; and

(c) additional disclosures.

An additional option for the recognition of actuarial gains and losses

BC3. Actuarial gains and losses are (a) experience adjustments (ie the effects of differences between previous actuarial assumptions and what occurred) and (b) the effects of changes in actuarial assumptions. They include unexpected changes in the value of the plan assets and can be large and volatile.

BC4. IAS 19, and the Canadian, Japanese and US standards on post-employment benefits,[*] require actuarial gains and losses to be recognised in profit or loss. They may be, but do not have to be, recognised in the period in which they occur, ie their recognition can be deferred. For example, IAS 19 permits actuarial gains and losses that do not exceed the "corridor"[†] not to be recognised at all. In addition, actuarial gains and losses that exceed the corridor can be amortised over

[*] None of the other liaison national standard-setters (other than the UK as noted below) have standards on post-employment benefits.

[†] The corridor is the greater of 10% of the plan assets and 10% of the defined benefit obligation.

the expected service lives of the employees. In contrast, in the UK, FRS 17 *Retirement Benefits* requires actuarial gains and losses to be recognised in full in the period in which they occur outside profit or loss in a statement of total recognised gains and losses.

BC5. The argument for immediate recognition of actuarial gains and losses is that they are economic events of the period. Recognising them when they occur provides a faithful representation of those events. It also results in a faithful representation of the plan in the balance sheet. In contrast, when recognition is deferred, the information provided is partial and potentially misleading. Furthermore, any net cumulative deferred actuarial losses can give rise to a debit item in the balance sheet that does not meet the definition of an asset. Similarly, any net cumulative deferred actuarial gains can give rise to a credit item in the balance sheet that does not meet the definition of a liability.

BC6. The arguments put forward for deferred recognition of actuarial gains and losses are:

(a) immediate recognition can cause volatile fluctuations in the balance sheet and income statement. It implies a degree of accuracy of measurement that rarely applies in practice. As a result, the volatility may not be a faithful representation of changes in the defined benefit asset or liability, but may simply reflect an unavoidable inability to predict accurately the future events that are anticipated in making period-to-period measurements.

(b) in the long term, actuarial gains and losses may offset one another.

(c) whether or not the volatility resulting from immediate recognition reflects economic events of the period, it is too great to be acceptable in the financial statements. It could overwhelm the profit or loss and financial position of other business operations.

BC7. The Board does not accept arguments (a) and (b) as reasons for deferred recognition. It believes that the defined benefit asset or liability can be measured with sufficient reliability to justify its recognition. Recognition in a transparent manner of the current best estimate of the events of the period and the resulting asset and liability provides better information than non-recognition of an arbitrary amount of that current best estimate. Further, it is not reasonable to assume that existing actuarial gains and losses will be offset in future years. This implies an ability to predict future market prices.

BC8. The Board also does not accept argument (c) in relation to the balance sheet. If the post-employment benefit amounts are large and volatile, that reflects the fact that the post-employment plan is large and risky compared with other business operations. However, the Board accepts that requiring actuarial gains and losses to be recognised in full in profit or loss for the period in which they occur is not appropriate at this time because the Board has yet to develop fully the appropriate presentation of profit or loss and other items of recognised income and expense.

BC9. The Board noted that the UK standard FRS 17 requires recognition of actuarial gains and losses in full as they occur outside profit or loss in a statement of total recognised gains and losses.

BC10. The Board does not believe that immediate recognition of actuarial gains and losses outside profit or loss is necessarily ideal. However, it provides more transparent information than deferred recognition. The Board, therefore, decided to allow such an option pending further developments on the presentation of profit or loss and other items of recognised income and expense.

BC11. IAS 1 requires income and expense recognised outside profit or loss to be presented in a statement of changes in equity. The statement of changes in equity must present the total income and expense for the period, being the profit or loss for the period and each item of income and expense for the period that, as required or permitted by other Standards or Interpretations, is recognised directly in equity (IAS 1 paragraph 96(a)-(c)). IAS 1 also permits these items, together with the effect of changes in accounting policies and the correction of errors, to be the only items shown in the statement of changes in equity.

BC12. To emphasise its view that actuarial gains and losses are items of income or expense, the Board decided that actuarial gains and losses that are recognised outside profit or loss must be presented in the form of a statement of changes in equity that excludes transactions with equity holders acting in their capacity as equity holders. The Board decided that this statement should be titled ‘the statement of recognised income and expense’.

BC13. The Board considered whether actuarial gains and losses that have been recognised outside profit or loss should be recognised in profit or loss in a later period (ie recycled). The Board noted that there is not a consistent policy on recycling in IFRSs and that recycling in general is an issue to be resolved in its project on reporting comprehensive income. Furthermore, it is difficult to see a rational basis on which actuarial gains and losses could be recycled. The Board therefore concluded that the proposed amendments should prohibit recycling of actuarial gains and losses that have been recognised in the statement of recognised income and expense.

BC14. The Board also considered whether actuarial gains and losses recognised outside profit or loss should be recognised immediately in a separate component of equity and transferred into retained earnings at a later period. Again the Board concluded that there is no rational basis for a transfer to retained earnings in later periods. Hence, actuarial gains and losses that are recognised outside profit or loss should be recognised in retained earnings immediately.

BC15. Finally, the Board considered whether, if actuarial gains and losses are recognised when they occur, entities should be required to present separately in retained earnings an amount equal to the defined benefit asset or liability. Such a presentation is required by FRS 17. The Board noted that such a presentation is not required by IFRSs for any other item, however significant its size or volatility, and that entities can provide the information if they wish. The Board therefore decided not to require such a presentation.

BC16. IAS 19 limits the amount of a surplus that can be recognised as an asset ('the asset ceiling') to the present value of any economic benefits available to an entity in the form of refunds from the plan or reductions in future contributions to the plan.* The Board considered whether the effect of this limit should be recognised outside profit or loss, if that is the entity's accounting policy for actuarial gains and losses, or treated as an adjustment of the other components of the defined benefit cost and recognised in profit or loss.

BC17. The Board decided that the effect of the limit is similar to an actuarial gain or loss because it arises from a remeasurement of the benefits available to an entity from a surplus in the plan. The Board therefore

* The limit also includes unrecognised actuarial gains and losses and past service costs.

concluded that, if the entity's accounting policy is to recognise actuarial gains and losses as they occur outside profit or loss, the effect of the limit should also be recognised outside profit or loss in the statement of recognised income and expense.

Application of IAS 19 in the separate or individual financial statements of entities in a consolidated group

BC18. IAS 19 allows participants in defined benefit multi-employer plans to use defined contribution accounting and provide additional disclosures if the information necessary for defined benefit accounting is not available. However, if the participants in a plan are under common control, for example a parent and its subsidiaries, the plan cannot be considered a multi-employer plan and the exemption from defined benefit accounting is not available.

BC19. Some argue that entities participating in a group defined benefit plan should, in their separate or individual financial statements, either have an unqualified exemption from defined benefit accounting, or at least be able to treat the plan as a multi-employer plan.

BC20. The Board does not agree that an unqualified exemption from defined benefit accounting for group defined benefit plans in the separate or individual financial statements of group entities is appropriate. In principle, the requirements of IFRSs should apply to separate or individual financial statements in the same way as they apply to any other financial statements. Following that principle would mean amending IAS 19 to allow group entities that participate in a plan that meets the definition of a multi-employer plan, except that the participants are under common control, to be treated as participants in a multi-employer plan in their separate or individual financial statements.

BC21. However, the Board concluded that entities within a group should always be presumed to be able to obtain the necessary information about the plan as a whole. This implies that, in accordance with the requirements for multi-employer plans, defined benefit accounting should be applied if there is a consistent and reliable basis for allocating the assets and obligations of the plan.

BC22. The Board acknowledged that entities within a group might not be able to identify a consistent and reliable basis for allocating the plan that results in the entity recognising an asset or liability that reflects the extent to which a surplus or deficit in the plan would affect their future contributions.[*] This is because there may be uncertainty in the terms of the plan about how surpluses will be used or deficits funded across the consolidated group. However, the Board concluded that entities within a group should always be able to make at least a consistent and *reasonable* allocation, for example on the basis of a percentage of pensionable pay.

BC23. The Board then considered whether, for some group entities, the benefits of defined benefit accounting using a consistent and *reasonable* basis of allocation was worth the costs involved in obtaining the information. The Board decided that this was not the case for entities that meet criteria similar to those in IAS 27 *Consolidated and Separate Financial Statements* for the exemption from preparing consolidated financial statements.

BC24. The Board therefore concluded that:

(a) entities that participate in a plan that would meet the definition of a multi-employer plan except that the participants are under common control, and that meet the criteria set out in paragraph 34 of IAS 19 as proposed to be amended in the Exposure Draft, should be treated as if they were participants in a multi-employer plan. This means that if there is no consistent and reliable basis for allocating the assets and liabilities of the plan, the entity should use defined contribution accounting and provide additional disclosures.

(b) all other entities that participate in a plan that would meet the definition of a multi-employer plan except that the participants are under common control should be required to apply defined benefit accounting by making a consistent and reasonable allocation of the assets and liabilities of the plan.

Disclosures

BC25. From a review of national standards on post-employment benefits, the Board identified the following disclosures that it believes should be added to IAS 19:

[*] The IFRIC is developing guidance that interprets a consistent and reliable basis for allocation as one that results in a plan participant recognising an asset or a liability that reflects the extent to which a surplus or deficit in the plan will affect its future contributions.

(a) reconciliations showing the movements in plan assets and defined benefit obligations. The Board believes that this gives much clearer information about the plan than the reconciliation required at present by IAS 19 showing the movements in the recognised net liability or asset because, unlike the reconciliation currently required, it includes amounts the recognition of which has been deferred. The reconciliation currently required will be eliminated.

(b) information about plan assets. The Board believes that more information is needed about the plan assets because, without such information, users cannot assess the level of risk inherent in the plan. It proposes:

   (i) disclosure of the percentage that the major classes of assets held by the plan constitute of the total fair value of the plan assets;

   (ii) disclosure of the expected rate of return for each class of asset; and

   (iii) a narrative description of the basis used to determine the overall expected rate of return on assets.

(c) information about the sensitivity of defined benefit plans to changes in medical cost trend rates. The Board believes that this is necessary because the effects of changes in a plan's medical cost trend rate are difficult to assess. The way in which healthcare cost assumptions interact with caps, cost-sharing provisions, and other factors in the plan precludes reasonable estimates of the effects of those changes. The Board also noted that the disclosure of a change of one percentage point would be appropriate for plans operating in low inflation environments but would not provide useful information for plans operating in high inflation environments.

(d) information about trends in the plan: the Board believes that information about trends is important so that users have a view of the plan over time, not just the position at the balance sheet date. Without such information, users may misinterpret the future cash flow implications of the plan. The Board proposes disclosure of five-year histories of the plan liabilities, plan assets, the surplus or deficit and experience adjustments.

(e) information about contributions to the plan: the Board believes that this will provide useful information about the entity's cash flows in the immediate future that cannot be determined from the other disclosures about the plan. It proposes the disclosure of the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the balance sheet date.

(f) information about the nature of the plan. The Board proposes an addition to paragraph 121 of IAS 19 to ensure that the description of the plan is complete and includes all the terms of the plan that are used in the determination of the defined benefit obligation.

Alternative view on Proposed *Amendments to IAS 19 Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures*

AV1. One Board member voted against the publication of the Exposure Draft of Proposed *Amendments to IAS 19 Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures.* The alternative view of the Board member is set out below.

Alternative view of the Board member

AV2. The Board member voted against the publication of the proposals for the following reasons. The Board member believes that all items of income and expense should be recognised in profit or loss in some period. Until they have been so recognised, they should be included in a component of equity separate from retained earnings. They should be transferred from that separate component of equity into retained earnings when they are recognised in profit or loss.

AV3. The Board member does not, therefore, agree with the requirements of proposed paragraph 93D.

AV4. The Board member acknowledges the difficulty in finding a rational basis for recognising actuarial gains and losses in profit or loss in periods after their initial recognition in a statement of recognised income and expense when the plan is ongoing. However, the cumulative actuarial gains and losses could be recognised in profit or loss when a plan is settled, wound up or transferred outside the entity. The cumulative amount recognised in a separate component of equity would be transferred to retained earnings at the same time. This would be consistent with the treatment of exchange gains and losses on subsidiaries that have a measurement currency different from the presentation currency of the group.

AV5. The Board member agrees that an option should be added to IAS 19 that allows entities that recognise actuarial gains and losses in full in the period in which they occur to recognise them outside profit or loss in a statement of recognised income and expense. However, the Board member believes that the requirements of paragraph 93D mean that the option proposed is not an improvement to financial reporting because it allows gains and losses to be excluded permanently from profit or loss and yet be recognised immediately in retained earnings.

Illustrative example

This example accompanies, but is not part of, the proposed amendments to IAS 19

Proposed paragraph 93B requires actuarial gains and losses recognised outside profit or loss to be presented in a statement of changes in equity titled 'statement of recognised income and expense' comprising only the items detailed in paragraph 96 of IAS 1 *Presentation of Financial Statements* (as revised in 2003). An example of a statement of recognised income and expense is set out below.*

XYZ GROUP - STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 20-2

(in thousands of currency units)

	20-2	**20-1**
Gain/(loss) on revaluation of properties	(X)	X
Available-for-sale investments:		
Valuation gains/(losses) taken to equity	(X)	(X)
Transferred to profit or loss on sale	X	(X)
Cash flow hedges:		
Gains/(losses) taken to equity	X	X
Transferred to profit or loss for the period	(X)	X
Transferred to the initial carrying amount of hedged items	(X)	(X)
Exchange differences on translation of foreign operations	(X)	(X)
Actuarial gains/(losses) on defined benefit plans	X	(X)
Tax on items taken directly to or transferred from equity	X	(X)
Net income recognised directly in equity	(X)	X
Profit for the period	X	X
Total recognised income and expense for the period	X	X

continued...

* This is the example in the Guidance on Implementing IAS 1 with the addition of a line item for actuarial gains and losses.

Attributable to:		
Equity holders of the parent	X	X
Minority interest	X	X
	X	X
Effect of changes in accounting policy:		
Equity holders of the parent		(X)
Minority interest		(X)
		(X)