Hong Kong Institute of Certified Public Accountants
香港會計師公會

MEMBERS' HANDBOOK

Update No. 217

(Issued 30 April 2018)

This Update relates to Amendments to HKAS 19 *Employee Benefits*.

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing page i & replace with revised pages i.	Revised contents pages
HONG KONG ACCOUNTING STANDARDS (HKAS)		
HKAS 19 *Employee Benefits*	Replace the cover page and pages 2, 4, 13, 38, 43, 49, 55 and 121 with revised cover page and pages 2, 4, 13, 38, 43, 49, 55 and 121. Insert pages 49A-49B and 121A-121C.	Refer to Note

Note:

The amendments require a company to use updated assumptions to determine current service cost and net interest for the remainder of the reporting period after a change is made to a plan. Until now, HKAS 19 did not specify how to determine these expenses for periods after changes are made to a plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

The amendments are effective on or after 1 January 2019. Earlier application is permitted.

Hong Kong Institute of
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Revised ~~December 2016~~April 2018

Effective for annual periods
beginning on or after 1 January 2013

Hong Kong Accounting Standard 19 (2011)

Employee Benefits

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AMENDMENTS TO GUIDANCE ON OTHER HKFRSs

TABLE OF CONCORDANCE

10 An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and measurement

All short-term employee benefits

11 When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(b) as an expense, unless another ~~IFRS~~ HKFRS requires or permits the inclusion of the benefits in the cost of an asset (see, for example, HKAS 2 *Inventories* and HKAS 16 *Property, Plant and Equipment*).

12 Paragraphs 13, 16 and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.

Short-term paid absences

13 An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

14 An entity may pay employees for absence for various reasons including holidays, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to paid absences falls into two categories:

(a) accumulating; and

(b) non-accumulating.

15 Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation exists, and is recognised, even if the paid absences are non-vesting, although the possibility that employees may leave before

137 If the disclosures provided in accordance with the requirements in this Standard and other ~~IFRSs~~ HKFRSs are insufficient to meet the objectives in paragraph 135, an entity shall disclose additional information necessary to meet those objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) between amounts owing to active members, deferred members, and pensioners.

(b) between vested benefits and accrued but not vested benefits.

(c) between conditional benefits, amounts attributable to future salary increases and other benefits.

138 An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:

(a) different geographical locations.

(b) different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.

(c) different regulatory environments.

(d) different reporting segments.

(e) different funding arrangements (eg wholly unfunded, wholly or partly funded).

Characteristics of defined benefit plans and risks associated with them

139 An entity shall disclose:

(a) information about the characteristics of its defined benefit plans, including:

(i) the nature of the benefits provided by the plan (eg final salary defined benefit plan or contribution-based plan with guarantee).

(ii) a description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 64).

(iii) a description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of board members of the plan.

(b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, eg property, the plan may expose the entity to a concentration of property market risk.

(c) a description of any plan amendments, curtailments and settlements.

154 The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognise remeasurements in other comprehensive income.

Recognition and measurement

155 In recognising and measuring the surplus or deficit in an other long-term employee benefit plan, an entity shall apply paragraphs 56–98 and 113–115. An entity shall apply paragraphs 116–119 in recognising and measuring any reimbursement right.

156 For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another ~~IFRS~~ HKFRS requires or permits their inclusion in the cost of an asset:

(a) service cost (see paragraphs 66–112);

(b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126); and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130).

157 One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

Disclosure

158 Although this Standard does not require specific disclosures about other long-term employee benefits, other HKFRSs may require disclosures. For example, HKAS 24 requires disclosures about employee benefits for key management personnel. HKAS 1 requires disclosure of employee benefits expense.

Termination benefits

159 This Standard deals with termination benefits separately from other employee benefits because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

Appendix B
~~Amendments to other HKFRSs~~Amendments to HKAS 19 *Employee Benefits*

~~*This appendix sets out amendments to other HKFRSs that are a consequence of amending HKAS 19 in July 2011. An entity shall apply these amendments when it applies HKAS 19 as amended. Amended paragraphs are shown with new text underlined and deleted text struck through.*~~

~~*****~~

~~*The amendments contained in this appendix when this Standard was amended in 2011 have been incorporated into the relevant Standards.*~~

Paragraphs 101A, 122A, 123A and 179 are added and paragraphs 57, 99, 120, 123, 125, 126 and 156 are amended. A heading is added before paragraph 122A. New text is underlined and deleted text is struck through.

Post-employment benefits: defined benefit plans

...

Recognition and measurement

...

57 Accounting by an entity for defined benefit plans involves the following steps:

...

(c) determining amounts to be recognised in profit or loss:

(i) current service cost (see paragraphs 70–74 and paragraph 122A).

...

...

Past service cost and gains and losses on settlement

99 **~~Before~~ When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions, ~~(~~including current market interest rates and other current market prices~~)~~, reflecting:**

(a) the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and

(b) the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.

...

101A When a plan amendment, curtailment or settlement occurs, an entity shall recognise and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs 99–101 and paragraphs 102–112. In doing so, an entity shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognise any change in that effect in accordance with paragraph 57(d).

...

Components of defined benefit cost

120 An entity shall recognise the components of defined benefit cost, except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset, as follows:

(a) service cost (see paragraphs 66–112 and paragraph 122A) in profit or loss;

...

Current service cost

122A An entity shall determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, it shall determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b).

Net interest on the net defined benefit liability (asset)

123 An entity shall determine ~~N~~net interest on the net defined benefit liability (asset) ~~shall be determined~~ by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83. ~~, 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.~~

123A To determine net interest in accordance with paragraph 123, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using:

(a) the net defined benefit liability (asset) determined in accordance with paragraph 99(b); and

(b) the discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b).

In applying paragraph 123A, the entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.

...

125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 123A. ~~83, both as determined~~ An entity shall determine the fair value of the plan assets at the start of the annual reporting period~~, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments~~. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine interest income for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b). In applying paragraph 125, the entity shall also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

126 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 123A. ~~83, both as determined at the start of the annual reporting period.~~ An entity shall determine the effect of the asset ceiling at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph 101A. The difference between ~~that amount~~ interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

...

Other long-term employee benefits

...

Recognition and measurement

...

156 For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset:

(a) service cost (see paragraphs 66–112 and paragraph 122A);

...

Transition and effective date

...

179 *Plan Amendment, Curtailment or Settlement* (Amendments to HKAS 19), issued in April 2018, added paragraphs 101A, 122A and 123A, and amended paragraphs 57, 99, 120, 123, 125, 126 and 156. An entity shall apply these amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments earlier, it shall disclose that fact.

SUMMARY OF CHANGES FROM THE 2010 ED AND 2005 ED: AMENDMENTS ISSUED IN 2011 **BC272–BC273**

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APPENDIX

~~Amendments to the Basis for Conclusions on other IFRSs~~Amendments to the Basis for Conclusions on IAS 19 *Employee Benefits*

DISSENTING OPINIONS

Appendix
~~Amendments to the Basis for Conclusions on other IFRSs~~Amendments to the Basis for Conclusions on IAS 19 *Employee Benefits*

~~*This appendix contains amendments to the Basis for Conclusions (and related appendices) on other IFRSs that are necessary in order to ensure consistency with IAS 19 and the related amendments to other IFRSs. Amended paragraphs are shown with new text underlined and deleted text struck through.*~~

~~*****~~

~~*The amendments contained in this appendix when IAS 19, as amended in 2011, was issued have been incorporated into the Basis for Conclusions on the relevant Standards.*~~

Paragraph BC64 has been deleted and a footnote has been added. After paragraph BC173, a heading and paragraphs BC173A–173H are added. After paragraph BC271C, a heading and paragraphs BC271D–BC271E are added. Deleted text is struck through.

Interim reporting: effects of the amendments issued in 2011

...

BC64 [Deleted]~~Similarly, in the Board's view, there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in determining current service cost and net interest, ie determining how much service the employee has rendered to date and the effect of the time value of money to date. The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement. In accordance with paragraph B9 of IAS 34 the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year.~~*

* *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19), issued in February 2018, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset) in accordance with paragraph 99. Paragraphs BC173A–BC173F explain the Board's rationale for the amendments. Before the amendments, IAS 19 did not require an entity to use updated assumptions to determine current service cost and net interest for the period after the plan amendment, curtailment or settlement. Paragraph BC64 explained the Board's rationale for those previous requirements. Because the previous requirements no longer apply, the Board deleted paragraph BC64.

...

Plan Amendment, Curtailment or Settlement—amendments issued in 2018

BC173A Paragraph 99 requires an entity to remeasure the net defined benefit liability (asset) when there is a plan amendment, curtailment or settlement, to determine past service cost or a gain or loss on settlement. The amendments specify that when an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity determines:

(a) current service cost and net interest for the remainder of the annual reporting period using the assumptions used for the remeasurement; and

(b) net interest for the remainder of the annual reporting period on the basis of the remeasured net defined benefit liability (asset).

BC173B The Board concluded that it is inappropriate to ignore the updated assumptions when determining current service cost and net interest for the remainder of the annual reporting period. In the Board's view, using updated assumptions to determine current service cost and net interest for the remainder of the annual reporting period provides more useful information to users of financial statements and enhances the understandability of financial statements.

BC173C The Board considered whether the amendments could change whether and when an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99. An entity applies paragraph 99 when the effect of a plan amendment, curtailment or settlement on past service cost, or a gain or loss on a settlement, is material. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity need not apply the requirements in paragraph 99 when the effect of applying those requirements is immaterial. The amendments require an entity to use updated assumptions to determine current service cost and net interest for the period after a plan amendment, curtailment or settlement. Accordingly, when an entity assesses whether remeasuring its net defined benefit liability (asset) in accordance with paragraph 99 has a material effect, the entity considers not only the effect on past service cost, or a gain or loss on settlement, but also the effects of using updated assumptions for determining current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement.

BC173D The Board concluded that the amendments could change whether and when an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99. The Board decided that this is appropriate because in situations in which the application of paragraph 99 would have a material effect on financial statements, the amendments would result in providing more relevant information for users of financial statements, in keeping with the objective of the amendments (see paragraph BC173B).

BC173E During its deliberations, the Board considered specifying that an entity applies the requirements in paragraph 99 on a plan-by-plan basis (and not, for example, on a country-by-country basis or an entity-by-entity basis). The Board decided against this approach because paragraph 57 already states that an entity accounts separately for each material defined benefit plan.

BC173F The Board also considered whether it should address the accounting for 'significant market fluctuations', which are discussed in paragraph B9 of IAS 34. Plan amendments, curtailments or settlements generally result from management decisions and thus differ from significant market fluctuations, which occur independently of management decisions. The Board decided that the accounting for 'significant market fluctuations' is outside the scope of these amendments. Consequently, the amendments address only the measurement of current service cost and net interest for the period after a plan amendment, curtailment or settlement.

Effect on the asset ceiling requirements

BC173G The accounting for a plan amendment, curtailment or settlement may reduce or eliminate a surplus, which may cause the effect of the asset ceiling to change. The Board added paragraph 101A to clarify how the requirements on accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.

BC173H In the Board's view, the amendments are consistent with and clarify the requirements in IAS 19. The amendments:

(a) do not reclassify amounts recognised in other comprehensive income. This is because recognising past service cost, or a gain or loss on settlement, is distinct from determining the effect of the asset ceiling.

(b) could result in entities recognising past service cost, or a gain or loss on settlement, that reduces a surplus that was not previously recognised. In the Board's view, recognising past service cost, or a gain or loss on settlement, in this situation faithfully represents the transaction because the surplus has in effect been made available to, and recovered by, the entity either through a change in the defined benefit obligation or through a settlement.

(c) result in similar outcomes, regardless of whether an entity makes a payment to a plan just before a settlement or makes payments directly to employees as part of a settlement.

...

Transition

...

Plan Amendment, Curtailment or Settlement — amendments issued in 2018

BC271D The Board decided that an entity would not apply *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19) retrospectively. The Board concluded that the benefits of applying the amendments retrospectively were unlikely to exceed the cost of doing so because retrospective application:

(a) might result in significant cost for some entities that choose to present, as a separate component of equity, the cumulative amount of remeasurements recognised in other comprehensive income. As explained in paragraphs BC173C–BC173D, the amendments could change whether and when an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99. Accordingly, such entities might have had to revisit plan amendments, curtailments and settlements that occurred several years previously and remeasure the net defined benefit liability (asset) as of those dates.

(b) would not provide useful trend information to users of financial statements because plan amendments, curtailments and settlements are discrete one-off events.

(c) would affect only amounts recognised in profit or loss or in other comprehensive income for prior periods presented—it would affect neither total comprehensive income nor the amounts recognised in the statement of financial position for those periods.

BC271E The Board did not provide an exemption for first-time adopters. This is because IFRS 1 does not exempt a first-time adopter from applying the requirements in IAS 19 retrospectively. The Board concluded there would be little benefit in providing a first-time adopter with relief from applying these amendments retrospectively when it would have to retrospectively apply all the other requirements in IAS 19.

...