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## **Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) – Draft endorsement advice Cover Note**

### **Objective**

- 1 The objective of this session is for EFRAG TEG to recommend to the EFRAG Board a draft endorsement advice on *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)* ('the Amendments').

### **Agenda Papers**

- 2 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 13-02 – A draft endorsement advice;
  - (b) Agenda paper 13-03 – Invitation to comment;
  - (c) Agenda paper 13-04 – Published IAS 19 amendments – for background only; and
  - (d) Agenda paper 13-05 – European Commission request for endorsement – for background only.

### **Questions for EFRAG TEG**

- 3 Do EFRAG TEG members have any comments on the agenda papers?
- 4 Do EFRAG TEG members recommend the draft endorsement advice to the EFRAG Board for approval?

### **The description of the issue and the history of the project**

- 5 When a plan amendment, curtailment or settlement takes place for defined benefit plans, the paragraph 99 of IAS 19, effective before the Amendments, required entities to 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, and reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.
- 6 However, paragraph 123 of IAS 19, although it required entities to take account of changes in the net defined benefit liability (asset) as a result of contribution and benefit payments, did not require to take account of changes in the net defined benefit liability (asset) as a result of the remeasurement required by paragraph 99 of IAS 19.
- 7 This conflict could result in the amounts to be recognised in profit or loss financial information regarding the amended, curtailed or settled pension plans, not being

properly determined across the financial year. Moreover, the requirements resulted in diversity in accounting for a plan amendment, curtailment or settlement.

- 8 On 18 June 2015, the IASB proposed to amend IAS 19, and to require entities to use the updated assumptions from remeasurement of their net defined benefit liability or asset in order to determine the current service cost and net interest for the remainder of the reporting period after the change to the plan. In its the comment letter published on 6 November 2015, EFRAG supported the proposed amendments and agreed that they addressed the issues that needed clarification. The excerpts from that comment letter are provided in Appendix.
- 9 On 7 February 2018, the IASB published the Amendments.

### Application example

- 10 The Umbrella Corporation (Umbrella) provides a pension plan for its employees. On 1 September 20x1, it decided to curtail the plan and to limit the number of participants. Umbrella indemnified the change to the employees and paid 500 million CU of compensation from the plan assets. That amount closely related to the curtailed employees' pension rights. Due to the curtailment, the monthly current service cost changed from 15 million CU to 10 million CU
- 11 Umbrella, due to local legislation, is not able to use the entire surplus of the plan assets above the plan obligation to reduce its future contributions and is only entitled to use the surplus, excessive over 10% of fair value of its plan assets.
- 12 The relevant financial information, related to the plan is as follows:

	As at 31/12/20x0	As at 31/08/20x1	As at 1/09/20x1	As at 31/12/20x1
Fair value of plan assets	1.5 billion CU	1.5 billion CU	1.0 billion CU	1.02 billion CU
Observed HQCB rate	2.0%	2.5%	2.5%	2.5%
Expected annual asset yield	3%	3.5%	3.5%	3.5%
PV of plan obligation	1.3 billion CU	1.2 billion CU	0.8 billion CU	0.84 billion CU

Note: Umbrella used the actual and revised information and actuarial assumptions to measure its plan obligation and plan assets at each date.

- 13 In its financial statements, Umbrella applied the Amendments.
- 14 In its statement of financial position, Umbrella recognised:
- (a) Its net defined liability asset as at 31/12/20x0: 50 million CU
- (b) Its net defined liability asset as at 31/12/20x1: 78 million CU
- 15 In its statement of comprehensive income for the year ended 31.12.20x1, Umbrella recognised:
- (a) Net interest on the net defined benefit asset: 1,500 thousand CU
- (b) Current service cost 160,000 thousand CU
- (c) Loss on curtailment: 100,000 thousand CU
- (d) OCI resulting from remeasurement and changes in asset ceiling effect: 286,500 thousand CU
- 16 In accordance with the new paragraph 122A, the service cost is calculated as (15 million CU\*8) until the date of the curtailment; and as (10 million CU\*4) from the date of the curtailment until the end of the reporting period.

*Amendments to IAS 19 – Cover Note*

- 17 In accordance with the new paragraph 123A, the net interest is calculated by applying the discount rate to the net defined liability (asset) at the start of the year for the period until the date of curtailment. The net interest is calculated using the updated assumptions for the period from the date of curtailment until the end of the year.
- 18 In accordance with the revised paragraph 126, the interest on the asset ceiling for the period between the curtailment date and the end of the year is calculated after the remeasurement of the net defined liability (asset).

## Appendix

The excerpts from EFRAG's comment letter, relevant to the Amendments, are provided below:

### **Question 3 - Interaction between the asset ceiling and past service cost or a gain or loss on settlement**

The IASB proposes amending IAS 19 to clarify that:

- (a) the past service cost or the gain or loss on settlement is measured and recognised in profit or loss in accordance with the existing requirements in IAS 19; and
- (b) changes in the effect of the asset ceiling are recognised in other comprehensive income as required by paragraph 57(d)(iii) of IAS 19, as a result of the reassessment of the asset ceiling based on the updated surplus, which is itself determined after the recognition of the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

### **EFRAG's response**

**EFRAG agrees with the proposed clarification that the asset ceiling may not affect the measurement and recognition of past service cost or a gain or loss on settlement at the time of the event. After a plan amendment, curtailment or settlement, the asset ceiling shall be determined using the updated surplus and updated actuarial assumptions including the discount rate.**

### **Question 4 - Accounting when a plan amendment, curtailment or settlement occurs**

The IASB proposes amending IAS 19 to clarify that:

- (a) when the net defined benefit liability (asset) is remeasured in accordance with paragraph 99 of IAS 19:
  - (i) the current service cost and the net interest after the remeasurement are determined using the assumptions applied to the remeasurement; and
  - (ii) an entity determines the net interest after the remeasurement based on the remeasured net defined benefit liability (asset).
- (b) the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement are not affected by, or included in, the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

### **EFRAG's response**

**EFRAG agrees that the current service cost and the net interest after a plan amendment, curtailment or settlement should be based on the remeasured net defined benefit liability (asset) and reassessed actuarial assumptions.**

**EFRAG also agrees that the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement are not affected by, or included in, the past service cost or the gain or loss on settlement.**