

Accounting Alert

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Proposed Amendments to AASB 119 'Employee Benefits'

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The Australian Accounting Standards Board (AASB) has released Exposure Draft ED 131 'Request for Comment on IASB ED Proposed Amendments to IAS 19 *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures*' ('ED 131') following the release of the ED by the IASB.

This *Accounting Alert* provides an overview of ED 131.

Overview

Pending AASB 119 'Employee Benefits' ('AASB 119') applies to all reporting entities and general purpose financial reports for annual reporting periods beginning on or after 1 January 2005. The Standard specifies the accounting for all employee benefits other than share-based payments addressed in AASB 2 'Share-based Payments'.

ED 131 proposes amendments to some of the requirements in AASB 119, including:

- the introduction of another option for the recognition of actuarial gains and losses
- the extension of the provisions relating to multi-employer defined benefit plans to a group of entities under common control that meet certain criteria
- additional disclosures.

Application date of a revised AASB 119

Revised AASB 119 may potentially be
early adopted for annual reporting periods
beginning on or after 1 January 2005

A revised AASB 119 incorporating the amendments proposed in ED 131 will be operative for annual reporting periods beginning on or after 1 January 2006. However, the AASB has tentatively agreed that entities may elect to early adopt the revised AASB 119 for annual reporting periods beginning on or after 1 January 2005.



Recognition of actuarial gains and losses in retained earnings

AASB 119 presently requires the full expensing of actuarial gains and losses in the period the gain or loss occurs within the income statement. IAS 19 Employee Benefits permits in addition the option for entities to apply the corridor approach in accounting for actuarial gains and losses, whereby only a portion of actuarial gain or loss is recognised as income or expense. This option was exposed in ED 115 'Request for Comment on IAS 19 Employee Benefits' and removed from the pending Australian Standard.

ED 131 proposes the option to recognise all actuarial gains and losses and adjustments arising from the asset ceiling directly in retained earnings. The AASB are proposing to not allow this option under a revised AASB 119

ED 131 proposes another option for the accounting for actuarial gains and losses, whereby entities with an accounting policy of full recognition of actuarial gains and losses in the period in which they occur may recognise these gains and losses immediately in retained profits. Entities who apply this option will have to do so for all their defined benefit plans and actuarial gains and losses. Additional disclosures, including a 'statement of recognised income and expense', will be required where this accounting policy is applied.

A statement of recognised income and expense takes the form of a statement of changes in equity that excludes transactions with equity holders acting in their capacity as equity holders.

In addition, the exposure draft proposes that entities who elect to adopt this method of recognising actuarial gains and losses will also be required to recognise any adjustments arising from the asset ceiling imposed by paragraph 58(b) of the Standard directly in retained earnings. Disclosure of the adjustment in the statement of recognised income and expense will be required.

Recycling of the actuarial gain or loss and any adjustments arising from the asset ceiling will not be permitted

Recycling of the actuarial gain or loss and any adjustments arising from the asset ceiling through profit and loss will not be permitted.

As noted above, AASB 119 presently requires the full expensing of actuarial gains and losses in the period the gain or loss occurs within the income statement. The AASB has proposed that this method of accounting for the actuarial gain or loss continue to be the sole option permitted in Australia for the following reasons:

- permitting the choice between recognition in the income statement or in retained earnings could result in financial reports not being comparable
- actuarial gains and losses meet the definitions of income and expense per the *Framework for the Preparation and Presentation of Financial Statements*
- recognition in the income statement provides greater transparency than the corridor approach (disallowed in Australia) or the direct recognition in retained earnings options.

Extension of multi-employer defined benefit plan provisions

AASB 119 specifies that defined benefit plans that pool the assets contributed by various entities under common control are not multi-employer plans, and consequently should be accounted for as defined benefit plans.

Entities under common control may account for their multi-employer defined benefit plans as defined contribution plans where certain criteria are met

The exposure draft proposes that for such entities who have plans which would otherwise meet the definition of a multi-employer plan, where the entity:

- is a parent that produces consolidated financial statements that are available for public use that comply with IFRS, or is a wholly-owned subsidiary of an intermediate or ultimate parent that produces consolidated financial statements that are available for public use that comply with IFRS; and
- does not have its debt or equity instruments traded in a public market; and
- has not filed, or is in the process of filing, financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market,

the entity will be permitted to treat the plan as a multi-employer plan in any separate or individual financial statements it presents.

Guidance is being developed as to the interpretation of 'a consistent and reliable basis of measurement'

Fairly extensive additional disclosures proposed

*AASB comments due 30 June,
IASB comments due 31 July*

The effect of this extension to the provisions is to permit entities under common control which comply with the criteria above to account for such plans as defined contribution plans where there is no consistent and reliable basis for allocating the assets and liabilities of the plan. The IFRIC is developing guidance which interprets '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.

Additional disclosure requirements

ED 131 proposes a number of additional disclosures which provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit costs, and which bring the disclosures closer in line to that of revised SFAS 132 *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

The new disclosures include:

- reconciliations showing the movement in plan assets and defined benefit obligations
- information about plan assets
- information about the sensitivity of defined benefit plans to changes in medical cost trend rates
- information about trends in the defined benefit plan
- information about contributions to the defined benefit plan
- information about the nature of the defined benefit plan.

Comment period

The IASB has requested comments on the exposure draft by 31 July 2004. The AASB has requested comments on ED 131 by 30 June 2004 so that comments received can be taken into account in the AASB's own submission to the IASB on the IASB ED Proposed Amendments to IAS 19 *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures*.

Feedback and Assistance

We welcome your feedback on the matters covered in this *Accounting Alert* – please email your comments to accounting_alerts@deloitte.com.au

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