Time for Transition: IAS 19R
Employee benefits

Will IAS 19R change your employee benefit reporting?
It may affect:
• actuarial gain or loss recognition
• net interest
• measurement of defined benefit obligations
• administration cost classification
• unvested past service cost
• interim reporting
• disclosure.

The effective date of 1 January 2013 is upon us ...

New approach, new intricacies
Many companies applying the ‘corridor approach’ to recognising actuarial gains and losses will already have analysed the impact of eliminating that approach under the amended employee benefit standard¹. Without doubt, that elimination will have a significant impact on those companies’ financial statements. But this is not the only amendment that could affect the way you account for pensions and other employee benefit plans. All companies with employee benefit plans need to analyse the impact of the other amendments, regardless of whether they apply the corridor approach to defined benefit plans. We draw your attention here to some of the changes it introduces.

IAS 19R changes the profit or loss credit for interest income on plan assets and where administration costs are recognised. It also makes some changes to the way defined benefit obligations are measured. In addition, it introduces enhanced disclosures, requiring detailed information to be collated for defined benefit plans – including multi-employer plans.

Applying IAS 19R may require you to collate data, and your actuaries may need to make detailed calculations. Understanding its requirements is the first step to determining the inputs required.

¹ IAS 19 Employee Benefits, amended June 2011
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<th>Topic</th>
<th>Description</th>
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<td>Actuarial gain or loss recognition</td>
<td>If you apply the corridor approach under current IAS 19, then deferred recognition of actuarial gains or losses under the corridor approach is no longer permitted. Actuarial gains or losses are recognised immediately in other comprehensive income (OCI) when they occur, as part of remeasurements. Immediate recognition will introduce volatility to your statement of financial position, although your actual economic exposure is unchanged.</td>
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<td>Net interest</td>
<td>If you have funded defined benefit plans, then net interest is calculated under IAS 19 as the net defined benefit liability multiplied by the liability discount rate. This changes the amount of the total return on plan assets that is recognised in profit or loss. The greater the difference between the expected rate of return on your plan assets and your liability discount rate, the greater the impact on your profit or loss. Remember that you will need to determine the expected rate of return on plan assets at the start of the period of initial application of IAS 19, in order to disclose the current-year effect of this change in accounting policy.</td>
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<td>Measurement of defined benefit obligations</td>
<td>If your employees make contributions, then IAS 19 requires certain employee contributions to be treated as negative benefits, affecting the attribution of the net benefit to years of service. The IFRS Interpretations Committee is currently considering this accounting. IAS 19 also changes other measurement requirements, such as for taxes payable by the plan, mortality improvements, and risk-sharing features and contributions from third parties. You may need to discuss these amendments with your actuaries.</td>
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<td>Administration cost classification</td>
<td>If you incur material administration costs, then be alert. You previously recognised the expected amount of your total administration costs in profit or loss – either in service cost or as a deduction from interest income – with a true-up to actual in actuarial gains or losses. IAS 19R requires the cost of managing plan assets to be deducted from the return on plan assets as part of remeasurements in OCI. Other administration costs are recognised when the administration service is received: in light of the requirements of IAS 1 Presentation of Financial Statements, it appears that they will be charged to profit or loss – which may affect your operating profit.</td>
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<td>Unvested past service cost</td>
<td>If you have significant unrecognised past service cost, then when first applying IAS 19R, you need to recognise all unrecognised past service cost retrospectively. Regardless of whether benefits are vested or not, past service cost is recognised in profit or loss immediately under IAS 19R, rather than over the vesting period.</td>
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<td>Interim reporting</td>
<td>If you prepare interim financial statements, then whether your net defined benefit liability should be remeasured at your interim reporting date is a matter of judgement. Remeasurements are now recognised and reflected in the net defined benefit liability immediately in the period they arise; therefore, you may need to remeasure at the end of the interim reporting period to ensure that the amount reported is not materially different from the amount that would be reported if remeasurements were recognised. In particular, this might be the case if you currently apply the corridor approach. For example, the net defined benefit liability might be materially affected by changes in discount rates during the period, or by the return on plan assets significantly exceeding the amount recognised in profit or loss.</td>
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<td>Disclosure</td>
<td>If you have material defined benefit plans, then you will need to make additional disclosures, including sensitivity analysis for significant actuarial assumptions and the characteristics of your plans. Multi-employer and group plans will also require more disclosure. If you have several plans, then you will need to plan carefully the extent of aggregation or disaggregation, to best meet the disclosure objectives: you will also need to plan how you will collate the data.</td>
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**How can we help?**

KPMG has experience of IAS 19R across many jurisdictions, and can help you to assess the impact on your employee benefit plans from accounting, tax and regulatory perspectives, as well as the impact on your systems and processes, business and people.

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