Pension Plans — Background Information and Basis for Conclusions

Section 4600

Foreword

In April 2010, the Accounting Standards Board (AcSB) released Part IV of the CICA Handbook – Accounting, which consists of PENSION PLANS, Section 4600. The AcSB has approved for publication the contents of this document setting out its rationale for these standards.

Background Information and Basis for Conclusions documents are intended to help readers understand how the AcSB reached its conclusions, but they do not include explanations of requirements or guidance on the application of the relevant Section.

June 2010

TABLE OF CONTENTS

INTRODUCTION

1 This document summarizes considerations that were deemed significant by the members of the Accounting Standards Board (AcSB) in reaching their conclusions in developing PENSION PLANS, Section 4600, as set out in Part IV of the CICA Handbook – Accounting (Handbook). It sets out the reasons the AcSB undertook the project to develop this material, the process of research and deliberation, the key decisions made, and the principal reasons for adopting the positions taken and rejecting others. Individual AcSB members gave greater weight to some factors than to others.

2 Nothing in this document is to be taken as overriding the requirements of the Handbook. However, the discussion may help readers understand how the AcSB reached its conclusions in developing the Section and the AcSB's intent with respect to its interpretation and application.

BACKGROUND

3 At its February 2008 meeting, the AcSB considered whether, on changeover to International Financial Reporting Standards (IFRSs) by publicly accountable enterprises, pension plans should adopt International Accounting Standard IAS 26 *Accounting and Reporting by Retirement Benefit Plans* in Part I of the Handbook in Canada. As a result of its consultations with other national standard setters, the AcSB learned that:

(a) a number of countries that have adopted IFRSs for other types of entities have not adopted IAS 26;

(b) some countries have enacted an "improved" version of IAS 26; and

(c) those countries that have considered adopting IAS 26 agree that IAS 26 needs revising.

The AcSB also thought that IAS 26 would not represent an improvement over PENSION PLANS, Section 4100, in the pre-changeover standards 2 (former Section 4100), and international convergence would not provide significant benefits to pension plans or the users of their financial statements. Accordingly, the AcSB decided that Canadian pension plans should not adopt IAS 26. It also decided to encourage the International Accounting Standards Board to replace IAS 26. However, the AcSB recognized that such a project would not be addressed in the near future given the International Accounting Standards Board's other agenda priorities. In the meantime, the AcSB concluded that it should develop an appropriate accounting model for Canadian pension plans. The AcSB also acknowledged that it would prefer to replace a Canadian model in the future with an improved version of IAS 26.

4 In April 2008, the AcSB issued the Exposure Draft, "Adopting IFRSs in Canada," proposing that, upon adoption of International Financial Reporting Standards (IFRSs) by publicly accountable enterprises, pension plans would continue to prepare their financial statements in accordance with former Section 4100 rather than IAS 26. The AcSB subsequently confirmed this intent in its March 2009 Exposure Draft, "Adopting IFRSs in Canada, II," and, in addition, noted that:

> "... the AcSB is considering the extent to which Section 4100 requires change, as well as whether guidance in addition to that found in Section 4100 is needed after 2011, and, if so, the appropriate source of such guidance."

5 Several stakeholders commenting on the April 2008 Exposure Draft agreed with the proposal to retain former Section 4100 for use by pension plans rather than have them adopt IAS 26. However, other stakeholders thought that Canadian pension plans should apply IAS 26 to enable the AcSB to adopt IFRSs in their entirety. They emphasized the need for pension plans and other similar investment vehicles to apply the same set of accounting standards (i.e., IFRSs for comparability reasons). The AcSB acknowledged the desirability of consistent reporting amongst pension plans and other similar investment vehicles. The AcSB observed, however, that applying IAS 26 would not result in consistent reporting between pension plans given the number of options available within the standard (for example, the option to present the obligation on the face of the financial statements or in the notes).

Development of the standards

6 The AcSB determined that former Section 4100 was generally meeting the needs of users of pension plan financial statements. Accordingly, the AcSB decided to modify former Section 4100 only to the extent necessary to make the standards in Part IV of the restructured Handbook stand alone.

7 In January 2009, the AcSB staff convened a meeting of representatives from the pension plan sector that included financial statement preparers, public practitioners and regulators. The attendees provided input with respect to the sources of generally accepted accounting principles (GAAP) that were being applied when aspects of financial reporting were not addressed by former Section 4100. The AcSB learned that, apart from core operations (i.e., investment assets and liabilities, and pension obligations), a pension plan may need accounting guidance in the following areas:

(a) employee future benefits, because it may itself be a plan sponsor;

(b) property, plant and equipment, because it may hold, for example, leasehold improvements, in its operations (paragraph 4100.13 previously provided minimal guidance);

(c) receivables and payables related to, for example, plan sponsors and members, and investment brokers;

(d) reserves, because some pension plans maintain normal contribution rates for members and employers through the use of a stabilization reserve established from higher than expected plan earnings (RESERVES, Section 3260, previously addressed the establishment of reserves); and

(e) a GAAP hierarchy, for when an issue is not addressed by the primary source of GAAP.

8 These representatives also stressed the importance of the standards addressing issues arising in practice such as presentation of an actuarial asset value adjustment and presentation of investment assets on a consolidated or non-consolidated basis. They also noted that the guidance on transaction costs from Emerging Issues Committee Abstract EIC-168, Accounting by Pension Plans for Transaction Costs, should be preserved. These issues are addressed below.

9 In July 2009, the AcSB issued an Exposure Draft, "Pension Plans," proposing to issue new accounting standards for pension plans as a separate Part of the Handbook. Input to the AcSB's redeliberations was received through roundtable discussions, written submissions, and discussions with pension plan stakeholders. The conclusions of the AcSB on the more significant issues raised by stakeholders are discussed below.

SCOPE

10 The AcSB decided that the standards in Section 4600 should apply to all pension plans, not only plans that meet the definitions of a defined benefit or defined contribution plan. The scope includes plans such as hybrid plans with a defined benefit and defined contribution component, and an amalgamation or accumulation of pension plans, clarifying an issue on which former Section 4100 had not been explicit.

11 The Exposure Draft proposed to permit benefit plans with characteristics similar to pension plans to apply the standards. The AcSB decided that such plans should be required to do so. This change enhances the comparability between financial statements of different benefit plans and between financial statements of pension plans and benefit plans other than pension plans. Stakeholders also suggested that the scope not be limited to "retirement benefit plans" but be expanded to include non-retirement benefit plans that have characteristics similar to pension plans (for example, long-term disability plans). The AcSB agreed with this suggestion.

12 To be consistent with EMPLOYEE FUTURE BENEFITS, Section 3461, in Part II of the Handbook (accounting standards for private enterprises), the AcSB modified the definitions of a defined contribution pension plan and a defined benefit pension plan. For a defined contribution pension plan, the AcSB removed the condition that the contributions be fixed or allocated to specific individuals, leaving only the condition that the pension plan specify how an entity's contributions are determined. A defined benefit pension plan is now defined as a pension plan that is not a defined contribution pension plan (i.e., a default position). These changes respond to concerns regarding some multiemployer plans that have elements of both defined benefit and defined contribution plans. These multiemployer plans allow trustees to reduce benefit payments to employees when the plan has insufficient funds, and previously were classified as defined benefit plans as the conditions for a defined contribution plan were not met.

BASIS OF ACCOUNTING

13 As a result of the decision that Section 4600 would stand alone in Part IV of the Handbook, the AcSB considered what basis of accounting a pension plan should use in selecting or changing accounting policies that do not relate to its investments or pension obligations. The Exposure Draft proposed that a pension plan prepare its financial statements on a basis consistent with the International Accounting Standards Board's *Framework for the Preparation and Presentation of Financial Statements*, and International Accounting Standards IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and IAS 10 *Events after the Reporting Period* to the extent that their requirements do not conflict with the requirements of the standards for pension plans. In selecting other accounting policies that do not relate to investments and pension obligations, a pension plan could refer to IFRSs but would not be required to do so.

14 Some stakeholders expressed concern with this approach, noting the potential confusion for financial statement preparers with the lack of specific direction. There might also be inconsistencies in application as a pension plan could look to IFRSs for guidance on one issue and look to another Part of the Handbook for guidance on another issue. As a result, the AcSB decided that a pension plan should comply (on a consistent basis) with either IFRSs in Part I of the Handbook, or accounting standards for private enterprises in Part II of the Handbook, to the extent that those standards do not conflict with the requirements of the Section.

15 Each of these references (to IFRSs and accounting standards for private enterprises) is a complete source of GAAP that includes a hierarchy of guidance to which management refers — IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (in Part I) or GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100 (in Part II); and a conceptual framework relating to the standards in the appropriate Part. As a result, the AcSB concluded that Section 4600 could stand alone in Part IV of the Handbook without the need for references to individual standards or frameworks elsewhere. Section 4600 also requires pension plans to follow the general standards for financial statement presentation with respect to fair presentation, comparative information and materiality in Part I or Part II of the Handbook (consistent with the choice made for accounting policies that do not relate to investments or pension obligations).

16 Consequently, a pension plan and the plan sponsor may apply the same Parts of the Handbook (i.e., Part I or Part II) in selecting accounting policies, other than policies of the plan that relate to its investments or pension obligations. A

stakeholder supported such an approach for practicality reasons as it would decrease the number of GAAPs that plan sponsors and auditors need to know.

STATEMENT OF FINANCIAL POSITION

Presentation

Pension obligation and actuarial asset value adjustment

17 The Exposure Draft proposed that the pension obligation be presented on the statement of financial position to improve transparency. The AcSB viewed pension plan financial statements as incomplete and potentially misleading if they included the pension plan's assets, but not the obligations that the assets are intended to satisfy. The AcSB also recognized the prime importance of a comparison between the obligation and the assets to the users of pension plan financial statements. Former Section 4100 permitted a pension plan to present the pension obligation in the notes to the financial statements.

18 Most stakeholders commented on this issue, with the majority supporting the requirement to present the pension obligation on the face of the statement. They noted that the pension obligation is a key element in assessing a pension plan's financial position because it provides a more understandable, complete picture. They also argued that presentation of the pension obligation in the notes to the financial statements obscures the obligation and that the obligation should be presented on a consistent basis with the net assets available for benefits.

19 Some stakeholders argued against a requirement to present the pension obligation on the face of the financial statements. They viewed the obligation determined for accounting purposes as less relevant than that determined for funding purposes. They felt including the obligation on the face of the financial statements would be confusing. Others preferred to disclose the obligation in the notes to the financial statements to be consistent with IAS 26, which does not require presentation on the face of the financial statements. Some stakeholders observed that some regulators do not permit recognition of the obligation, while others do not require it and, thus, questioned its relevance for general purpose financial statements.

20 The AcSB noted that it had decided not to adopt IAS 26 so that consistency with that standard was not an objective. The issue of measuring the obligation is separate from whether there should be a requirement to present the obligation on the face of the financial statements. Regulators often require financial statements to be prepared based on GAAP, but permit or require particular adjustments to satisfy their needs. Such special purpose financial statements are not general purpose financial statements and, thus, are outside the scope of Section 4600. The AcSB decided that the reasons that had led to the Exposure Draft proposal were still valid and that the final standard should require a pension plan to present the pension obligation on the face of the statement of financial position.

21 Some stakeholders felt strongly that the past practice of recognizing a "smoothing" adjustment to the fair value of plan assets so as to report a so-called actuarial asset value should be permitted to continue. They believed that the adjustment is appropriate in order to "marry" the assets with the liability to arrive at a surplus or deficit position. Some requested clarification on the acceptability of presenting this adjustment within general purpose financial statements.

22 Some stakeholders explained that the adjustment smoothes gains and losses over a period so that trustees can manage volatility and need not change contribution levels on an ongoing basis. Others explained that pension plans use a bond or other long-term rate to determine the obligation but they invest in assets other than bonds. They viewed the smoothing adjustment as playing an important role in overcoming the mismatch of the pension plan assets and obligations. Pension plans usually discuss their funded status, based on actuarial asset values, in their annual report. Some pension plans expressed concern that the financial statements would show a surplus or deficit different from that discussed by management in the annual report.

23 The AcSB concluded that the term "actuarial asset value" does not have a standard definition and is not an appropriate measurement basis for plan assets. Furthermore, the difference between that actuarial asset value and a pension plan's net assets available for benefits (sometimes referred to as an "actuarial asset value adjustment") does not meet the definition of an asset or a liability and, therefore, cannot be included in computing the pension plan's surplus or deficit. The AcSB held the view that volatility in the carrying amount of plan assets reflects real economic phenomena and, as a result, should be reflected in a pension plan's financial statements.

24 Therefore, the AcSB confirmed that a pension plan should measure plan assets at fair value and not at an actuarial asset value. Consequently, the surplus or deficit shown in the statement of financial position should be the difference between the fair value of the net assets available for benefits and the pension obligations. The standards stipulate the components of the "net assets available for benefits" and the "resulting surplus or deficit" in order to make it clear that an actuarial asset value adjustment cannot be included in computing the pension plan's surplus or deficit.

25 However, in response to stakeholders' concerns, the AcSB noted that a pension plan may disclose the actuarial value of the net assets available for benefits. If it does so, the AcSB decided that it should also disclose the amount of any difference between the actuarial asset value and fair value together with an explanation of that difference (see paragraph 4600.34). This disclosure requirement is similar to that in the former Section 4100.

26 The AcSB noted that nothing in the final standards prevents a pension plan from considering a presentation format that explains the difference between a regulatory surplus or deficit and an accounting surplus or deficit, for example, by

showing the regulatory surplus or deficit and the actuarial asset value adjustment as two components of the accounting surplus or deficit. Financial statement users could benefit from understanding this difference.

Consolidation

27 Some pension plans have a controlling interest in investments in infrastructure and real estate entities, or act as private equity investors in a variety of businesses. These investees may have significant debt. Some stakeholders hold the view that the existence of significant financial leverage in a controlled investee provides important information to a user in understanding a pension plan's financial position and should be apparent in that plan's financial statements. The AcSB understood that divergent practice existed in accounting for these investments under former Section 4100. Some pension plans had used a partial consolidation approach for subsidiaries by including the subsidiary's debt in the pension plan's statement of net assets available for benefits and grossing up the amount of the investments. Pension plans generally did not fully consolidate the assets and liabilities of investments in entities over which the pension plan had control.

28 The AcSB confirmed that all investment assets and liabilities should be measured at fair value at the date of the statement of financial position. In addition, the AcSB decided that all investments should be presented in the same manner. Consequently, Section 4600 requires investment assets to be presented on a non-consolidated basis. A pension plan measures an investment in an entity over which it has control or can exercise significant influence at its fair value, and includes this fair value with all other investment assets in the statement of financial position. The AcSB observed that a pension plan could voluntarily provide additional information about its investees in the notes to its financial statements.

Interest in a master trust

29 The former Section 4100 permitted the use of proportionate consolidation or equity accounting as acceptable methods of accounting for a pension plan's participation in a master trust, supported by note disclosure about the master trust as a whole. The Exposure Draft did not propose any changes to this guidance, but posed a question as to whether the guidance should be changed. Neither the Exposure Draft nor former Section 4100 addressed the accounting by a master trust itself.

30 The majority of stakeholders who addressed this question agreed with leaving the guidance on accounting for an interest in a master trust unchanged. However, most of these stakeholders did not explain why they agreed and some indicated that they did not have extensive experience with master trusts. Of those stakeholders who disagreed, some questioned the option to permit proportionate consolidation for master trusts when it appears this treatment is being discontinued in other circumstances. Others believed that the accounting for an interest in a master trust should be consistent with interests in other pooled or mutual funds (i.e., at fair value). A few stakeholders asked for further guidance.

31 The AcSB decided that accounting for an interest in a master trust should be consistent with the accounting for an interest in other pooled or mutual funds, and other investment assets (i.e., at fair value). As a consequence of this decision, proportionate consolidation and the equity method of accounting would no longer be permitted.

32 The AcSB also reviewed the Section 4100 definition of a master trust, which referred to a fund that invests money on behalf of pension plans of "a group of employers under common control." The AcSB noted that many arrangements commonly described as "master trusts" involved a number of unrelated employers, sometimes in a single industry and sometimes set up under a union agreement. The AcSB did not think that common control should affect the accounting for an interest in a master trust by a pension plan or the accounting by the master trust. Accordingly, the AcSB decided to remove the requirement that the employers be under common control in the final definition. The AcSB also took the opportunity to modify the definition further to categorize a master trust as a "pool of assets" rather than a "fund" because of the different meanings associated with the latter term. It also decided not to refer to an "entity" because it understood that a master trust may not be a separate entity, but rather a contract between the settler (the contributor in this case) and the trustee.

Other

33 The Exposure Draft proposed that the statement of financial position should distinguish investment liabilities by type to be consistent with the former Section 4100 requirement to disclose investment assets by type. However, some stakeholders disagreed with a requirement to present either investment assets by type or investment liabilities by type as they believed that such presentation may lead to excessive detail on the statement. They noted that providing details in the notes to the financial statements would fully meet users' needs since the notes are an integral part of the financial statements. The AcSB noted that many large pension plans have diversified their investments in recent years and agreed with stakeholders that the face of the statement would often be cluttered if it included details by type of investment. Accordingly, the AcSB decided that the statement of financial position should distinguish investment assets and investment liabilities from other assets and liabilities and that the detail by type could be disclosed either on the face of the statement or in the notes.

Recognition

34 Some stakeholders noted that the Exposure Draft did not propose guidance for the recognition and derecognition of financial assets and financial liabilities. Under the pre-changeover standards, pension plans referred to the guidance in FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, Section 3855. The AcSB agreed with these stakeholders on the need for such guidance and as a result, decided to permit pension plans to refer to the guidance on recognition and derecognition of financial assets and financial liabilities in International Accounting

Standard IAS 39 *Financial Instruments: Recognition and Measurement* in Part I of the Handbook or FINANCIAL INSTRUMENTS, Section 3856, in Part II of the Handbook. It also incorporated relevant definitions from IFRSs into Section 4600. The AcSB did not see the references to IAS 39 or Section 3856 as causing a significant change in practice because these standards are converged with pre-changeover Section 3855 on these issues, for the most part.

Measurement

Fair value

35 Fair value measurement guidance is central to the measurement of investment assets and liabilities. The Exposure Draft proposed linking the requirement to measure investment assets and liabilities at fair value to the guidance in a proposed IFRS on fair value measurement, with the intention to refer to the final standard when it was available. This linkage would ensure an approach consistent with Part I of the Handbook (IFRSs).

36 Stakeholders supported this direction, although some questioned the timing of publication of the final fair value measurement standard. They suggested that until the final standard on fair value measurement became available, the final standards for pension plans should retain the relevant guidance from former Section 4100.

37 Subsequent to the issuance of the Exposure Draft proposals, the AcSB became aware that the IASB's final fair value measurement standard would be delayed. The AcSB expected to issue Section 4600 in early 2010 to be effective for years beginning on or after January 1, 2011. Therefore, the AcSB considered alternative sources of fair value measurement guidance, including IAS 39 *Financial Instruments: Recognition and Measurement*, FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, Section 3855, in the pre-changeover standards, and the guidance in former Section 4100, as suggested by some stakeholders. The AcSB concluded that it should refer to the best current guidance in this area and, thus, decided to refer to IAS 39. The AcSB intends to amend Section 4600 to refer to the IFRS on fair value measurement once it is issued by the International Accounting Standards Board.

Pension obligation

38 Former Section 4100 provided minimal guidance on measuring the pension obligation of a defined benefit pension plan. The Exposure Draft did not propose adding guidance in this area to the former standard other than to propose an option to use the plan sponsor's accrued benefit obligation amount.

39 Some stakeholders noted inconsistencies in practice and proposed adding guidance on, for example, the selection of the discount rate. The AcSB noted that such guidance was beyond the limited scope of the project. Furthermore, the AcSB did not want to change existing practice before the International Accounting Standards Board reconsiders this topic in its post-employment benefits project. Others proposed permitting the use of the funding valuation in place of the accounting valuation. The AcSB noted that the definition of the pension obligation of a defined benefit pension plan in Section 4600 contains the principles for its measurement.

40 The AcSB noted that the proposal to permit the use of the plan sponsor's accrued benefit obligation incorporates the principle from the answer to Q&A #2 of the CICA's Employee Future Benefits Implementation Guide. This use of the plan sponsor's accrued benefit obligation permits a pension plan and the plan sponsor to use the same valuation for two purposes and, thus, not be forced to perform two valuations.

41 The AcSB decided to add guidance on the determination of the accrued benefit obligation by providing references to the applicable standards in Part I (IFRSs) and Part II (accounting standards for private enterprises) of the Handbook. The reference to Part II would allow the use of a funding valuation to measure a pension plan's obligation when the plan sponsor has chosen to use that valuation to determine its accrued benefit obligation, as permitted under the immediate recognition approach in EMPLOYEE FUTURE BENEFITS, Section 3461, in Part II of the Handbook.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Transaction costs

42 Emerging Issues Committee Abstract EIC-168, Accounting by Pension Plans for Transaction Costs, in the pre-changeover standards, reached a consensus that pension plans should not include transaction costs in the fair value of investments on initial recognition or subsequent remeasurement. Transaction costs should be included in the statement of changes in net assets in the period incurred. The Exposure Draft proposed that transaction costs be included in administration costs — a more specific requirement than EIC-168.

43 Stakeholders stressed the importance of preserving the guidance in EIC-168 and, thus, agreed with its inclusion. However, some stakeholders expressed concern with the proposal to require transaction costs to be included in administrative costs. They noted that this proposal would change current practice for plans that typically record transaction costs as part of investment expenses so that investment income and returns are net of transaction costs. These stakeholders viewed the costs of recording transaction costs separately from other investment expenses as exceeding the benefits. The AcSB agreed with this view and noted that it had not intended to change existing practice. Therefore, it decided that transaction costs should be included in period expenses, but did not specify which category of expense.

Details of benefit payments

44 The Exposure Draft proposed requiring plans to present the details of benefit payments, showing those for retirement, disability and termination separately. A stakeholder expressed concern that it may be difficult to separate disability and termination as they are often reported together as "benefit payments", and that many benefit payments (for example, death and disability lump sums), are often small relative to the size of the plan. The proposed level of detail would not

likely be meaningful or helpful to financial statement readers. Another stakeholder expressed concern that the granularity of some of the disclosure requirements, such as the details of benefit payments, was too onerous.

45 The AcSB considered these concerns, but decided to retain the proposed presentation requirement (see paragraph 4600.27) and remind stakeholders that materiality is always considered in applying presentation and disclosure requirements (see IAS 1 *Presentation of Financial Statements* in Part I of the Handbook, and GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, Section 1400, in Part II of the Handbook).

Other

46 Neither the Exposure Draft nor former Section 4100 addressed the classification of realized and unrealized gains and losses in the statement of changes in net assets available for benefits. A stakeholder suggested clarifying whether such gains and losses would be included in "investment income by type of investment, excluding changes in fair values of investments," or in "changes in the fair values of investments." The AcSB agreed and clarified the classification of realized and unrealized gains and losses in paragraph 4600.26.

47 The AcSB considered, but rejected, a stakeholder's suggestion to separate the activities presented on the face of the statement of changes in net assets available for benefits into investing and operating activities. The AcSB noted that a pension plan could voluntarily provide this type of information.

DISCLOSURES

48 Section 4600 requires more extensive disclosure than previously required by former Section 4100 to:

(a) help financial statement users understand the adequacy of the plan assets to satisfy benefit obligations; and

(b) fill in any gaps, as the standards will now stand alone in Part IV of the Handbook. For example, the AcSB added the requirement to disclose significant accounting policies (see paragraph 4600.29(b)) and to provide the disclosures required by International Financial Reporting Standard IFRS 7 *Financial Instruments: Disclosures* in Part I of the Handbook for those investments that are financial instruments.

49 Former Section 4100 identified some disclosures as "desirable", The AcSB decided to require these disclosures.

General

50 The CICA Handbook – Accounting now contains separate standards for publicly accountable entities, private enterprises, and pension plans (with separate standards for not-for-profit organizations under development). To facilitate a user's understanding of the basis of presentation, the Handbook requires an entity to state in the notes to its financial statements which set of standards it has applied (see paragraph 4600.31).

51 The Exposure Draft proposed the disclosure of transactions between the pension plan and the plan sponsor and any other related party transactions of the pension plan. Because the plan sponsor may have close relationships with the plan itself, the AcSB viewed disclosure of transactions between the pension plan and the plan sponsor as useful in assessing the management of the pension plan. It also noted that an investment in the plan sponsor may make a plan's ability to pay participants' benefits more dependent on the financial condition of the sponsor than would otherwise be the case.

52 Some stakeholders questioned the intent of requiring disclosure of "any other related party transactions" and suggested excluding capital transactions as they viewed disclosures of such transactions as excessive and not useful or relevant. The AcSB decided not to require disclosure of additional investments by the plan in existing investees, dividends and interest paid to the plan by investees, and similar transactions (see paragraph 4600.29(e)). It agreed that disclosure of additional investments by the plan in existing investees would not provide useful information. It also noted that paragraph 4600.25(a) requires disclosure of investment income by type of investment.

Investment portfolio

53 For those investments that are financial instruments, paragraph 4600.32(a) requires the disclosures specified by IFRS 7 *Financial Instruments: Disclosures* in Part I of the Handbook. The Exposure Draft had a similar but more specific requirement, as it referenced particular paragraphs within IFRS 7. The requirement to provide IFRS 7 disclosures is consistent with pre-changeover Canadian GAAP requirements to apply the disclosure requirements in FINANCIAL INSTRUMENTS — DISCLOSURES, Section 3862, which was converged with those in IFRS 7. (Section 3862 scoped out the pension obligations of defined benefit pension plans, to which former Section 4100 applies, but did not scope out financial assets or financial liabilities.)

54 Some stakeholders disagreed with some aspects of the proposals and provided the following comments and suggestions:

(a) The reference to IFRS 7 should apply to all investment assets, not just financial assets.

(b) Compliance should be required with all IFRS 7 disclosures rather than just particular paragraphs within that standard because it is not possible to predict which parts of the standard are relevant. Pension plans have generally complied with all relevant aspects of Section 3862.

(c) Hedge accounting is not relevant because investment assets and investment liabilities are at fair value.

(d) Application guidance should be provided.

(e) Some defined contribution plans' members direct the investment decisions for their individual portfolio. As a result, stakeholders questioned the usefulness of the quantitative sensitivity analysis because it is based on the plan's total investment portfolio, instead of an individual member's portfolio.

55 The AcSB noted that IFRS 7 applies to financial assets and financial liabilities rather than to investment assets and investment liabilities. It did not wish to expand the scope of the disclosure requirement in Section 4600 beyond that specified in IFRS 7.

56 In terms of specific versus general references to IFRS 7, the AcSB agreed to replace the references to specific paragraphs of IFRS 7 with a general reference to that standard, for the reasons provided by stakeholders. The AcSB did not see the necessity of providing application guidance and noted that the general reference to IFRS 7 draws in its application guidance, which is integral and required to be read in conjunction with the standard.

57 The AcSB agreed with stakeholders that quantitative sensitivity analysis for market risk such as interest rate risk based on a defined contribution plan's total investment portfolio was not useful since individual members' portfolios and the related risk could differ significantly. As a result, it decided not to require quantitative sensitivity analysis disclosures for market risk for defined contribution plans that permit members to direct investment decisions for the assets in their accounts (see paragraph 4600.33).

58 As a result of its decision not to refer to the International Accounting Standards Board's forthcoming standard on fair value measurement at this time, the AcSB decided to carry forward the requirement in former Section 4100 to provide a description of how fair values have been determined. Since IFRS 7 contains disclosure requirements related to fair value for financial instruments, this additional disclosure is relevant only to investment assets and investment liabilities other than financial instruments.

Pension obligation of a defined benefit pension plan

59 The Exposure Draft proposed disclosure of the effective date of the next required actuarial valuation in addition to the previous requirement to disclose the effective date of the actuarial valuation used to determine the pension obligation. This proposal was consistent with the disclosures required in pre-changeover Section 3461 because it recognized the interest of many financial statement users in estimating future cash flows. The effective date of the last actuarial valuation is important in understanding the current required funding, while the effective date of the next actuarial valuation determines when the required annual funding amount will change. Stakeholders did not comment on this disclosure proposal (see paragraphs 4600.35(a)-(b)).

60 The Exposure Draft retained the requirement in former Section 4100 to disclose the name of the actuary who performed the actuarial valuation used to determine the pension obligation of a defined benefit pension plan. An actuarial firm questioned the usefulness of this disclosure and suggested disclosure of the actuarial firm as more appropriate. The AcSB agreed and modified the requirement (see paragraph 4600.35(c)).

Capital

61 The Exposure Draft proposed that a pension plan prepare its financial statements on a basis consistent with IAS 1 *Presentation of Financial Statements* in Part I of the Handbook as well as other specific IFRSs of a general nature. As a result of the AcSB's decision to require a pension plan to comply on a consistent basis with either IFRSs in Part I of the Handbook or the accounting standards for private enterprises in Part II of the Handbook (see paragraph 4600.07), the AcSB reconsidered this proposal. It noted that, under the pre-changeover standards, pension plans have applied CAPITAL DISCLOSURES, Section 1535, which is converged with the corresponding requirements in IAS 1. However, Part II of the Handbook does not contain any similar requirement. Therefore, the AcSB decided to add an explicit requirement for pension plans to provide the capital disclosures required by paragraphs 135-136 of IAS 1 *Presentation of Financial Statements* in Part I of the Handbook (see paragraph 4600.37).

EFFECTIVE DATE

62 The Exposure Draft proposed that the standards for pension plans would be effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011, with earlier application permitted. Stakeholders generally agreed with this proposal because they supported the AcSB's rationale to tie the effective date of the standards for pension plans to the changeover date to IFRSs for other publicly accountable enterprises. However, some expressed disagreement with the effective date given the timing of the IASB's final standard on fair value measurement (at the time expected in the first half of 2010). Others requested that the standards for pension plans be finalized by December 31, 2009, or no later than March 1, 2010, for a January 1, 2011 effective date.

63 Due to a delay in the International Accounting Standards Board's issuance of its IFRS on fair value measurement, the AcSB decided to issue the standards for pension plans without a direct link to that standard (see paragraphs 35-37).

64 The AcSB decided that the time between the issuance of the standards on April 1, 2010 and the proposed effective date was sufficient for pension plans to adopt the standards, and retained the effective date proposed in the Exposure Draft.

TRANSITIONAL PROVISIONS

65 The Exposure Draft proposed that pension plans make the transition to the new standards on a basis consistent with that specified in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in Part I of the Handbook. Most stakeholders agreed with this proposal. Thus, Section 4600 applies retrospectively to all prior periods presented. This decision took into account the needs of users of the financial statements to be able to compare the financial statements of a pension plan over time to identify trends in its financial position and financial performance. It is also consistent with the general requirement to comply with either Part I or Part II of the Handbook when selecting or changing accounting policies not covered in Section 4600.

66 The term "retrospective application" is defined in IAS 8 and ACCOUNTING CHANGES, Section 1506, in Parts I and II of the Handbook, respectively, as "… applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied." Both standards provide guidance on retrospective application, including the need for comparative figures and required disclosures such as the nature of the change in accounting policy. Thus, the AcSB saw no need to elaborate on the meaning of "retrospectively".

ILLUSTRATIVE EXAMPLES

67 The Exposure Draft proposed eliminating the examples in former Section 4100 that illustrated three possible formats for presenting the pension obligation information. Some stakeholders commented on this proposal, in particular the elimination of illustrative example 2, noting that they viewed this example as support for recognition of an actuarial asset value adjustment in the financial statements. The AcSB was concerned that this practice evolved from a misinterpretation of the intent of the illustrative example. The AcSB concluded that the examples were no longer necessary given the new requirement to include the pension obligation on the face of the statement of financial position, and decided to issue the final standards without illustrative examples.

Footnotes

2. The pre-changeover standards refer to Canadian standards in effect prior to the issuance of the standards in Parts I-IV of the Handbook.
