Pension Plans — Background Information and Basis for Conclusions

Amendments to Section 4600

Foreword

In December 2022, the Accounting Standards Board (AcSB) amended PENSION PLANS, Section 4600 in Part IV of the CPA Canada Handbook – Accounting. The AcSB has approved for publication the contents of this document setting out its rationale for these amendments.

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 Handbook.

INTRODUCTION

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

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

3 The requirements in Section 4600 are for accounting purposes, which may differ from regulatory requirements applicable to pension plans.

BACKGROUND

4 The AcSB developed Section 4600 in 2010 during the changeover to IFRS® Standards for publicly accountable enterprises, recognizing the need for an independent set of standards for pension plans in Canada. Since then, the Board made amendments in 2011 and 2012 to clarify ambiguities with certain fair value disclosures.

5 In 2018 and 2019, the AcSB consulted with pension plan stakeholders from across Canada to understand whether the standard continued to meet their needs. These consultations were performed with preparers, practitioners, users and actuaries who specialized in pension plan financial reporting. Based on the consultations, the Board determined that

while the standard generally continued to meet the needs of stakeholders, there were several areas in which either clarity or new guidance were required to address emerging diversity in practice. Therefore, the Board formed the Pension Plan Working Group (Working Group) to advise the Board on the current gaps in the standard and to enhance the relevance of pension plan financial statements.

6 The Working Group includes financial statement users, auditors, preparers, regulators, actuaries, plan members, plan administrators, plan trustees and a lawyer. These members have a wide range of backgrounds and experience with pension plans from across Canada. The Working Group met over a series of meetings in 2020 and 2021 to discuss the issues with Section 4600 and made recommendations on those issues to the Board.

7 After considering the Working Group's advice, in September 2021, the AcSB approved a project to:

- clarify that a statement of changes in pension obligations is not required for defined contribution pension plans;
- provide guidance on determining the split or amalgamation date for pension plans;
- provide recognition, measurement and disclosure guidance on the accounting for guaranteed annuity contracts (commonly referred to as buy-in or buy-out contracts);
- clarify the presentation requirements for combination plans; and
- enhance the disclosure requirements for investments in master trusts.

EFFECTS ANALYSIS

8 The AcSB is committed to enhancing the relevance of accounting standards for pension plans, as necessary, to ensure these standards continue to meet the needs of pension plan financial statement users. In executing on this commitment, the Board seeks to understand the differing needs of these users.

9 The Working Group advised the AcSB that there is significant diversity in practice throughout pension plan financial statements due to a lack of clarity or an absence of guidance in the current standard. These amendments seek to reduce that diversity by providing clear guidance on areas of concern stakeholders identified. The Board expects financial statement users will benefit from improved comparability between pension plans as a result of these amendments.

10 The AcSB acknowledges that reducing this diversity will result in a change in practice for some pension plans. Recognizing this, the Board has provided transitional relief in some areas to eliminate the need for restatement of previously issued financial statements and thereby minimize costs associated with implementing the amendments.

DEVELOPMENT OF THE AMENDMENTS

11 Throughout the development of the amendments to Section 4600, the AcSB followed its due process. The process included:

(a) issuing the Exposure Draft, "Pension Plans" in March 2022;

(b) analyzing and considering feedback received on the Exposure Draft through written responses, roundtable events and specific stakeholder consultations; and

(c) ongoing input from the Working Group.

12 The AcSB also asked Working Group members to perform a fatal-flaw review of the final amendments to the standard to ensure the guidance:

(a) reflects the Board's intent clearly; and

(b) is written in a manner consistent with other relevant guidance applied by pension plans in Parts I to IV of the Handbook.

13 The AcSB received 15 written responses to the Exposure Draft from public accounting firms, preparers, actuaries, users (including regulators) and a provincial accounting body. The Board reminds stakeholders that as part of its due process related to Part IV of the Handbook, it makes available a public file of materials relating to completed projects, which includes response letters received unless confidentiality is requested.

14 Respondents, including participants at meetings, supported the underlying principles in the Exposure Draft. However, some respondents suggested changes to some of the proposals. The specific issues addressed in this project, including the substantive comments received on the Exposure Draft and any changes made in response to those comments, are highlighted in the subsequent sections.

AMENDMENTS

Statement of changes in pension obligations

15 The AcSB heard from stakeholders and its Working Group that the scope of paragraph 4600.10(c) was unclear. As it was written, the paragraph required a statement of changes in pension obligations to be prepared for both defined benefit and defined contribution pension plans. However, this would not apply to defined contribution plans. In addition, some defined contribution pension plans exclude the statement of pension obligations from their financial statements while others present a combined statement of changes in both net assets available for benefits and pension obligations. To address this diversity in practice, the Board amended paragraph 4600.10(c) to clarify that a statement of changes in pension obligations does not apply to defined contribution pension plans.

16 The Working Group and some respondents to the Exposure Draft also recommended that the AcSB reconsider the definitions of defined benefit and defined contribution pension plans. The Working Group and respondents suggested that it may be unclear that the guidance excludes only defined contribution pension plans from preparing the statement of changes in pension obligations. They thought that some hybrid pension plans that have characteristics similar to defined contribution plans could misinterpret the guidance and conclude that they are also scoped out of this statement.

17 The AcSB considered this feedback and decided that amending the definitions of defined benefit and defined contribution pension plans could have pervasive effects on the standard. Therefore, to expedite these amendments, the Board will consider revisiting the definitions in a potential subsequent project. Stakeholders will continue to apply the current definitions of a defined benefit pension plan in 4600.05(i) and defined contribution pension plan in 4600.05(j) to classify hybrid pension plans.

Splits and amalgamations

18 Section 4600 does not include guidance for determining the effective date of pension plan splits or amalgamations. This has led to diversity in practice as to when the effect of a split or amalgamation should be reflected in pension plan financial statements. For example, some pension plans account for the effects of an amalgamation or split when the Boards of the pension plans approve the amalgamation or split. Other pension plans account for the effects after the Boards of the pension plans approve the transfer of assets or wait for regulatory approval of the amalgamation or split.

19 The Working Group and some respondents to the Exposure Draft informed the AcSB that because of the nature and complexity of the split or amalgamation, it may take several months or even a few years to obtain regulatory approval. Assets cannot be transferred legally from one plan to another while regulatory approval is outstanding and, once received, the pension plans transfer assets and liabilities from one plan to another to complete the transaction. In addition, legal documents underlying the transaction may specify an effective date different from the regulatory approval date or the asset transfer date. As a result of these factors, there were challenges in determining when to recognize the effects of a split or amalgamation. If the transaction were ongoing at period end, this would further amplify the challenges of determining when to reflect the transaction in the pension plan's financial statements and what, if any, disclosures to provide.

20 The AcSB also heard from stakeholders that regulations in different jurisdictions may differ. For example, in most jurisdictions, pension plans file some financial information through the Annual Information Return (AIR) on a split or amalgamated basis only after regulatory approval is obtained. However, in another jurisdiction, the pension plan must file the AIR on a split or amalgamated basis once the plan's Board approves the split or amalgamation, even if regulatory approval is pending. As the AIR is predominantly based on information in the financial statements, some pension plans currently recognize the effects of a split or amalgamation prior to regulatory approval in this jurisdiction.

21 The AcSB considered the feedback it received and addressed this diversity by defining the amalgamation date as the date on which a pension plan obtains the right to some or all of the assets and becomes liable for some or all of the obligations of one or more pension plans with which it is amalgamating. Similarly, the Board decided that the split date is when a pension plan loses the right to some or all of the assets and is no longer liable for some or all of the obligations of the pension plan subject to the split.

22 In developing the guidance, the AcSB considered the definitions of assets and liabilities in Part I and Part II of the Handbook as Part IV of the Handbook does not have standalone financial statement concepts. Based on those definitions, the Board thinks a pension plan should recognize assets when it has control of the assets and should recognize liabilities when it has a present obligation to transfer economic resources. In the case of amalgamations, for example, the Board thinks that pension plans should only recognize assets and liabilities when an importing plan has the rights to the assets and is liable for the obligations.

23 The AcSB also considered guidance in BUSINESS COMBINATIONS, Section 1582, in Part II of the Handbook, and IFRS 3 *Business Combinations*, in Part I of the Handbook. Control in these standards is generally transferred on the closing date. The closing date is when the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. The Board thinks that control in an amalgamation or split is tied to the transfer of assets and liabilities, and therefore, the effects of an amalgamation or split should not be recognized prior to the transfer date.

24 The AcSB debated when the right to assets and the obligation for liabilities transfer in splits and amalgamations of pension plans. One view was that a pension plan must receive regulatory approval before any assets or liabilities could be transferred. An alternative view was that the regulatory approval is an administrative step in the process and, therefore, the effects of the split or amalgamation should be recognized when all the requirements of regulation are met. Further, respondents to the Exposure Draft noted that regulatory requirements differ between jurisdictions. Respondents also suggested that if the effects of an amalgamation or split were recognized prior to regulatory approval being received, there would be a risk that a pension plan may need to unwind the transaction. The Working Group noted that in some cases regulatory approval may not apply when a plan is not provincially or federally regulated. The Board concluded that since the pension plan cannot transfer assets or liabilities until regulatory approval is received, where applicable, a pension plan does not have the right to the assets and would not be liable for the obligations until after regulatory approval. Therefore, a pension plan should not recognize the effects of a split or amalgamation prior to regulatory approval, where applicable.

25 Some respondents to the Exposure Draft commented that in certain provinces, regulatory approval can be granted retroactively to the effective date of the amalgamation or split. The AcSB clarified that for accounting purposes, regulatory approval is recognized on the date when the transaction is approved, regardless of whether the approval is retroactive to the effective date.

26 The Working Group also recommended the AcSB clarify when the rights to assets and obligations for liabilities transfer between pension plans. The Board agreed with this recommendation and included guidance that rights and obligations transfer at the later of:

(a) when the transaction is effective per the underlying legal contract;

(b) the transaction is approved by the regulatory authority of the jurisdiction in which the pension plan is registered, as applicable; and

(c) the plan assets and liabilities are transferred.

The Board thinks this clarification will address the potential for differing interpretations in the standard.

27 Respondents to the Exposure Draft provided feedback related to the criterion that rights and obligations transfer between pension plans when the plan assets and liabilities are transferred. Some respondents commented that including this criterion would be akin to a cash basis of accounting and that delaying recognition until the date of transfer may contradict the definitions of an "asset" and "liability" used in Part I and Part II of the Handbook.

28 The Working Group discussed this feedback and noted that excluding the criterion that rights and obligations transfer between pension plans when the plan assets and liabilities are transferred would not reflect when control transfers. From a regulatory perspective in some provinces, control does not transfer until the assets and liabilities are transferred. In these provinces, until the assets and liabilities are transferred, the original plan separately funds the plan, pays benefits and completes regulatory filings. Hence, until the assets and liabilities are transferred, they belong to the original plan. Considering this fact pattern, the Working Group did not recommend any changes to the criterion. The Board agreed with this recommendation.

29 A Working Group member also suggested adding explicit guidance to require that assets and liabilities be recognized in an amalgamation on the amalgamation date, and that assets and liabilities be derecognized in a split on the split date. Without explicitly requiring this, they thought it may only be implied by the remaining guidance in the standard. The Board agreed and added guidance in paragraphs 4600.18A and 4600.24D.

30 The AcSB also heard that information about a split or amalgamation that is in-progress at period end is decision useful for users of pension plan financial statements. Therefore, the Board decided that if at least one of the three criteria to recognize the effects of a split or amalgamation are met at the date of financial statement completion, the pension plan should disclose information about the potential split or amalgamation in its financial statements.

Accounting for guaranteed annuity contracts – buy-in

31 A buy-in is an annuity contract under which the issuer of the annuity agrees to meet the benefit payments for a covered group of participants and beneficiaries for the duration of their lives.

32 Currently, the investment is measured in accordance with paragraph 4600.19, which states that "[a]ll investment assets and investment liabilities shall be measured at fair value at the date of the statement of financial position. In determining fair value, a pension plan shall refer to the guidance on fair value measurement in Part I of the Handbook."

33 The obligation is measured in accordance with paragraph 4600.22, which states that "[a] pension plan shall measure the pension obligation required by 4600.12(g) in accordance with paragraph 4600.05(v). For this purpose, a pension plan may measure the pension obligation at the defined benefit obligation amount determined by the plan's sponsor."

34 The Working Group advised the AcSB that the substance of a buy-in contract is to offset the pension obligation dollar for dollar, and the financial statements should reflect this. However, the current measurement guidance requires investments to be accounted for at fair value and the pension obligation to be accounted for at actuarial value which results in a difference that implies that a pension plan is either over- or underfunded.

35 The AcSB also considered an alternative view that the discount rates used to measure the annuity contract should reflect the risk profile of that investment. Under this view, it is considered appropriate that the asset discount rate differs from the rate used to measure the pension obligation. A small difference may arise from the different discount rates used for investments and pension obligations, which demonstrates the plan trustees' risk management of the plan.

36 Some respondents to the Exposure Draft commented that measuring the buy-in arrangement by equating the investment asset to the pension obligation does not consider that asset and liability cash flow streams are distinct and subject to different risks. Therefore, measurement of the buy-in arrangement should reflect the specific risks attributable to each of the asset and liability, respectively. Other respondents commented that there is inherent diversity in practice in applying Section 4600 to measure the pension plan obligation associated with a buy-in arrangement due to different approaches being applied under Part I and Part II of the Handbook to measure the pension obligation.

37 After considering these views, the AcSB decided that the investment asset should generally equal the pension obligation as this best represents the substance of a buy-in arrangement. However, the Board thinks the credit risk of the issuer of the annuity is an important consideration. Therefore, the guidance requires financial statement preparers to consider the

credit risk of the issuer of the annuity. This requires considering if the investment asset should be discounted for credit risk.

38 The AcSB notes that pension plans currently purchase buy-in annuities from insurance companies. These insurance companies have strong credit ratings, are often reinsured and have Assuris 1 coverage. Therefore, the Board acknowledges that in these situations, such a discount rate adjustment might not be necessary and the investment asset may equal the benefit obligation.

39 Some respondents to the Exposure Draft commented that several defined benefit pension plans in Canada prepare financial statements using special purpose financial reporting frameworks. These frameworks often require pension plan financial statements be prepared in accordance with most, but not all, of the requirements of Section 4600. Specifically, many special purpose reporting frameworks do not require the recognition of pension obligations. These amendments require pension plans to measure buy-in annuities at the value of an element that is not presented or prepared in the pension plan financial statements. The respondents noted that this could lead to different interpretations of the guidance or additional costs, ultimately resulting in diversity in practice. In considering this feedback, the AcSB acknowledges the standards are meant to be broadly appropriate for general purpose financial statements. Therefore, stakeholders preparing special purpose financial statements will need to apply judgment in applying the amendments for buy-in annuities.

40 The AcSB also considered whether to define buy-in annuity contracts. Some respondents to the Exposure Draft suggested that including a definition within the standard would avoid confusion that may cause diversity in practice. Also, the Board heard from its Working Group that some pension plans hold other instruments such as longevity swaps, which are similar in nature to buy-in contracts. Some Working Group members thought that without a definition, measurement guidance intended only for buy-in contracts could be applied to other instruments of a similar nature. Other Working Group members thought that buy-in contracts are well understood in practice and specifically referencing this term would reduce the risk of diversity in practice. The Board considered these views and thinks referencing buy-in contracts without defining them in the standard should reduce the likelihood of the measurement guidance being applied to other instruments.

41 The Working Group also recommended that additional disclosure specific to buy-in annuities would be decision-useful for users to understand the nature of the investment. The AcSB agreed with this recommendation and has included additional disclosure requirements specific to buy-in contracts to provide more information to users about the nature of these investments by a pension plan.

Accounting for guaranteed annuity contracts – buy-out

42 Buy-out annuity contracts are annuity contracts that transfer the risks of a pension obligation from a pension plan to the issuer of the annuity contract. These annuities are often purchased by pension plans as a mechanism to de-risk the pension plan from fluctuations in the market. The annuity pays the same benefits as the pension plan provides, but these benefits are paid by the issuer of the annuity rather than by the pension plan.

43 The AcSB heard from its Working Group and other stakeholders that the standard lacked guidance as to when the asset and pension obligation associated with the buy-out contract should be derecognized from the financial statements. As a result, some pension plans retained the asset and pension obligation on their financial statements while other pension plans did not.

44 The Working Group noted that buy-out annuities are increasingly used in Canada as a pension de-risking mechanism. Because of this, some jurisdictions have enacted regulation that would discharge the pension obligation from the pension plan in a buy-out arrangement when certain conditions are met. In other jurisdictions, such regulations have not yet been enacted. The Working Group also highlighted that in jurisdictions where there is no statutory discharge regulation, there is a possibility that the obligation could "boomerang" back to the pension plan if, for example, the issuer of the annuity were to go bankrupt. The Working Group noted that this boomerang risk would often be low since, similar to buy-in annuities, pension plans currently purchase buy-out annuities from insurance companies that have strong credit ratings, are often reinsured and have Assuris coverage.

45 The AcSB considered the Working Group's feedback and proposed that pension plans derecognize the asset and pension obligations when the pension plan transfers the pension obligation risk to the issuer of the annuity. In the Exposure Draft, the Board proposed three criteria for identifying when this transfer of risk occurs:

(a) the buy-out contract is effective per the legal contract underlying the arrangement;

(b) regulatory criteria, if any, to discharge the pension obligation from the pension plan to the third party are met; and

(c) the pension plan remits payment to the third party in accordance with the buy-out contract.

46 One respondent and some Working Group members recommended removing the criterion that regulatory discharge criteria, if any, be met. The respondent thought that derecognition should not be delayed for this and Working Group members thought the criterion would lead to inconsistencies in the timing of derecognition. For example, Working Group members commented that in a situation where such regulatory discharge criteria do not apply, a pension plan would derecognize the pension obligation earlier than in a situation where regulatory discharge criteria do apply but have not yet been met.

47 The AcSB considered this feedback but decided to retain the criterion because the Board does not consider these two situations to be economically equivalent. The Board thinks that whether regulatory discharge criteria have been met, where applicable, is an important determinant of whether risk has been transferred. In assessing whether these have been met for the purposes of paragraph 4600.24B(b)(iii), the pension plan should also consider any aspects of the regulatory discharge process that may be subject to the discretion or judgment of the regulator and that are not administrative in nature. If any such discretionary or judgmental aspects remain outstanding, then the criterion in paragraph 4600.24B(b)(iii) would not be met.

48 Some respondents to the Exposure Draft also recommended removing the criterion that payment be remitted to the third party, as they thought it would result in a cash basis of accounting. The Working Group discussed this feedback, but recommended retaining the criterion, noting that remitting the premium in accordance with a buy-out contract is linked to the transfer of risk and is critical to the completion of the buy-out deal.

49 The AcSB discussed this feedback and decided to clarify that another way risk could transfer to the third party would be if the pension obligation were discharged from the pension plan by process of law. Therefore, if a discharge has been obtained, no additional criteria would need to be met for derecognition. If a discharge has not been obtained, remitting the premium would be necessary for the transfer of risk and thus derecognition to occur.

50 The AcSB acknowledged that there may be cases in which a discharge is not obtained even if regulatory discharge criteria have been met. For example, there may be administrative aspects of the regulatory discharge process that are outstanding and are required to be completed in order to obtain a discharge. In such cases, the criterion in paragraph 4600.24B(a) would not be met even though the criterion in paragraph 4600.24B(b)(iii) would be met. If, in a given jurisdiction, a discharge is automatically obtained once regulatory discharge criteria are met, there may not be a distinction between the criteria in paragraphs 4600.24B(a) and (b)(iii).

51 The AcSB considered that in situations where a discharge is not obtained, pension obligations that are derecognized in accordance with paragraph 4600.24B(b) may continue to meet the definition of a liability in FINANCIAL STATEMENT CONCEPTS, Section 1000 in Part II of the Handbook and in the *Conceptual Framework for Financial Reporting* in Part I of the Handbook. However, the Board considered that boomerang risk would often be low in situations where these annuities are purchased from regulated financial institutions, such as insurance companies. This is because these institutions generally have strong credit ratings, are often reinsured and have Assuris coverage. In these situations, derecognition of the pension obligation coupled with disclosures on boomerang risk would provide decision-useful information to financial statement users. As such, the Board decided to clarify that the derecognition guidance in paragraph 4600.24B(b) would only apply where the "third party" issuer of a buy-out annuity is a regulated financial institution, such as an insurance company.

52 Regarding disclosures on buy-out arrangements, the Board proposed in the Exposure Draft that for each year a pension plan retains a buy-out annuity, the pension plan would be required to disclose the nature of the annuity contract, the amount of pension obligations transferred to the third party and the risks, if any, of the pension obligation returning to the pension plan.

53 Respondents to the Exposure Draft expressed concerns with the proposed requirement to disclose the amount of pension obligations transferred to the third party. Respondents were unclear about whether pension plans would be required to remeasure the transferred pension obligation in subsequent periods as they may not have access to the necessary data to do so. If pension plans were, instead, required to continue disclosing the initial amount transferred, some respondents questioned whether this would provide useful information in subsequent periods because the transferred pension obligation would decline as benefits are paid.

54 The Working Group discussed this feedback and recommended not requiring disclosure in subsequent periods of the amount transferred. Rather, the Working Group recommended that pension plans be required to disclose the period in which the pension obligations were derecognized. Financial statement users could then refer to the relevant period's financial statements to understand the magnitude of the transaction at that time. The AcSB agreed with these recommendations and amended the disclosure requirements in paragraph 4600.32B.

55 The AcSB also heard from respondents to the Exposure Draft that the proposed requirement to disclose any risks of the pension obligation returning to the pension plan was vague and could be interpreted as requiring pension plans to comment on the probability of this occurring. The Working Group recommended that, instead, pension plans be required to disclose any circumstances that may cause the pension obligation to return. The Board agreed and amended paragraph 4600.32B. In providing these disclosures, pension plans would consider various factors such as possible default by the third party, the terms of the contract, the nature of applicable regulatory discharge processes and other protections in place (e.g., reinsurance arrangements and Assuris coverage).

56 The AcSB also thinks that it would be useful for pension plans to monitor and provide information on whether there have been changes in conditions or situations that indicate that those circumstances are close to occurring. The Board noted that pension plans should refer to guidance on such disclosures in CONTINGENCIES, Section 3290 in Part II of the Handbook or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in Part I of the Handbook. At this time, the Board is not proposing guidance on accounting for the pension obligation if it were to boomerang back to the pension plan. The Board will continue monitoring this area and consider the need for further guidance in the future.

57 Since boomerang risk would differ between pension plans that have obtained a discharge and those that have not, the Working Group also recommended requiring pension plans to disclose information on regulatory discharge processes applicable to their buy-out arrangements, along with their status of obtaining a discharge. The AcSB agreed with these recommendations and amended the disclosure requirements in paragraph 4600.32B.

58 The AcSB also heard from its Working Group that after a buy-out annuity contract is effective, subsequent adjustments may need to be made to the premium previously remitted to the third party in accordance with the contract, commonly referred to as "premium adjustments". This can occur if there are errors in the data that is transferred from the pension plan to the issuer of the buy-out annuity. These premium adjustments can take the form of an additional charge or a refund to the pension plan. The Board decided that if these premium adjustments are directly related to the terms of the buy-out annuity contract, they should immediately be recognized in the statement of changes in net assets available for benefits.

59 As with buy-in annuity contracts, the AcSB considered whether to define buy-out annuity contracts in the standard. Some respondents to the Exposure Draft and some Working Group members suggested that defining these would avoid confusion that may cause diversity in practice. The Board considered this feedback and decided to describe these annuities in the standard instead of defining them, as the terms could have alternative meanings in practice and potentially change over time.

Presentation of combination pension plans

60 Combination pension plans are plans with defined benefit and defined contribution components. These plans continue to increase as more defined benefit plans are closing to new members and being replaced by defined contribution plans.

61 Section 4600 currently has no guidance on the presentation of these plans. The Working Group noted that the absence of guidance results in some combination plans presenting the defined benefit and defined contribution components separately while others combine the components. When the results are combined, it is unclear to users what portion relates to the defined contribution component versus the defined benefit component, and therefore whether the defined benefit portion is in a surplus or deficit position.

62 The Working Group recommended, and the AcSB agreed, that presentation guidance would benefit users such as plan members, trustees and regulators to distinguish between the different components of the combination plan. Therefore, the Board included guidance requiring separate presentation of the components of combination plans. Combination plans are not required to present a statement of changes in pension obligations for the defined contribution component.

63 The Board included illustrative examples for the standard to demonstrate alternatives for this presentation. These examples are not exhaustive, and stakeholders are encouraged to tailor their pension plan financial statements to meet their users' information needs.

Risk disclosures for interests in master trusts

64 Paragraph 4600.32(a)(i) requires a pension plan to provide disclosures about its investments in accordance with IFRS 7, *Financial Instruments: Disclosures* in Part I of the Handbook. It also requires fair value disclosures in accordance with the Appendix to Section 4600. These disclosure requirements reflect the characteristics of interests in investment funds (e.g., mutual funds), but not interests in master trusts.

65 Master trusts are a vehicle for multiple pension plans to pool their investments and reduce administration costs. The Working Group highlighted that pension plans typically report only the fair value of their investment units in a master trust. While this complies with the guidance in Section 4600, it provides limited information in the financial statements. Users need to look elsewhere for information about the investment composition and risk profile of the master trust. However, unlike investments funds, such as mutual funds, master trusts are not subject to the requirements in securities law to prepare audited financial statements. As a result, there is usually no other source for users to obtain information about the risks associated with the underlying investments in a master trust.

66 The Working Group advised the AcSB to add guidance on risk disclosures for interests in master trusts. The Board agreed and decided that pension plans should disclose information about the types of investment assets and liabilities and the fair value hierarchy of the types of investment assets and liabilities held by a master trust.

67 The AcSB also proposed that a pension plan would be required to disclose the plan's position in the master trust, such as the number of units over the total units held in the master trust or the percentage holding of the total. Some respondents to the Exposure Draft and participants in outreach sessions commented that only disclosing the pension plan's position in the master trust may not be sufficient. These respondents commented that a pension plan can either have a proportionate interest in the net assets of the master trust, or in some cases, a pension plan may not hold a proportionate interest in the master trust's net assets. For example, some pension plans may have different investment policies and, therefore, each pension plan's interest in each type of investment within the master trust may not be proportionate to the pension plan's overall interest in the master trust. The master trust may not require each plan to invest equally across all the possible investments. These respondents advised that the guidance should take into consideration these types of master trust arrangements in the disclosure requirements of the plan's position in the master trust. The Board agreed and amended the guidance to allow a pension plan to disclose its position in each type of investment in the master trust when the plan's position is not proportionate to the plan's total position in the master trust.

68 In developing this guidance, the AcSB considered the cost of obtaining and auditing the information related to investments in master trusts. The Working Group noted that information about the investments held by a master trust is generally available from the trust's custodian and that the information can be audited using procedures similar to those applied to investment funds, such as mutual funds. Therefore, the Board concluded that the benefits of the risk disclosures outweigh the costs of providing the disclosures.

EFFECTIVE DATE AND TRANSITION

69 The Exposure Draft proposed that the amendments to Section 4600 apply to fiscal years beginning on or after January 1, 2023, with earlier application permitted. The AcSB heard from some respondents to the Exposure Draft that this would not provide enough time to implement the amendments, including providing education and obtaining information to implement the amendments. After considering the feedback, the Board deferred the effective date to January 1, 2024, with earlier application permitted.

70 Further, considering the transitional provisions discussed below, the AcSB thinks that the effective date (fiscal years beginning on or after January 1, 2024), will provide pension plans sufficient time to implement the amendments. The Board understands most pension plans do not prepare interim financial statements, with the exception of some larger pension plans that do so on a semi-annual basis. Therefore, unless early adopted, the amendments will first apply to annual financial statements for the year ended December 31, 2024.

71 The AcSB decided that the initial application of the various amendments would differ, considering the nature of each amendment. Therefore, the Board decided that the amendments related to the statement of changes in pension obligations, presentation of combination pension plans and disclosure of interests in a master trust are to apply as at the beginning of the earliest period presented. As such, the effects of the amendments would apply to the period in which the amendments are first applied and to the comparative period(s) presented. The Board thinks that the effects of these amendments should apply consistently to all periods presented in the financial statements as this approach improves comparability of financial information from period to period. In addition, the Board understands that the comparative information is often readily available.

72 The AcSB heard that in some instances it may be challenging for pension plans to obtain the comparative information of investments in a master trust. For example, if a master trust has not previously been audited or if there is a change in custodian or fund manager, the risk disclosure information may not be readily available. The Board considered this feedback but thinks that the benefit of comparative risk disclosure information outweighs the cost of preparing it in the year of transition.

73 The AcSB considered whether the buy-in and buy-out proposals should apply only to the period in which the amendments are first applied. The Board thinks that having differing values for the same annuities in the comparative period compared to the current period could create confusion for stakeholders. Therefore, the Board decided that the amendments for buy-in annuities should apply consistently in the current and comparative period(s). Similarly, the Board thinks that buy-out annuities and the related pension obligations that existed in the comparative period(s) should be derecognized consistently across annual periods in the financial statements.

74 The AcSB decided that the splits and amalgamations amendments would apply prospectively to transactions in the period the amendments are first applied. The Board thinks that splits and amalgamations already accounted for in a previous period should not be restated as the transaction has already been communicated to users of the financial statements. The Board heard that financial statement users are typically concerned about new splits and amalgamations and their impact on the pension plan's financial statements. Historical splits and amalgamations are less of a concern as the transaction has already occurred, been accounted for and communicated to users and therefore, do not provide new, decision-useful information.

EXPOSURE FOR COMMENT

75 After resolving the issues arising from the Exposure Draft process, the AcSB considered, as part of its due process, whether revisions to the proposals should be exposed for comment.

76 The substantive revisions have been highlighted in the relevant sections throughout the Basis for Conclusions. These revisions are changes and clarifications based on feedback received from stakeholders. Other than the changes and clarifications already highlighted in the Basis for Conclusions, only minor drafting changes were made. Therefore, the AcSB decided there was no need for re-exposure.

Footnotes

1 Assuris is an independent not-for-profit, industry-funded compensation organization founded to protect policyholders if an insurance company fails. Every life insurance company in Canada is required by the federal, provincial and territorial regulators to become a member of Assuris.
