

# Fair Value Measurement by Pension Plans — Amendments to Section 4600 — Background Information and Basis for Conclusions

## Foreword

In November 2011, the Accounting Standards Board (AcSB) amended PENSION PLANS, Section 4600, in Part IV of the CICA Handbook – Accounting, as a result of the issuance of International Financial Reporting Standard IFRS 13 *Fair Value Measurement* in Part I of the Handbook. The AcSB has approved for publication the contents of this document setting out its rationale for the 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.

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## INTRODUCTION

- 1 This document summarizes considerations that were deemed significant by the members of the Accounting Standards Board (AcSB) in reaching their conclusions to amend PENSION PLANS, Section 4600, in Part IV of the CICA Handbook – Accounting, as a result of the issuance of International Financial Reporting Standard IFRS 13 *Fair Value Measurement* in Part I of the Handbook. It sets out the reasons the AcSB undertook the project to develop these amendments, 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 amendments and the AcSB's intent with respect to its interpretation and application.

## BACKGROUND

- 3 Section 4600 requires the use of fair value for the measurement of investment assets and investment liabilities and also requires disclosures about how fair value has been determined. When the AcSB developed Section 4600, the International Accounting Standards Board (IASB) had issued an exposure draft of a proposed IFRS on fair value measurement but the final IFRS had not been issued. Therefore, Section 4600 required measurement and disclosures of fair value to be in accordance with the existing IASB guidance on fair value, included in Part I of the Handbook. However, the AcSB signaled its intent for Section 4600 to refer to the final IFRS on fair value measurement once that standard was issued (see paragraphs 35-37, 58, and 62-63 of the Background Information and Basis for Conclusions document for Pension Plans).

- 4 In November 2011, IFRS 13 *Fair Value Measurement* was incorporated into Part I of the Handbook.

## **STATEMENT OF FINANCIAL POSITION**

### **Measurement**

- 5 In approving the amendments to Section 4600, the AcSB reconfirmed its intent to refer to IFRS 13 in Part I of the Handbook for guidance on fair value measurement of both financial and non-financial investment assets as well as investment liabilities. The AcSB noted that IFRS 13 is in Part I of the Handbook and that it has a project to consider adding a standard on fair value measurement based on IFRS 13 to accounting standards for private enterprises in Part II of the Handbook. The AcSB saw no reason for fair value measurement by pension plans to differ from fair value measurement by any other entities.
- 6 Before the amendments, paragraph 4600.19 referred specifically to the fair value measurement guidance in International Accounting Standard IAS 39 *Financial Instruments: Recognition and Measurement* in Part I of the Handbook. The AcSB modified this paragraph to refer generally to Part I of the Handbook to permit a pension plan to refer to either IAS 39 or IFRS 13 until such time as the guidance in IAS 39 is withdrawn.

### **Recognition**

- 7 To be consistent with the measurement modifications to refer generally to Part I of the Handbook, the AcSB modified the recognition requirements to refer generally to either Part I or Part II of the Handbook, instead of specific standards within these Parts (i.e., IAS 39 or IFRS 9 *Financial Instruments* in Part I of the Handbook and FINANCIAL INSTRUMENTS, Section 3856 in Part II of the Handbook (see paragraph 4600.18)).

### **DEFINITION OF FAIR VALUE**

- 8 Before the amendments to Section 4600, the definition of fair value originated from IAS 32 *Financial Instruments: Presentation* in Part I of the Handbook because Section 4600 referred specifically to IAS 39, and IAS 39 refers to terms and definitions in IAS 32.
- 9 The AcSB decided to delete the definition of fair value from Section 4600 so that a pension plan would use the definition consistent with the fair value measurement guidance applied (i.e., either the definition in IAS 32 or IFRS 13). The AcSB noted that while the definitions of fair value in IAS 32 and IFRS 13 are substantively the same, they are worded differently and both definitions would exist until IFRS 13 is mandatorily effective. (At that time, the definition of fair value in IAS 32 will be replaced with the definition in IFRS 13.)

### **DISCLOSURE**

- 10 The AcSB considered whether a pension plan that has adopted the measurement requirements in IFRS 13 should also be required to adopt the disclosure requirements in that standard. Members noted that some of the disclosure requirements in IFRS 12 *Disclosures of Interests in Other Entities* might also be relevant to pension plans. However, the AcSB concluded that reconsideration of the disclosure requirements in Section 4600 was beyond the scope of the current project to require the use of IFRS 13 for determining fair value measurements. The AcSB concluded that a separate project would be required to consider disclosures. Furthermore, such a project would likely cause significant delay to the fair value measurement amendments to Section 4600. As a result of its decision not to amend the disclosure requirements at this time, the AcSB agreed that a pension plan that adopts IFRS 13 should not be required to provide the disclosures required by that standard (see paragraph 4600.40).

### **TRANSITIONAL PROVISIONS**

- 11 The AcSB expanded the transitional provisions paragraphs in Section 4600 to deal with an entity's transition from the previous requirements to the amended requirements. In developing paragraphs 4600.40-.41, the AcSB sought to ensure that a pension plan could satisfy the fair value measurement requirements in paragraph 4600.19 by applying IFRS 13 at the same time, and in a similar manner, as other publicly accountable enterprises. Amendments to the transitional provisions include:
- (a) adding a mandatory effective date for applying IFRS 13 of annual financial statements relating to fiscal years beginning on or after January 1, 2013 (as in paragraph C1 of IFRS 13);
  - (b) permitting earlier application than 2013 (as in paragraph C1 of IFRS 13);
  - (c) requiring disclosure of the fact that IFRS 13 has been applied in determining the fair value of a pension plan's investment assets and investment liabilities when a pension plan applies IFRS 13 earlier than the mandatory effective date (as in paragraph C1 of IFRS 13); and
  - (d) requiring prospective application of IFRS 13 as of the beginning of the annual period in which it is initially applied (as in paragraph C2 of IFRS 13).
- 12 Without the requirement described in paragraph 11(d), the AcSB noted that the general transitional provisions in Section 4600 would require retrospective application of IFRS 13 to all prior periods presented.
- 13 Some pension plans had informed the AcSB that they wished to apply IFRS 13 as part of their initial adoption of Section 4600 rather than having a subsequent accounting change. Permitting application of IFRS 13 prior to the mandatory effective date achieves that result. For example, a pension plan that adopts IFRS 13 for the year beginning January 1, 2011 will not have to restate 2010 for any fair value measurement changes.

#### **EXPOSURE FOR COMMENT**

- 14 As part of the AcSB's due process, the AcSB considered whether the amendments to Section 4600 should be exposed for comment.
- 15 The AcSB agreed that the amendments represented a significant change to the Handbook because fair value measurement is fundamental to Section 4600 and IFRS 13 provides significant new guidance on fair value measurement. However, the AcSB decided to forgo exposure for the following reasons:
- (a) The AcSB had exposed IFRS 133 for incorporation into Part I of the Handbook in its July 2009 Exposure Draft, "Fair Value Measurement."
  - (b) The AcSB had exposed the substance of the amendments in its July 2009 Exposure Draft, "Pension Plans," which proposed measuring all investment assets and investment liabilities at fair value in accordance with the forthcoming IFRS on fair value measurement. Responses to this Exposure Draft supported that proposal.
- Consequently, the AcSB decided that it had already received sufficient feedback on the suitability of the use of IFRS 13 in determining fair values for investment assets and investment liabilities, including those held by pension plans.
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