

Benefit Plans and Fair Value Disclosure by Pension Plans — Amendments to Section 4600 —

Background Information and Basis for Conclusions

Foreword

In May 2012 and July 2012, the Accounting Standards Board (AcSB) amended PENSION PLANS, Section 4600, in Part IV of the CICA Handbook – Accounting, to make clarifications with respect to benefit plans and fair value disclosures, respectively. 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, to make clarifications with respect to benefit plans and fair value disclosures. 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.

BENEFIT PLANS 1

Background

- 3 Under the restructured Handbook, entities have to determine which Part of the Handbook to apply and make a statement on this determination in the notes to their financial statements.
- 4 Benefit plans with characteristics similar to pension plans that provide benefits other than pensions are included in the scope of Section 4600. The definition of a benefit plan in Section 4600 formerly stated:
"A benefit plan is any arrangement whereby an entity undertakes to provide its employees with benefits after active service in exchange for their services." [Emphasis added.]
- 5 Paragraph 11 of the Background Information and Basis for Conclusions document for Pension Plans states:
"The Exposure Draft [AcSB's July 2009 Exposure Draft, "Pension Plans"] 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."
- 6 Before the amendments discussed in this document, only benefit plans providing benefits to employees after active service were included in the scope of Section 4600. The AcSB's intent, as described in the Background Information and Basis for Conclusions for Pension Plans, was to include plans providing benefits to employees during and after active service.
- 7 Given this inconsistency, some stakeholders questioned whether Section 4600 could be used to account for benefit plans providing benefits during active service. They also noted that some plans provide benefits both during and after active service.
- 8 Users of financial statements of plans providing benefits during active service expressed the need for comparable financial reporting between these benefit plans and those providing benefits after active service, or both during and after active service.

Scope of Section 4600 vs. IAS 26

- 9 The Preface to the CICA Handbook – Accounting prohibits pension plans, and benefit plans that have characteristics similar to pension plans and provide benefits other than pensions, from applying International Accounting Standard IAS 26 *Accounting and Reporting by Retirement Benefit Plans*, which is included in Part I of the Handbook. See paragraphs 3-5 of the Background Information and Basis for Conclusions for Pension Plans for the rationale for that decision.
- 10 Before the AcSB considered whether to modify the definition of a benefit plan, it reconfirmed that the scope of Section 4600 should be broader than that of IAS 26 (i.e., include benefit plans such as health and welfare plans). Thus, the AcSB decided to retain benefit plans within the scope of Section 4600. It did so for the same reasons noted during the development of Part IV of the Handbook:
 - (a) to ensure that these plans present their obligation on the face of their financial statements, similar to pension plans; and
 - (b) to alert financial statement users to their funded status because most benefit plans are unfunded.
- 11 The AcSB acknowledged that including benefit plans that provide benefits during active service (in addition to those that provide benefits after active service) within the scope of Section 4600 would increase the difference in scope between that standard and IAS 26.

Definition of benefit plan

- 12 The AcSB reconfirmed its previous view that there is no substantive difference between a benefit plan providing benefits during active service and one providing benefits after active service that would justify a difference in their financial reporting. Therefore, the AcSB decided to amend the definition of a benefit plan to clarify that benefit plans providing benefits to employees during their active service are within the scope of Section 4600. The AcSB made a corresponding amendment to the definition of a benefit plan in the Preface.

Effective date

- 13 First-time adoption of Part IV of the Handbook is mandatory for annual financial statements relating to fiscal years beginning on or after January 1, 2011.
- 14 The AcSB heard that some benefit plans that provide benefits during active service, such as health and welfare plans, have calendar year ends and, thus, would be preparing and finalizing their 2011 financial statements by the end of March 2012.
- 15 The AcSB decided to amend the Introduction to Part IV of the Handbook to state that first-time adoption of this Part of the Handbook by benefit plans providing benefits during active service is mandatory for annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application was permitted to allow plans that had not yet completed their financial statements for 2011 to apply this amendment. The AcSB also made provision for annual reporting periods that differ from calendar years.

Exposure for comment

- 16 As part of the AcSB's due process, the AcSB considered whether the amendments to Section 4600 for benefit plans should be exposed for comment.
- 17 The AcSB agreed that the amendments represented a significant change to the Handbook because they relate directly to the scope of Section 4600 (i.e., whether or not an entity is required to follow Part IV of the Handbook). However, the AcSB decided to forgo exposure for the following reasons:
- (a) The change aligns with the AcSB's original intent and suggestions in responses to its July 2009 Exposure Draft, "Pension Plans," as discussed in paragraph 11 of the Background Information and Basis for Conclusions for Pension Plans (see paragraph 5 above).
 - (b) The matter was urgent for benefit plans that provide benefits during active service, or both during and after active service, and had 2011 calendar year ends.

Consequently, the AcSB decided that it had already received sufficient feedback on including benefit plans that provide benefits during active service within the scope of Part IV of the Handbook.

FAIR VALUE DISCLOSURES

Background

- 18 For those investments that are financial instruments, Section 4600 requires fair value disclosures by reference to International Financial Reporting Standard IFRS 7 *Financial Instruments: Disclosures* in Part I of the Handbook.
- 19 Section 4600 requires the adoption of IFRS 13 *Fair Value Measurement* in Part I of the Handbook for annual periods beginning on or after January 1, 2013 and permits earlier application. IFRS 13 includes consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that deleted the fair value disclosure requirements in that standard. That deletion was made because similar fair value disclosures are required by IFRS 13. However, the transition paragraph in Section 4600 for application of IFRS 13 specifies that a pension plan 2 that has adopted IFRS 13 is not required to provide the disclosures included in that standard. That provision was included because the AcSB intends to undertake a comprehensive review of the disclosure requirements of Section 4600 and did not wish to add any new disclosure requirements until that review was completed.
- 20 As a consequence, a pension plan that had adopted IFRS 13 *Fair Value Measurement* would not include any fair value disclosures in applying IFRS 7 *Financial Instruments: Disclosures* and would not be required to make the fair value disclosures in IFRS 13.

Fair presentation

- 21 The AcSB noted that the fair presentation requirements in either International Financial Reporting Standards in Part I of the Handbook or accounting standards for private enterprises in Part II of the Handbook are incorporated, by reference, into Section 4600. Thus, some disclosures about fair value for a pension plan's investments that are financial instruments should be made by a pension plan applying Section 4600.
- 22 However, some pension plans may see the statement within the Effective Date and Transition paragraph 4600.40 that the disclosure requirements of IFRS 13 are not required and, in the absence of specific requirements, decide that no disclosures about fair value are required. Other pension plans may agree that some fair value disclosures are required but decide that not all the fair value disclosures formerly in paragraphs 27-27B of IFRS 7 *Financial Instruments: Disclosures* are necessary for fair presentation.
- 23 The AcSB confirmed that it did not intend that a pension plan that has adopted IFRS 13 *Fair Value Measurement* would not have to provide disclosures about fair value. Accordingly, the AcSB decided to amend Section 4600 to clarify that the fair value disclosures in paragraphs 27-27B of IFRS 7 *Financial Instruments: Disclosures* that were deleted from that standard as a consequence of incorporating IFRS 13 into Part I of the Handbook will continue to be required for pension plans that have adopted the measurement requirements of IFRS 13.

Appendix — Fair value disclosures

- 24 The AcSB decided to reproduce the disclosures formerly in paragraphs 27-27B of IFRS 7 *Financial Instruments: Disclosures* in an Appendix to Section 4600. This decision is consistent with the AcSB's previous decisions:
- (a) not to amend the disclosure requirements when it amended Section 4600 for fair value measurement; and
 - (b) that a pension plan that adopts IFRS 13 *Fair Value Measurement* should not be required to provide the disclosures required by that standard.

Exposure for comment

- 25 As part of the AcSB's due process, the AcSB considered whether the amendments to Section 4600 for fair value disclosures should be exposed for comment.
- 26 The AcSB decided that those amendments did not represent a significant change to the Handbook because the fair value disclosures formerly in paragraphs 27-27B of IFRS 7 *Financial Instruments: Disclosures* are currently required for pension plans that do not early adopt IFRS 13 *Fair Value Measurement*. The Appendix to Section 4600 simply reproduces those disclosures.
- 27 The AcSB decided to forgo exposure of those amendments for the following reasons:
- (a) The AcSB decided that those amendments did not represent a significant change to the Handbook.

- (b) The AcSB did not expect to learn anything new, other than to receive suggestions for changes to the existing disclosures, which it plans to seek through exposure of the proposals in a future project. That project would reconsider the disclosure requirements in Section 4600 as a result of the issuance of IFRS 12 *Disclosures of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*, as well as clarifications to the disclosure requirements for defined contribution plans.
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Footnotes

1. In this document, the term "benefit plan" does not include pension plans.
 2. Section 4600 also applies to general purpose financial statements of benefit plans that have characteristics similar to pension plans and provide benefits other than pensions.
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