Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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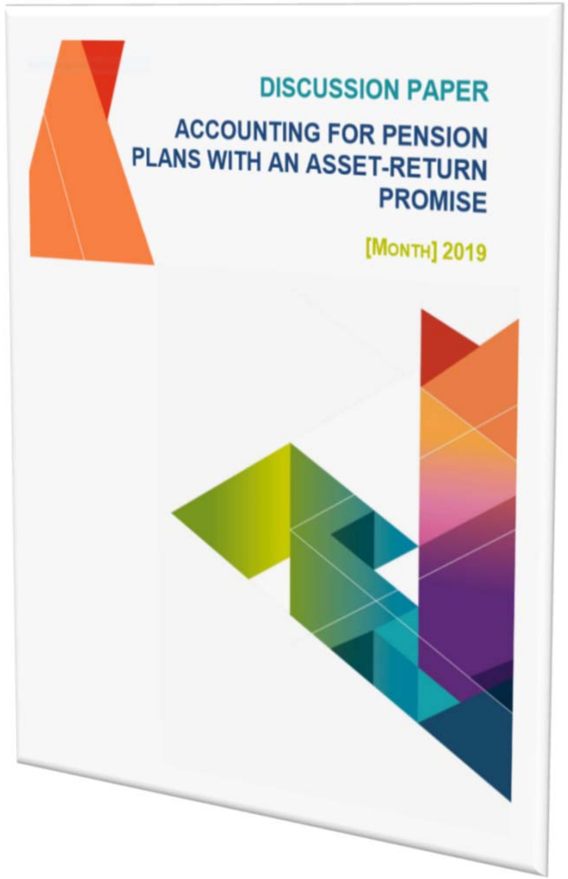
IFRS-FA – öffentliche SITZUNGSUNTERLAGE

Sitzung:	74. IFRS-FA / 26.04.2019 / 9:30 – 11:00 Uhr
TOP:	07 – Geplantes EFRAG DP zu Pensionen
Thema:	Information des IFRS-FA
Unterlage:	74_07a_IFRS-FA_EFRAG DP Pension_ppt

EFRAG's forthcoming discussion paper on pension plans

- Explores **alternative accounting treatments** for post-retirement employee benefits promising the higher of the return on identified item(s) holding by the entity and a minimum guaranteed return
- Uses a **simplified case** to illustrate and to com-pare the accounting outcomes of the alternative approaches to the existing IAS 19 requirements
- Provides an initial **assessment** of alternative accounting treatments by listing differences in how the approaches meet aspects of the qualitative characteristics of useful financial information included in the IASB's Conceptual Framework



The issue

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Concerns about the application of the accounting requirements for pension plans with an asset-return promise

Main concern: accounting mismatch	Recognition of a net pension liability even though the likelihood to pay additional contributions for past periods is low or remote	Not recognising a net pension liability when plan assets would be expected to be insufficient
due to the requirement to project the benefits using an expected return rate and to discount them back using market yields on high quality corporate bonds	occurs when the guarantee is set at a level which is significantly lower than the expected returns	could happen if an employee's service in later years will not lead to a materially higher level of benefit than in earlier years and (a) discount rate is higher than guarantee and guarantee is higher than actual return (b) in the past actual return is higher than guarantee but the guarantee return over the total period is expected to be higher that total actual return

DP structure

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Chapter 1	Introduction
Chapter 2	Description of the plans within the scope
Chapter 3	Assumptions of illustrative example and IAS 19 application
Chapter 4	Alternative approaches
Chapter 5	Assessment of the approaches
Chapter 6	Disclosure requirements
Chapter 7	Other possible approaches and their implications
Chapter 8	Issues not addressed by this paper

Alternative approaches

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Alternatives for accounting for plans with an asset-return promise

Capped Asset Return approach*	Fair Value Based approach	Fulfilment Value approach
under which the rates used to project the final benefit entitlement are capped to the discount rate	under which the measurement of the pension obligation is based on the fair value of plan assets and the minimum return guarantee	under which the measurement of the pension obligation is based on the present value of the fulfilment cash flows and the value of the minimum return guarantee

* Approach being explored in IASB's research project

Illustrative example

- Each year, entity X makes a basic contribution. In the first years, the basic contribution is 0.5% of the salary for the part of the salary falling below CU 50,000. For the part that is higher, the contribution is 2.5%.
- After the first five years, the percentages change to 1% and 5% respectively. The salary threshold of CU 50,000 is adjusted each year based on the annual inflation rate.
- The employee can make supplementary contributions up to a certain limit and Entity X makes additional matching contributions.
- The pension account is held by entities X's pension fund. The final benefit entitlement is settled after the end of eleven years.
- Entity X guarantees a minimum return of 5.5% p.a., accumulated over the entire service period. The final benefit entitlement is therefore the total contributions plus the higher of the actual return on the plan assets and the minimum guaranteed return.
- The contributions to the plan are paid at the end of the year.

Results Net pension liability recognised in the Statement of Financial Position (1/2)

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Statement of Financial Position year III

IAS 19

Net pension liability: 3,968 CUs
- Plan assets: 4,105 CUs
- Pension obligation: 8,073 CUs

Capped Asset Return approach

Net pension liability: 3,281 CUs
- Plan assets: 4,105 CUs
- Pension obligation: 7,386 CUs

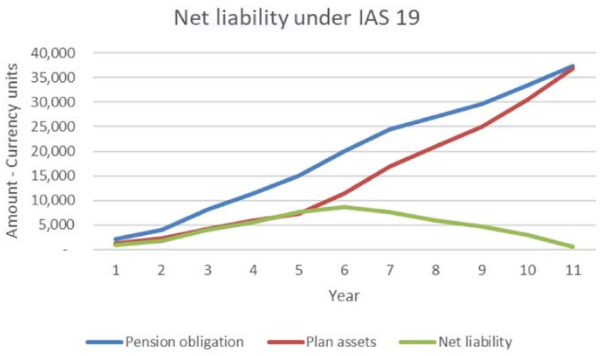
Fair Value Based approach

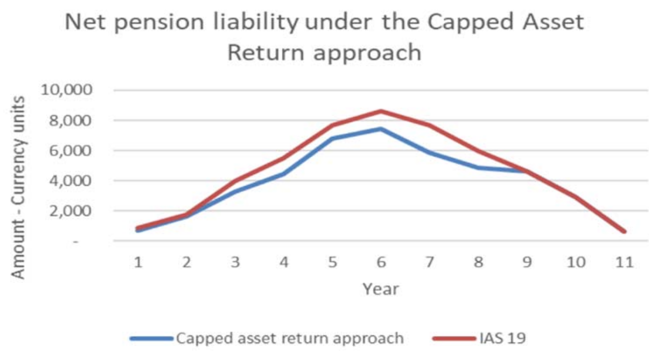
Net pension liability: 3,039 CUs
- Plan assets: 4,105 CUs
- Pension obligation: 7,144 CUs

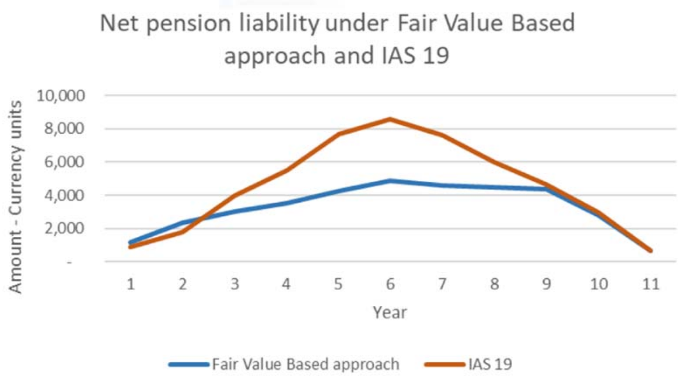
Fulfilment Value approach

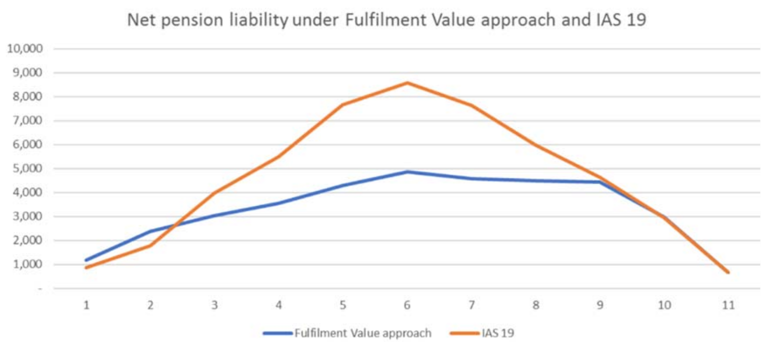
Net Pension Liability: 3,039 CUs
- Plan Assets: 4,105 CUs
- Pension Obligation: 7.144 CUs

Results Net pension liability recognised in the Statement of Financial Position (2/2)









Results Costs that would be recognised in Profit or Loss

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IAS 19

Current service cost: 1,686 CUs
Net interest expense: 124 CUs
- Return on plan assets: +157 CUs
- Interest expense: 281 CUs

Capped Asset Return approach

Current service cost: 1,596 CUs
Net interest expense: 112 CUs
- Return on plan assets: +157 CUs
- Interest expense: 269 CUs

Profit or Loss year III

Current service cost: 1,939 CUs
- Contribution: 935 CUs
- Guarantee: 1,004 CUs

Other remeasurements: 328 CUs

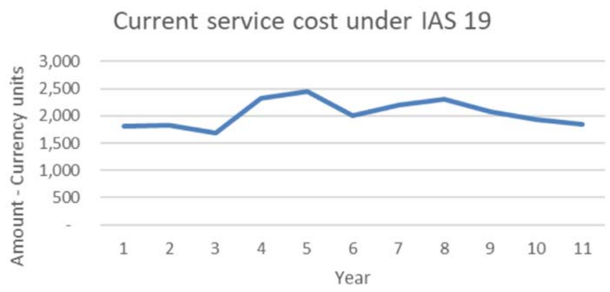
Fair Value Based approach

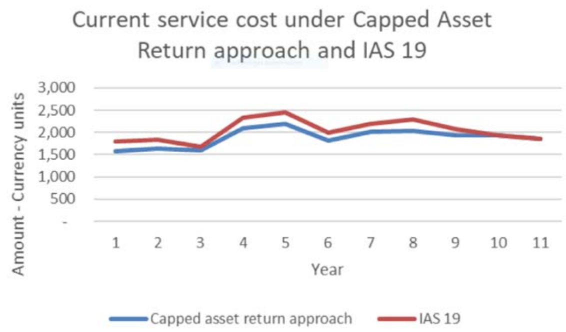
Current service cost: 1,939 CUs
- Contribution: 935 CUs
- Guarantee: 1,004 CUs

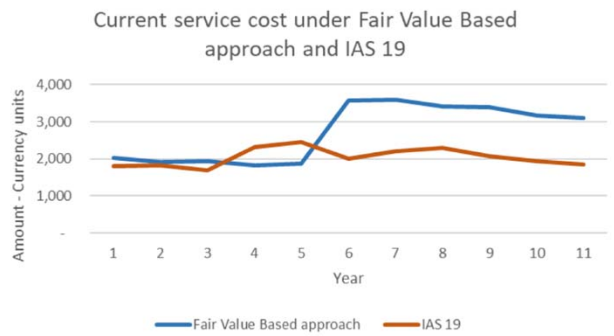
Net financial expense: 328 CUs

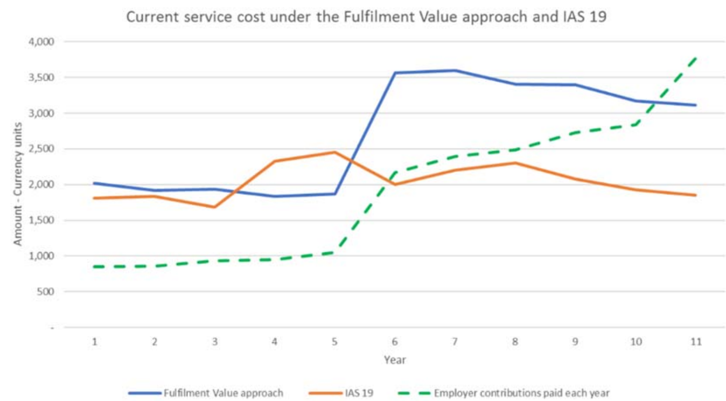
Fulfilment Value approach

Results Current service cost

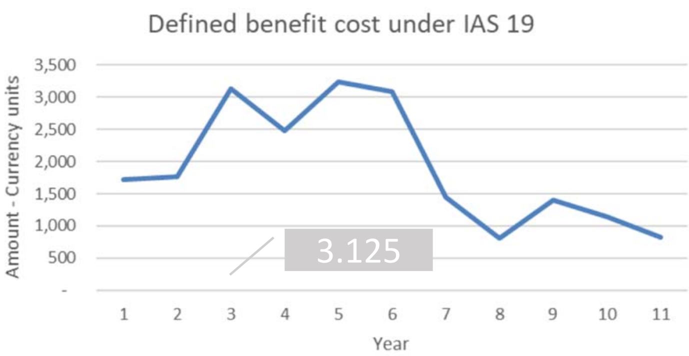


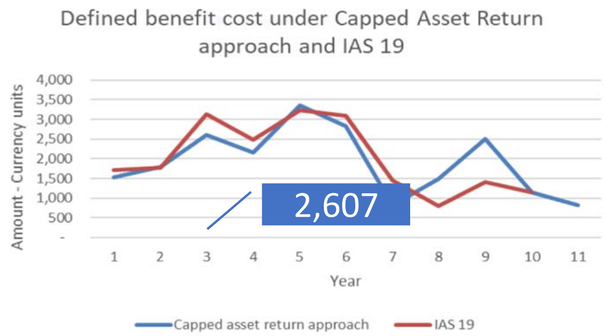


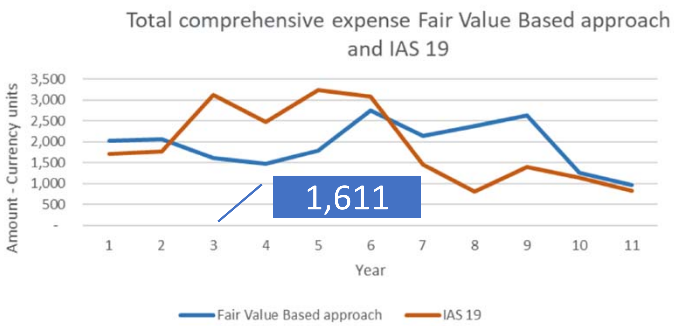


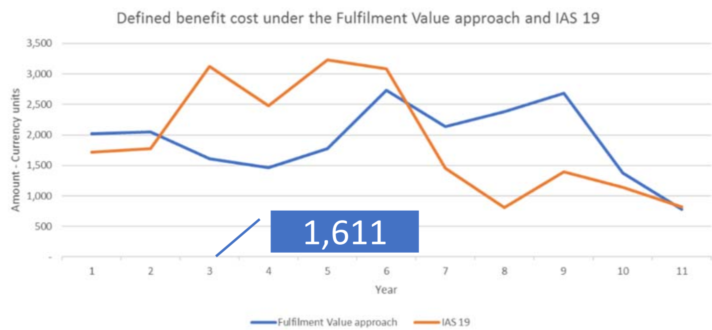


Results Defined benefit cost/total comprehensive expense









Summarised assessment of the approaches

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Qualitative characteristics	IAS 19	Capped Asset Return approach	Fair Value Based approach	Fulfilment Value approach
Is the information relevant?				
• Does the approach reflect how the pension obligation will be settled?	★☆☆	★☆☆	★☆☆	★★☆
• Is the economic covariance between plan assets and pension obligation reflected?	☆☆☆	★☆☆	★★★	★★★
• Is a net pension liability recognised when the plan assets are expected to be insufficient to cover the portion of the final benefit entitlement for the service provided to date?	★★☆	★★☆	★★★	★★★
• Does the calculation of current service cost result in a useful reflection of pension cost related to a particular period?	★★☆	★★☆	★★★	★★★
• Is information about the value of the minimum return guarantee provided?	☆☆☆	☆☆☆	★★★	★★★
Is the employee's right to receive the higher of the return on plan assets and the minimum guaranteed return reflected in a complete manner?	★☆☆	★☆☆	★★★	★★★
Can requirements be applied retrospectively?	N/A	★★★	★★☆	★★☆
Is the obligation element related to the minimum guaranteed return accounted for similarly to plans under IAS 19?	N/A	★★★	★☆☆	★☆☆
Is the obligation related to the return on plan assets accounted for similarly to plans under IAS 19?	N/A	★☆☆	★★★	★★★
Is the information understandable?	★☆☆	★☆☆	★★☆	★★☆
Will the implementation of the approach be uncostly?	N/A	★★☆	★☆☆	★☆☆

Symbol	Explanation
★☆☆	Low fulfilment of the qualitative characteristic.
★★☆	Medium fulfilment of the qualitative characteristic.
★★★	High fulfilment of the qualitative characteristic.
N/A	The effect is not relevant to consider for the approach.