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Plan Amendment, Curtailment or settlement,
amendments

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Background

The IFRS Interpretations Committee was asked to clarify the calculation of current service cost and net interest for the remainder of an annual period when a plan amendment or curtailment occurs.

IAS 19.99 requires that the net defined benefit liability (asset) be measured using the current fair value of plan assets and current actuarial assumptions, which will reflect changes made to the plan. In contrast, the Basis of Conclusions to IAS 19 implies that an entity should not revise any assumptions during the period when calculating the current service cost and net interest, even if an entity measures the net defined benefit liability (asset) using revised assumptions. Similarly, IAS 19.123 states that net interest on the net defined benefit liability (asset) is based on the net benefit liability (asset) at the start of the annual period, taking into account changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments. But IAS 19.123 makes no reference to changes resulting from plan amendments, curtailments or settlements.

The IFRS Interpretations Committee concluded that revising the assumptions when measuring the net defined benefit liability (asset) but not when calculating current service cost or net interest was inconsistent. However, because the Committee was not able to solve the problem by developing an Interpretation it instead recommended that the IASB amend IAS 19.

The amendments

Past service cost (or the gain or loss on settlement)

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

Current service cost and net interest on the net defined benefit liability (asset)

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

Transition and effective date

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

Observation

IASB Practice Statement – Making Materiality Judgements

IAS 34 Interim Financial Reporting paragraph B9 requires that the pension cost for an interim period be adjusted for significant market fluctuations (in addition to the adjustments resulting from plan amendments, curtailments and settlements). The Board decided against addressing the effect of significant market fluctuations on the measurement of current service cost and net interest in the annual financial statements (in the absence of a plan amendment, settlement or curtailment).

Further information

The amendments are available on the IFRS Foundation website for holders of a professional or comprehensive eIFRS subscription. The amendments will be incorporated in the 2019 set of unaccompanied Standards, which are available free of charge to registered users. However, that update is not expected until early in 2019.

If you have any questions about the amendments, please speak to your usual Deloitte contact or see the contacts at the end of this note.



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