



**IMPACT OF IAS 19R ON  
DEFINED BENEFIT SCHEMES**

## INTRODUCTION

- Published by International Accounting Standards Board in June 2011
- Revision of IAS 19 Employee Benefits adopted by IASB on April 2001
- Impact of these changes can be minimal to significant depending on an individual entity
- Reason for these revisions is to create greater consistency in accounting for employee benefits



## MAJOR CHANGES

- The major changes for IAS 19R from IAS 19 are as follows:
  - Immediate Recognition of Gains Losses
  - Recognition of Changes
  - Concept of Net Interest Income (Expense)



# IMMEDIATE RECOGNITION OF GAINS

## LOSSES

- IAS 19 allowed the option of deferred recognition of Actuarial Gains & Losses using Corridor Approach
- IAS 19R removed this option and requires immediate recognition of Actuarial Gains and Losses
- Impact: The direction (gains/losses) depends on the unrealized actuarial gains and losses at the time.



# IMMEDIATE RECOGNITION OF GAINS LOSSES (EXAMPLE)

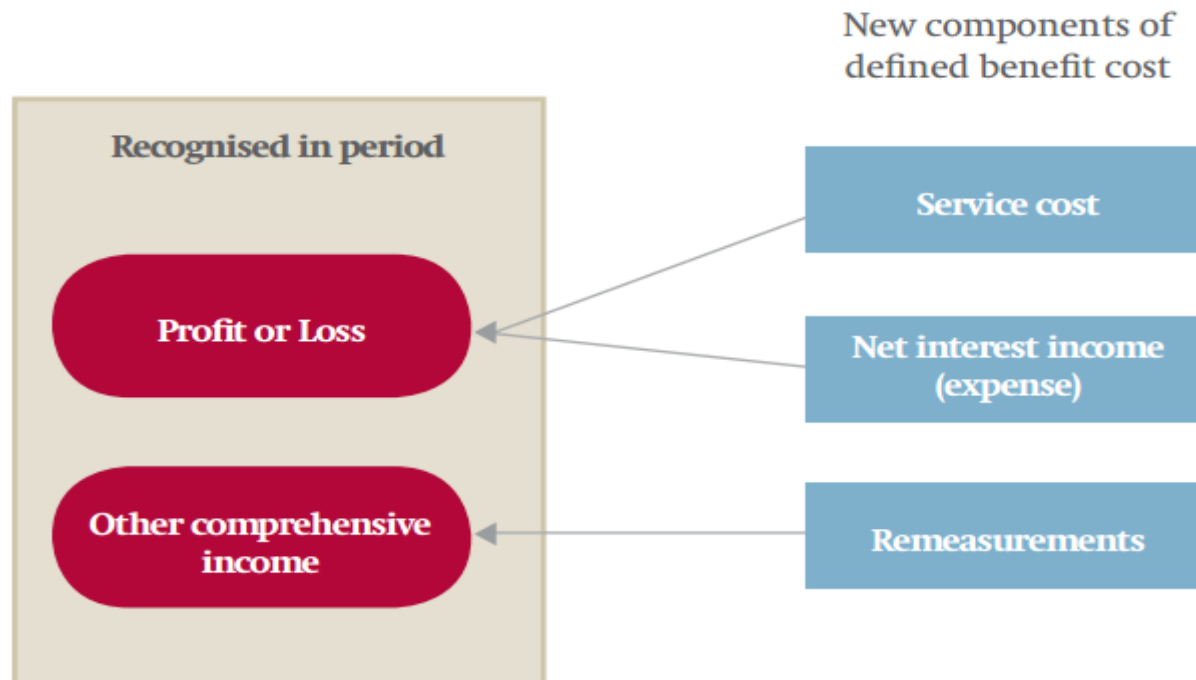
## Removal of Corridors

	Scenario		
	1	2	3
Fair Value of Plan Assets	1,200	5,000	5,000
Defined Benefit Obligation	1,500	3,000	3,000
Cumulative Unrecognised Actuarial Gains (Losses)	600	2,000	(1,500)
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Net Balance Sheet Defined Benefit Asset (Liability):			
Current IAS 19	300	4,000	500
IAS 19R	(300)	2,000	2,000



## RECOGNITION OF CHANGES

- Accounting for changes in defined benefit related assets and liabilities are summarized below:



Source: IASB webcast presentation, June 2011



## CONCEPT OF NET INTEREST INCOME

- For entities with funded defined benefit plans net interest expense (income) is now calculated as net defined benefit liability (asset) and multiplied by discount rate.
- This removes the concept of 'Expected Return on Plan Assets' which was being previously being recognized in profit/loss report.
- The overall impact of this change depends on composition of plan assets, expected return and discount rate assumption.



# CONCEPT OF NET INTEREST INCOME (EXAMPLE)

## Net Interest Calculation

	Scenario			
	1	2	3	4
Fair Value of Plan Assets	1,500	1,000	1,000	1,500
Expected Return	5.5%	5.5%	6.0%	6.0%
Defined benefit Obligation	1,000	1,500	1,500	1,000
Discount Rate	6.0%	6.0%	5.5%	5.5%
Current IAS 19	23	(35)	(23)	35
<b>IAS 19R</b>	<b>30</b>	<b>(30)</b>	<b>(28)</b>	<b>28</b>
Difference	(8)	(5)	5	8



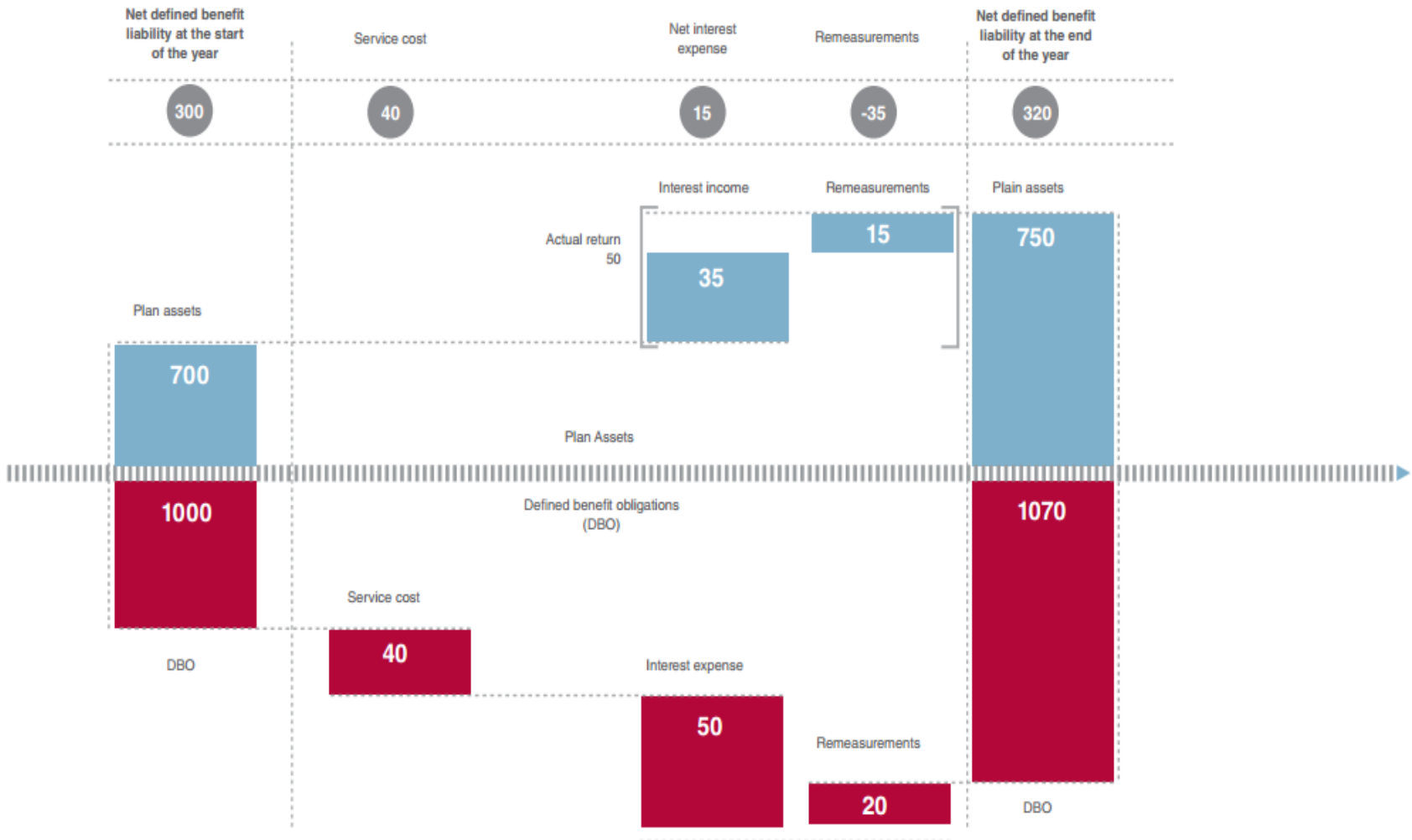


## REMEASUREMENTS

- Remeasurements are recognised under *Other Comprehensive Income* (OCI)
- Remeasurements will not be part of Profit or Loss accounts
- Remeasurements will include
  - Return on Plan Assets (Excluding amounts in Interest Income)
  - Actuarial Gains / Losses
  - Change in Asset Ceiling



# ILLUSTRATION OF NEW COMPONENTS



Source: IASB webcast presentation, June 2011

## DISCLOSURES

- The following is required to be disclosed
  - Characteristics of, and risk associated with, defined benefit plans
  - Identification and explanation of amounts in the financial statements arising from the defined benefit plans
  - How the defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows



## THANK YOU

- We Trust you have found the above information helpful, for further information please contact:

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