

## IND AS 19 Technical Aspects

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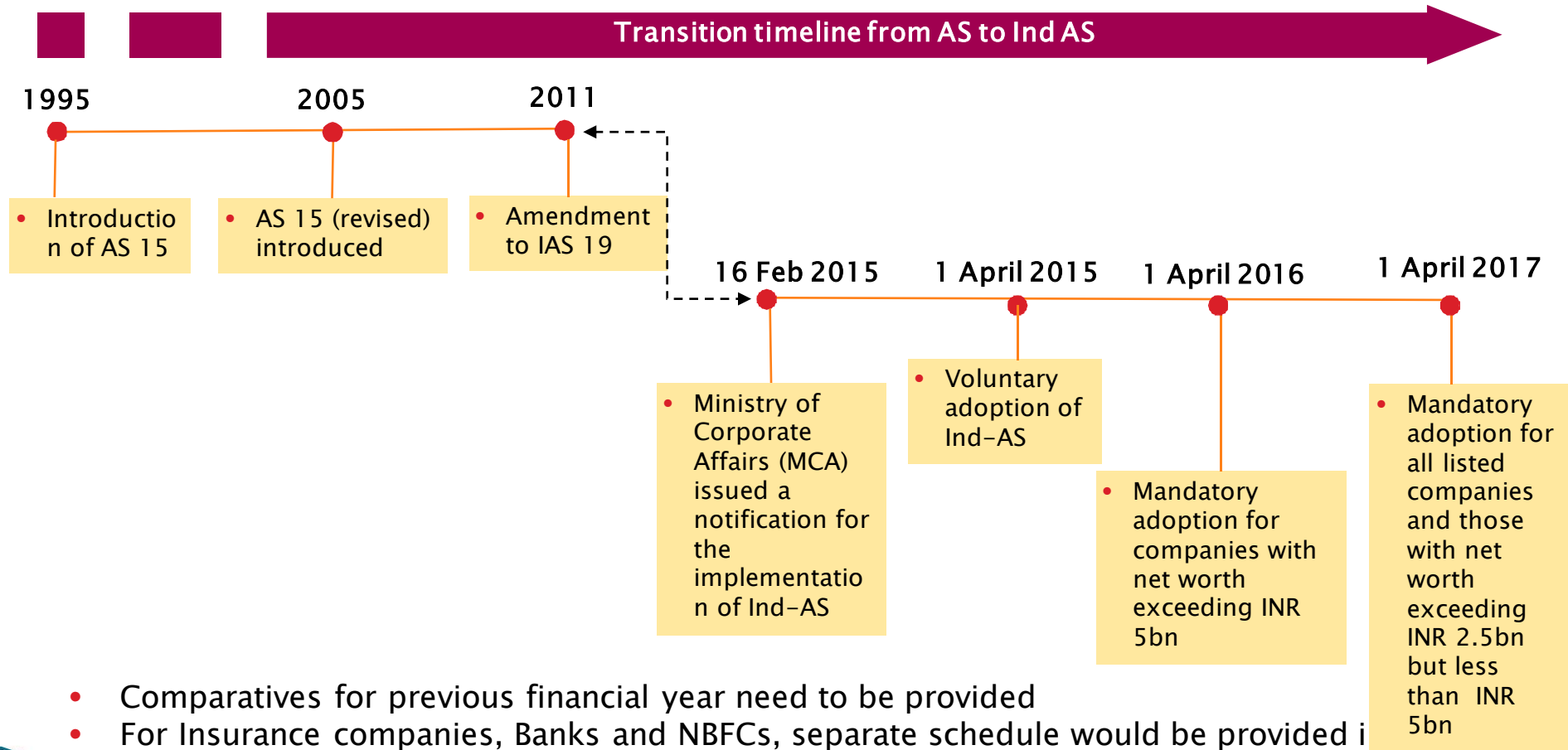
# Agenda

- ▶ Background
- ▶ Overview and Key Differences between AS 15 (Revised) and IND AS 19





## Background – Timeline to adopt Ind AS 19



# IND AS 19 Technical Aspects

**What is changing?**



## Employee Benefits accounting – Some core principles consistent

Fundamentally, approaches to employee benefits accounting are the same, though there are a number of areas of technical differences...

Key Similarities	US GAAP and Ind AS
<b>Measurement Principle</b>	<b>Distinguish between types of benefits</b> <ul style="list-style-type: none"><li>• Long term vs Short term</li><li>• Defined Benefit vs Defined Contribution</li><li>• Post employment/Retirement vs Other benefits</li></ul>
<b>Measurement Methodology</b>	<b>Underlying methodology the same - Project Unit Credit method when valuing long term and defined benefit schemes</b>
<b>Recognition of accrual</b>	<b>Incremental obligation due to service accrual in P&amp;L</b>

## Measurement of Benefit Obligation

Topic	Indian GAAP	Indian AS 19
Actuarial Method	Projected Unit Credit	
Discount Rate	Market yields at the balance sheet date on <b>government bonds</b> with maturities matching duration of benefit obligations	Benefit obligations should be discounted using <b>government bond yields</b> .  <i>Yields on high-quality corporate bonds (if bond market is deep) can be used if branches or subsidiaries are domiciled outside of India</i>

## Discount Rates – New for IndAS19

### ***Extract Para 83***

#### **Actuarial assumptions: discount rate**

83.... The rate used to discount post–employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on government bonds.

*However, subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post–employment benefit obligations arising on account of post employment benefit plans using the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds.*

*In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds of that country shall be used.*

## An overview of changes to AS 15 (Revised)

### Actuarial Gains/Losses

Immediate recognition of actuarial gains/losses through Other Comprehensive Income (OCI)

### Net Interest Income

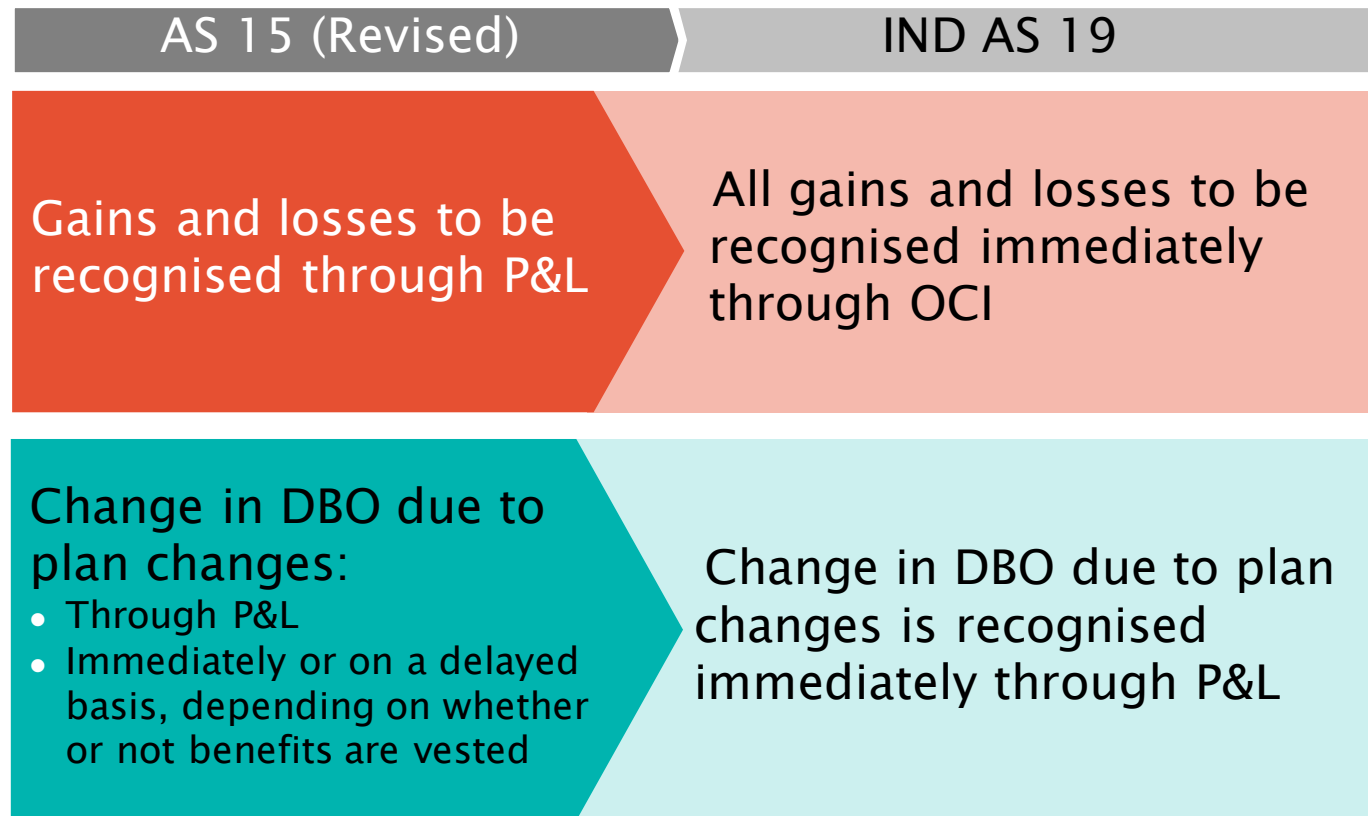
Interest cost and expected return on plan assets replaced with net interest on net DB liability/asset

### Financial Reporting and Disclosure

Additional Disclosures to provide more insight on plan risks



## Actuarial Gains/Losses: Immediate recognition of actuarial gains/losses through Other Comprehensive Income (OCI)\*



**\*Note:** For other long term benefits like Long Service Awards, Compensated absences immediate recognition of actuarial gain/loss will be through P&L account.

## Net Interest Income:

Interest cost and expected return on plan assets replaced with net interest on net DB liability/asset

### AS 15 (Revised)

Interest cost reflects the expected increase in the DBO due to the time value of money

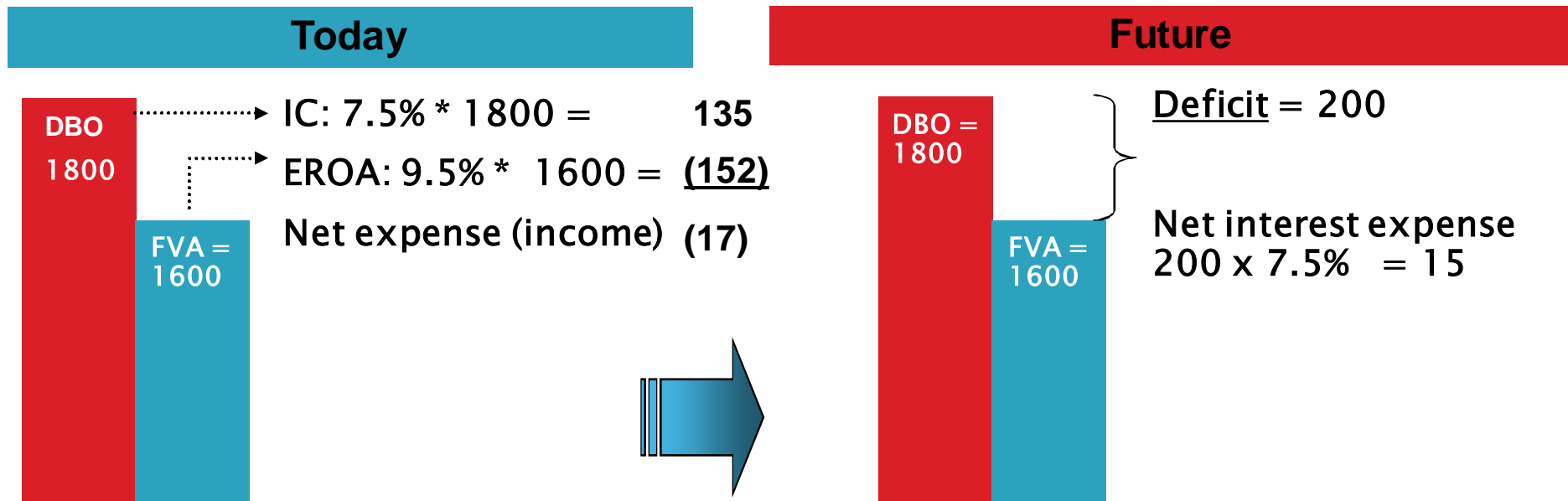
Expected return on plan assets reflects the expected increase in the fair value of assets due to investment performance

### IND AS 19

- Net interest income/expense measures the “credits earned” / “cost of borrowing” of the Net Asset / Net Liability
- Based on discount rate

# Overview: Net Interest on DB Liability/Asset

- ▶ Net interest on DB liability/asset replaces interest cost and EROA
- ▶ Assume 7.5% discount rate, 9.5% EROA and the following funded position:

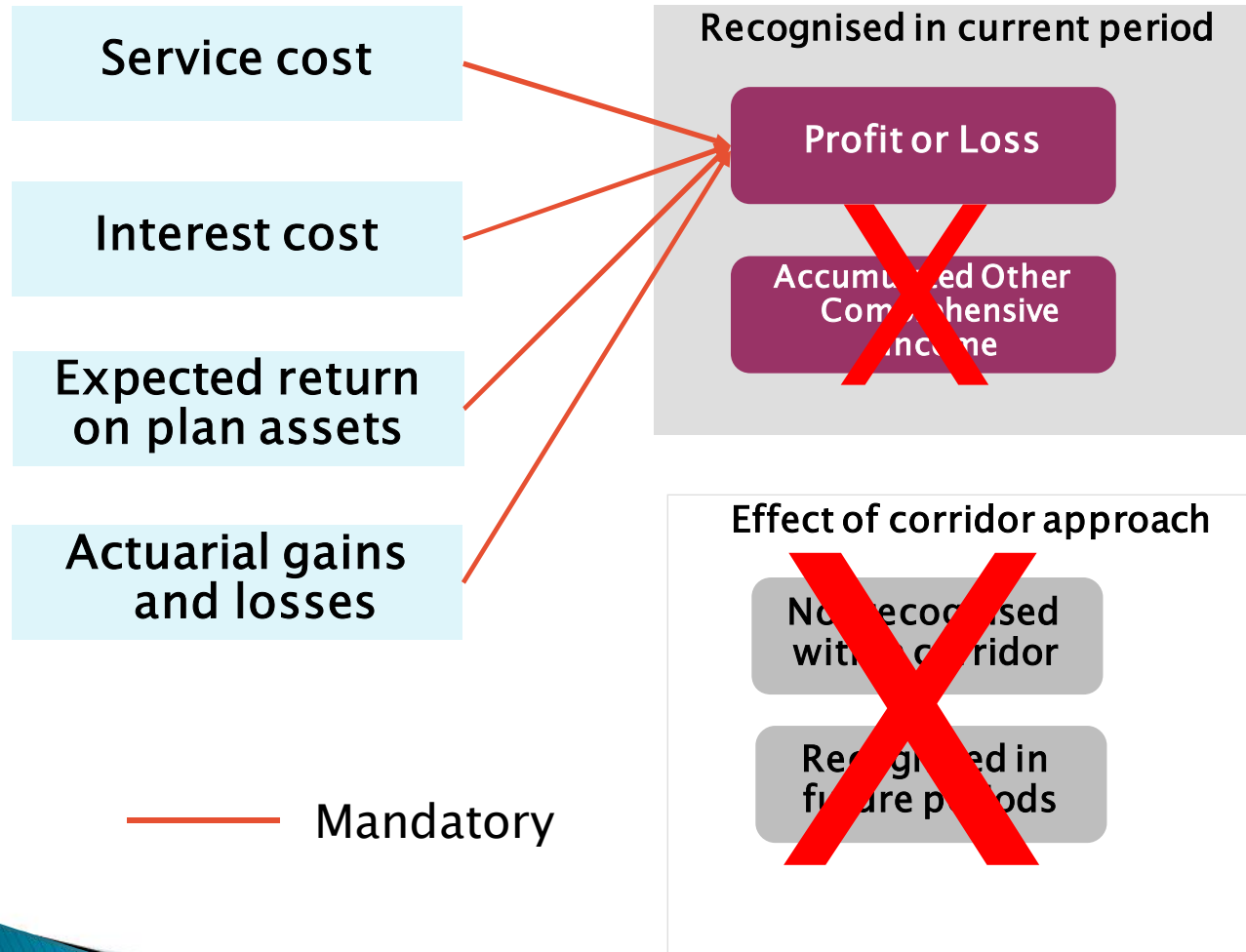


Can recognise net interest INCOME even when the plan is in DEFICIT

Recognise a net interest EXPENSE when the plan is in DEFICIT

# Various recognition alternatives

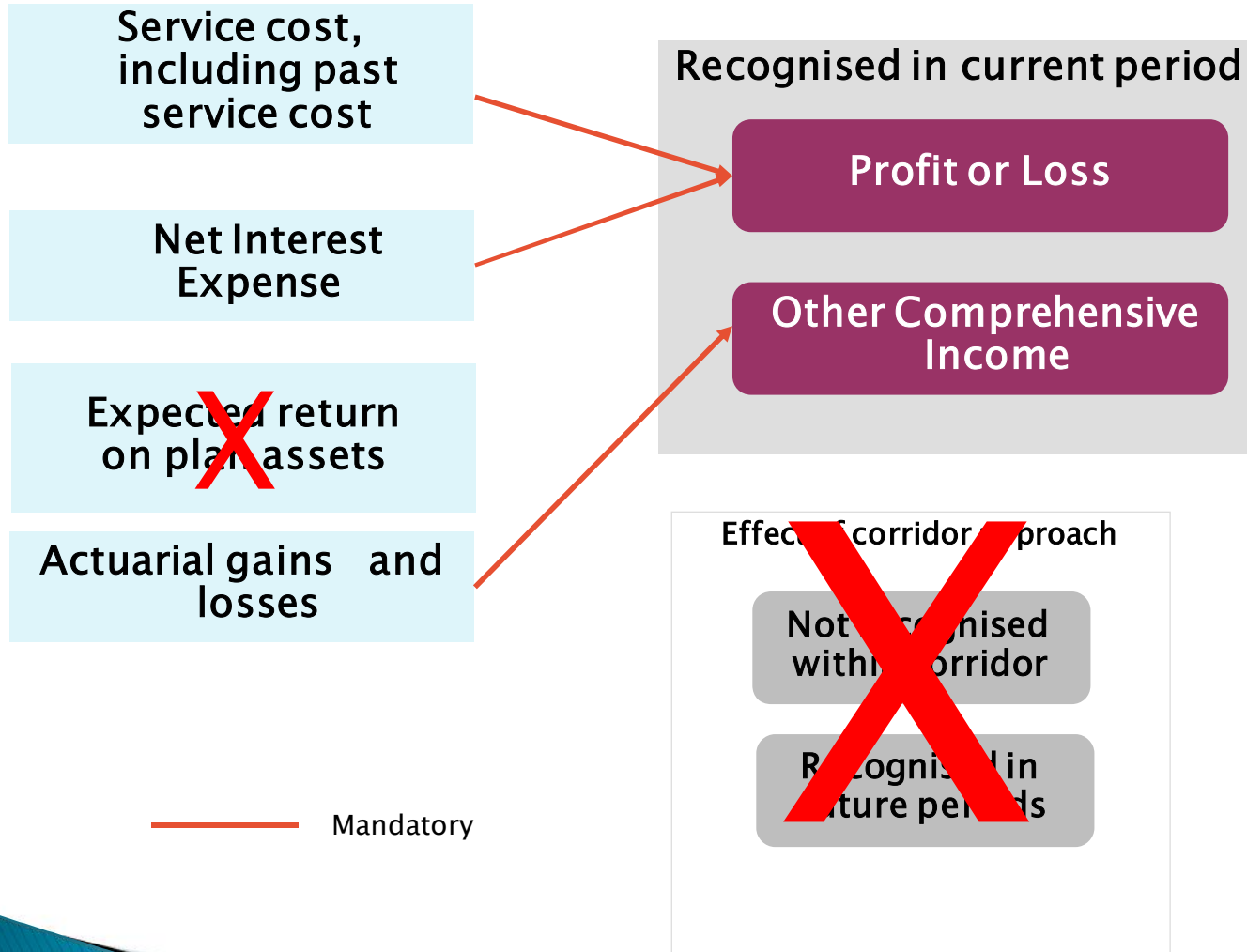
## AS 15R



Summary ignores plan changes and other special events

# Various recognition alternatives

## IndAS19



## Financial Reporting and Disclosure: Disclosures to provide more insight on plan risks

- ▶ Expanded disclosures focus on assessing risk
- ▶ Objectives – more principles-based rather than specific requirements
  - i. Explain characteristics of plans and associated risks
  - ii. Identify and explain amounts in financial statements
  - iii. Describe how plans affect future cash flows (amount / timing / uncertainty)

## Expanded disclosure –

### 1. Explain characteristics of plans and risks

Disclosure Item	AS 15 (Revised)	Ind AS19 Additional Requirements
Type of scheme	<p>Only requires information about general description of type of plan, e.g.</p> <ul style="list-style-type: none"><li>• Benefits are based on a multiple of a member's salary and service</li></ul>	<ul style="list-style-type: none"><li>• More information about plan characteristics<ul style="list-style-type: none"><li>• nature of benefits,</li><li>• description of regulatory framework in which plan operates</li><li>• description of any other entity's responsibilities for the governance of the plan)</li></ul></li><li>• Expands current requirements to provide more insight about risk exposures and concentration of risks</li></ul>

## Expanded disclosure –

### 2. Identify and explain amounts in financial statements

Disclosure Item	AS 15 (Revised)	Ind AS 19 Additional Requirements
Information of scheme assets by major asset class	Only requires information about the major categories of Scheme assets as a percentage of total Scheme assets	<ul style="list-style-type: none"><li>• Disaggregation of fair value of plan asset into asset classes based on nature and risks</li><li>• Further subdivided by quoted market price vs. no quoted price</li><li>• Further segregated by type of issuer and credit quality</li></ul>
Other	Not applicable	<ul style="list-style-type: none"><li>• Provide split of actuarial gains and losses into financial and demographic assumptions</li></ul>



## Expanded disclosure –

### 3. Amount, timing and uncertainty of future cash flows

Disclosure Item	AS 15 (Revised) – Example	Ind AS 19 Additional Requirements
Sensitivity analysis for each significant actuarial assumption	Not required – only required for medical cost increases in post retirement medical plans	<ul style="list-style-type: none"><li>• Sensitivity analysis showing effect on DBO of possible changes in each significant assumption, e.g. Change in Discount Rate, Attrition Assumption, Mortality Assumption</li><li>• Methods and assumptions used to determine sensitivity and their limitations</li><li>• Changes from previous period in methods/assumptions used in sensitivity analysis</li></ul>

Expanded disclosure –

3. Amount, timing and uncertainty of future cash flows

Disclosure Item	AS 15 (Revised) – Example	Ind AS 19 Additional Requirements
Asset–liability matching strategies	Not required	<ul style="list-style-type: none"><li>• Narrative description of asset–liability matching strategies, including annuity purchases and other techniques, to mitigate risk</li></ul>
Information about future cash flows	Not required	<ul style="list-style-type: none"><li>• Information about future cash flows<ul style="list-style-type: none"><li>• description of funding arrangements and funding policy</li><li>• maturity profile of benefit payments and DBO</li></ul></li></ul>

## Remeasurement Frequency

### AS15 Para 57–58 (for Defined Benefit plans)

57 An enterprise should determine the present value of defined benefit obligations and the fair value of any plan assets with *sufficient regularity* that the *amounts recognised* in the financial statements *do not differ materially* from the amounts that would be determined at the balance sheet date.

58 The *detailed* actuarial valuation of the present value of defined benefit obligations *may be made at intervals not exceeding three years*. However, with a view that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date, the most recent valuation is reviewed at the balance sheet date and updated to reflect any material transactions and other material changes in circumstances (including changes in interest rates) between the date of valuation and the balance sheet date. The fair value of any plan assets is determined at each balance sheet date.

### IndAS19 Para 58–60 (for Defined Benefit plans)

- ▶ 58 An entity shall determine the net defined benefit liability (asset) with *sufficient regularity* that the *amounts recognised* in the financial statements *do not differ materially* from the amounts that would be determined at the end of the reporting period.
- ▶ 59 This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. *For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period*. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.
- ▶ 60 In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard

## Clarification of measurement issues – Special events

- IndAS19 clarifies the definition and treatment for special events

Special Events	Definition	AS15	IndAS19
<b>Curtailments</b>	Significant reduction in number of employees covered under the scheme, e.g. restructuring, or eliminate or reduce benefit accrual for future service, e.g. plan freeze	Recognised in P&L	<ul style="list-style-type: none"> <li>• Included with past service cost and recognised in P&amp;L (included in service cost) when curtailment occurs</li> <li>• Impact on DBO reflected in P&amp;L while remeasurement effects included in OCI</li> </ul>
<b>Settlements</b>	Non routine transactions that eliminate future obligations, e.g. lump sum payment due to windup	Recognised in P&L	<ul style="list-style-type: none"> <li>• Recognised in P&amp;L (included in service cost) when settlement occurs</li> <li>• Effect of routine lump sums not considered as settlement and flow through OCI</li> </ul>

