

15th Current Issues in Employee Benefits Mumbai, 30 Nov 2018



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Outline



Proportionality in:

1. Entity classification
2. Employee benefits' taxonomy
3. Data
4. Measurement
5. Recognition
6. Disclosures
7. Summary

Proportionality generally

In line with AS 15 and Ind AS 19:
Employee Benefits

Prominent examples:

- Higher disclosure requirements for some benefits (both Ind AS 19 and AS 15)
- Treatment of actuarial gains/ losses to Other Comprehensive Income for some benefits (both Ind AS 19 and AS 15)

Proportional

adj: having a size, number, or amount that is directly related to or appropriate for something

The Webster's 1913 dictionary interprets:

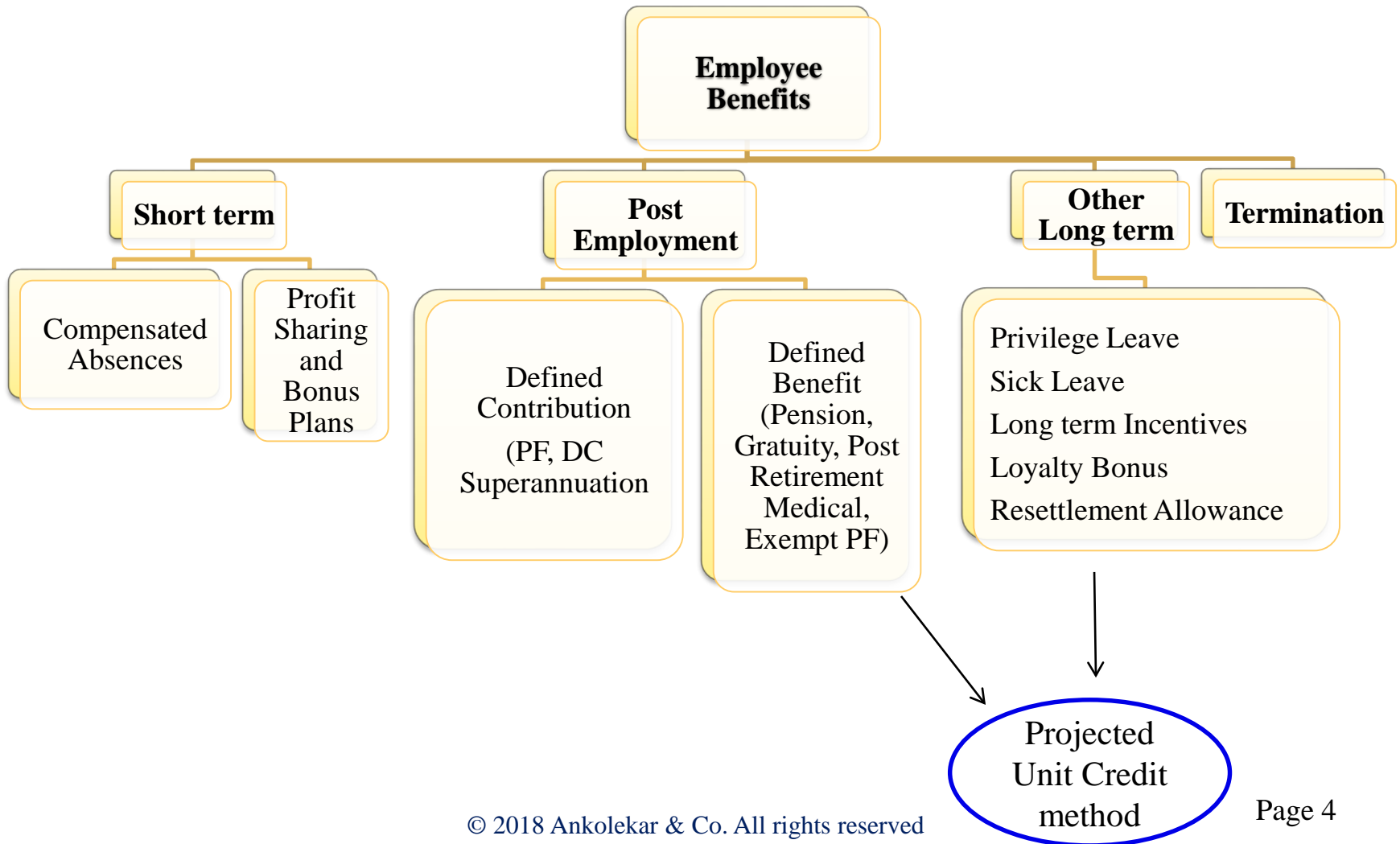
Pro`por`tion

v: To form with symmetry or suitableness as the parts of the body.

Pro`por`tion`al`i`ty

n: The state of being in proportion

The classification of employee benefits



Proportionality in Employee Benefits

- AS requirement
- Frequency of measurement

Measurement

Recognition

Disclosures

- Post-employment v. Other Long-term
- Cash-flow disclosures

Balance?

Fit for purpose?

Proportionality in AS 15 disclosure: Entity type

AS15 (R) is applicable in its **entirety** to the following enterprises:

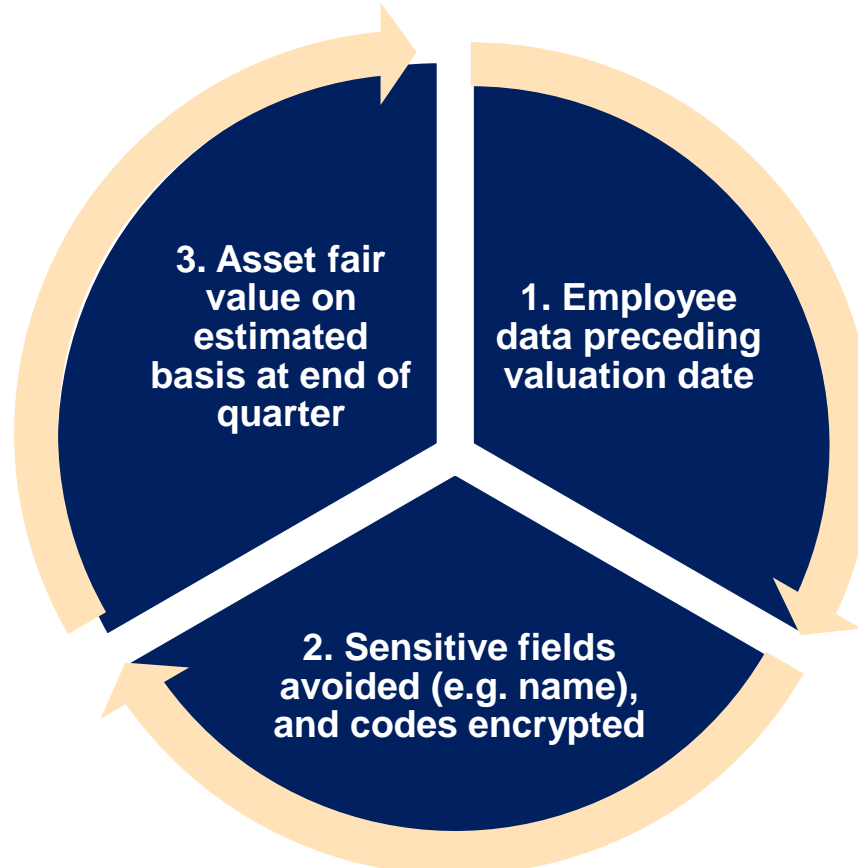
1. Equity or Debt securities are listed or are in the process of being listed
2. Carrying on Insurance business
3. Turnover > Rs50 cr
4. Borrowings > Rs10 cr at any instance during the year
5. Banks (incl. co-operative banks)
6. Financial Institutions
7. Holding or subsidiary company of any of the above

Companies not falling within clauses 1 to 7 are classified as **Small- and Medium-sized Companies (SMCs)** need to apply the standard restrictively

That is, **limited disclosures but value liabilities actuarially.**

Proportionality in "Data"

When asset returns have to wait until after EOY



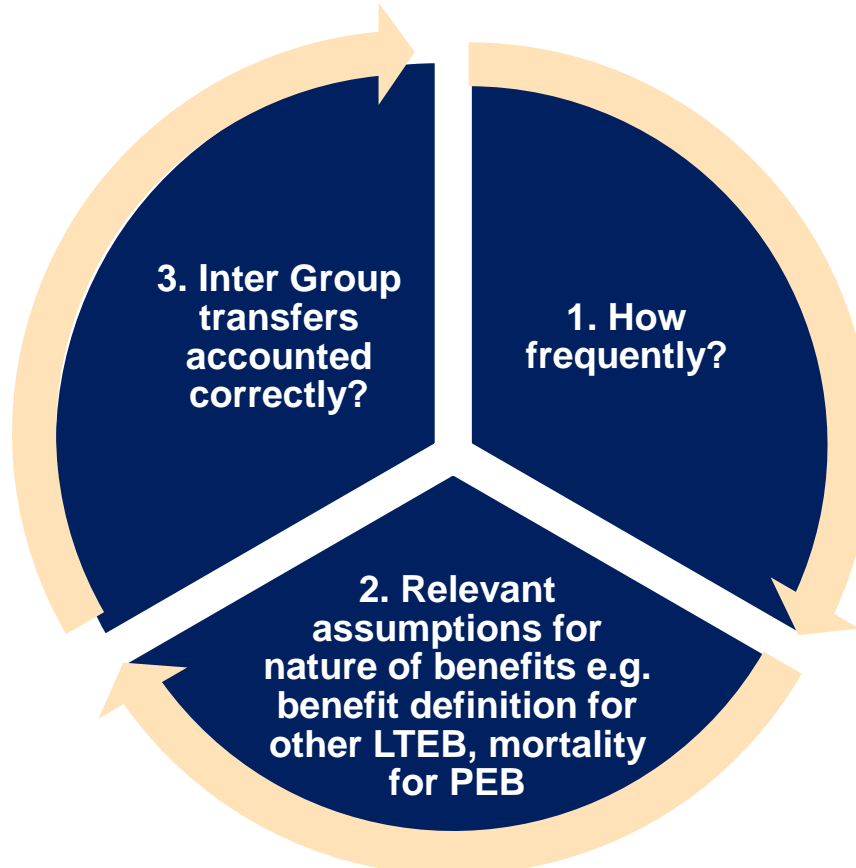
Inevitable for prompt quarterly and yearly closing

Manage data risks

IT security, data privacy requirements
Assets are a reality, liability is an estimate

Proportionality in “Measurement”

Employee movements change liabilities, so should be forthwith reported



Full measurement every quarter or estimates from the previous quarter?

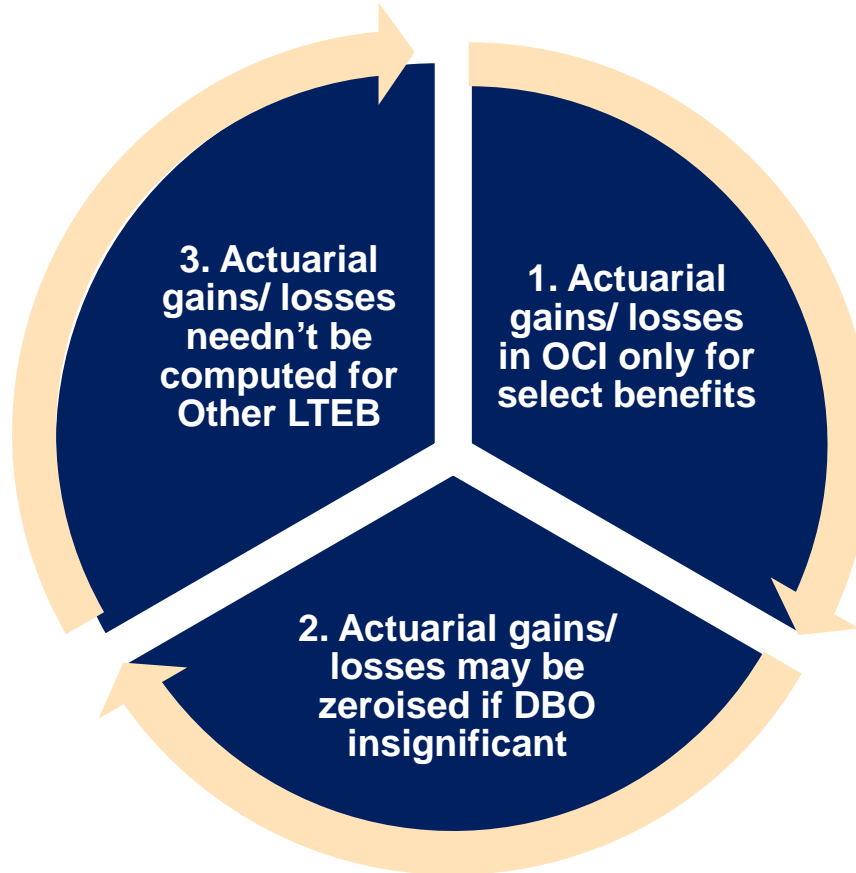
P&L approach (Service Cost + Interest Cost) will often do.

Question the “right” assumptions proportionate to nature of benefits

Measurement of employee benefit results is not just a “methodology.”

Proportionality in "Recognition"

Short-term
Less volatile
Costly



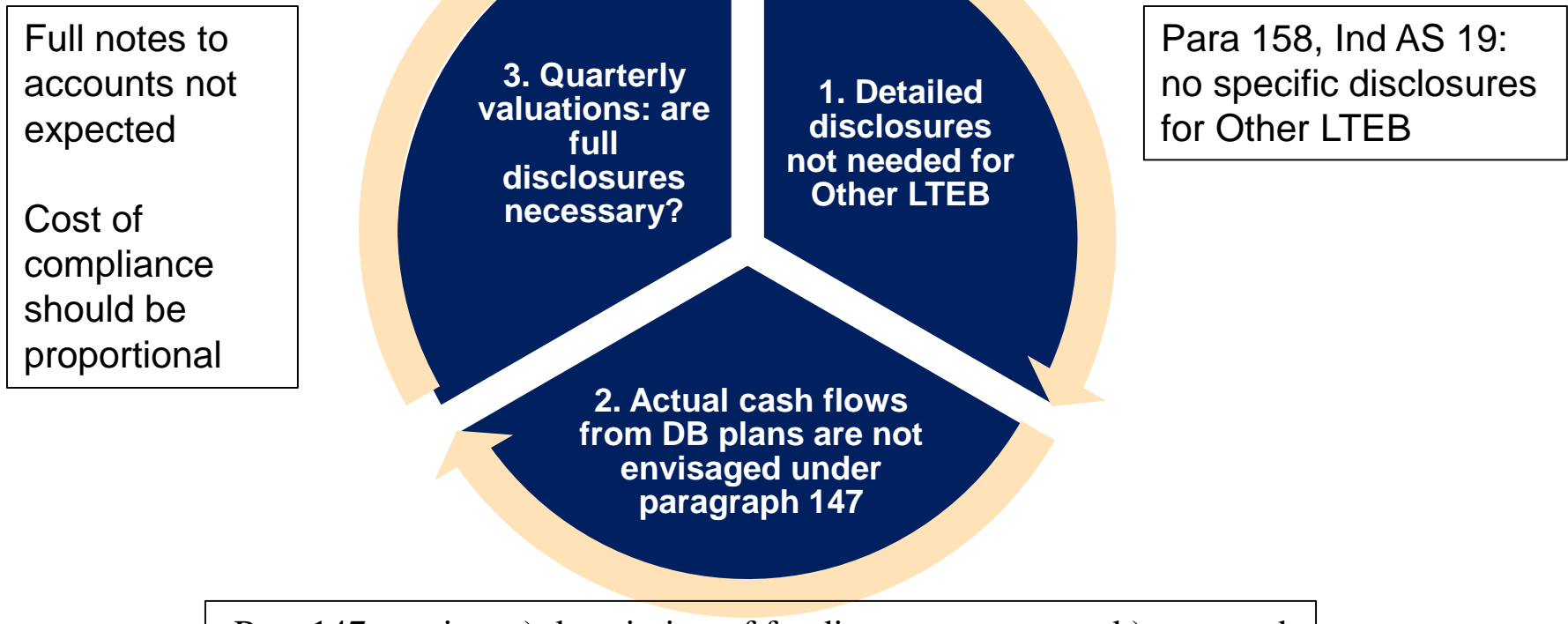
Post-Employment benefits → YES

Other Long-term benefits → NO

Materiality to be discussed with client and auditor

Recognition of employee benefits between P&L and OCI is guided by several factors

Proportionality in “Disclosures”



Disclosures are perhaps the greatest drivers of cost

Summarizing proportionality

Measurement

- Near period-end data acceptable
- Quarterly results from previous estimates?
- Question assumptions relevant to benefits

Recognition

- Actuarial gain/ loss not needed for OLTEB
- Only actuarial gain/ loss on Post-Employment Benefits classify under OCI
- Explore trends in experience gain/ losses

Disclosures

- Full disclosures unnecessary for quarterly results
- Disclosures relevant for Post-Employment Benefits only
- Maturity analysis of benefit payments is optional – guiding word 'MAY'

Summarizing proportionality, quarterly work

Measurement

- **Near period-end data acceptable**
- **Quarterly results from previous estimates?**
- Question assumptions relevant to benefits

Recognition

- **Actuarial gain/ loss not needed for OLTEB**
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Disclosures

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Measurement and recognition are the main drivers of quarterly (limited review) financial results

1	Movement in Other Comprehensive Income (OCI) as per Ind AS 19 (Rs '000)	Balance at start of period 1.4.2018 (Loss)/Gain	Nil
		Re-measurements on DBO(Loss)/Gain	(Rs x)
		Re-measurements on Plan Assets(Loss)/Gain	(Rs x)
		Balance at end of period 30.9.2018 (Loss)/Gain	(Rs x)
2	Employer expenses under Ind AS 19 (Rs '000)	Rs x	
3	Employer expenses under AS 15 (Rs '000)	Rs x	
4	Net Liability/ (Assets) Movement (Rs '000)	Opening Net Liability/ (Assets)	Rs x
		Add: Employer expenses in P&L	Rs x
		Add: Actuarial Loss/ (Gain) in OCI	Rs x
		Less: Employer contribution	Rs x
		Closing Net Liability/ (Assets)	Rs x

Disclosures do not feature in the limited review quarterly format

Questions?

DISCLAIMER

This document has been prepared for the purpose of explaining the position with regard to proportionality in employee benefits particularly the accounting standards AS 15 and Ind AS 19. Its transmittal is not intended to constitute advice, but should be seen as a viewpoint that informs discretion by education.