Exposure Draft

Proposed Accounting Standard (AS) 36
(Issued 20XX)

(Corresponding to IAS 26)

Accounting and Reporting by Retirement Benefit Plans

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Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Proposed Accounting Standard 36 (Issued 20XX) (corresponding to IAS 26)

Accounting and Reporting by Retirement Benefit Plans

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Exposure Draft

Proposed Accounting Standard 36 (Issued 20XX) [1]

(Corresponding to IAS 26)

Accounting and Reporting by Retirement Benefit Plans

The following is the Exposure Draft of the Proposed Accounting Standard (AS) 36 (Issued 20XX) Accounting and Reporting by Retirement Benefit Plans, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this proposed Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than June 11, 2010, Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org.

*This proposed Exposure Draft of the revised Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the proposed Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards[2]).*

[1] This Exposure Draft is issued pursuant to the decision to converge with IFRSs in respect of accounting periods commencing on or after April 1, 2011. All existing Accounting Standards and new Accounting Standards which are referred to in this Exposure Draft are also being revised or formulated, as the case may be, to converge with IFRSs from the aforesaid date. References to the other standards may be viewed accordingly.

[2] Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

Scope

1. **This Standard shall be applied in the financial statements of retirement benefit plans where such financial statements are prepared.**

2. Retirement benefit plans are sometimes referred to by various other names, such as ‘pension schemes’, ‘superannuation schemes’ or ‘retirement benefit schemes’. This Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan. All other Standards apply to the financial statements of retirement benefit plans to the extent that they are not superseded by this Standard.

3. This Standard deals with accounting and reporting by the plan to all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.

4. AS 15 (Revised 20XX) *Employee Benefits* is concerned with the determination of the cost of retirement benefits in the financial statements of employers having plans. Hence this Standard complements AS 15 (Revised 20XX).

5. Retirement benefit plans may be defined contribution plans or defined benefit plans. Many require the creation of separate funds, which may or may not have separate legal identity and may or may not have trustees, to which contributions are made and from which retirement benefits are paid. This Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.

6. Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company

7. This Standard does not deal with other forms of employment benefits such as employment termination indemnities, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security type arrangements are also excluded from the scope of this Standard.

Definitions

8 The following terms are used in this Standard with the meanings specified:

Retirement benefit plans **are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an**

annual income or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices.

Defined contribution plans **are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.**

Defined benefit plans **are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.**

Funding **is the transfer of assets to an entity (the** *fund***) separate from the employer's entity to meet future obligations for the payment of retirement benefits.**

For the purposes of this Standard the following terms are also used:

Participants **are the members of a retirement benefit plan and others who are entitled to benefits under the plan.**

Net assets available for benefits **are the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits.**

Actuarial present value of promised retirement benefits **is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.**

Vested benefits **are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.**

9 Some retirement benefit plans have sponsors other than employers; this Standard also applies to the financial statements of such plans.

10 Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired a degree of obligation as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.

11 Many retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. Those parties are called trustees in some countries. The term trustee is used in this Standard to describe such parties regardless of whether a trust has been formed.

12 Retirement benefit plans are normally described as either defined contribution plans or defined benefit plans, each having their own distinctive characteristics.

Occasionally plans exist that contain characteristics of both. Such hybrid plans are considered to be defined benefit plans for the purposes of this Standard.

Defined contribution plans

13. **The financial statements of a defined contribution plan shall contain a statement of net assets available for benefits and a description of the funding policy.**

14 Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's obligation is usually discharged by contributions to the fund. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.

15 The participants are interested in the activities of the plan because they directly affect the level of their future benefits. Participants are interested in knowing whether contributions have been received and proper control has been exercised to protect the rights of beneficiaries. An employer is interested in the efficient and fair operation of the plan.

16 The objective of reporting by a defined contribution plan is periodically to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements including the following:

(a) a description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;

(b) statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and

(c) a description of the investment policies.

Defined benefit plans

17 **The financial statements of a defined benefit plan shall contain:**

(a) a statement that shows:

(i) the net assets available for benefits;

(ii) the actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits; and

(iii) the resulting excess or deficit;

(b) [Deleted]

If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation shall be used as a base and the date of the valuation disclosed.

18 **For the purposes of paragraph 17, the actuarial present value of promised retirement benefits shall be based on the benefits promised under the terms of the plan on service rendered to date using projected salary levels with disclosure of the basis used. The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits shall also be disclosed.**

19 **The financial statements shall explain the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.**

20 Under a defined benefit plan, the payment of promised retirement benefits depends on the financial position of the plan and the ability of contributors to make future contributions to the plan as well as the investment performance and operating efficiency of the plan.

21 A defined benefit plan needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels.

22 The objective of reporting by a defined benefit plan is periodically to provide information about the financial resources and activities of the plan that is useful in assessing the relationships between the accumulation of resources and plan benefits over time. This objective is usually achieved by providing financial statements including the following:

(a) a description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;

(b) statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period;

(c) actuarial information either as part of the statements or by way of a separate report; and

(d) a description of the investment policies.

Actuarial present value of promised retirement benefits

23 The present value of the expected payments by a retirement benefit plan may be calculated and reported using projected salary levels up to the time of retirement of participants.

24 [Deleted]

(a) [Deleted]

(b) [Deleted]

(c) [Deleted]

25 Reasons given for adopting a projected salary approach include:

(a) financial information should be prepared on a going concern basis, irrespective of the assumptions and estimates that must be made;

(b) under final pay plans, benefits are determined by reference to salaries at or near retirement date; hence salaries, contribution levels and rates of return must be projected; and

(c) failure to incorporate salary projections, when most funding is based on salary projections, may result in the reporting of an apparent overfunding when the plan is not overfunded, or in reporting adequate funding when the plan is underfunded.

26 The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding. In addition to disclosure of the actuarial present value of promised retirement benefits, sufficient explanation may need to be given so as to indicate clearly the context in which the actuarial present value of promised retirement benefits should be read. Such explanation may be in the form of information about the adequacy of the planned future funding and of the funding policy based on salary projections. This may be included in the financial statements or in the actuary's report.

Frequency of actuarial valuations

27 In some cases, actuarial valuations are not obtained more frequently than every three years. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is used as a base and the date of the valuation disclosed.

Financial statement content

28 For defined benefit plans, information is presented in the following format:

(a) a statement is included in the financial statements that shows the net assets available for benefits, the actuarial present value of promised retirement benefits, and the resulting excess or deficit. The financial statements of the plan also contain statements of changes in net assets available for benefits and changes in the actuarial present value of promised retirement benefits. The financial statements may be accompanied by a separate actuary's report supporting the actuarial present value of promised retirement benefits;

(b) [Deleted]

(c) [Deleted]

In the above format a trustees' report in the nature of a management or directors' report and an investment report may also accompany the financial statements.

29 The format described in paragraph 28) ensures that the quantification of promised retirement benefits and other information provided help users to assess the current status of the plan and the likelihood of the plan's obligations being met. Financial statements as per paragraph 28 are complete in themselves and do not rely on accompanying statements..

30 [Deleted]

31 [Deleted]

All plans

Valuation of plan assets

32 **Retirement benefit plan investments shall be carried at fair value. In the case of marketable securities fair value is market value. Where plan investments are held for which an estimate of fair value is not possible disclosure shall be made of the reason why fair value is not used.**

33 In the case of marketable securities fair value is usually market value because this is considered the most useful measure of the securities at the report date and of the investment performance for the period. Those securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity. Where plan investments are held for which an estimate of fair value is not possible, such as total ownership of an entity, disclosure is made of the reason why fair value is not used. To the extent that investments are carried at amounts other than market value or fair value, fair value is generally also disclosed. Assets used in the operations of the fund are accounted for in accordance with the applicable Standards.

Disclosure

34 **The financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall also contain the following information:**

(a) a statement of changes in net assets available for benefits;

(b) a summary of significant accounting policies; and

(c) a description of the plan and the effect of any changes in the plan during the period.

35 Financial statements provided by retirement benefit plans include the following, if applicable:

(a) a statement of net assets available for benefits disclosing:

(i) assets at the end of the period suitably classified;

(ii) the basis of valuation of assets;

(iii) details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security;

(iv) details of any investment in the employer; and

(v) liabilities other than the actuarial present value of promised retirement benefits;

(b) a statement of changes in net assets available for benefits showing the following:

(i) employer contributions;

(ii) employee contributions;

(iii) investment income such as interest and dividends;

(iv) other income;

(v) benefits paid or payable (analysed, for example, as retirement, death and disability benefits, and lump sum payments);

(vi) administrative expenses;

(vii) other expenses;

(viii) taxes on income;

(ix) profits and losses on disposal of investments and changes in value of investments; and

(x) transfers from and to other plans;

(c) a description of the funding policy

(d) for defined benefit plans, the actuarial present value of promised retirement benefits (which may distinguish between vested benefits and non-vested benefits) based on the benefits promised under the terms of the plan, on service rendered to date and using projected salary levels; this information may be included in an accompanying actuarial report to be read in conjunction with the related financial statements; and

(e) for defined benefit plans, a description of the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits.

36 The report of a retirement benefit plan contains a description of the plan, either as part of the financial statements or in a separate report. It may contain the following:

(a) the names of the employers and the employee groups covered;

(b) the number of participants receiving benefits and the number of other participants, classified as appropriate;

(c) the type of plan—defined contribution or defined benefit;

(d) a note as to whether participants contribute to the plan;

(e) a description of the retirement benefits promised to participants;

(f) a description of any plan termination terms; and

(g) changes in items (a) to (f) during the period covered by the report.

It is not uncommon to refer to other documents that are readily available to users and in which the plan is described, and to include only information on subsequent changes.

Effective date

37 An entity to which this Accounting Standard is applicable shall apply it for accounting periods commencing on or after the date (to be announced separately) and will be mandatory in nature[3] from that date.

[3] This implies that, while discharging their attest function, it will be the duty of the members of the Institute to examine whether this Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from this Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

Appendix A

Note: This appendix is not a part of the Accounting Standard. The purpose of this appendix is only to bring out the major differences, if any, between Proposed Accounting Standard (AS) 36 (Issued 20XX) and the corresponding International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans

Comparison with IAS 26, *Accounting and Reporting by Retirement Benefit Plans*

The Exposure Draft of AS 36 (Issued 20XX), *Accounting and Reporting by Retirement Benefit Plans* and International Accounting Standard (IAS)26, *Accounting and Reporting by Retirement Benefit Plans* removes the alternatives permitted in contents of financial statements of a defined benefit plan under paragraph 17; use of salary level for calculating present value of expected payments by a retirement benefit plan (paragraph 23); and formats of presenting actuarial information in a defined benefit plan (paragraph 28). The aforesaid have consequential effects on other paragraphs which have been changed accordingly. However, removal of alternatives does not result in non-convergence with IAS 26.