

IASB Issues Exposure Draft Proposing Major Changes to Pension/OPEB Accounting

On April 29, 2010, the IASB issued an exposure draft (ED), Defined Benefit Plans: Proposed amendments to IAS 19, of proposed amendments to its current standard on accounting for employee benefits. The IASB proposal would significantly change an employer's recognition of its defined benefit obligations and costs. This proposal is the latest step in the IASB's project to revise its current accounting standard (IAS 19, Employee Benefits) on this subject, following the release of its 2008 discussion paper. While the ED is not the result of a joint project with the FASB, the IASB noted that the FASB is also undertaking a two-phase pension/OPEB project and that the ultimate objective is for the two standard-setters to adopt a converged standard. This HRS Insight provides a high-level overview of the ED. We will follow this up in the near future with another HRS Insight that explores the ED in greater detail.

The Elimination of Deferred Recognition

In earlier deliberations, the IASB considered requiring that all changes in benefit obligations and plan assets, including the effect of plan amendments and actuarial gains and losses, be recognized immediately in net income when the changes occur. After a long deliberation process, the IASB decided to propose that the changes arising from actuarial gains and losses be immediately recognized in *other comprehensive income* (OCI) in a statement of comprehensive income. Unlike U.S. GAAP, however, the IASB's proposal would prohibit those OCI amounts from being subsequently amortized and considered in determining future net income (i.e., they would not be "recycled").

Presentation

The proposed guidance would eliminate the flexibility currently afforded in the presentation of benefit expense. Under the proposal, the cost of benefits accrued in the current period (service cost) and benefit changes (prior service cost and curtailments) would be recognized as an operating expense. Net interest expense or income would be recognized as a financing component based on the funded status of the plan times the discount rate. Any other re-measurements (e.g., actuarial gains and losses, the effect of the asset ceiling, and settlements) would be recognized net of tax in OCI as a re-measurement component.

Disclosures

The ED proposes several new disclosures, including disclosure of plan assets consisting of debt and equity instruments that have a quoted price in an active market and those that do not. These new disclosures would be generally consistent with disclosures already required under U.S. GAAP.

Who's Affected

The proposed changes would affect all employers that account for their defined benefit plans under the IASB's current guidance. The proposal would:

- Change the way information about the benefit obligation and plan assets is presented in the financial statements
- Eliminate the corridor and spreading option for the recognition of actuarial gains and losses
- Increase volatility in total comprehensive income
- Increase the recognized expense for funded plans

What's the Effective Date

The proposed effective date is likely to be fiscal years beginning on or after January 1, 2013, with retrospective application required for all years presented within the financial statements. The effective date is subject to review, particularly if the issuance of the final standard is delayed beyond June 30, 2011.

What's Next?

The comment deadline is September 6, 2010, and a final standard is expected in 2011.

As previously mentioned, the FASB also has a project on its agenda to reconsider employers' accounting for pensions and other postemployment benefits. Although, the FASB is awaiting the outcome of the IASB's deliberations, it has acknowledged the ultimate goal is convergence. As a result, U.S. companies will want to assess the proposal and consider responding to the IASB's ED in order to make their views known to both of the Boards.

We will issue another HRS Insight soon to provide a more comprehensive analysis of the ED. In addition, we expect to issue a monograph that contains our assessment of the implications of the IASB's proposal, including the results of a PwC study presenting the impact of the proposal on the financial statements of 60 companies.

How PwC Can Help

PwC has considerable expertise in the accounting, tax, actuarial and HR issues related to pension and OPEB plans. We can leverage this expertise to provide employers with a broad perspective on costs, financial reporting, tax and other implications as they assess the impact of these proposed rule changes.

For more information on the topic discussed in this *HRS Insight* or to change your address, contact your local PricewaterhouseCoopers professional.

Atlanta, GA	Ann O'Connell	678-419-2820	Los Angeles, CA	Carrie Duarte	213-356-6396
	Charlie Yovino	678-419-1330	New York Metro	John Caplan	646-471-3646
Boston, MA	Ed Donovan	617-530-4722		Ed Donovan	646-471-8855
	Matthew Cowell	617-530-5694		Scott Olsen	646-471-0651
Charlotte, NC	Charlie Yovino	704-344-7739	Philadelphia, PA	Ted Volz	267-330-3180
Chicago, IL	Pat Meyer	312-298-6229		Bruce Clouser	267-330-3194
	Jack Abraham	312-298-2164		Bill Dunn	267-330-6105
	Paul Perry	312-298-3157	San Francisco, CA	Julie Rumberger	408-817-4460
	Terry Richardson	312-298-3717	San Jose, CA	Scott Pollak	408-817-7446
Dallas, TX	Charlie Wheeler	214-754-5023		Julie Rumberger	408-817-4460
Detroit, MI	Theresa Gee	312-298-4700	St. Louis, MO	Terry Richardson	312-298-3717
Houston, TX	Todd Hoffman	713-356-8440	Washington, DC	Jeff Davis	202-414-1857
Kansas City, MO	Terry Richardson	312-298-3717		Nik Shah	703-918-1208

This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

SOLICITATION

© 2010 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP (a Delaware limited liability partnership) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity. *connectedthinking is a trademark of PricewaterhouseCoopers.