



Employee Future Benefits — Additional Disclosures

Summary and Highlights of the Revisions
to Paragraphs 3461.150-.163 of the CICA
Handbook – Accounting

Drivers of Change

- ◆ Decline in equity markets, lower market interest rates, and strong Canadian currency
 - Increased benefit obligation
 - Growing deficit position
 - Drain on cash flow
 - Increased pension costs

Drivers of Change



- ◆ Post-Enron era
 - “Smoothing” results in off-balance sheet debt, which draws attention
 - Poor plan performance increases this debt
 - Users demand transparency
- ◆ Developments at FASB and IASB
- ◆ Input from roundtable and think-tank discussions

Project Objectives



- ◆ Respond to “drivers of change”
- ◆ Increase transparency about the effects of defined benefit plans on f/s with improved disclosures
- ◆ Cost/benefit considerations
 - Disclosure overload
 - Costs to compile
 - Valuable to shareholders and analysts?
 - What do users really need?

Existing Requirements Retained



- ◆ AcSB reviewed and decided to retain existing requirements about:
 - Defined benefit plans, although restructured to aid understanding
 - Defined contribution plans
 - Special termination benefits
 - Multiemployer benefit plans
- ◆ Covers pension benefits, but also post-retirement and post-employment plans

Disclosure Objectives

- ◆ Provide f/s users with information about:
 - the effect on the entity's f/s
 - plan obligations and assets for defined benefit plans
- ◆ Understand costs, risks and uncertainties associated with those obligations

Disclosure Objectives

- ◆ Make resource allocation decisions
- ◆ Assess management stewardship
- ◆ Canadian entities may wish to provide certain additional disclosures

Significant Accounting Policies



- ◆ Transparency of accounting policy used
- ◆ Convey a relevant and useful message
- ◆ Non-technical language used

Significant Accounting Policies



- ◆ Includes, where applicable:
 - Method used to determine accrued benefit obligation
 - Method used for calculating expected long-term rate of return on plan assets
 - Amortization of past service costs

Significant Accounting Policies



- ◆ Includes, where applicable:
 - Amortization of actuarial gains/losses
 - Amortization of transitional asset/obligation
 - Other inclusions carried forward from existing requirements

Defined Contribution Plans



- ◆ In addition to original requirements, capture “total cash outflow” for employee future benefits, i.e., total cash amount
 - Includes:
 - ◆ contributions to funded DB plans and to DC plans;
 - ◆ payments directly to employees, their beneficiaries or estates; and
 - ◆ payments to a third-party service provider on behalf of the employees.

Disclosures related to the Reporting Entity's Financial Statements for Defined Benefit Plans



- ◆ Total cash amount * (as described under DC plans)
- ◆ Balance sheet classification of the accrued benefit asset/liability *
- ◆ Reconciliation of the accrued benefit obligation to the balance sheet asset/liability

* Not addressed in SFAS 132 (revised 2003)

Disclosures related to the Reporting Entity's Financial Statements for Defined Benefit Plans



- ◆ Components of costs recognized (in addition to the total costs), showing separately:
 - costs incurred in the period; and
 - accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits
- ◆ US SFAS 132 (revised 2003) does not show the “smoothing” aspects

Pension Benefit Plans

2003

2002

Current service cost, net of employee contributions	75	55
Interest cost	110	100
Actual return on plan assets	(50)	(30)
Actuarial (gains) losses	100	(25)
<i>Elements of employee future benefit costs before adjustments</i>	235	100
Adjustments to recognize the long-term nature of employee future benefit costs:		
• Difference between expected and actual return on plan assets for year	(25)	(5)
• Difference between actuarial (gain) loss recognized for year and actual actuarial (gain) loss on accrued benefit obligation for year	(50)	25
	(75)	20
Defined benefit costs recognized	\$ 160	\$ 120

Disclosures related to the Reporting Entity's Financial Statements for Defined Benefit Plans



- ◆ Sensitivity information required
 - Effects of a one-percentage-point increase and decrease in the assumed health care cost trend rates
 - Why?
 - ◆ significance of health care costs and their degree of uncertainty

Disclosures related to the Reporting Entity's Financial Statements for Defined Benefit Plans



- ◆ Sensitivity information not required
 - Effects of changes in actuarial assumptions on obligations or costs
 - Why?
 - ◆ Interrelationships of assumptions
 - ◆ Changes may not be proportionate
 - ◆ Additional cost and effort to determine
 - ◆ Sensitivity information **not** required for other assets/liabilities

Disclosures related to the Defined Benefit Plan



- ◆ Plan description *
- ◆ Plan assets by category
- ◆ Measurement date

* Not addressed in SFAS 132 (revised 2003)

Disclosures related to the Defined Benefit Plan



- ◆ Dates of actuarial valuations *
- ◆ Significant assumptions
- ◆ Reconciliations - plan obligation and plan assets

* Not addressed in SFAS 132 (revised 2003)

Relief Provided for Non-Public Entities



- ◆ Components of benefit cost
- ◆ Separate unamortized amounts
- ◆ Reconciliation — beginning and ending balances of plan assets and accrued benefit obligation
- ◆ Effects of a one-percentage-point increase/decrease in the assumed health care cost trend rates

Amendments to Other Parts of Section 3461



- ◆ Updated terminology
 - “Cost” replaced “expense”
 - Footnote added to clarify that costs recognized for the period include amounts expensed and costs that may have been capitalized as part of an asset such as inventory
- ◆ Conform other terminology
- ◆ Conform with Generally Accepted Accounting Principles, Section 1100

Interim Financial Statements



- ◆ Total benefit cost
 - For current interim period and the current fiscal year to date
 - Financial statements of interim periods ending on or after June 30, 2004

Transitional Provisions

- ◆ Adopt disclosure paragraphs for fiscal years ending on or after June 30, 2004
- ◆ Earlier adoption encouraged
- ◆ All other paragraphs of Section 3461 apply to fiscal years beginning on or after January 1, 2000

Illustrative Material

- ◆ Example 2 updated to reflect revised disclosure requirements
 - Situation I - public company
 - Situation II – non-public company

Background Information and Basis for Conclusions document



- ◆ Now available to Handbook subscribers
 - Sets out AcSB's rationale
 - ◆ Revisions to disclosure paragraphs 3461.150-.163
 - ◆ Related amendments to other parts of Section 3461
 - Includes chart comparing employee future benefits disclosures between US and Canada

Feedback

- ◆ Please e-mail comments on this presentation to:

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