This Exposure Draft reflects proposals made by the Accounting Standards Board (AcSB).

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

To be considered, comments to the AcSB must be received by August 27, 2013, addressed to:

Peter Martin, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario  M5V 3H2

A PDF response form has been posted with this document to assist you in submitting your comments to the AcSB. Alternatively, you may send comments by email (in Word format), to: ed.accounting@cpacanada.ca
Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to issue REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3463 in Part III of the CICA Handbook – Accounting.

Background

In May 2013, the AcSB issued EMPLOYEE FUTURE BENEFITS, Section 3462 in Part II of the Handbook. A not-for-profit organization (NFPO) applying Part III of the Handbook also applies the standards in Part II, to the extent that the Part II standards address topics not addressed in Part III. Section 3462 is effective for fiscal years beginning on or after January 1, 2014.

Main features of the Exposure Draft

The AcSB proposes adding a new standard to Part III that would provide guidance for defined benefit plans on recognition and presentation of remeasurements and other items that is different from EMPLOYEE FUTURE BENEFITS, Section 3462 in Part II.

For an analysis of the expected effects of these proposals, see “Basis for Conclusions.” The main features of the proposals are summarized as follows:

• Remeasurements and other items would be:
  — recognized directly in net assets in the statement of financial position, rather than in the statement of operations; and
  — presented as a separately identified item in the statement of changes in net assets.

• Remeasurements and other items would not be reclassified from net assets to the statement of operations in a subsequent period.

• Retrospective application would generally be similar to the requirements in Section 3462 with additional guidance related to the different recognition and presentation of remeasurements and other items.

• An NFPO would apply all the other requirements in Section 3462.

Consequential amendments

Consequential amendments to FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501 in Part III have been included in the proposals. The proposed amendments to Section 1501 are consistent with the amendments made to FIRST-TIME ADOPTION, Section 1500 in Part II as a consequence of issuing Section 3462.

Additional minor consequential amendments will be made, as required, to other standards in Part III.
Plans for finalizing the proposals

The AcSB will redeliberate the proposals to take into account comments received. The AcSB will provide updates about its redeliberations on its Employee Future Benefits project page for Standards for Not-for-Profit Organizations.

The final standard is expected to be included in the Handbook before the end of this year.

The final standard will be effective for fiscal years beginning on or after January 1, 2014 and earlier application will be permitted, but only for all of an NFPO’s benefit plans — consistent with Section 3462.

Comments requested

Except for the recognition and presentation of remeasurements and other items, the proposed new guidance requires an NFPO to apply EMPLOYEE FUTURE BENEFITS, Section 3462 in Part II of the Handbook. The AcSB is not requesting comments on Section 3462.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative supported by specific reasoning.

The AcSB welcomes comments on the following questions concerning the proposals set out in this Exposure Draft:

1. Do you agree that NFPOs should recognize the amount of remeasurements and other items directly in net assets, and present that amount as a separately identified item in the statement of changes in net assets? If not, what recognition and presentation requirements would you recommend and why?

2. Should NFPOs be permitted an accounting policy choice to recognize remeasurements and other items in the statement of operations rather than directly in net assets? If you think an accounting policy choice should be provided, what are the reasons?

3. Do you agree that reclassification of remeasurements and other items from net assets to the statement of operations in a subsequent period should be prohibited? If not, what is your rationale for reclassification? What criteria should be used to determine when amounts should be reclassified?

4. Do you agree that the disclosures required by EMPLOYEE FUTURE BENEFITS, Section 3462 in Part II of the Handbook are appropriate for NFPOs and that no additional disclosures should be included in proposed Section 3463 in Part III of the Handbook? If not, what additional disclosures do you think should be required for NFPOs? Why
should these disclosures be required for NFPOs when they are not required for private enterprises?

5. Do you agree with the transitional provisions? If not, please explain why not and what transitional provisions you would propose.

6. Do you agree that proposed Section 3463 in Part III of the Handbook should be effective for annual financial statements relating to fiscal years beginning on or after January 1, 2014? If not, please explain why not and what you would propose.

7. Do you agree with the consequential amendment to FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501 in Part III of the Handbook? If not, please explain why not and what you would propose.

For your convenience, a PDF response form has been posted with this document. You can save the form both during and after its completion for future reference. Alternatively, written comments may be submitted by email (Word format preferred) to: ed.accounting@cpacanada.ca
Basis for Conclusions

Introduction

In developing these proposals, the AcSB considered the consequences of adopting new guidance relative to the objective of financial statements and the benefit versus cost constraint, as described in FINANCIAL STATEMENT CONCEPTS FOR NOT FOR PROFIT ORGANIZATIONS, Section 1001 in Part III of the Handbook. The purpose of financial reporting is to “communicate information that is useful to members, contributors, creditors and other users (“users”) in making their resource allocation decisions and/or assessing management stewardship.” The following discussion includes the expected effects that were considered by the AcSB in developing the proposals in this Exposure Draft.

Background

Respondents to the AcSB’s January 2012 Exposure Draft, “Employee Future Benefits,” generally agreed that the proposals should be applied by NFPOs as well as private enterprises. Respondents raised one significant concern with regard to the accounting for remeasurements and other items, as defined in that Exposure Draft. The AcSB considered this concern and decided to develop separate requirements for NFPOs on the recognition and presentation of remeasurements and other items in the financial statements. The requirements in EMPLOYEE FUTURE BENEFITS, Section 3462 in Part II of the Handbook would be applied in all other respects.

The AcSB’s overall approach to the standards in Part III is not to repeat standards that are in Part II. Consistent with this approach, the proposals in this Exposure Draft do not duplicate the requirements of Section 3462. Instead, an NFPO would be required to apply Section 3462 with the exception of the recognition and presentation of remeasurements and other items.

Recognition and presentation of remeasurements and other items

Background

EMPLOYEE FUTURE BENEFITS, Section 3462 requires recognition of the full amount of an entity’s defined benefit liability (asset) in its statement of financial position. This requirement is similar to the “immediate recognition approach” in former EMPLOYEE FUTURE BENEFITS, Section 3461 in Part II. The defined benefit liability (asset) is affected by changes in the fair value of plan assets and in the measurement of the plan obligation and asset ceiling, including past service costs and gains and losses arising from settlements and curtailments. These elements are collectively called “remeasurements and other items”. Section 3462 requires them to be recognized immediately in income when they arise.
Recognition in net assets and presentation in statement of changes in net assets

Respondents to the January 2012 Exposure Draft expressed strong concerns about including remeasurements and other items in the statement of operations, given the potential volatility and size of that number. The AcSB is aware that important users of NFPO financial statements include donors and other funders, in addition to lenders. Respondents pointed out that many donors and other funders may not have the understanding of the accounting for employee future benefits that lenders can be expected to have. Remeasurement gains and losses may be significant and, if included in the statement of operations, may result in operating surpluses or deficits. Donors and other funders may misunderstand such surpluses and deficits. These misunderstandings could affect the willingness of donors and other funders to provide financial support to the organization. As a result of the differences in the users of the financial statements of private enterprises and NFPOs, the AcSB considered alternative ways in which remeasurements and other items might be recognized and presented.

The AcSB noted that NFPOs following International Financial Reporting Standards in Part I of the Handbook would recognize changes in the defined benefit liability (asset) in other comprehensive income. The AcSB confirmed that it does not intend to adopt an “other comprehensive income” approach for NFPOs in Part III. However, presenting remeasurements and other items in the statement of changes in net assets rather than in the statement of operations would be comparable to entities applying Part I that recognize a similar employee benefits amount in other comprehensive income — outside profit or loss.

The AcSB thinks that understandability is just as important to donors and other users of an NFPO’s financial statements as to the users of a private enterprise’s financial statements. The amount of remeasurements and other items may include important information for users. Consequently, the AcSB decided to require remeasurements and other items to be presented as a separately identified item in the statement of changes in net assets. This requirement is consistent with the requirement in Section 3462 to present or disclose the amount of remeasurements and other items for the period.

As a result, the proposals require recognition of remeasurements and other items directly in net assets, and presentation as a separate item in the statement of changes in net assets.

Choice of recognition in statement of operations

The AcSB considered whether to provide NFPOs with an option to present remeasurements and other items in the statement of operations rather than in the statement of changes in net assets. They noted that some organizations may prefer to include all pension expense that has not been capitalized in the statement of operations and also may wish to use the same presentation as private enterprises. The AcSB also understands that some NFPOs following Part III have chosen to adopt “the immediate recognition approach” permitted under former Section 3461 in Part II.
Thus, these organizations are currently recognizing all changes in the defined benefit liability (asset) in the statement of operations, including remeasurements and other items.

The AcSB considered the benefits to financial statement users of comparability and decided not to include an option in the proposals. However, question 2 in “Comments requested” seeks respondents’ views on this point.

Reclassification in a subsequent period
As a result of the AcSB’s decision to require recognition of the amount of remeasurements and other items directly in net assets, the AcSB considered whether reclassification or “recycling” of that amount from net assets to the statement of operations in a subsequent period should be permitted or prohibited. The proposals prohibit such reclassification, consistent with IAS 19 Employee Benefits (amended in 2011) in Part I that does not permit reclassification of a similar amount from other comprehensive income to profit or loss in subsequent period. The AcSB agreed with the International Accounting Standards Board’s conclusion in paragraph BC99 of its Basis for Conclusions on IAS 19 that it is difficult to identify a suitable basis to determine the timing and amount of such reclassifications. Also, the AcSB has been unable to identify any method for recycling that would not be arbitrary and lacking in information content.

Disclosure
The AcSB considered whether this Exposure Draft should propose requirements for disclosures in addition to those required by EMPLOYEE FUTURE BENEFITS, Section 3462. For all other Part II standards applied by NFPOs, an NFPO is required to make the disclosures required in the Part II standard and is not required to make any additional disclosures.

The AcSB is undertaking further research on the needs of users of NFPO financial statements. Some of this research will be conducted as part of the outreach on the joint AcSB and Public Sector Accounting Board Statement of Principles, “Improvements to Not-for-Profit Standards.” On completion of that research, the AcSB plans to reconsider all disclosure requirements for NFPOs, including those relative to employee future benefits.

The AcSB noted that an NFPO may choose to provide additional disclosures to those required by the minimum level set by the standards in Part II. GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1401 in Part III, states that a fair presentation in accordance with generally accepted accounting principles is achieved by financial statements providing sufficient information about transactions or events having an effect on the financial statements as is necessary to understand that effect. In considering whether to provide disclosures in addition to those required by Section 3462, an NFPO should exercise professional judgment. In so doing, the organization may consider the disclosure requirements for employee future benefits required prior to the
adoption of Part III (i.e., those in EMPLOYEE FUTURE BENEFITS, Section 3461 in
the pre-changeover standards in Part V of the Handbook.

Pending completion of the research on the needs of users of NFPO financial
statements, the AcSB has been unable to identify any unique aspects of
NFPOs that would support additional required disclosures about employee
future benefits to those in Section 3462. This Exposure Draft requests
feedback from respondents on whether additional disclosures should
be included in proposed Section 3463 — see question 4 in “Comments
requested.”

Transition

Transition to a new or amended standard can result in one-time costs to
financial statement preparers and users. Eliminating the option to defer and
amortize actuarial gains and losses does not require preparers to obtain new
or different data. The liability in the statement of financial position will be
the liability that users currently calculate and preparers currently disclose
in a note to the financial statements. Thus, this change does not create any
transition issues.

The proposals would be applied retrospectively in a similar manner to
EMPLOYEE FUTURE BENEFITS, Section 3462, and include similar transitional
relief:
(a) Defined benefit plan costs may have been capitalized in previous
periods as part of an asset. Restating the carrying amount of assets for
the change in accounting would not meet a cost-benefit test and the
transitional proposals permit entities to avoid such restatement.
(b) The proposals also provide a simplified transition method for those
entities that are required to change the measurement date for plan
assets and plan obligations so as to avoid the need for an additional
valuation. However, as a result of the different recognition and
presentation requirements of remeasurements and other items
compared to Section 3462, the proposals provide additional guidance
necessary for application of the simplified transition approach for a
change in the measurement date.

Effective date

The AcSB proposes making the final standard effective for fiscal years
beginning on or after January 1, 2014 — consistent with EMPLOYEE FUTURE
BENEFITS, Section 3462. This timing ensures that NFPOs will not have to
recognize and present remeasurements and other items in the statement of
operations as would otherwise be required by Section 3462.

The AcSB decided to expose these proposals for 60 days to ensure that the
final standard would be issued in time for the proposed effective date. In
making this decision, the AcSB considered whether stakeholders would be
provided with sufficient time to provide their responses. The AcSB observed
that these proposals are narrow in scope and respond to comments received
on its January 2012 Exposure Draft.
Consequential amendments to FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501

The proposed consequential amendments to FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501 in Part III are consistent with the amendments made to FIRST-TIME ADOPTION, Section 1500 in Part II as a consequence of issuing EMPLOYEE FUTURE BENEFITS, Section 3462.

The consequential amendments to Section 1501 would permit a first-time adopter to apply the transitional provisions in proposed Section 3463. For example, an NFPO that applies Part III for the first time may wish to avail itself of the relief from retrospective application for benefit costs capitalized as part of the cost of assets in prior years. These consequential amendments also provide specific proposals for simplifying transition for a change in the measurement date for plan assets and the defined benefit obligation. Requiring retrospective application of proposed Section 3463 by first-time adopters would entail the same difficulties that led the AcSB to include the transitional relief in that Section, as explained above under “Transition.”

Furthermore, these consequential amendments eliminate some exemptions for employee future benefits relating to deferred recognition that are no longer necessary.

Conclusion

Having considered the effects of the proposed standard as discussed above, the AcSB thinks that the positive effects of the proposals will outweigh any negative effects. The AcSB expects that the proposals will result in significant improvements to financial reporting for NFPOs that sponsor defined benefit plans.
REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS

TABLE OF CONTENTS

| Purpose and scope                                      | .01 |
| Defined benefit plans — Recognition and presentation of remeasurements and other items | .02-.03 |
| Effective date and transition                         | .04-.07 |
| Illustrative example                                  |     |

PURPOSE AND SCOPE

.01 This Section prescribes the accounting treatment for employee future benefits provided by a not-for-profit organization. Except as otherwise provided for in this Section, a not-for-profit organization applies EMPLOYEE FUTURE BENEFITS, Section 3462 in Part II of the Handbook.

DEFINED BENEFIT PLANS — RECOGNITION AND PRESENTATION OF REMEASUREMENTS AND OTHER ITEMS

.02 A not-for-profit organization shall determine the amount of remeasurements and other items for the period in accordance with EMPLOYEE FUTURE BENEFITS, paragraphs 3462.085-.090 in Part II of the Handbook. Remeasurements and other items shall be:

(a) recognized directly in net assets in the statement of financial position rather than in the statement of operations; and

(b) presented as a separately identified item in the statement of changes in net assets.

.03 Remeasurements and other items are not reclassified to the statement of operations in a subsequent period.

EFFECTIVE DATE AND TRANSITION

.04 A not-for-profit organization applies this Section for annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted, but only for all of a not-for-profit organization’s benefit plans.

.05 A not-for-profit organization applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook, except as specified in paragraphs 3463.06-.07.

.06 When a not-for-profit organization includes employee benefit costs in the carrying amount of assets, such as inventories or property, plant and equipment, it need not restate the carrying amount of those assets at the date of application of this Section.

.07 When a not-for-profit organization previously used a measurement date prior to the date of the statement of financial position for plan assets and the defined benefit obligation rather than measuring them as of the date of the statement of financial position, it applies the following transitional approach:

(a) Use the measurement of plan assets and defined benefit obligations that the entity applied for year-end reporting for the year immediately preceding the year to which the Section is first applied, which may have been determined using a measurement date of up to three months prior to the date of the statement of financial position. The not-for-profit organization does not remeasure plan assets and defined benefit obligations as of the beginning of the year in which this Section is first applied.
(b) Restate those measurements retrospectively to reflect any changes in accounting policies in accordance with ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook, other than the change in the measurement date. For example, a not-for-profit organization might previously have deferred and amortized actuarial gains and losses and past service costs for its defined benefit plans, or may have decided to change from using an accounting valuation to a funding valuation to measure its defined benefit obligation.

(c) Determine the defined benefit obligation as of the date of the statement of financial position for the year in which this Section is first applied, either by an actuarial valuation as of that date or by a roll-forward of an earlier actuarial valuation prepared within the last three years in accordance with EMPLOYEE FUTURE BENEFITS, paragraph 3462.062 in Part II of the Handbook. Determine the fair value of plan assets as of the date of the statement of financial position for the year in which this Section is first applied in accordance with paragraphs 3462.065-.066.

(d) Using the amounts determined in (c), calculate defined benefit cost for the period between the measurement date for the year immediately preceding the year in which this Section is first applied and the date of the statement of financial position for the year in which this Section is first applied.

(e) Calculate the amount of remeasurements and other items included in (d) (i.e., for the period between the measurement date for the year immediately preceding the year in which this Section is first applied and the date of the statement of financial position for the year in which this Section is first applied):

   (i) Identify the portion, if any, of that amount of remeasurements and other items that relates to a gain or loss arising from a plan amendment or initiation, settlement or curtailment. Recognize any such amount in the statement of changes in net assets in the year in which the event occurs and not as an adjustment to opening net assets.

   (ii) Allocate the remaining amount of remeasurements and other items (i.e., the amount of remeasurements and other items excluding any gain or loss arising from a plan amendment or initiation, settlement or curtailment) proportionately such that twelve months of costs are allocated to the statement of changes in net assets for the current year, and adjust opening net assets in the year in which this Section is first applied by any remainder.

   (iii) The amounts in (i) and (ii) above that are recognized in the statement of changes in net assets in the current year are combined and presented as a separate item.

(f) Using the amounts determined in (d)-(e), calculate defined benefit cost excluding the remeasurements and other items component by reducing defined benefit cost by the amount of remeasurements and other items. Allocate this amount proportionately such that twelve months of costs are allocated to the statement of operations for the current year, and adjust opening net assets in the year in which this Section is first applied by any remainder.

Guidance on the transitional approach for the measurement date provisions described in (d)-(f) is provided in the Illustrative Example.
ILLUSTRATIVE EXAMPLE
APPLICATION OF THE TRANSITIONAL APPROACH FOR THE MEASUREMENT DATE PROVISIONS

This material is illustrative only.

This example illustrates how the accounting treatment specified in paragraphs 3463.07(d)-(f) might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

A calendar-year not-for-profit organization may have previously used a September 30, 2013 measurement date for the year ended December 31, 2013. After calculating the defined benefit cost and the amount of remeasurements and other items for the 15-month period between October 1, 2013 and December 31, 2014, the not-for-profit organization would recognize these amounts as follows:

(a) Identify any gain or loss arising from a plan amendment or initiation, settlement or curtailment. For an event that occurred in 2014, the gain or loss is recognized in the statement of changes in net assets for that year. Gains and losses from events occurring in 2013 are recognized in the statement of changes in net assets for 2013.

(b) Allocate twelve-fifteenths of the remaining amount of remeasurements and other items (i.e., the amount of remeasurements and other items excluding any gain or loss arising from the plan amendment or initiation, settlement or curtailment) to the statement of changes in net assets for the current year (2014) and the remainder (i.e., three-fifteenths) as an adjustment to opening net assets at January 1, 2013.

(c) Allocate twelve-fifteenths of defined benefit cost excluding the remeasurements and other items component to the current year (2014) statement of operations and the remainder (i.e., three-fifteenths) as an adjustment to opening net assets at January 1, 2013.

The transitional approach for the measurement date provisions is illustrated in the following diagrams using the dates from this example:
These restatements will result in corresponding adjustments to net assets at December 31, 2013.
CONSEQUENTIAL AMENDMENTS
The following significant consequential amendments have been identified. Additional text is denoted by underlining and deleted text by strikethrough. Some paragraphs that do not contain changes have been included for context. Other paragraphs that have not changed have been excluded from this Exposure Draft.

FIRST-TIME ADOPTION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 1501

RECOGNITION, MEASUREMENT AND PRESENTATION

... Exemptions from other standards in Part II of the Handbook

.10 An organization may elect to use exemptions related to standards in Part II of the Handbook concerning one or more of the following:
(a) business combinations (see paragraphs 1501.12);
(b) fair value (see paragraphs 1501.13-.14);
(c) employee future benefits (see paragraphs 1501.15-17.17A);
(d) cumulative translation differences (see paragraphs 1501.18-.19);
...

... Employee future benefits
(paragraphs 1501.15-.16 deleted)

.15 Under the deferral and amortization approach in EMPLOYEE FUTURE BENEFITS, Section 3461 in Part II of the Handbook, an organization may elect to use a "corridor" approach for its defined benefit plans that leaves some actuarial gains and losses unrecognized. Retrospective application of this approach requires an organization to split the accumulated actuarial gains and losses from the inception of the plan until the date of transition to accounting standards for not-for-profit organizations into a recognized portion and an unrecognized portion. Also, an organization may not have recognized some past service costs at the date of transition to accounting standards for not-for-profit organizations. A first-time adopter may elect to:
(a) recognize all accumulated actuarial gains and losses and past service costs in opening net assets at the date of transition to accounting standards for not-for-profit organizations, even if it uses the corridor approach for later actuarial gains and losses; or
(b) carry forward unrecognized actuarial gains and losses and past service costs that were determined previously in accordance with EMPLOYEE FUTURE BENEFITS, Section 3461, or an equivalent basis of accounting such as IAS 19 Employee Benefits in Part I of the Handbook.

If a first-time adopter uses one of these elections, it shall apply it to all defined benefit plans.

.16 When an organization makes the accounting policy choice at the date of transition to accounting standards for not-for-profit organizations to measure its benefit obligations using the funding valuation (when one is available) and to recognize all past service costs and actuarial gains and losses in the period they arise, it applies that accounting policy to all comparative years shown.
.17 A first-time adopter may have had an unamortized transitional asset or an unamortized transitional obligation in preparing financial statements using its previous accounting policies. Any such transitional amount is recognized in opening net assets at the date of transition to accounting standards for not-for-profit organizations.

.17A A first-time adopter may apply the transitional provisions in REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3463.

...  

EFFECTIVE DATE AND TRANSITION

.35 Except as specified in paragraph 1501.36, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application is permitted.

.36 Paragraph 1501.17A applies to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.