AcSB
Accounting Standards Board

Exposure Draft

Proposed Accounting Standards for Private Enterprises

Employee Future Benefits – Use of a Funding Valuation

September 2019

COMMENTS TO THE AcSB MUST BE RECEIVED BY December 16, 2019

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this online form.

Please address your response to:

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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 relate 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.

HIGHLIGHTS

The AcSB proposes, subject to comments received following exposure, amendments to EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the CPA Canada Handbook – Accounting. These amendments modify the guidance about using an actuarial valuation prepared for funding purposes (funding valuation) in the measurement of the defined benefit obligation. These amendments would also apply to not-for-profit organizations (NFPOs) applying the standards in Part III of the Handbook, including, REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3463.

Background

Stakeholders have informed the AcSB about diversity arising in practice from enterprises applying Section 3462. This diversity relates to the use of a funding valuation in the measurement of the defined benefit obligation and how this Section's requirements interact with recent changes to pension legislation, including changes in Ontario and Quebec.

Specifically, the AcSB set out to address the following issues relating to when an enterprise elects to use a funding valuation in accordance with Section 3462:

- for defined benefit plans with a funding valuation requirement, whether all funding requirements should be included in the measurement of the defined benefit obligation; and
- for defined benefit plans without a funding valuation requirement, whether all assumed funding requirements based on those defined benefit plans with a funding valuation requirement should be included in the measurement of the defined benefit obligation.

The AcSB decided to clarify the components of a funding valuation that should be included in the measurement of the defined benefit obligation when an enterprise elects to use a funding valuation for those defined benefit plans with a funding valuation requirement.

For defined benefit plans without a funding valuation requirement, the AcSB reconsidered the accounting policy choice to measure the defined benefit obligation using an actuarial valuation for accounting purposes (accounting valuation) or a funding valuation when certain conditions have been met. The Board consulted with actuaries from public accounting and actuarial firms. From these consultations, the Board understands that the accommodation to allow the use of a funding valuation for these defined benefit plans is causing diversity in practice. In addition, the Board understands that this accommodation creates challenges and complexities in applying the requirement "on a basis consistent with" in existing paragraph 3462.029C between defined benefit plans with and without a funding valuation requirement. Examples include adjustments made or not made in determining actuarial assumptions and the discount rate for enterprises with defined benefit plans provided to different employee and retiree groups. As a result, the Board proposes to remove this accommodation in this Exposure Draft.

Also, the AcSB agreed that the proposals would not refer to specific legislation so that these proposals would address current and future legislation.

Main features of the Exposure Draft

The key features of the proposals are as follows:

Measurement of a defined benefit obligation

When an enterprise elects to use a funding valuation for defined benefit plans with a funding valuation requirement:

- the defined benefit obligation would be measured at the amount that is required to be funded by contributions in accordance with legislative, regulatory or contractual requirements;
- the aggregate of all underlying components of the legislative, regulatory or contractual requirements would be included in that measurement of the defined benefit obligation (for example, the Ontario pension regulator's Provision for Adverse Deviation (PfAD) and the Quebec pension regulator's Stabilization Provision (SP) are two components of the funding valuation).

When an enterprise has defined benefit plans without a funding valuation requirement, the defined benefit obligation for these plans would be measured using an accounting valuation (i.e., a funding valuation would no longer be a choice).

Transition

When an enterprise elects to use a funding valuation for defined benefit plans with a funding valuation requirement, transitional relief from either restating comparative financial information or by applying the effects of the amendments in net income, depending on certain conditions, would be provided.

When an enterprise has defined benefit plans without a funding valuation requirement, transitional relief from restating comparative financial information would be provided.

Consequential amendments to other aspects of Section 3462

As a consequence of the proposed amendments to the measurement of a defined benefit obligation:

- the decision tree would be simplified to remove the choice of using a funding valuation to measure the defined benefit obligation for defined benefit plans without a funding valuation requirement; and
- additional minor consequential amendments would be made, as required, to other aspects of Section 3462.

Consequential amendments

As required, consequential amendments would be made to other standards in Parts II and III of the Handbook.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consulting with the Board's Private Enterprise Advisory Committee. This Advisory Committee assists the Board in maintaining and improving accounting standards for private enterprises. The Board will also consult with other stakeholders through targeted outreach activities.

In addition, the AcSB will consult with its Not-for-Profit Advisory Committee for input on circumstances that are unique to NFPOs when applying the amendments.

The AcSB will provide updates about its deliberations in its decision summaries and on the project page.

Once the deliberation process is complete and the due process procedures for finalizing a standard are carried out, the AcSB plans to issue the final standard in the second quarter of 2020 if no significant changes are required to the proposals.[1] In that case, the proposed effective date of the amendments would be for fiscal years beginning on or after January 1, 2021, with earlier application permitted.

Comments requested

While the AcSB welcomes comments on all the proposals in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. Amended paragraphs 3462.029 and 3462.029D, and new paragraph 3462.029AC, provide guidance on measurement of the defined benefit obligation for defined benefit plans with a funding valuation requirement. When an enterprise elects to use a funding valuation for measurement of the defined benefit obligation for these types of defined benefit plans:

   (a) Do you agree that all components of a funding valuation required for legislative, regulatory or contractual purposes would be included in such measurement? If not, why not?

   (b) As described in paragraph 19 of the Basis for Conclusions, paragraph 3462.029D proposes to remove "solvency" from the excluded types of funding valuations. Do you agree that removing "solvency" achieves the intended result described in paragraph 19 of the Basis for Conclusions? If not, why not?

2. New paragraph 3462.029AA proposes removing the accommodation that allows the use of a funding valuation to measure the defined benefit obligation for qualifying enterprises with defined benefit plans that do not have a funding valuation requirement. Do you agree with this proposed removal? If not:

   (a) why not; and

   (b) how could the accommodation be amended to address the concerns stakeholders have raised described in paragraphs 20-25 of the Basis for Conclusions?

3. New paragraphs 3462.119B and 3462.125-.127 provide transitional provisions for the proposed amendments. With respect to these transitional provisions:

   (a) Do you agree with these proposed transitional provisions? If not, why not?

   (b) Is it clear that an enterprise would be required to include all components of the completed funding valuation referred to in paragraphs 3462.125(a)-(b) such as any PfAD or SP?

4. Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2021, with earlier application permitted? If not, why not?

5. Do you agree with the proposed amendments to the Decision Tree – Determining Eligibility for Using a Funding Valuation to Measure the Defined Benefit Obligation for a Defined Benefit Plan? If not, why not?

6. Do you agree with the consequential amendments to Parts II and III of the Handbook? If not, why not?

The deadline for providing your comment letter to the AcSB is December 16, 2019. You may comment on this document by uploading your response letter via this online form.

1 Refer to the AcSB's Standard-Setting Due Process Manual – Due Process Specifically Related to Domestic Standards.

BASIS FOR CONCLUSIONS

Introduction

1 Stakeholders have informed the Accounting Standards Board (AcSB) about diversity arising in practice from enterprises applying EMPLOYEE FUTURE BENEFITS, Section 3462 in Part II of the Handbook, regarding the use of the actuarial valuation for funding purposes (funding valuation) in the measurement of the defined benefit obligation (DBO). This diversity relates to how this Section's requirements interact with recent changes to pension legislation, including changes in Ontario and Quebec.

2 In July 2016, pension regulations in Quebec introduced a Stabilization Provision (SP). The Quebec regulations require this provision to be funded for private sector defined benefit pension plans on a going-concern basis effective from January 1, 2016. In April 2018, the pension regulations in Ontario introduced new funding rules for defined benefit single employer pension plans. The amended Ontario regulations govern the establishment and funding of a new reserve in the going concern valuation for a pension plan called the Provision for Adverse Deviation (PfAD). The funding rules outlined within the Ontario regulation apply to actuarial valuations with valuation dates of December 31, 2017, or later and filed after April 30, 2018.

3 As a result of these regulatory changes, stakeholders have raised an issue with the AcSB regarding the measurement of the DBO when the funding valuation option is chosen in Section 3462. Specifically, stakeholders are unclear on whether the SP and PfAD should be included in the measurement of the DBO, which results in diversity in practice.

4 In response to this stakeholder feedback, the AcSB has decided to propose amendments to Section 3462 to clarify the measurement of the DBO when a funding valuation is used. The objective of the proposals is to eliminate the diversity in practice regarding measurement of the DBO. As such, the proposals seek to clarify the measurement of the DBO for plans in which there is a legislative, regulatory or contractual requirement to prepare a funding valuation, and for plans in which there is no such requirement.

5 Specifically, the AcSB set out to address the following issues relating to when an enterprise elects to use a funding valuation in accordance with Section 3462:

(a) for defined benefit plans with a legislative, regulatory or contractual requirement to prepare a funding valuation, whether all funding requirements should be included in the measurement of the DBO; and

(b) for defined benefit plans without a funding valuation requirement when certain conditions have been met, whether all assumed funding requirements based on those defined benefit plans with a funding valuation requirement should be included in the measurement of the DBO.

6 In developing the proposals, the AcSB sought the advice of its Private Enterprise Advisory Committee to better understand the diversity in practice. Advisory Committee members provided feedback on their experience in practice relating to the use of the funding valuation for defined benefit plans with and without a funding valuation requirement. The Board also consulted with actuaries on the issues it set out to address and received feedback from a stakeholder group of actuaries.

Applicability

7 Stakeholders may apply Section 3462 either:

(a) directly as a private enterprise that applies Part II of the Handbook;

(b) via REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3463 in Part III of the Handbook; or

(c) via PENSION PLANS, Section 4600 in Part IV of the Handbook.

8 Section 3463 in Part III of the Handbook prescribes the accounting treatment for employee future benefits provided by a not-for-profit organization (NFPO). Except as otherwise provided for in this Section, a NFPO applies Section 3462. Therefore, NFPOs with defined benefit plans would be required to follow these proposals. Accordingly, while developing the proposals, the AcSB updated its Not-for-Profit Advisory Committee on the project and provided the Advisory Committee members with opportunities to highlight any unique considerations for NFPOs applying these proposals.

Effects analysis

9 The AcSB acknowledges that the proposals may result in a change in practice for some enterprises.

10 Based on feedback from its Private Enterprise Advisory Committee and actuaries, the AcSB expects the following costs associated with the proposals:

(a) incurring the costs associated with an actuarial valuation for accounting purposes (accounting valuation) for any defined benefit plans without a funding valuation requirement, including determining actuarial assumptions based on management's best estimate and the discount rate; and

(b) communication with financial statement users about the effect of the changes to Section 3462.

11 The AcSB sought to minimize the costs associated with the proposals by proposing transition relief. For example, the Board proposes that an enterprise would not be required to:

(a) obtain a new funding valuation on transition; and

(b) retroactively restate its financial statements for the effects of the proposals.

12 The AcSB expects financial statement users will benefit from an increased understanding of employee benefit costs in the financial statements of enterprises applying Section 3462 as follows:

(a) consistency in accounting for defined benefit plans with a funding valuation requirement by clarifying the amounts required to be included in measuring the DBO when an enterprise elects to use a funding valuation; and

(b) improved comparability between enterprises as defined benefit plans without a funding requirement would be required to use an accounting valuation to measure the DBO for these plans.

13 In accordance with FINANCIAL STATEMENT CONCEPTS, paragraph 1000.13, in developing accounting standards, the AcSB weighs the anticipated costs and benefits of its proposals in general terms to assess whether they are justified on cost/benefit grounds. Having considered the effects of the proposals, the Board thinks that the proposals would result in improvements to the financial reporting of enterprises.

Measurement of the defined benefit obligation

Amount required to be funded by contributions

14 Section 3462 permits enterprises with defined benefit plans that have a funding valuation requirement an accounting policy choice to measure the DBO using a funding valuation or an accounting valuation. The AcSB continues to support this choice in the proposals.

15 A funding valuation and an accounting valuation have different objectives and may use actuarial assumptions that are not the same, resulting in obligations and cost numbers that differ. Funding valuations are prepared in accordance with legislative, regulatory or contractual requirements, generally to determine required contributions to the plan.

16 The AcSB sought to clarify the guidance regarding measurement of the DBO to ensure that it remained relevant to current and future legislation. In developing the proposals, the Board considered the following:

(a) The use of a funding valuation was an accommodation that eliminated the additional costs of preparing an accounting valuation. The funding valuation is not management's best estimate; an accounting valuation is management's best estimate; and

(b) The standard describes a funding valuation as being prepared in accordance with legislative, regulatory or contractual requirements. It is the amount at which the legislation, regulation or contract would require funding by contributions.

17 When an enterprise elects to use a funding valuation for defined benefit plans with a funding valuation requirement, the proposals clarify that:

(a) the DBO would be measured at the amount required to be funded by contributions in accordance with legislative, regulatory or contractual requirements; and

(b) all components of a funding valuation required for legislative, regulatory or contractual requirements would be included in that measurement of the DBO.

18 The AcSB observed that when legislative, regulatory or contractual requirements stipulate calculations of various components of the funding requirement separately, the aggregate of those components makes up the funding valuation that would be reflected in the financial statements. Accordingly, the measurement of the DBO in the financial statements reflects the aggregate of the components of the funding valuation. For example, the Ontario pension regulator's PfAD and the Quebec pension regulator's SP are components of an Ontario and a Quebec funding valuation, respectively, and, accordingly, would be included in the measurement of the respective DBO. The Board understands that both the PfAD and the SP conceptually represent reserves for poor experience. However, the Board notes that these amounts, albeit reserves for poor experience, are required to be funded by contributions to the plan and, therefore, represent outflows that a plan sponsor is obligated to make.

Types of funding valuations

19 When electing to use a funding valuation, paragraph 3462.029D includes the term "solvency" among the excluded types of funding valuations that may be used. The proposals remove this term from this paragraph. The AcSB understands that some stakeholders may view the SP as being akin to a solvency valuation. The Board was concerned that these stakeholders may exclude Quebec's SP from measurement of the DBO. Therefore, the Board proposes to remove the term "solvency" to ensure that all amounts required to be funded by contributions, including Quebec's SP, are included in the measurement of the DBO.

Accommodation to use a funding valuation for defined benefit plans without a funding valuation requirement

20 Section 3462 also permits an accounting policy choice to measure the DBO using a funding valuation or an accounting valuation for defined benefit plans without a funding valuation requirement when certain conditions have been met.

21 During its initial discussions of the proposals, the AcSB considered the meaning of "on a basis consistent with" in existing paragraph 3462.029C. The Board's discussions focused on clarifying the guidance related to the meaning of "on a basis consistent with". The Board agreed that when Section 3462 was developed, it intended these words to mean the same.

22 The AcSB consulted with, and received further feedback from, actuaries from public accounting and actuarial firms. From its consultations, the Board heard that the accommodation to allow the use of a funding valuation for defined benefit plans without a funding valuation requirement when certain conditions have been met causes diversity in practice. The Board understands that this accommodation creates challenges and complexities in applying the requirement "on a basis consistent with". For example, the determination of actuarial assumptions and the discount rate associated with defined benefit plans with and without a funding valuation requirement provided to different employee and retiree groups is complex.

23 Accordingly, the AcSB reconsidered the accounting policy choice to measure the DBO using a funding valuation or an accounting valuation for defined benefit plans without a funding valuation requirement when certain conditions have been met. Actuaries told the Board about diversity arising in practice from:

(a) difficulties in understanding how to determine an amount that is required to be funded by contributions such as the PfAD on a plan without any plan assets; and

(b) the adjustments made or not made between defined benefit plans with and without a funding valuation requirement, such as with mortality assumptions.

24 The AcSB understands that including a PfAD or SP component in the measurement of the DBO for defined benefit plans without a funding valuation requirement when certain conditions have been met can create challenges, such as:

(a) for mature plans whereby the release of liabilities from either of these components can result in a remeasurement gain on the DBO resulting in pension income, rather than pension expense; and

(b) applying either of these components from a small defined benefit plan with a funding requirement for executives to a much larger defined benefit plan without a funding valuation requirement for all employees can have a significant effect on the plan sponsor's financial statements.

25 Given this diversity, the AcSB proposes to remove this accommodation. This proposal eliminates the need to clarify the guidance for measuring the DBO when an enterprise elects to use a funding valuation for these defined benefit plans.

Transition

26 In the absence of specific transitional provisions, ACCOUNTING CHANGES, Section 1506, requires amendments be applied retrospectively, except if impracticable.

Defined benefit plans with a funding valuation requirement

27 From consultations with its Private Enterprise Advisory Committee and actuaries, the AcSB understands that not all enterprises have completed funding valuations determined in accordance with all legislative, regulatory or contractual requirements in effect at the date that the amendments would be first applied.

28 The AcSB thinks that it is important to provide transitional relief. As such, the Board decided not to require an enterprise to obtain a new funding valuation on transition. Accordingly, these enterprises may wait until they are required to obtain an updated valuation. In addition, enterprises would not be required to make retrospective adjustments for the effect of the proposals.

29 The following examples illustrate how the transitional provisions would be applied when an enterprise has a completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at the date that the amendments would be first applied:

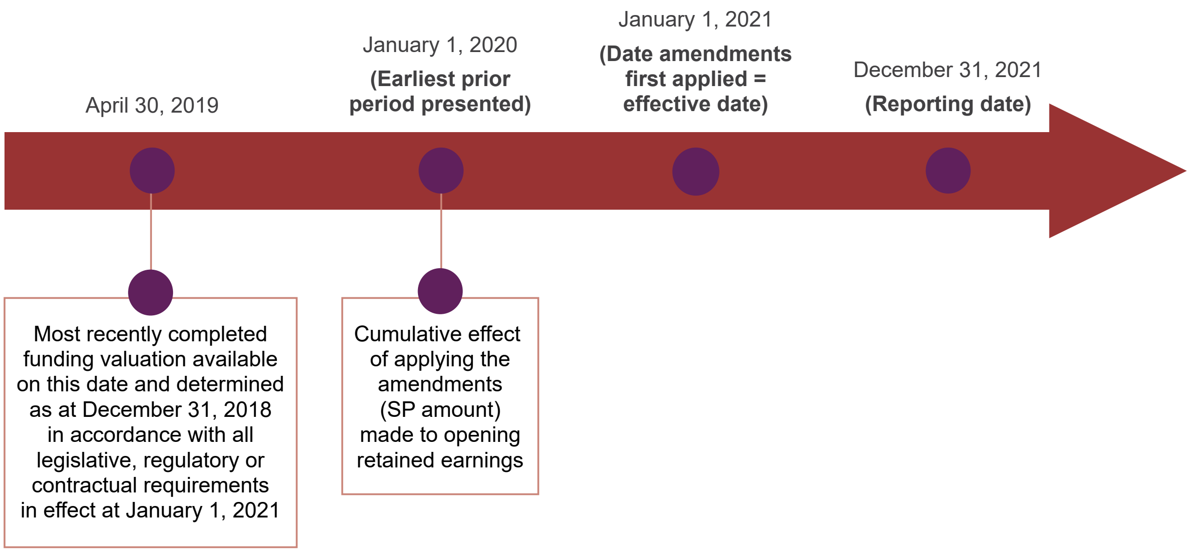
Example 1

A Quebec-based defined benefit plan has a most recently completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at January 1, 2021, which is the date the amendments are first applied.

This completed funding valuation, which is available on April 30, 2019, discloses the amount of the SP as at December 31, 2018.

In this scenario, transition would be accounted for as follows:

- Follow guidance on remeasurement in paragraphs 3462.062-.064 to roll forward the DBO, including the SP from December 31, 2018, by taking into account the following:
  - the increase in the DBO and the SP due to the passage of time from December 31, 2018, to the reporting date of December 31, 2021;
  - the increase in the DBO and the SP due to the rendering of services for 2019, 2020 and 2021; and
  - any benefit payments for 2019, 2020 and 2021.
- Adjust opening retained earnings at January 1, 2020 for the SP amount, which is the cumulative effect of applying the amendments.



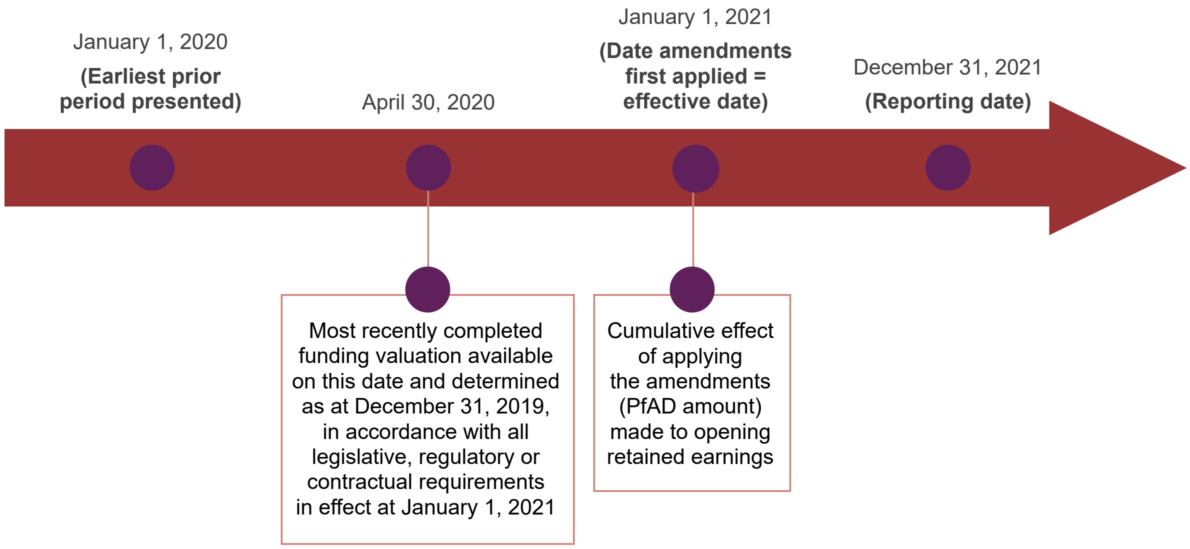
Example 2

An Ontario-based defined benefit plan has a most recently completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at January 1, 2021. This is the date the amendments are first applied.

This completed funding valuation, which is available on April 30, 2020, discloses the PfAD amount as at December 31, 2019.

In this scenario, transition would be accounted for as follows:

- Follow guidance on remeasurement in paragraphs 3462.062-.064 to roll forward the DBO including the PfAD from December 31, 2019, by taking into account the following:
  - the increase in the DBO and the PfAD due to the passage of time from December 31, 2019, to the reporting date of December 31, 2021;
  - the increase in the DBO and the PfAD due to the rendering of services for 2020 and 2021; and
  - any benefit payments for 2020 and 2021.
- Adjust opening retained earnings at January 1, 2021, for the PfAD amount, which is the cumulative effect of applying the amendments. The funding valuation was not available until after January 1, 2020, and, therefore, opening retained earnings is adjusted at January 1, 2021, instead of January 1, 2020.



30 When an enterprise does not have a completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at the date the amendments would be first applied, the enterprise would apply the amendments prospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(g). The enterprise records the effect of applying the amendments in net income in the year that such a funding valuation is completed. In this case, there is no adjustment to opening retained earnings.

Defined benefit plans without a funding valuation requirement

31 The AcSB decided that enterprises with defined benefit plans without a funding valuation requirement should also be provided with transitional relief from retrospective application of the proposals. Thus,

when an enterprise is required to change its accounting policy from using a funding valuation to an accounting valuation, it would record the cumulative effect of applying the amendments in opening retained earnings at the date that the amendments would be first applied.

Effective date

32 The AcSB thinks that the proposed effective date, being fiscal years beginning on or after January 1, 2021, would allow sufficient time for preparers to implement the proposed changes, and to educate users on the proposals. The Board acknowledges that this proposed effective date would deviate from its usual approach of setting the effective dates for Part II of the Handbook on a two-year cycle. However, the Board thinks this deviation is appropriate given the proposed transitional provisions. The deviation also provides timely resolution to the diversity faced by enterprises with defined benefit plans.

Other consequential amendments

33 The proposed changes would affect other Sections. The rationale for some of the more significant amendments are described below.

ACCOUNTING CHANGES, Section 1506

34 ACCOUNTING CHANGES, paragraph 1506.09(e), permits an entity to change its accounting policy to measure a DBO for which an appropriate funding valuation has been prepared using that funding valuation or a separate actuarial valuation prepared for accounting purposes without meeting the criterion in paragraph 1506.06(b). As a result of the proposal to remove the accommodation to allow the use of a funding valuation for defined benefit plans without a funding valuation requirement when certain conditions have been met, the AcSB proposes to amend paragraph 1506.09(e) so that it only applies to defined benefit plans with a funding valuation requirement.

REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3463, in Part III

35 REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, paragraphs 3463.06-.07, provide transition guidance to an organization that applies Section 3463 for the first time. However, these paragraphs do not currently indicate that they apply on first-time adoption of the Section. For greater certainty, the AcSB proposes to amend Section 3463 to add some words to that effect.

Conforming amendments

36 The AcSB plans to make conforming amendments to all paragraphs in Section 3462 to replace “entity” with “enterprise” when it issues the final amendments into the Handbook.

Conclusion

37 Having considered the effects of the proposed changes, the AcSB thinks that the benefits of the proposals will outweigh any costs, and that the proposals will:

(a) clarify the Board’s intent with respect to the measurement of the DBO for those defined benefit plans with a funding valuation requirement; and

(b) address the complexities associated with measuring the DBO for those defined benefit plans without a funding valuation requirement.

The following Section would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

SECTION 3462
employee future benefits

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DEFINED BENEFIT PLANS

…

Measurement of a defined benefit obligation

.029 *For defined benefit plans in which an actuarial valuation for funding purposes is required to be prepared to comply with legislative, regulatory or contractual requirements, an enterprise shall make an accounting policy choice to ~~An entity shall~~ measure the defined benefit obligation ~~for each of its defined benefit plans~~ as of the balance sheet date using:*

(a) an actuarial valuation prepared for accounting purposes as described in paragraphs 3462.035-.061; or

(b) the most recently completed ~~an~~ actuarial valuation prepared for funding purposes, provided the ~~criteria~~ valuation meets the requirement in paragraph~~s 3462.029B or 3462.029C, and paragraph~~ 3462.029D ~~are met~~, and provided the guidance in paragraph 3462.029AC is applied.

The enterprise applies that same choice to each defined benefit plan for which a funding valuation is required to be prepared to comply with legislative, regulatory or contractual requirements. In making this accounting policy choice, the enterprise need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b).

(paragraph 3462.029A amended and renumbered paragraph 3462.029AB)
(paragraph 3462.029B amended and combined with existing paragraph 3462.029)
(paragraph 3462.029C moved, amended and renumbered paragraph 3462.029AA)

.029~~C~~AA *For other defined benefit plans for which~~,~~ there is no legislative, regulatory or contractual requirement to prepare an actuarial valuation for funding purposes,~~. For these plans, the entity~~ an enterprise shall ~~make an accounting policy choice, on a plan-by-plan basis, to~~ measure the defined benefit obligation as of the balance sheet date using~~:~~*

~~(a)~~ an actuarial valuation for accounting ~~valuation~~purposes as described in paragraphs 3462.035-.061.~~; or~~

~~(b) a funding valuation, provided that the entity also has at least one defined benefit plan for which a funding valuation is required to be prepared in order to comply with legislative, regulatory or contractual requirements and for which the defined benefit obligation has been measured using a funding valuation.~~

~~For a defined benefit plan for which there is no legislative, regulatory or contractual requirement to prepare an actuarial valuation for funding purposes, the funding valuation is an actuarial valuation prepared on a basis consistent with that used for those plans for which a funding valuation is required to be prepared in order to comply with legislative, regulatory or contractual requirements.~~

.029AB An actuarial valuation prepared for accounting purposes (an accounting valuation) has a different objective than an actuarial valuation prepared for funding purposes (a funding valuation), and may use different actuarial assumptions resulting in different obligation and cost numbers. Accounting valuations are prepared in accordance with generally accepted accounting principles using management's best estimates and the discount rate required by paragraph 3462.047. Funding valuations are prepared in accordance with legislative, regulatory or contractual requirements, generally to determine required ~~cash~~ contributions to the plan.

~~.029B~~ *~~For certain defined benefit plans, an actuarial valuation for funding purposes is required to be prepared in order to comply with legislative, regulatory or contractual requirements. For these plans, the entity shall make an accounting policy choice to measure the defined benefit obligation as of the balance sheet date using:~~*

~~(a) an accounting valuation; or~~

~~(b) the most recently completed funding valuation.~~

~~The entity applies that same choice to each defined benefit plan for which a funding valuation is required to be prepared in order to comply with legislative, regulatory or contractual requirements.~~

.029AC For purposes of paragraph 3462.029(b), the defined benefit obligation is measured at the amount that is required to be funded by contributions in accordance with legislative, regulatory or contractual requirements. This amount includes the aggregate of all underlying components of the legislative, regulatory or contractual requirements.

.029D For purposes of paragraphs 3462.029~~B~~(b) and~~-~~3462.029~~C~~AC, a funding valuation does not include a valuation prepared using a ~~solvency~~, wind-up or similar valuation basis. ~~In making the accounting policy choices in those paragraphs, the entity need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b).~~

(paragraph 3462.030 moved, amended and renumbered 3462.029AB (formerly paragraph 3462.029A))
(paragraph 3462.031 deleted)

.032 For defined benefit plans specified in paragraph 3462.029, a~~A~~n ~~entity~~enterprise may change its accounting policy on measurement of the defined benefit obligation~~. For example, it may change~~ between a~~n actuarial~~ funding valuation ~~for funding purposes~~ and an ~~actuarial valuation for~~ accounting ~~purposes~~valuation. For all types of benefit plans, an enterprise~~, or it~~ may change the actuarial cost method. When an ~~entity~~enterprise makes any such ~~a~~ change in accounting policy, it ~~shall apply~~ applies that change retrospectively in accordance with ACCOUNTING CHANGES, Section 1506, except as noted in paragraph 3462.033.

.033 An entity that includes employee benefit costs in the carrying amount of assets, such as inventories or property, plant and equipment, need not restate the carrying amount of those assets when making a change in accounting policy in accordance with paragraph 3462.032.

Actuarial valuation for accounting purposes

.034 *An ~~entity~~enterprise that uses an actuarial valuation prepared for accounting purposes to determine the defined benefit obligation in accordance with paragraphs 3462.029(a) or 3462.029AA shall follow the guidance in paragraphs 3462.035-.061.*

…

Actuarial assumptions

…

.046 In making actuarial assumptions, management takes into account the relationships between the factors for which assumptions are required, and keeps the assumptions internally consistent. For example, assumptions that include a general inflation factor use consistent estimates of that factor. All assumptions are based on the presumption that the plan will continue in effect in the absence of evidence that it will not continue. The actuarial assumptions used for funding purposes may differ from those used for an actuarial valuation prepared for accounting purposes (see paragraph 3462.029AB).

…

Remeasurement of a defined benefit obligation

.062 *The actuarial valuation of the defined benefit obligation shall be determined in accordance with paragraph 3462.029 or paragraph 3462.029AA at least every three years but may occur more frequently (for example, when a significant event takes place). In the years between valuations, the entity uses a roll-forward technique to estimate the defined benefit obligation. In doing so, the entity exercises judgment and takes into account factors such as:*

(a) the amount from the last actuarial determination of the defined benefit obligation;
(b) the increase in the obligation due to the passage of time;
(c) the increase in the obligation due to the rendering of service in the current year; and
(d) any benefit payments.

A similar process occurs when an actuarial valuation is performed during the year and rolled forward to the end of the year.

…

DISCLOSURE

General

.113 *An entity shall provide the disclosures required by paragraphs 3462.114-.118 separately for plans that provide:*

(a) pension benefits; and
(b) primarily other employee future benefits.

Multiemployer plans

.114 *An entity shall disclose the following information about multiemployer plans:*

(a) a general description of the plan, including whether the plan is a pension plan or a plan other than a pension plan such as a retiree health care plan, and whether the plan is a defined benefit plan or a defined contribution plan; and
(b) when the plan is a multiemployer defined benefit plan but sufficient information is not available to use defined benefit plan accounting, and defined contribution plan accounting is used:
    (i) the fact that the plan is a defined benefit plan;

(ii) the reason why it is being accounted for as a defined contribution plan;
(iii) any available information about the plan's surplus or deficit, and
(iv) the nature and effect of significant changes in the contractual elements of the plan.

Defined benefit plans

.115 *An entity shall disclose the following information about defined benefit plans:*

(a) a general description of each type of plan, including whether the plan is a pension plan or a plan other than a pension plan such as a retiree health care plan;
(b) the fair value of plan assets at the end of the period;
(c) the defined benefit obligation at the end of the period;
(d) the plan surplus or deficit at the end of the period (the difference between amount (c) and amount (b));
(e) any difference between the plan surplus or deficit at the end of the period and the amount recognized in the balance sheet as a result of a valuation allowance;
(f) if not separately presented on the face of the income statement, the amount of remeasurements and other items for the period (see paragraphs 3462.085-.090);
(g) the effective date of the most recently completed actuarial valuation used in determining the defined benefit obligation; and
(h) the nature and effect of significant changes in the contractual elements of the plans during the period.

.116 DISCLOSURE OF ACCOUNTING POLICIES, Section 1505, requires disclosure of significant accounting policies. For defined benefit plans specified in paragraph 3462.029, this requirement includes whether the defined benefit obligation is measured using a funding valuation or an accounting valuation (see paragraph 3462.029).

.117 ACCOUNTING CHANGES, Section 1506, requires disclosure of changes in accounting policies. For defined benefit plans specified in paragraph 3462.029, this requirement includes any change in whether a defined benefit obligation is determined using a funding valuation or an accounting valuation (see paragraph 3462.029).~~, or~~ For all defined benefit plans, this requirement includes any change in the actuarial cost method used.

Termination benefits

.118 *An entity shall disclose the nature and, if not separately presented on the face of the income statement, the effect of any termination benefits provided in the period.*

EFFECTIVE DATE AND TRANSITION

.119 Except as specified in paragraph 3462.119A-.119B, an ~~entity~~enterprise applies this Section ~~for~~to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted, but only for all of an ~~entity's~~enterprise's benefit plans.

.119A Amendments to paragraphs 3462.029, 3462.034 and 3462.046, and new paragraphs 3462.029A-.029D, issued in October 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted, but only for all of an entity's defined benefit plans.

.119B Amendments to paragraphs 3462.029, 3462.029AB, 3462.029D, 3462.032, 3462.034, 3462.046, 3462.062 and 3462.116-.117, and new paragraphs 3462.029AA and 3462.029AC, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. An enterprise applies these amendments as specified in paragraphs 3462.125-.127. Earlier application is permitted, but only for all of an enterprise's defined benefit plans.

.119C An enterprise may only apply paragraphs 3462.120-.124 when preparing its annual financial statements relating to the first fiscal year in which Section 3462 is effective.

.120 An entity applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, except as specified in paragraphs 3462.121-.124.

.121 When an entity 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.

.122 When an entity previously used a measurement date prior to the balance sheet date for plan assets and the defined benefit obligation rather than measuring them as of the balance sheet date, 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 balance sheet date. The entity 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, other than the change in the measurement date. For example, an entity might previously have deferred and amortized actuarial gains and losses, and past service costs, for its defined benefit plans, or an entity may have decided to change from using an accounting valuation to a funding valuation to measure its defined benefit obligation.

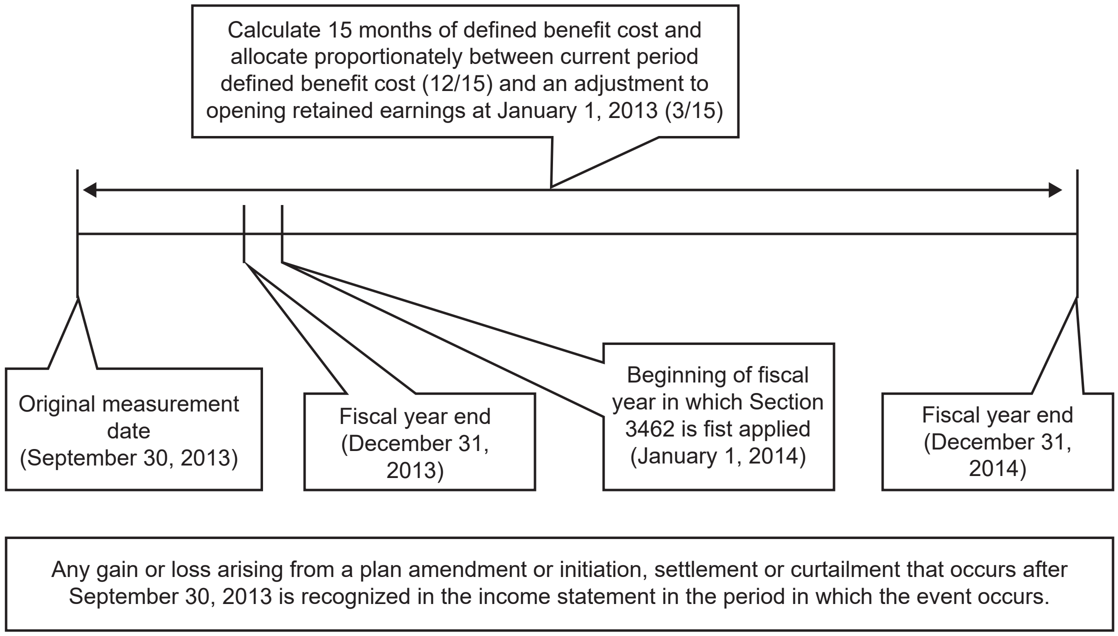
(c) Determine the defined benefit obligation as of the balance sheet date for the year in which this Section is first applied, either by an actuarial valuation as of that date or by a roll-forward of an earlier actuarial valuation prepared within the last three years in accordance with paragraph 3462.062. Determine the fair value of plan assets as of the balance sheet date 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 balance sheet date for the year in which this Section is first applied, exclusive of any gain or loss arising from a plan amendment or initiation, settlement or curtailment.

(e) Allocate the defined benefit cost determined in (d) proportionately such that twelve months of costs are allocated to the current year, and adjust opening retained earnings for the earliest prior year presented by any remainder. For example, a calendar-year entity may have previously used a September 30, 2013 measurement date for the year ended December 31, 2013 and have no plan amendment or initiation, settlement or curtailment during the 15-month period between October 1, 2013 and December 31, 2014. The entity would allocate twelve-fifteenths of the defined benefit cost to the current period defined benefit cost for 2014 and the remainder as an adjustment to opening retained earnings at January 1, 2013.

(f) Any gain or loss arising from a plan amendment or initiation, settlement or curtailment between the measurement date that is used for the immediately preceding year and the beginning of the year in which this Section is first applied is recognized as a component of defined benefit cost in the period in which the event occurs and not as an adjustment of retained earnings.

.123 The transitional approach for the measurement date provisions is illustrated in the following diagram using the dates from the example in paragraph 3462.122(e):



.124 Paragraph 3462.115(f) requires disclosure of the amount of remeasurements and other items for the period, if not separately presented on the face of the income statement. An entity applying paragraph 3462.122 determines the amount of remeasurements and other items for the year in which this Section is first applied as follows:

(a) For the defined benefit cost calculated in paragraph 3462.122(d), determine the amount of remeasurements and other items (see paragraphs 3462.085-.090) included in that defined benefit cost.

(b) Allocate the remeasurements and other items proportionately as described in paragraph 3462.122(e) to determine the portion applicable to the year in which this Section is first applied.

.125 For those defined benefit plans specified in paragraph 3462.029 for which the defined benefit obligation is measured using a funding valuation, an enterprise applies new paragraph 3462.029AC, and the amendments to paragraph 3462.029D, at the beginning of the first fiscal year in which these amendments are first applied. An enterprise applies these amendments as follows:

(a) When an enterprise has a completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at the date that the amendments are first applied, the enterprise uses that most recently completed funding valuation and applies the roll-forward technique as required by paragraph 3462.062. The cumulative effect of applying the amendments is recorded in opening retained earnings at the date that the amendments are first applied. In this case, the financial statements of prior periods presented for comparative purposes are not restated.

(b) When an enterprise does not have a completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at the date that the amendments are first applied, the enterprise applies the amendments prospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(g). The effect of applying the amendments is recorded in net income in the year that such a funding valuation is completed. In this case, there is no adjustment to opening retained earnings.

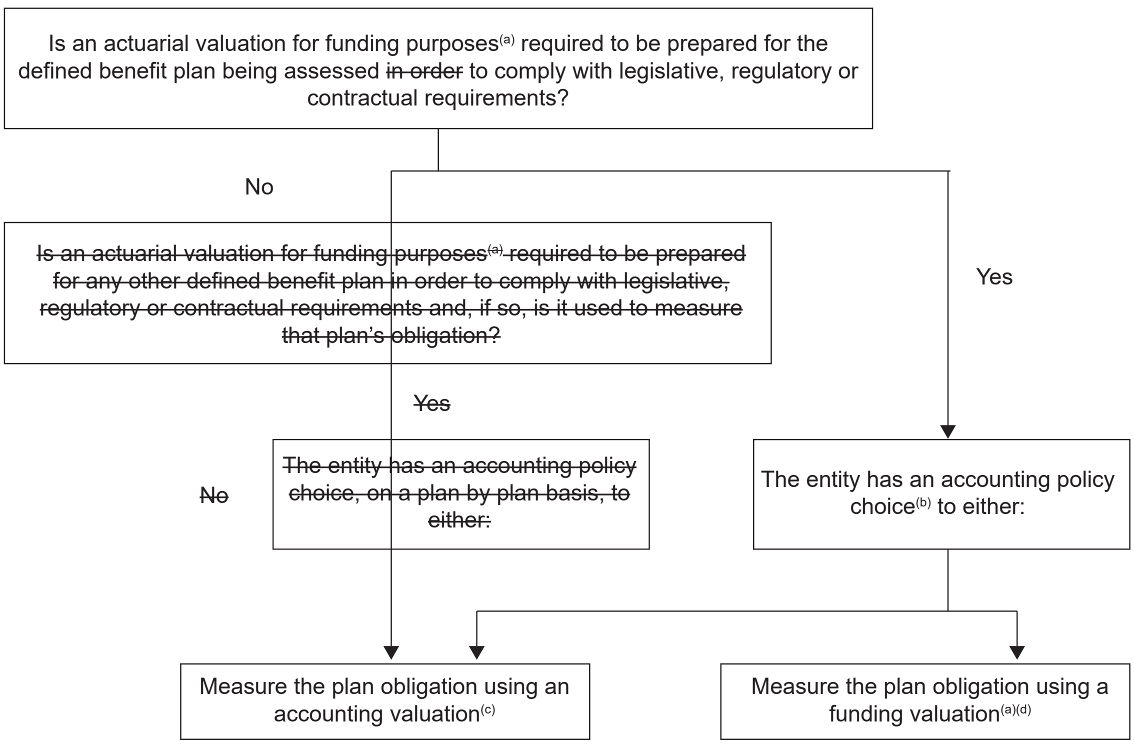
.126 For those defined benefit plans specified in new paragraph 3462.029AA, an enterprise applies new paragraph 3462.029AA at the beginning of the first fiscal year in which these amendments are first applied. The cumulative effect of applying the amendments is recorded in opening retained earnings at the date that the amendments are first applied. In this case, the financial statements of prior periods presented for comparative purposes are not restated.

.127 When an enterprise 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 that the amendments specified in paragraph 3462.119B are first applied.

DECISION TREE — DETERMINING ELIGIBILITY FOR USING A FUNDING VALUATION TO MEASURE THE DEFINED BENEFIT OBLIGATION FOR A DEFINED BENEFIT PLAN

This material is illustrative only.

This decision tree illustrates the assessment an ~~entity~~enterprise makes to determine when it is eligible to apply an accounting policy choice to measure the defined benefit obligation for a defined benefit plan using a funding valuation as described in paragraphs 3462.029-.033.



(a) Excludes funding valuations prepared using a ~~solvency,~~ wind-up or similar valuation basis.
(b) The same accounting policy choice must be applied to each defined benefit plan for which a funding valuation is required to be prepared ~~in order~~ to comply with legislative, regulatory or contractual requirements.
(c) Determined in accordance with paragraphs 3462.035-.061.
(d) Determined in accordance with paragraphs 3462.029~~B~~(b), 3462.029AC ~~or 3462.029C,~~ and ~~paragraph~~ 3462.029D~~, as appropriate~~.

Part II

Section 1506, Accounting Changes

CHANGES IN ACCOUNTING POLICIES

…

.09 *An entity may change the following accounting policies without meeting the criterion in paragraph 1506.06(b):*

(a) to consolidate subsidiaries, to account for them using the cost or equity method (see SUBSIDIARIES, Section 1591)*;*

(b) to account for investments subject to significant influence using the cost or equity method (see INVESTMENTS, Section 3051)*;*

(c) to account for interests in jointly controlled enterprises using the cost or equity method or by accounting for rights to the individual assets and obligations for the individual liabilities, in accordance with INTERESTS IN JOINT ARRANGEMENTS, Section 3056;

(d) to capitalize or expense expenditures on internally generated intangible assets during the development phase (see GOODWILL AND INTANGIBLE ASSETS, Section 3064)*;*

(e) to measure a defined benefit obligation for <u>defined benefit plans</u> ~~for~~<u>in</u> which an appropriate funding valuation ~~has been~~<u>is required to be</u> prepared <u>to comply with legislative, regulatory or contractual requirements and</u> using that funding valuation or a separate actuarial valuation prepared for accounting purposes (see EMPLOYEE FUTURE BENEFITS, Section 3462)*;*

(f) to account for income taxes using the taxes payable method or the future income taxes method (see INCOME TAXES, Section 3465)*; and*

(g) to initially measure the equity component of a financial instrument that contains both a liability and an equity component at zero (see FINANCIAL INSTRUMENTS, Section 3856).

[Former paragraph 1506.09, amended by amendments to Sections 1591 and 3051, retained in Archived Pronouncements.]

Part III

Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations

…

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 line 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 Except as specified in paragraph 3463.04A, ~~A~~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.

.04A Amendments to EMPLOYEE FUTURE BENEFITS, paragraphs 3462.029, 3462.029D, 3462.032, 3462.034, 3462.046, 3462.062 and 3462.116-.117 in Part II of the Handbook, and new paragraphs 3462.029AA and 3462.029AC, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. A not-for-profit organization applies these amendments as specified in paragraphs 3463.08-.10. Earlier application is permitted, but only for all of a not-for-profit organization's defined benefit plans.

.04B A not-for-profit organization may only apply paragraphs 3463.05-.07 when preparing its annual financial statements relating to the first fiscal year in which Section 3463 is effective.

.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 tangible capital assets, 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:

…

Guidance on the transitional approach for the measurement date provisions described in (d)-(f) above is provided in the Illustrative Example.

.08 For those defined benefit plans specified in EMPLOYEE FUTURE BENEFITS, paragraph 3462.029 in Part II of the Handbook, for which the defined benefit obligation is measured using a funding valuation, a not-for-profit organization applies new paragraph 3462.029AC and the amendments to paragraph 3462.029D, at the beginning of the first fiscal year in which these amendments are first applied. A not-for-profit organization applies these amendments as follows:

(a) When a not-for-profit organization has a completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at the date that the amendments are first applied, the not-for-profit organization uses that most recently completed funding valuation and applies the roll-forward technique as required by paragraph 3462.062. The cumulative effect of applying the amendments is recorded in opening net assets at the date that the amendments are first applied. In this case, the financial statements of prior periods presented for comparative purposes are not restated.

(b) When a not-for-profit organization does not have a completed funding valuation determined in accordance with all legislative, regulatory or contractual requirements in effect at the date that the amendments are first applied, the not-for-profit organization applies the amendments prospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(g) in Part II of the Handbook. The effect of applying the amendments is recorded in the statement of changes in net assets in the year that such a funding valuation is completed. In this case, there is no adjustment to opening net assets.

.09 For those defined benefit plans specified in EMPLOYEE FUTURE BENEFITS, new paragraph 3462.029AA in Part II of the Handbook, a not-for-profit organization applies new paragraph 3462.029AA at the beginning of the first fiscal year after in which these amendments are first applied. The cumulative effect of applying the amendments is recorded in opening net assets at the date that the amendments are first applied. In this case, the financial statements of prior periods presented for comparative purposes are not restated.

.10 When a not-for-profit organization includes employee benefit costs in the carrying amount of assets, such as inventories or tangible capital assets, it need not restate the carrying amount of those assets at the date that the amendments specified in paragraph 3463.04A are first applied.

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.

…