AcSB
Accounting Standards Board

Exposure Draft
Pension Plans

2023 Annual Improvements to Accounting Standards for Pension Plans

MAY 2023

THIS EXPOSURE DRAFT CLOSES FOR COMMENTS ON JUNE 2, 2023

The Accounting Standards Board (AcSB) welcomes feedback from any interested party on the question posed in this Exposure Draft.

You can provide feedback to the AcSB on the proposals by writing a response letter and uploading it via our online form. Response letters can be addressed to:

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Note: Response letters will be posted online shortly after this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the online form. Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in the Exposure Draft.
- If you identify a potential issue in this Exposure Draft's proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.

This Exposure Draft reflects proposals made by the 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.

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, to amend PENSION PLANS, Section 4600 in Part IV of the CPA Canada Handbook – Accounting (the Handbook).[1] This amendment would provide relief from certain investment disclosure requirements for guaranteed annuity contracts, commonly referred to as "buy-in" annuity contracts. This amendment would apply to pension plans applying the standards in Part IV of the Handbook, as relevant.

Background

The AcSB has adopted an annual improvements process that will amend accounting standards for pension plans to clarify guidance or wording and to correct for unintended consequences, conflicts or oversights. Major improvements to the standards, such as the issuance of a new standard, are not included in the annual improvements process.

Main features of the Exposure Draft

In December 2022, the AcSB amended Section 4600 to introduce new measurement and disclosure guidance for buy-in annuity contracts. Following the amendments, buy-in annuity contracts would no longer be measured at fair value, but rather at a value equal to the related benefit obligation, adjusted for amounts receivable under the annuity contract that are not collectible.

For investments that are financial instruments, paragraph 4600.32 requires pension plans to provide the disclosures required by IFRS 7 *Financial Instruments: Disclosures* in Part I of the Handbook and the fair value disclosures required by the Appendix to Section 4600. In early 2023, the AcSB heard feedback from its Pension Plan Working Group, and the Board agreed, that these disclosures would be less useful for buy-in annuity contracts as a result of the new measurement and disclosure guidance introduced for these instruments. In particular:

- The fair value disclosures would be less useful for buy-in annuity contracts when they are no longer measured at fair value. Rather, their measurement would be explicitly tied to the valuation of the related benefit obligation. Pension plans are already required to disclose information on that valuation under paragraph 4600.35, including significant assumptions. Under new paragraph 4600.32A, pension plans will also be required to disclose the nature of buy-in annuity contracts and the pension obligation amounts that they offset.

- The IFRS 7 disclosures on various risks would be less relevant for buy-in annuity contracts because the most relevant risk would be credit risk, which would be limited. This is because pension plans currently purchase buy-in annuity contracts from insurance companies that have strong credit ratings, are often reinsured and have Assuris coverage.[2]

After considering the feedback, the AcSB proposes to amend the paragraph 4600.32 disclosure requirement to scope out investments that are not measured at fair value. In accordance with paragraph 4600.19, all investment assets and investment liabilities shall be measured at fair value except for buy-in annuity contracts as described in paragraph 4600.21A.

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1 Material that links to the CPA Canada Handbook is available to subscribers only. However, all information needed to respond is provided in this Exposure Draft.

2 Assuris is an independent not-for-profit, industry-funded compensation organization founded to protect policyholders if an insurance company fails. Every life insurance company in Canada is required by the federal, provincial and territorial regulators to become a member of Assuris.

Plans for finalizing the proposals

The AcSB will deliberate the proposals and consider comments received. Part of the deliberation process includes consulting with the Pension Plan Working Group. The Group assists the Board in maintaining and improving accounting standards for pension plans.

The AcSB will provide updates about its deliberations in its decision summaries and on the 2023 Annual Improvements project page. Once it completes the deliberation process and carries out the due process procedures for finalizing the amendments, the Board plans to issue the final amendments by the end of 2023, if no significant changes are required to the proposals. The amendments will be effective for fiscal years beginning on or after January 1, 2024. Earlier application will be permitted.

Comments requested

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.

While the AcSB welcomes comments on all aspects of the proposal in this Exposure Draft, it particularly welcomes comments on the question listed below:

1. The AcSB proposes in paragraph 4600.32 that pension plans be required to provide the disclosures required by:

- IFRS 7 in Part I of the Handbook; and
- the fair value disclosures required by the Appendix to Section 4600

   only for those investments that are financial instruments measured at fair value. Do you agree with this proposal? If not, why not?

The deadline for providing your comment letter to the AcSB is June 2, 2023. Comment on this document by uploading your response letter via this online form.

Proposal

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

PENSION PLANS, Section 4600

DISCLOSURE

Investment portfolio

.32 *A pension plan shall provide the following information about its investment portfolio:*

(a) for those investments that are financial instruments <u>measured at fair value</u>:

(i) the disclosures required by IFRS 7 Financial Instruments: Disclosures *in Part I of the Handbook; and*

(ii) the fair value disclosures required by the Appendix to this Section; and

(b) for all other investments measured at fair value, a description of how fair values have been determined.

…

EFFECTIVE DATE AND TRANSITION

.44 New paragraphs 4600.21A, 4600.24A-.24C and 4600.32A-.32B, issued in December 2022, <u>and the amendment to paragraph 4600.32, issued in [xx] 2023</u>, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2024. Earlier application is permitted. A pension plan applies these amendments at the beginning of the earliest period presented. The cumulative effect of applying the amendments is recorded in opening net assets available for benefits of the earliest period presented.