Accounting Standards Board

Exposure Draft

Pension Plans

MARCH 2022

COMMENTS TO AcSB MUST BE RECEIVED BY
JUNE 15, 2022

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:

Katherine Christopoulos
Director, Accounting Standards Board
Accounting Standards Board 277 Wellington Street West
Toronto ON M5V 3H2
kchristopoulos@acsbcanada.ca

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 Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to amend PENSION PLANS, Section 4600 in Part IV of the CPA Canada Handbook – Accounting. The proposals will clarify areas of ambiguity in the standard and will also introduce new guidance in areas where no guidance currently exists. The amendments will apply to pension plans applying the standards in Part IV of the Handbook, as relevant.

BACKGROUND

The AcSB developed Section 4600 in 2010 during the changeover to IFRS® Standards. In 2011 and 2012, the Board amended the Section to clarify ambiguities with certain fair value disclosures.

During 2018 and 2019, the Board consulted with stakeholders from across Canada and heard that some guidance in Section 4600 is either unclear or absent. Based on this feedback, the Board decided to form the Pension Plan Working Group (PPWG or Working Group) to better understand and address the challenges stakeholders experience. After considering the Group's advice, the Board proposes to amend Section 4600 to address some of the issues in the standard and reduce diversity in practice. The Board will continue research on other issues in Section 4600 and will consider addressing some or all these in subsequent proposals.

Main features of the Exposure Draft

The proposals in this Exposure Draft would:

(a) clarify that a statement of changes in pension obligations is not required for defined contribution pension plans;

(b) provide guidance on determining the split or amalgamation date for pension plans;

(c) provide recognition, measurement and disclosure guidance on the accounting for guaranteed annuity contracts (commonly referred to as "buy-in" or "buy-out" annuity contracts);

(d) clarify the presentation requirements for combination plans; and

(e) require additional risk disclosures for investments in master trusts.

The proposals would apply for annual periods beginning or after January 1, 2023, with early application permitted.

Consequential amendments

No consequential amendments are proposed to Section 4600. In addition, no consequential amendments are proposed to other standards in Parts I and II of the Handbook as these proposals do not affect other standards.

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 Board will also consult with other stakeholders through additional outreach activities, such as roundtables.

The AcSB will provide updates about its deliberations in its decision summaries and on the Pension Plans 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 December 2022, if no significant changes are required to the proposals.

Comments requested

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 suggest an alternative, supported by specific reasoning.

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

1. The AcSB proposes in paragraph 4600.05(fa) that the amalgamation date is the date on which a pension plan obtains the legal right to the assets and becomes liable for the obligations of one or more pension plans with which it is merging. Similarly, paragraph 4600.05(ab) proposes that the split date is the date on which a pension plan loses the legal right to the assets and is no longer liable for the obligations of the pension plan. The Board also proposes additional guidance related to these requirements in paragraphs 4600.18A-.18B. Do you agree with these proposals on identifying the split or amalgamation date? If not, why not and what alternatives should the Board consider?

2. The AcSB proposes that pension plans that have defined benefit and defined contribution plans combined into one plan should separately present the defined benefit and defined contribution components of the plan. Do you agree with this proposal? If not, why not?

3. The AcSB proposes in paragraph 4600.21A that a buy-in annuity should be measured at an amount equal to the related pension obligation as this best represents the economics of a buy-in arrangement. Do you agree with this measurement approach? If not, why not and what alternatives should the Board consider?

4. The AcSB proposes in paragraph 4600.24A that a pension plan should derecognize the investment asset and related pension obligation in a buy-out arrangement when the risks of the pension obligation are transferred to the issuer of the annuity. Do you agree with the proposed timing of when pension plans should derecognize the pension obligations following a buy-out arrangement? If not, why not?

5. The AcSB proposes in paragraph 4600.32B that for buy-out annuities, pension plans disclose the nature of the annuities, the extent of pension obligations the annuities offset and, if applicable, the risk of the pension obligation returning to the pension plan. Do you agree these disclosures provide decision-useful information to users of pension plan financial statements? If not, why not and what disclosures should be required for buy-out annuity contracts?

6. The AcSB proposes in paragraph 4600.32C that pension plans with investments in master trusts should disclose additional details that enable users to understand the risks associated with the investments in the master trust. Do you agree with these enhanced risk disclosure requirements? If not, why not?

7. Do you agree that the proposed amendments should apply for annual periods beginning on or after January 1, 2023, in accordance with the transitional provisions in paragraphs 4600.42-.44, with earlier application permitted? If not, why not?

8. On transition, the amendments will not apply to the 2023 interim periods of pension plans with annual reporting periods beginning on or after January 1, 2023. As proposed, do you think the effective date provides sufficient time to pension plans that choose to early adopt the new requirements to those interim periods? If not, why not?

9. The AcSB proposes in paragraph 4600.42 that pension plans with investments in master trusts should provide additional risk disclosures from the earliest period presented. Do you think an option should be available to apply these amendments only to the period in which the amendments are first applied with no comparative disclosure for the earliest period presented? If so, why?

The deadline for providing your comment letter to the AcSB is June 15, 2022. 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

TABLE OF CONTENTS **Paragraph**

PURPOSE AND SCOPE

.01 These standards apply to all pension plans, including defined benefit plans and defined contribution plans. They establish requirements for measurement and presentation of information in general purpose financial statements of pension plans, as well as financial statement disclosures. Such financial statements provide information about the pension plan including net assets available for benefits and pension obligations.

.02 A pension plan is a reporting entity separate from a sponsor and the plan participants. These standards apply to pension plan financial statements prepared for participants as a group and for other interested parties. They do not deal with reporting to individual participants about their individual pension benefits.

.03 One of the uses of general purpose financial statements of pension plans is to assess the ability of the pension plan to meet future benefit payments. Such financial statements cannot provide all the information that is needed to fully assess benefit security. In addition to pension plan financial statements prepared in accordance with these standards, participants may also need to review, among other things, actuarial reports, and to take into account the financial health of the sponsor. Such additional information is beyond the scope of these standards.

.04 Some benefit plans have characteristics similar to pension plans and provide benefits other than pensions (for example, retiree health care and life insurance benefit plans, health and welfare plans providing benefits during active service, and long-term disability plans). These standards also apply to general purpose financial statements of such plans. However, certain adaptations may be necessary to take into account the specific nature of such plans.

DEFINITIONS

.05 The following terms are used in these standards with the meanings specified.

(a) **Accrued benefit methods**

Also known as unit credit or single premium actuarial cost methods. Under these methods of actuarial valuation, a distinct unit of retirement benefit is associated with each year of credited service and the actuarial present value of the unit of benefit is separately computed for the period during which it is presumed to have accrued.

(b) **Accrued benefit obligation**

An accrued benefit obligation is the amount determined by the plan sponsor to be the actuarial present value of benefits attributed to employee services rendered to a particular date.

(c) **Accrued pension benefits**

Accrued pension benefits are the benefits attributed to services rendered up to a particular date.

(d) **Actuarial asset value**

Actuarial asset value of a pension plan's investment portfolio is the value the pension plan uses for funding purposes. In most cases, this value is different from fair value. An example is an adjusted market value method that recognizes changes in the fair value of a pension plan's investment portfolio over a period of five years.

(e) **Actuarial present value**

Actuarial present value is the discounted value of an amount or series of amounts payable or receivable at various times, determined as of a particular date by the application of a particular set of actuarial assumptions.

(f) **Actuarial valuation**

An actuarial valuation is an assessment of the financial status of a pension plan. It consists of the valuation of the pension plan's investment portfolio and the calculation of the actuarial present value of benefits to be paid under the terms of the plan.

(fa) **Amalgamation date**

The amalgamation date is the date on which a pension plan obtains the legal right to the assets and becomes liable for the obligations of one or more pension plans with which it is amalgamating.

(g) **Benefit plan**

A benefit plan is any arrangement whereby an entity undertakes to provide employees with benefits during and/or after active service in exchange for their services.

(h) **Best estimate assumptions**

For the purposes of determining the pension obligation of a defined benefit pension plan, best estimate assumptions are a set of actuarial assumptions each of which reflects the judgment of the administrator (the person or group of persons responsible for the content and issuance of a pension plan's financial statements) about the most likely set of conditions affecting future events.

(i) **Defined benefit pension plan**

A defined benefit pension plan is a pension plan that is not a defined contribution pension plan.

(j) **Defined contribution pension plan**

A defined contribution pension plan is a pension plan that specifies how an entity's contributions to the plan are determined rather than the benefits to be received by an employee or the method of determining those benefits.

(k) **Derivative**

A derivative is a financial instrument or other contract with all three of the following characteristics:

(i) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying");

(ii) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(iii) it is settled at a future date.

(l) (deleted)

(m) **Financial asset**

A financial asset is any asset that is:

(i) cash;

(ii) an equity instrument of another entity; or

(iii) a contractual right:

— to receive cash or another financial asset from another entity; or

— to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the pension plan.

(n) **Financial instrument**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(o) **Financial liability**

A financial liability is any liability that is a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the pension plan.

(p) **Funding valuation**

A funding valuation is an actuarial valuation that provides the plan sponsor with a funding schedule to enable accumulation of sufficient funds over employees' working careers for the plan to be in a position to pay pension benefits as they become due.

(q) **Investment portfolio**

An investment portfolio consists of investment assets and investment liabilities defined as follows:

(i) **Investment assets** are assets that are acquired by the pension plan to earn investment income, for value appreciation, or both. Examples include equity and debt instruments, loans, real estate, infrastructure, royalty agreements, private equity, hedges and other derivatives in an asset position, an interest in a master trust, and insurance contracts related to the plan's pension obligation of which the plan is the beneficiary. Investment assets do not include other assets relating to the administration of the pension plan (for example, prepaid rent for offices or office equipment).

(ii) **Investment liabilities** are liabilities that are incurred by the pension plan in investment-related activities. Examples include hedges and other derivatives in a liability position, real estate mortgages, repurchase agreements, financial instruments sold but not yet purchased, and cash collateral received from counterparties. Investment liabilities do not include other liabilities relating to the administration of the pension plan (for example, employee salaries or rent for offices).

(r) **Master trust**

A master trust is a pool of assets into which contributions from pension plans of an employer or a group of employers are deposited for investment. Each plan has an undivided interest in the assets held in the trust and ownership is represented by the proportionate dollar interest or by units of participation.

(s) **Multiemployer pension plan**

A multiemployer pension plan is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective bargaining agreements.

(t) **Net assets available for benefits**

Net assets available for benefits is the difference between a plan's assets and its liabilities. For the purposes of this definition, a plan's liabilities do not include accrued pension benefits.

(u) **Participant**

A participant is any employee or former employee, or any member or former member of a trade or other association, or the beneficiaries of those individuals, for whom there are accrued pension benefits in the pension plan.

(v) **Pension obligation of a defined benefit pension plan**

A pension obligation of a defined benefit pension plan is the actuarial present value of accrued pension benefits determined by applying best estimate assumptions and the projected benefit method prorated on services.

(w) **Pension plan**

A pension plan is any arrangement (contractual or otherwise) whereby a program is established to provide retirement income to employees.

(x) **Projected benefit method prorated on services**

This is a commonly used accrued benefit method. Under this method an equal portion of the total estimated benefit (i.e., with salary projection, when appropriate) is attributed to each year of service. The actuarial present value of accrued pension benefits is derived after the benefits are attributed to the years of service up to the date of determination.

(y) **Related parties**

Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

(z) **Related party transaction**

A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

(aa) **Sponsor**

In the case of a single employer pension plan, the sponsor is the employer. In the case of a multiemployer pension plan, the sponsor is the association, committee, board of trustees, or other group representatives of the employees and employers or other parties who have established the pension plan.

(ab) **Split date**

The split date is the date on which a pension plan loses the legal right to the assets and is no longer liable for the obligations of the pension plan.

BASIS OF ACCOUNTING

.06 *A pension plan shall follow the requirements set out in these standards for the measurement, presentation and disclosure of its investment portfolio and pension obligations.*

.07 *In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, a pension plan shall comply on a consistent basis with either International Financial Reporting Standards in Part I of the Handbook, or accounting standards for private enterprises in Part II of the Handbook, to the extent that those standards do not conflict with the requirements of this Section.*

.08 *A pension plan shall also apply the general financial statement presentation requirements of the basis of accounting chosen in accordance with paragraph 4600.07 with respect to:*

(a) fair presentation;

(b) comparative information; and

(c) materiality.

.09 *Pension plan financial statements shall be prepared using the accrual basis of accounting.*

PENSION PLAN FINANCIAL STATEMENTS

.10 *Pension plan financial statements shall consist of:*

- *(a) a statement of financial position;*
- *(b) a statement of changes in net assets available for benefits; and*
- *(c) a statement of changes in pension obligations (not applicable to defined contribution pension plans).*

.11 Information about the net assets available for benefits, combined with information about the pension obligations, assists users of the financial statements to assess the plan's present and future ability to pay benefits when due.

Statement of financial position

Presentation

.12 *The statement of financial position shall distinguish at least the following*

- *(a) investment assets;*
- *(b) investment liabilities;*
- *(c) participants' contributions receivable;*
- *(d) sponsor's contributions receivable;*
- *(e) other assets and liabilities;*
- *(f) net assets available for benefits (total of items (a)-(e));*
- *(g) defined benefit pension obligations; and*
- *(h) the resulting surplus or deficit (item (f) less item (g)).*

.12A *A pension plan can be either a defined benefit plan, a defined contribution plan or a combination of both types of plans. If a pension plan is a combination of both types of plans, it shall separately present the defined benefit and defined contribution components on the statement of financial position, on the statement of changes in net assets available for benefits and in the notes to the financial statements.*

.13 *Details of investment assets and investment liabilities shall be presented either on the face of the statement or in the notes to the financial statements.*

.14 Investment assets and investment liabilities are distinguished by type because that information is useful to users in understanding the risks associated with a pension plan's investments. Types of investment assets and investment liabilities include, but are not limited to, those identified in paragraph 4600.05(q).

.15 Investment assets are presented on a non-consolidated basis even when the investment is in an entity over which the pension plan has control or can exercise significant influence.

.16 A pension plan may also have other assets and liabilities such as assets relating to the administration of the pension plan (for example, prepaid rent for offices or office equipment) and liabilities relating to the administration of the pension plan (for example, employee salaries or rent for offices).

.17 A pension plan may present an unclassified statement of financial position.

Recognition

.18 *Except as specified in paragraphs 4600.18A-.18B and 4600.24A-.24C, all financial assets and financial liabilities shall be recognized and derecognized in accordance with the recognition and derecognition requirements in either Part I of the Handbook, or Part II of the Handbook, consistent with the basis of accounting chosen in accordance with paragraph 4600.07.*

Splits and amalgamations

.18A A pension plan commonly has the legal right to the assets and is liable for the obligations of the pension plan with which it is amalgamating, at the later of when:

(a) the amalgamation is approved by the regulatory authority of the jurisdiction in which the pension plan is registered;

(b) the pension plan with which it is amalgamating transfers its assets and liabilities to the plan; and

(c) the pension plan amalgamation is effective per the legal contract underlying the transaction.

.18B A pension plan loses the legal right to the assets and is no longer liable for the obligations subject to the split, at the later of when:

(a) the split is approved by the regulatory authority of the jurisdiction in which the pension plan is registered;

(b) the pension plan transfers the assets and liabilities out of the plan; and

(c) the pension plan split is effective per the legal contract underlying the transaction.

Measurement

.19 *Except as specified in paragraph 4600.21A, all investment assets and investment liabilities shall be measured at fair value at the date of the statement of financial position. In determining fair value, a pension plan shall refer to the guidance on fair value measurement in Part I of the Handbook.*

.20 Transaction costs are not included in the fair value of investment assets and investment liabilities either on initial recognition or on subsequent remeasurement. Transaction costs are included in the statement of changes in net assets available for benefits as part of expenses incurred in the period.

.21 Assets held primarily for use in plan operations (for example, land and buildings, equipment, furniture, and leasehold improvements) are measured at cost less accumulated depreciation oramortization and any impairment loss.

.21A *A pension plan may purchase an annuity from a third party, commonly referred to as a buy-in annuity contract, in which the timing and cashflows match the timing and cashflows for some or all of the benefits payable. A pension plan shall measure the annuity at a value equal to the related benefit obligation subject to any adjustment required if the amounts receivable under the annuity contract are not collectible in full. Any gain or loss arising from the purchase of the annuity contract shall be recognized in the statement of changes in net assets available for benefits in the year the annuity is purchased.*

.22 *A pension plan shall measure the pension obligation required by paragraph 4600.12(g) in accordance with paragraph 4600.05(v). For this purpose, a pension plan may measure the pension obligation at the defined benefit obligation amount determined by the plan's sponsor.*

.23 Guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook.

.24 For a multiemployer defined benefit pension plan, the funding valuation is generally the only actuarial valuation available, and it provides the relevant pension obligation information for the purposes of these standards.

Derecognition

.24A *A pension plan may purchase an annuity from a third party, commonly referred to as a buy-out annuity contract, in which the third party assumes some or all of the pension obligations of the pension plan. A pension plan shall derecognize the investment asset and related pension obligation from its balance sheet when the risks of the pension obligation are transferred to the third party.*

.24B A pension plan transfers the risks of the pension obligation to a third party when:

(a) the buy-out contract is effective per the legal contract underlying the arrangement;

(b) regulatory criteria, if any, to discharge the pension obligation from the pension plan to the third party are met; and

(c) the pension plan remits payment to the third party in accordance with the buy-out contract.

.24C *A pension plan shall recognize any special payments related to the annuity contract in the statement of changes in net assets available for benefits if:*

(a) the special payments are directly related to terms established when the annuity contract was entered into; and

(b) the pension plan is the party obligated to make the special payments.

Statement of changes in net assets available for benefits

.25 *The statement of changes in net assets available for benefits shall distinguish at least the following:*

(a) investment income, excluding changes in fair values of investment assets and investment liabilities;

(b) changes during the period in the fair values of investment assets and investment liabilities;

(c) contributions from the sponsor;

(d) contributions from participants;

(e) administrative expenses;

(f) benefit payments;

(g) refunds and transfers; and

(h) net assets available for benefits at the beginning and the end of the period.

.25A *Details of investment income by type shall be presented either on the face of the statement or in the notes to the financial statements.*

.25B Investment income is distinguished by type on a basis consistent with that used for investment assets and investment liabilities (see paragraph 4600.14).

.26 Changes in fair value include both realized and unrealized gains and losses. .

.27 *The statement of changes in net assets available for benefits shall present the following, either on the face of the statement, or in the notes to the financial statements:*

(a) details of contributions showing separately voluntary and required contributions from participants, past service contributions from participants, past service contributions from the sponsor, current service contributions from the sponsor, and special contributions;

(b) details of administrative expenses showing separately actuarial fees, audit fees, trustee and custodial fees, investment management fees, and any other significant administrative expenses;

(c) details of benefit payments showing separately retirement benefit payments, disability benefit payments, termination benefit payments and death benefit payments.

Statement of changes in pension obligations

.28 *Changes in pension obligations may affect the adequacy of plan assets to pay benefits when due and shall be provided to portray the consequences of transactions and events affecting the pension plan. The statement of changes in pension obligations of a defined benefit plan shall present separately on the face of the statement the effects of the following:*

(a) amendments to the plan;

(b) changes in the nature of the plan (e.g., a merger with another plan);

(c) changes in actuarial assumptions;

(d) interest accrued on benefits;

(e) experience gains and losses;

(f) benefits accrued; and

(g) benefits paid.

DISCLOSURE

General

.29 *A pension plan shall disclose the following information:*

(a) a summary description of the plan;

(b) the significant accounting policies used in preparing the financial statements (i.e., those that are relevant to an understanding of the financial statements);

(c) the funding policy and any changes in funding policy during the period;

(d) the amounts and types of investments in the plan sponsor or in related parties of the plan sponsor; and

(e) transactions between the pension plan and the plan sponsor, and any other related party transactions of the pension plan. Additional investments by the plan in existing investees, dividends and interest paid to the plan by investees, and similar transactions are not required to be disclosed for purposes of this subparagraph.

.30 A summary description of the plan provides information concerning matters such as the type of plan and a description of major terms and benefits (for example, pension formula, retirement age, death benefits, vesting provisions, survivor benefits, and withdrawal provisions).

.31 *A pension plan that prepares its financial statements in accordance with Canadian accounting standards for pension plans shall state this basis of presentation prominently in the notes to its financial statements.*

Investment portfolio

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

(a) for those investments that are financial instruments:

(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, a description of how fair values have been determined.

.32A *A defined benefit pension plan may include in its investment assets, annuity contracts, commonly referred to as buy-in annuity contracts, in which the timing and cashflows match the timing and cashflows for some or all of the benefits payable. The pension plan shall disclose the nature of these investments and the amount of pension obligations that these investments offset.*

.32B *A pension plan may purchase an annuity from a third party, commonly referred to as a buy-out annuity contract, in which the third party assumes some or all of the pension obligations of the pension plan. For each year the pension plan retains the annuity, it shall disclose the nature of the contract, the amount of pension obligations that are transferred to the third party and the risks, if any, of the pension obligation returning to the pension plan.*

.32C *A pension plan that has investment assets that include investments in a master trust shall disclose:*

- *(a) the types of investments and fair value hierarchy of the categories of investments in a master trust; and*
- *(b) the plan's position in the master trust, such as the number of units over the total units held in the master trust or the percentage holding of the total.*

.33 In some defined contribution plans, members direct the investment decisions for the assets in their accounts. In these circumstances, a pension plan does not provide the quantitative sensitivity analysis disclosures for market risk (see paragraphs 40-42 of IFRS 7 *Financial Instruments: Disclosures* in Part I of the Handbook).

.34 A defined benefit pension plan may measure its investment portfolio on an actuarial asset value basis for funding and internal management purposes. When a plan chooses to disclose the actuarial asset value, it discloses the amount of any difference between the actuarial asset value and the asset value determined in accordance with paragraph 4600.19, together with an explanation of that difference. That difference, commonly referred to as an actuarial asset value adjustment, shall not be included in the amount presented in the statement of financial position as net assets available for benefits (see paragraph 4600.12(f)), or for the resulting surplus or deficit (see paragraph 4600.12(h)).

Pension obligation of a defined benefit pension plan

.35 *A defined benefit pension plan shall disclose the following information:*

- *(a) the effective date of the actuarial valuation used to determine the pension obligation;*
- *(b) the effective date of the next required actuarial valuation;*
- *(c) the name of the actuarial firm that performed the valuation; and*
- *(d) the significant assumptions used in determining the pension obligation including the rate of compensation increase and the discount rate.*

Pension obligation of a defined contribution pension plan

.36 For a defined contribution pension plan, pension benefits are determined by the sponsor's and employees' contributions and the performance of the plan. Actuarial valuations are normally not required as the pension obligation equals the net assets available for benefits. Where amounts allocated to participants are less than the net assets available for benefits, it is appropriate to disclose the basis of allocation and the amount of unallocated assets.

Capital

.37 *A pension plan shall disclose information that enables users of its financial statements to evaluate the pension plan's objectives, policies and processes for managing capital in accordance with the requirements in paragraphs 135-136 of IAS 1* Presentation of Financial Statements *in Part I of the Handbook.*

Splits and amalgamations

.37A *If a pension plan is finalizing an amalgamation at the date of financial statement completion, the pension plan shall disclose information about the amalgamation if any criterion in paragraph 4600.18A(a)-(c) is met.*

.37B *If a pension plan is finalizing a split at the date of financial statement completion, the pension plan shall disclose information about the split if any criterion in paragraph 4600.18B(a)-(c) is met.*

EFFECTIVE DATE AND TRANSITION

.38 A pension plan shall apply these standards for annual periods beginning on or after January 1, 2011, except as specified in paragraphs 4600.40-.44~~1~~. Earlier application is permitted.

.39 A pension plan shall apply these standards retrospectively to all prior periods presented.

.40 In satisfying the fair value measurement requirements in paragraph 4600.19, a pension plan applies IFRS 13 *Fair Value Measurement* in Part I of the Handbook to annual periods beginning on or after January 1, 2013. Earlier application of IFRS 13 is permitted provided that the pension plan discloses that fact and the measurement requirements are applied to the fair value of all investment assets and investment liabilities. IFRS 13 is applied prospectively as of the beginning of the annual period in which it is initially applied. A pension plan that has adopted IFRS 13 is not required to provide the disclosures included in that IFRS.

.41 Prior to adopting IFRS 13 *Fair Value Measurement* in Part I of the Handbook, a pension plan refers to the guidance on fair value measurement in IAS 39 *Financial Instruments: Recognition and Measurement* in Part I of the Handbook.

.42 Amendments to paragraphs 4600.10(c) and 4600.12(g) and new paragraphs 4600.12A and 4600.32C, issued in [December 2022], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2023. Earlier application is permitted. A pension plan applies these amendments at the beginning of the earliest period presented.

.43 Paragraphs 4600.05(fa), 4600.05(ab) and 4600.18A-.18B, issued in [December 2022], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2023. Earlier application is permitted. A pension plan applies these amendments to splits and mergers from the beginning of the fiscal year in which the amendments are first applied. If a pension plan has recognized the effects of a split or merger in a comparative period, the split or merger is not re-evaluated with the guidance in paragraphs 4600.05(fa), 4600.05(ab) and 4600.18A-.18B.

.44 Paragraphs 4600.21A, 4600.24A-.24C and 4600.32A-.32B, issued in [December 2022], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2023. 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.

APPENDIX

FAIR VALUE DISCLOSURES

This Appendix is an integral part of this Section.

The fair value disclosures formerly in paragraphs 27-27B of IFRS 7 *Financial Instruments: Disclosures* in Part I of the Handbook were deleted as a consequence of incorporating IFRS 13 *Fair Value Measurement* into the Handbook. Paragraph 4600.32(a)(ii) requires the fair value disclosures in this Appendix, which are the same as those deleted from IFRS 7. The required disclosures are:

27 An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.

27A To make the disclosures required by paragraph 27B an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

27B For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:

(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.

(b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

(c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);

(ii) total gains or losses recognised in other comprehensive income;

(iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and

(iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).

(e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.

ILLUSTRATIVE EXAMPLES

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section. This material is illustrative only.

Example 1 – Investments in a master trust

Example 2 – Presentation of combination plan financial statements – columnar format

Example 3 – Presentation of combination plan financial statements – sectional format

Example 1 – Investments in a master trust

This example illustrates how investments in a master trust, described in paragraph 4600.32C of this Section, may be presented. All investments presented are Level 1 investments. Refer to paragraphs 27A-27B in the Appendix for details on fair value hierarchy disclosures.

Statement of Financial Position	**20X1**	**20X0**
As at December 31, 20X1	**$**	**$**
Assets		
Investments in master trust (note X)	57,421,000	52,540,000
Contributions receivable		
Employer	39,000	37,000
Members	38,000	36,000
Other assets	7,000	6,000
Total assets	57,505,000	52,619,000
Liabilities		
Investment liabilities	200,000	180,000
Accounts payable and accrued liabilities	75,000	64,000
Total liabilities	275,000	244,000
Net assets available for benefits	**57,230,000**	**52,375,000**

Note X – Investments in Master Trust

The Plan's assets include investments in XYZ Master Trust. The table presents the type of investments in XYZ Master Trust:

	20X1 Fair value	**20X0 Fair value**
	$	**$**
Canadian public equities pooled funds	75,700,000	75,500,000
Foreign public equities pooled funds	44,855,000	46,406,000
Bond funds	10,808,000	9,200,000
Real estate funds	22,698,000	25,200,000
Other financial instruments	9,999,000	7,881,000
Total investments	164,060,000	164,187,000
Plan's investments in XYZ Master Trust	$57,421,000	$52,540,000
Plan's share of XYZ Master Trust investments	35%	32%

Example 2 – Presentation of combination plan financial statements – columnar format

This example illustrates one format that may be used to present the financial statements of pension plans that include components of defined benefit plans and defined contribution plans as described in paragraphs 4600.12A and 4600.32C of this Section.

Statement of Financial Position

As at December 31, 20X1			**20X1**			**20X0**
	Defined benefit component	**Defined contribution component**	**Total**	**Defined benefit component**	**Defined contribution component**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Assets						
Investments – at fair value (note X)	53,442,000	3,978,000	57,420,000	49,284,000	3,300,000	52,584,000
Liabilities						
Administrative expenses and professional fees payable (note X)	20,000	–	20,000	22,000	–	22,000
Net assets available for benefits	53,422,000	3,978,000	57,400,000	49,262,000	3,300,000	52,562,000
Obligation for pension benefits	53,022,000	3,978,000	57,000,000	49,000,000	3,300,000	52,300,000
Surplus	400,000	–	400,000	262,000	–	262,000

Statement of changes in net assets available for benefits

For the year ended December 31, 20X1	Defined benefit component	Defined contribution component	20X1 Total	Defined benefit component	Defined contribution component	20X0 Total
	$	$	$	$	$	$
Increase in net assets available for benefits						
Contributions						
Employer	900,000	350,000	1,250,000	900,000	300,000	1,200,000
Employee	-	150,000	150,000	-	200,000	200,000
Investment income	3,200,000	100,000	3,300,000	4,300,000	100,000	4,400,000
Net realized gains (losses) on sale of investments	80,000	(20,000)	60,000	30,000	10,000	40,000
Net change in unrealized fair value of investments	1,900,000	200,000	2,100,000	2,000,000	1,800,000	3,800,000
Other income and transfers into plan	–	–	–	–	50,000	50,000
	6,080,000	780,000	6,860,000	7,230,000	2,460,000	9,690,000
Decrease in net assets available for benefits						
Benefit payments	1,800,000	10,000	1,810,000	1,600,000	100,000	1,700,000
Termination payments	–	80,000	80,000	–	200,000	200,000
Administrative expenses (note X)	120,000	12,000	132,000	120,000	20,000	140,000
Other expenses and transfers out of plan	–	–	–	–	50,000	50,000
	1,920,000	102,000	2,022,000	1,720,000	370,000	2,090,000
Increase (decrease) in net assets available for benefits during the year	4,160,000	678,000	4,838,000	5,510,000	2,090,000	7,600,000
Net assets available for benefits – Beginning of year	49,262,000	3,300,000	52,562,000	43,752,000	1,210,000	44,962,000
Net assets available for benefits – End of year	53,422,000	3,978,000	57,400,000	49,262,000	3,300,000	52,562,000

Example 3 – Presentation of combination plan financial statements – sectional format

This example illustrates an alternative format for presenting the financial statements of pension plans that include components of defined benefit plans and defined contribution plans as described in paragraphs 4600.12A and 4600.32C of this Section.

Statement of Financial Position	**20X1**	**20X0**
As at December 31, 20X1	**$**	**$**
Assets		
Defined benefit (DB) component:		
Investments – at fair value (note X)	53,442,000	49,284,000
Defined contribution (DC) component:		
Investments – at fair value (note X)	3,978,000	3,300,000
	57,420,000	52,584,000
Liabilities		
Administrative expenses and professional fees payable		
(DB component)	20,000	22,000
Net Assets Available for Benefits	57,400,000	52,562,000
Obligation for pension benefits –		
DB component	53,022,000	49,000,000
DC component	3,978,000	3,300,000
Surplus	400,000	262,000

Statement of Changes in Net Assets Available for Benefits	**20X1**	**20X0**
For the year ended December 31, 20X1	**$**	**$**
Increase in net assets available for benefits		
Defined Benefit (DB) component:		
Employer contributions	900,000	900,000
Investment income	3,200,000	4,300,000
Net realized gains (losses) on sale of investments	80,000	30,000
Net change in unrealized fair value of investments	1,900,000	2,000,000
	6,080,000	7,230,000

	20X1	20X0
	$	$
Defined Contribution (DC) component:		
Contributions		
Employer	350,000	300,000
Employee	150,000	200,000
Investment income	100,000	100,000
Net realized gains (losses) on sale of investments	(20,000)	10,000
Net change in unrealized fair value of investments	200,000	1,800,000
Other income and transfers into plan	–	50,000
	780,000	2,460,000
	6,860,000	9,690,000
Decrease in net assets available for benefits		
DB component:		
Benefit payments	1,800,000	1,600,000
Administrative expenses	120,000	120,000
	1,920,000	1,720,000
DC component:		
Benefit payments	10,000	100,000
Termination payments	80,000	200,000
Administrative expenses	12,000	20,000
Other expenses and transfers out of plan	-	50,000
	102,000	370,000
	2,022,000	2,090,000
Net assets available for benefits – beginning of year		
DB component	49,262,000	43,752,000
DC component	3,300,000	1,210,000
	52,562,000	44,962,000
Net assets available for benefits – end of year		
DB component	53,422,000	49,262,000
DC component	3,978,000	3,300,000
	57,400,000	52,562,000

BASIS FOR CONCLUSIONS

TABLE OF CONTENTS **Paragraph**

Introduction and Scope

1. The AcSB developed PENSION PLANS, Section 4600, (standard or Section) in 2010 during the changeover to IFRS Standards for publicly accountable enterprises, recognizing the need for an independent set of standards for pension plans in Canada. In 2011 and 2012, the Board amended the Section to clarify ambiguities with certain fair value disclosures.

2. In 2018 and 2019, the AcSB consulted with pension plan stakeholders from across Canada to understand whether the standard continues to meet their needs. These consultations were performed with preparers, practitioners, users and actuaries who specialized in pension plan financial reporting. Based on the consultations, the Board determined that while the standard generally continues to meet stakeholders' needs, several areas required clarity or new guidance to address emerging diversity in practice. Therefore, the Board formed the Pension Plan Working Group (PPWG or Working Group) to advise the Board on the current gaps in the standard and to enhance the relevance of pension plan financial statements.

3. The Working Group includes financial statement users, auditors, preparers, regulators, actuaries, plan members, plan administrators, plan trustees and a lawyer. The members have a wide range of backgrounds and experience with pension plans from across Canada. In a series of meetings from 2020 to 2021, the Working Group discussed the issues with Section 4600 and made recommendations to the Board.

4. In September 2021, after considering the Working Group's advice, the AcSB approved a project to:
   (a) clarify that a statement of changes in pension obligations is not required for defined contribution pension plans;
   (b) provide guidance on determining the split or amalgamation date for pension plans;
   (c) provide recognition, measurement and disclosure guidance on the accounting for guaranteed annuity contracts (commonly referred to as "buy-in" or "buy-out" contracts);
   (d) clarify the presentation requirements for combination plans; and
   (e) enhance the disclosure requirements for investments in master trusts.

Future AcSB Project(s) on Pension Plans

5. During the project's research phase, the AcSB learned from its stakeholder consultations and from its Working Group of several other challenges with accounting for pension plans. These challenges include but are not limited to:
   (a) accounting for pension plans with defined benefit and defined contribution elements (hybrid pension plans);
   (b) accounting for other benefit plans;
   (c) different methods for measuring defined benefit obligations;
   (d) presentation of complex investment assets and liabilities;
   (e) presentation of investment management fees; and
   (f) environmental, social and corporate governance reporting for pension plans.
6. The AcSB considered whether to address all the issues raised in one project or through multiple projects. The Board decided it would prioritize the less complex issues that could be addressed on a timelier basis to improve the relevance of the standard in the near-term. Concurrently, the Board is establishing its Strategic Plan for 2022-2027 and expects to continue research on the remaining issues as part of that Plan. The Board will consider addressing some or all of the remaining issues with the standard in subsequent projects.

Effects Analysis

7. The AcSB is committed to enhancing the relevance of accounting standards for pension plans, as necessary, to ensure these standards continue to meet the needs of pension plan financial statement users. In executing on this commitment, the Board seeks to understand the differing needs of these users.
8. The Working Group advised the AcSB that the significant diversity in practice throughout pension plan financial statements is due to a lack of clarity or an absence of guidance in the current standard. These proposals seek to reduce that diversity by providing clear guidance on areas of concern identified by stakeholders.
9. The AcSB acknowledges that reducing this diversity will result in a change in practice for some pension plans. Recognizing this, the Board proposes transitional relief in some areas to eliminate any restatement of previously issued financial statements.

Amendments

Statement of changes in pension obligations

10. The AcSB heard from stakeholders and its Working Group that the scope of paragraph 4600.10(c) is unclear. As written, it requires a statement of changes in pension obligations to be prepared for both defined benefit and defined contribution pension plans. However, defined contribution plans do not have pension obligations.

11. Some pension plans exclude the statement of changes in pension obligations from their financial statements while others present a combined statement of changes, which includes net assets available for benefits and pension obligations.

12. Therefore, to address the diversity in practice, the AcSB proposes to amend paragraph 4600.10(c) to clarify that a statement of changes in pension obligations is not applicable to defined contribution pension plans. A corresponding amendment to paragraph 4600.12(g) proposes that only a defined benefit pension obligation should be presented on the statement of financial position.

13. The Working Group also recommended the AcSB reconsider the definitions of defined benefit and defined contribution pension plans. The Working Group suggested that it may be unclear that the guidance excludes only defined contribution pension plans from preparing the statement of changes in pension obligations. They thought some hybrid pension plans that have characteristics similar to defined contribution plans could misinterpret the guidance and conclude that they are also scoped out of this statement.

14. The AcSB considered this feedback and decided that amending the definitions of defined benefit and defined contribution pension plans could have pervasive effects on the standard. Therefore, to expedite these amendments, the Board decided to reconsider the definitions in a potential future project after establishing its Strategic Plan.

Splits and Amalgamations

15. Section 4600 does not include guidance for determining the effective date of pension plan splits or amalgamations. This has led to diversity in practice as to when the effect of a split or amalgamation should be reflected in pension plan financial statements. For example, some pension plans account for the effects of an amalgamation when the pension plans' boards approve the amalgamation. Other pension plans account for the effects after the boards of the pension plans approve the transfer of assets or wait for regulatory approval of the amalgamation.

16. The Working Group and other stakeholders informed the AcSB that, because of the nature and complexity of the split or amalgamation, it may take several months or even a few years to obtain regulatory approval. Assets cannot be transferred legally from one plan to another while regulatory approval is outstanding and, once received, the pension plans transfer assets and liabilities from one plan to another to complete the transaction. In addition, legal documents underlying the transaction may specify a transaction date different from the regulatory approval date or the asset transfer date. As a result of these factors, determining when to recognize the effects of a split or amalgamation was challenging. If the transaction is ongoing at year-end, this further amplifies the challenges of determining when to reflect the transaction in the pension plan's financial statements and what, if any, disclosures to provide.

17. The AcSB also heard from stakeholders that regulations in different jurisdictions may vary. For example, in most jurisdictions, pension plans file some financial information through the Annual Information Return (AIR) on a split or amalgamated basis only after regulatory approval is obtained. However, in another jurisdiction, the pension plan must file the AIR on a split or amalgamated basis once the pension plans' boards approve the split or amalgamation, even if regulatory approval is pending. As the AIR is predominantly based on information in the financial statements, some pension plans will recognize the effects of a split or amalgamation prior to regulatory approval in this jurisdiction.

18. The AcSB considered the feedback it received on this issue and seeks to address this diversity by proposing that the amalgamation date is when a pension plan has the legal right to assets and the legal obligation for the liabilities of the pension plan(s) with which it is amalgamating. Similarly, the Board proposes that the split date is when a pension plan no longer has the legal right to the assets and is no longer liable for the obligations of the pension plan.

19. In developing the guidance, the AcSB considered the definitions of assets and liabilities in Parts I and II of the Handbook as Part IV of the Handbook does not have stand-alone financial statement concepts. Based on those financial statement concepts, the Board thinks the pension plan should recognize assets when it has control of the assets and should recognize liabilities when it has a present obligation to transfer economic resources. In the case of amalgamations, for example, the Board thinks that pension plans should only recognize assets and liabilities when an importing plan has received the assets and is liable for the obligations.

20. The AcSB debated when the right to assets and the obligation for liabilities transfer in splits and amalgamations of pension plans. One view was that a pension plan must receive regulatory approval before any assets or liabilities could be transferred. Another view was that the regulatory approval is an administrative step in the process and, therefore, the split or amalgamation should be recognized when all the regulatory requirements are met. The Board concluded that since the pension plan cannot transfer assets or liabilities until after regulatory approval, a pension plan does not have the legal right to the assets and the obligation to the liabilities until after regulatory approval. Therefore, a pension plan should not recognize a split or amalgamation prior to regulatory approval.

21. The Working Group also recommended the AcSB clarify when the legal rights to assets and obligations to liabilities transfer between pension plans. The Board agreed with this recommendation. It proposes guidance that rights transfer at the later of when the transaction is approved by the regulatory authority, the plan assets are transferred or when the transaction is effective per the underlying legal contract. The Board thinks this additional guidance will address the potential for differing interpretations in the proposed guidance.

22. The AcSB also heard that information about a split or amalgamation that is in progress at year-end is decision useful for pension plan financial statement users. Therefore, the Board proposes that if at least one of the three criteria to recognize the effects of a split or amalgamation are met when the financial statements are complete, the pension plan should disclose information about the potential split or amalgamation in its financial statements.

Accounting for guaranteed annuity contracts (buy-in)

23. A buy-in is an annuity contract under which the issuer of the annuity agrees to meet the benefit payments for a covered group of participants and beneficiaries for the duration of their lives.

24. Currently, the investment is measured in accordance with paragraph 4600.19, which states: “All investment assets and investment liabilities shall be measured at fair value at the date of the statement of financial position. In determining fair value, a pension plan shall refer to the guidance on fair value measurement in Part I of the Handbook.”

25. The obligation is measured in accordance with paragraph 4600.22, which states: “A pension plan shall measure the pension obligation required by 4600.12(g) in accordance with paragraph 4600.05(v). For this purpose, a pension plan may measure the pension obligation at the defined benefit obligation amount determined by the plan’s sponsor.”

26. The Working Group advised the AcSB that the substance of a buy-in contract is to offset the pension obligation dollar for dollar and the financial statements should reflect this. However, the current measurement guidance requires investments be accounted at fair value and the pension obligation be accounted at actuarial value, which results in a difference that implies a pension plan is either over- or underfunded.

27. The AcSB also considered an alternate view that the discount rates used to measure the annuity contract should reflect the risk profile of that investment. Under this view, it is considered appropriate that the asset discount rate differs from the rate used to measure the pension obligation. A small difference may arise from the different discount rates used for investments and pension obligations, which demonstrates the plan trustees’ risk management of the plan. This view is applied in IFRS 17 Insurance Contracts in which the discount rates used to measure assets and liabilities match the risk profile of those assets and liabilities.

28. After considering both views, the AcSB decided that the investment asset should equal the pension obligation as this best represents the substance of a buy-in annuity contract. However, the Board thinks the credit risk of the issuer of the annuity is an important consideration. Therefore, the proposed guidance requires financial statement preparers to consider the credit risk of the issuer of the annuity. This would require considering if the discount rate of the investment asset should be adjusted for credit risk.

29. The AcSB notes that pension plans currently purchase buy-in annuities from insurance companies. These insurance companies have strong credit ratings, are often reinsured and have Assuris coverage.[1.] Therefore, the Board acknowledges that, in these situations, such a discount rate adjustment might not be necessary, and the investment asset will equal the benefit obligation.

30. The AcSB also considered whether to define buy-in annuity contracts. The Board heard from its Working Group that some pension plans hold other instruments, such as longevity swaps, which are similar in nature to buy-in annuity contracts. Some Working Group members thought that, without a definition, measurement guidance intended only for buy-in annuity contracts could be applied to other investments of a similar nature. Other Working Group members thought that buy-in annuity contracts are well understood in practice and specifically referencing this term will reduce the risk of diversity in practice. The Board considered these views and thinks referencing buy-in annuity contracts, without defining it in the standard, should reduce the likelihood of the measurement guidance being applied to other instruments.

1 Assuris is an independent, not-for-profit, industry-funded compensation organization founded to protect policyholders if an insurance company fails. Federal, provincial and territorial regulators require every life insurance company in Canada to join Assuris.

31. The Working Group also recommended that additional disclosure specific to buy-in annuities would be decision useful for users to understand the nature of the investment. The AcSB agreed with this recommendation and proposes additional disclosure requirements specific to buy-in contracts to provide more information to users about the nature and purpose of these investments by a pension plan.

Accounting for guaranteed annuity contracts (buy-out)

32. Buy-out annuity contracts are annuity contracts whereby the contract transfers the risks of the benefit liability from a plan sponsor to the issuer of the annuity contract. Pension plans often purchase these annuities as a mechanism to derisk the plan from fluctuations in the market. The annuity pays the same benefits as the pension plan provides but these pension benefits are paid by the issuer of the annuity rather than the pension plan.

33. The AcSB heard from its Working Group and other stakeholders that the standard lacks guidance on when the investment asset and pension obligation associated with the buy-out annuity contract should be derecognized from the financial statements. Therefore, some pension plans continue to retain the investment and pension obligations on their financial statements while other pension plans do not.

34. The Working Group noted that buy-out annuities are relatively new in Canada. Therefore, some jurisdictions have regulation that discharges the pension obligation from the pension plan in a buy-out arrangement when certain conditions are met. In other jurisdictions, regulations have not yet been enacted. The Working Group also highlighted that in jurisdictions that have no statutory discharge regulation, is possible the obligation could “boomerang” back to the pension plan. This could occur if, for example, the issuer of the annuity goes bankrupt, thereby, nullifying the buy-out contract.

35. The AcSB considered the Working Group’s feedback and proposes that pension plans derecognize the investment asset and pension obligations when the pension plan transfers the benefit obligation risk to the issuer of the annuity. However, the Board thinks that the boomerang risk is relevant information for financial statement users. Therefore, the Board proposes additional disclosure guidance to explain the nature of the annuity contract, the amount of pension obligations it offsets and the risk of the obligation returning to the pension plan, as applicable. At this time, the Board does not propose guidance on accounting for the pension obligation if it were to boomerang back to the pension plan. However, the Board will monitor this area and consider guidance in the future.

36. The AcSB also heard from its Working Group that in buy-out scenarios, special payments may be necessary after the buy-out annuity contract is effective. This can occur if there are errors in the data that are transferred from the pension plan to the issuer of the buy-out annuity. The Board proposes that if these special payments are directly related to the buy-out annuity contract and the pension plan is liable for these payments, they should be immediately recognized in the statement of changes in net assets available for benefits.

Presentation of combination pension plans

37. Combination pension plans are plans with a defined benefit and defined contribution component. These plans continue to increase as more defined benefit plans are closed to new members and are replaced by defined contribution plans.

38. Section 4600 currently has no guidance on the presentation of these plans. The Working Group noted that the absence of guidance results in some combination plans presenting the defined benefit and defined contribution components separately while others combine the components. When the results are combined, it is unclear to users which portion relates to the defined contribution component versus the defined benefit component, and whether the defined benefit portion is in a surplus or deficit position.

39. The Working Group recommended, and the AcSB agreed, that presentation guidance would benefit users, such as plan members, trustees and regulators, to distinguish between the different components of the combination plan. Therefore, the Board proposes guidance requiring separately presenting the components of combination plans. The Board also proposes illustrative examples for the standard to demonstrate alternatives for this presentation. These examples are not exhaustive, and stakeholders are encouraged to tailor their pension plan financial statements to meet their users' information needs.

Risk disclosures for investments in master trusts

40. Paragraph 4600.32(a) requires a pension plan to provide disclosures about its investments in accordance with IFRS 7 Financial Instruments: Disclosure in Part I of the Handbook. It also requires fair value disclosures in accordance with the Appendix to Section 4600. These disclosure requirements reflect the characteristics of interests in pooled and mutual funds but not investments in master trusts.

41. Master trusts are a vehicle for multiple pension plans to pool their investments and reduce administration costs. The Working Group highlighted that pension plans typically report only the fair value of their investment units in a master trust. While this complies with the guidance in Section 4600, it provides limited information in the financial statements. Users need to look elsewhere for information about the investment composition and risk profile of the master trust. However, unlike pooled and segregated funds, master trusts are not subject to the requirements in securities law to prepare audited financial statements. As a result, users usually have no other source of information about the risks associated with the underlying investments in the master trust.

42. The Working Group advised the AcSB to add guidance on risk disclosures for investments in master trusts. The Board agreed and proposes that pension plans disclose information about the types of investments and the fair value hierarchy of those investments in master trusts. The Board also proposes that pension plans disclose the plan's holdings in the master trust relative to the overall holdings of the master trusts.

43. In developing this proposal, the AcSB considered the cost of obtaining and auditing the information related to investments in master trusts. The Working Group noted that information about the investments held by a master trust is generally available from the trust's custodian and that the information can be audited using procedures similar to those applied to investments in pooled and segregated funds. Therefore, the Board concluded that the benefits of the proposed risk disclosures outweigh the costs of providing the disclosures.

Effective Date and Transition

44. Selecting an effective date for amendments is an important step in the AcSB's due process. Considering the proposed transitional provisions discussed below, the Board thinks that the proposed effective date (fiscal years beginning on or after January 1, 2023), will provide pension plans sufficient time to implement the proposals. The Board understands most pension plans do not prepare interim financial statements. Therefore, unless early adopted, the amendments will apply to annual financial statements for the year ended December 31, 2023, at the earliest; allowing most stakeholders a full year to apply the amendments.

45. The AcSB has heard that some larger pension plans prepare interim financial statements on a semi-annual basis. The Board considered whether to extend the effective date for these pension plans.

46. The AcSB notes that the amendments apply to annual reporting periods beginning on or after January 1, 2023. Therefore, in the transition year, the proposed amendments will not apply to the interim periods of these pension plans. In addition, the Board thinks these pension plans have sufficient financial reporting resources to apply the amendments early if they decide to do so.

47. The AcSB proposes that the initial application of the various amendments within this Exposure Draft be different, considering the nature of each proposal. Therefore, the Board proposes that the amendments related to the statement of changes in pension obligations, presentation of combination pension plans and disclosure of investments in a master trust apply as at the beginning of the earliest period presented. As a result, the effects of the proposals would apply to the period in which the amendments are first applied and to the comparative period(s) presented. The Board thinks that the effects of these proposals should apply consistently to all periods presented in the financial statements as this approach improves comparability of financial information from year to year. In addition, the Board understands that the comparative information is often readily available.

48. The AcSB heard that, in some instances, it may be challenging for pension plans to obtain the comparative information of investments in a master trust. For example, if a master trust has not previously been audited, the risk disclosure information may not be readily available. The Board considered this feedback but thinks that the benefit of comparative risk disclosure information outweighs the cost of preparing it in the year of transition. However, the Board is interested in stakeholder views about whether an option should be available on transition to present the risk disclosures for master trusts only in the year the amendments are first applied.

49. The AcSB considered whether the buy-in and buy-out proposals should apply only to the period in which the amendments are first applied. The Board thinks that having differing values for the same annuities in the comparative period compared with the current period could create confusion for stakeholders. Therefore, the Board proposes that the amendments for buy-in annuities should apply consistently in the current and comparative period(s). Similarly, the Board thinks that buy-out annuities and the related benefit obligations that existed in the comparative period(s) should be derecognized consistently across annual periods in the financial statements.

50. The AcSB proposes that the splits-and-amalgamations amendments apply prospectively to transactions in the period the amendments are first applied. The Board thinks that splits and amalgamations already accounted for in a previous period should not be restated as the transaction has already been communicated to users of the financial statements. The Board heard that financial statement users typically are concerned about new splits and amalgamations and how they affect the pension plan's financial statements. Historical splits and amalgamations are less of a concern as the transaction has already occurred, has been accounted for and communicated to users and therefore, does not provide new, decision-useful information.