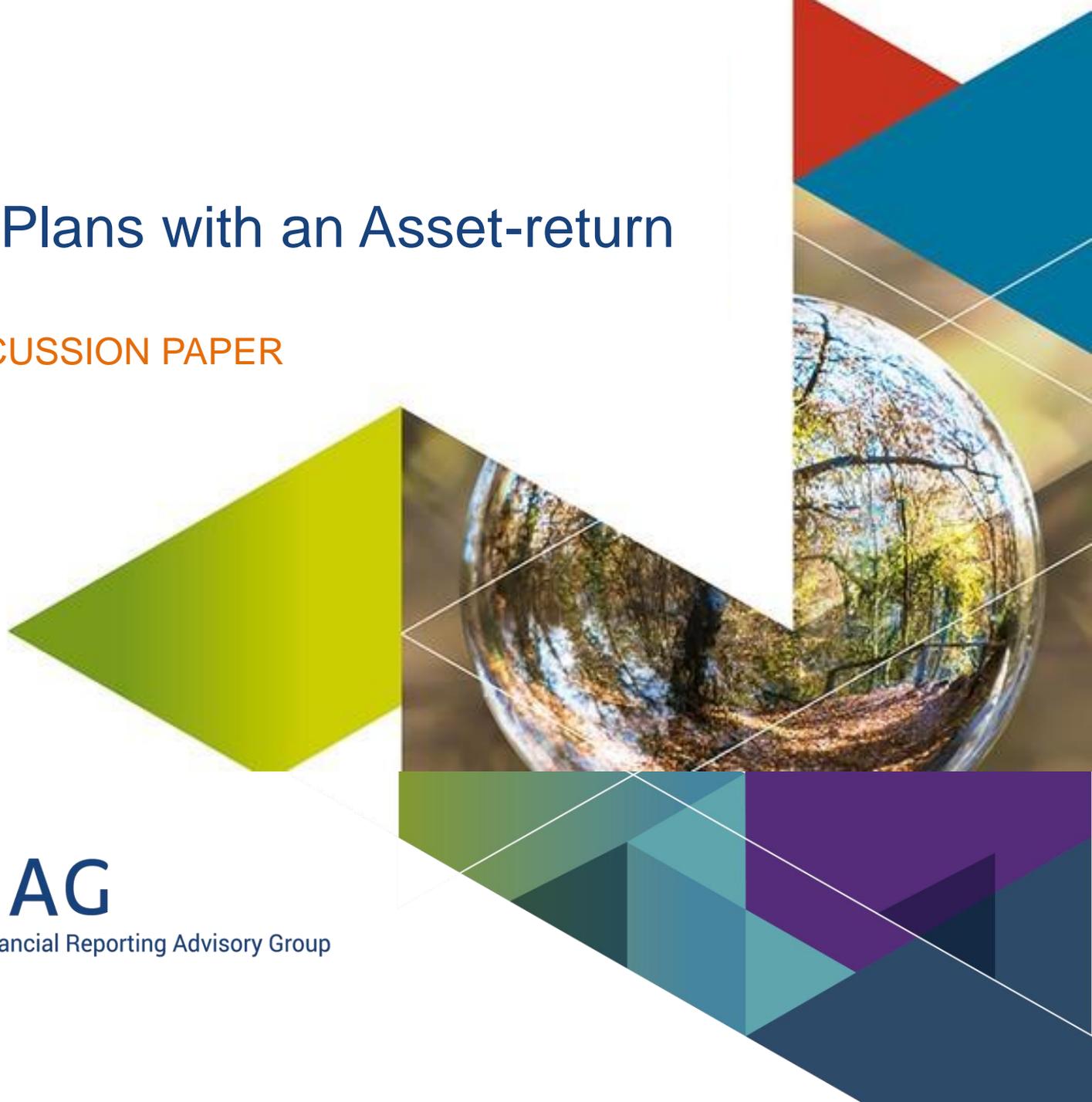


Pension Plans with an Asset-return Promise

EFRAG DISCUSSION PAPER

July 2019



DISCLAIMER

The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.



Scope

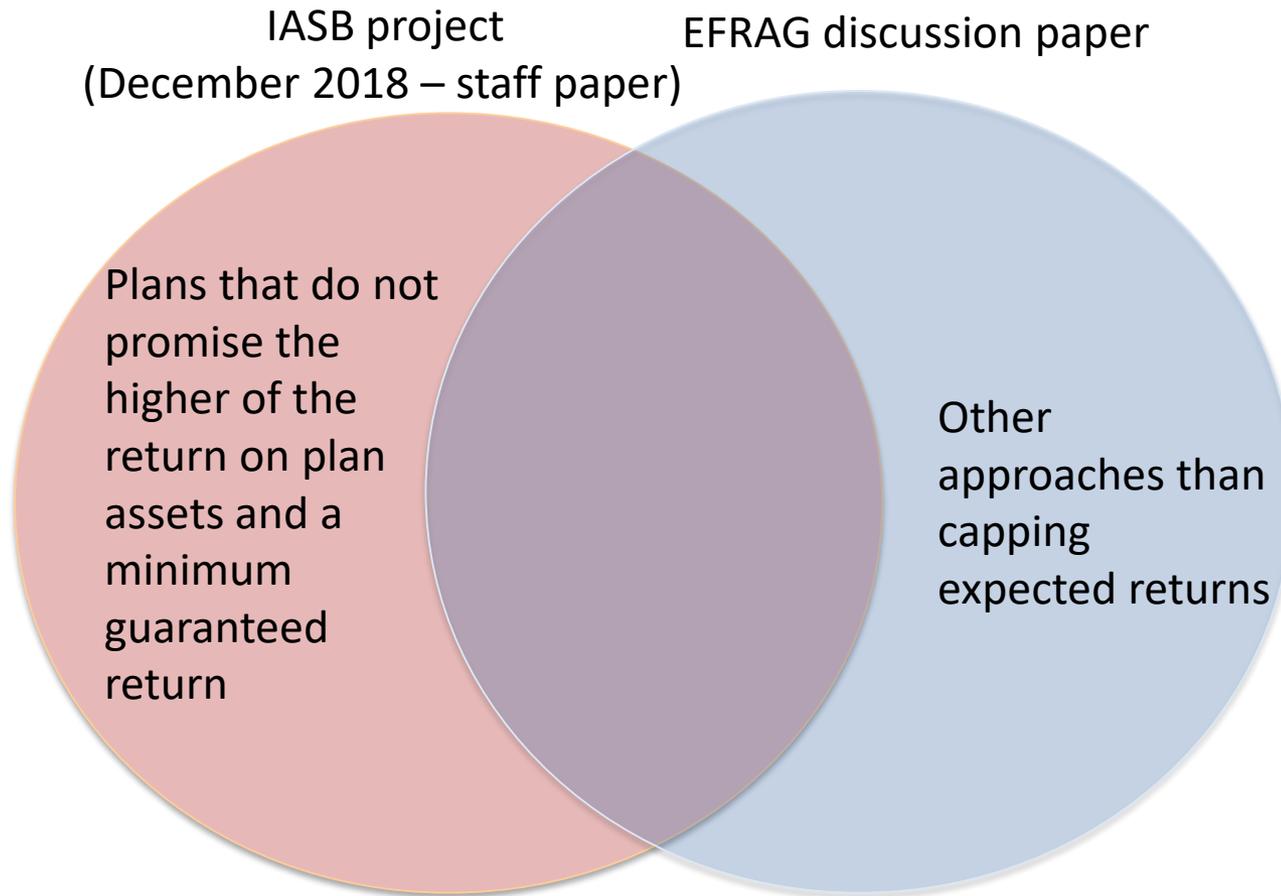
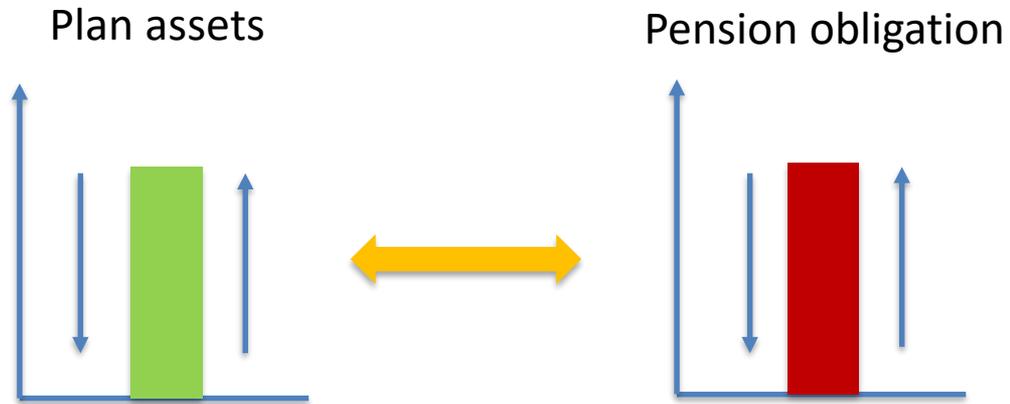


Illustration only. The proportions of the circles and the size of the overlap are not intended to represent the scopes of the projects and how similar the issues considered in the projects are.

Issue



Covariance / linkage not (sufficiently) reflected

Solutions considered

A Capped Asset Return approach

When measuring the pension obligation, the expected asset return is capped to the high-quality corporate bond rate.

A Fair Value Based approach

The pension obligation is measured at the sum of the fair value of the plan assets and the fair value of the minimum return guarantee.

A Fulfilment Value approach

The pension obligation is measured based on the estimated outflows needed to settle the entire pension obligation when it becomes due minus the expected future inflows over the life of the pension plan.

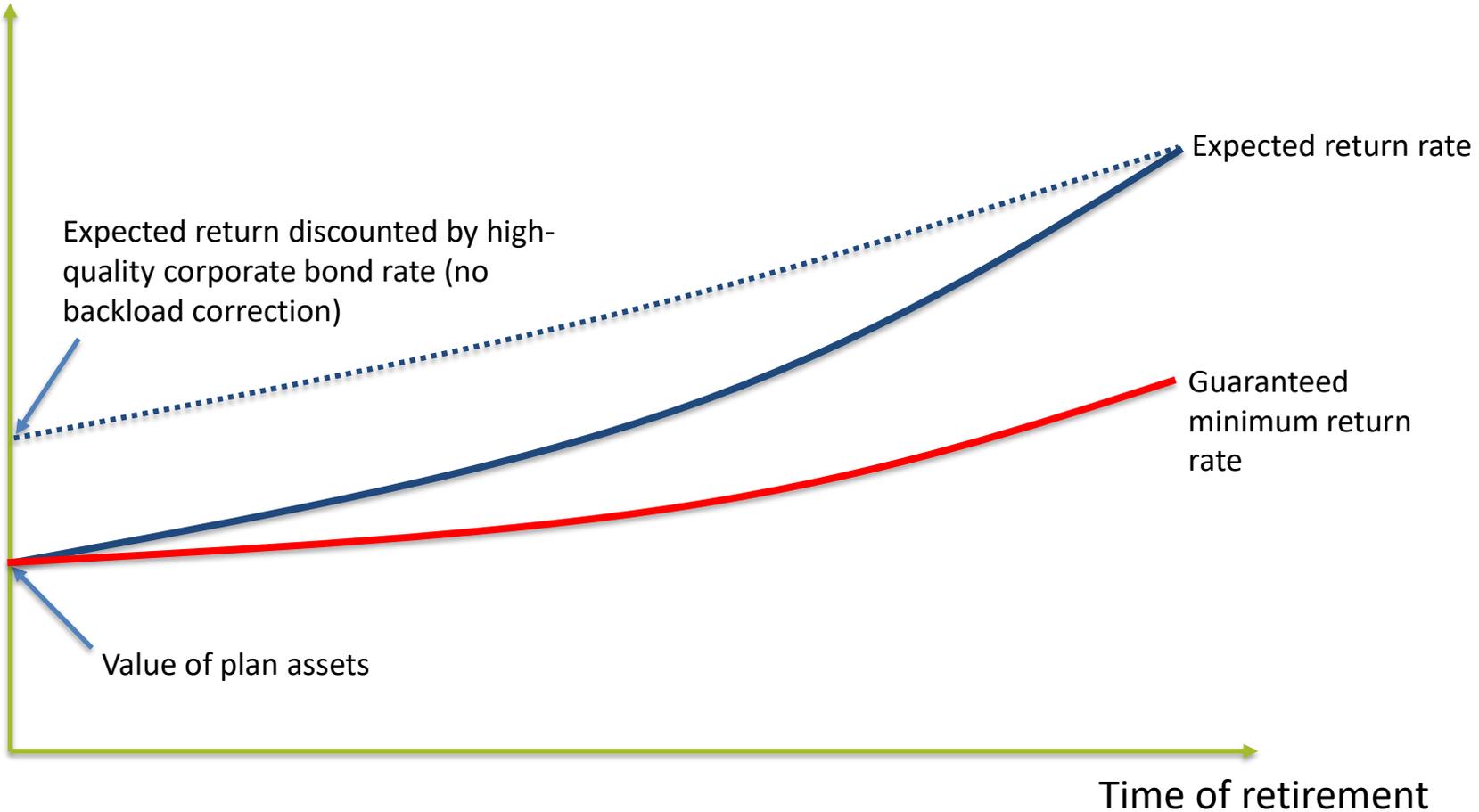
Assessments

Qualitative characteristics	IAS 19	Capped Asset Return approach	Fair Value Based approach	Fulfilment Value approach
Is the information relevant?				
• Does the approach reflect how the pension obligation will be settled?	☆☆☆	☆☆☆	☆☆☆	☆☆☆
• Is the economic covariance between plan assets and pension obligation reflected?	☆☆☆	☆☆☆	☆☆☆	☆☆☆
• Is a net pension liability recognised when the plan assets are expected to be insufficient to cover the portion of the final benefit entitlement for the service provided to date?	☆☆☆	☆☆☆	☆☆☆	☆☆☆
• Does the calculation of current service cost result in a useful reflection of pension cost related to a particular period?	☆☆☆	☆☆☆	☆☆☆	☆☆☆
• Is information about the value of the minimum return guarantee provided?	☆☆☆	☆☆☆	☆☆☆	☆☆☆
Is the employee's right to receive the higher of the return on plan assets and the minimum guaranteed return reflected in a complete manner?	☆☆☆	☆☆☆	☆☆☆	☆☆☆
Can requirements be applied retrospectively?	N/A	☆☆☆	☆☆☆	☆☆☆
Is the obligation element related to the minimum guaranteed return accounted for similarly to plans under IAS 19?	N/A	☆☆☆	☆☆☆	☆☆☆
Is the obligation related to the return on plan assets accounted for similarly to plans under IAS 19?	N/A	☆☆☆	☆☆☆	☆☆☆
Is the information understandable?	☆☆☆	☆☆☆	☆☆☆	☆☆☆
Will the implementation of the approach be uncostly?	N/A	☆☆☆	☆☆☆	☆☆☆

Capped Asset Return approach

Pension obligation for Year X

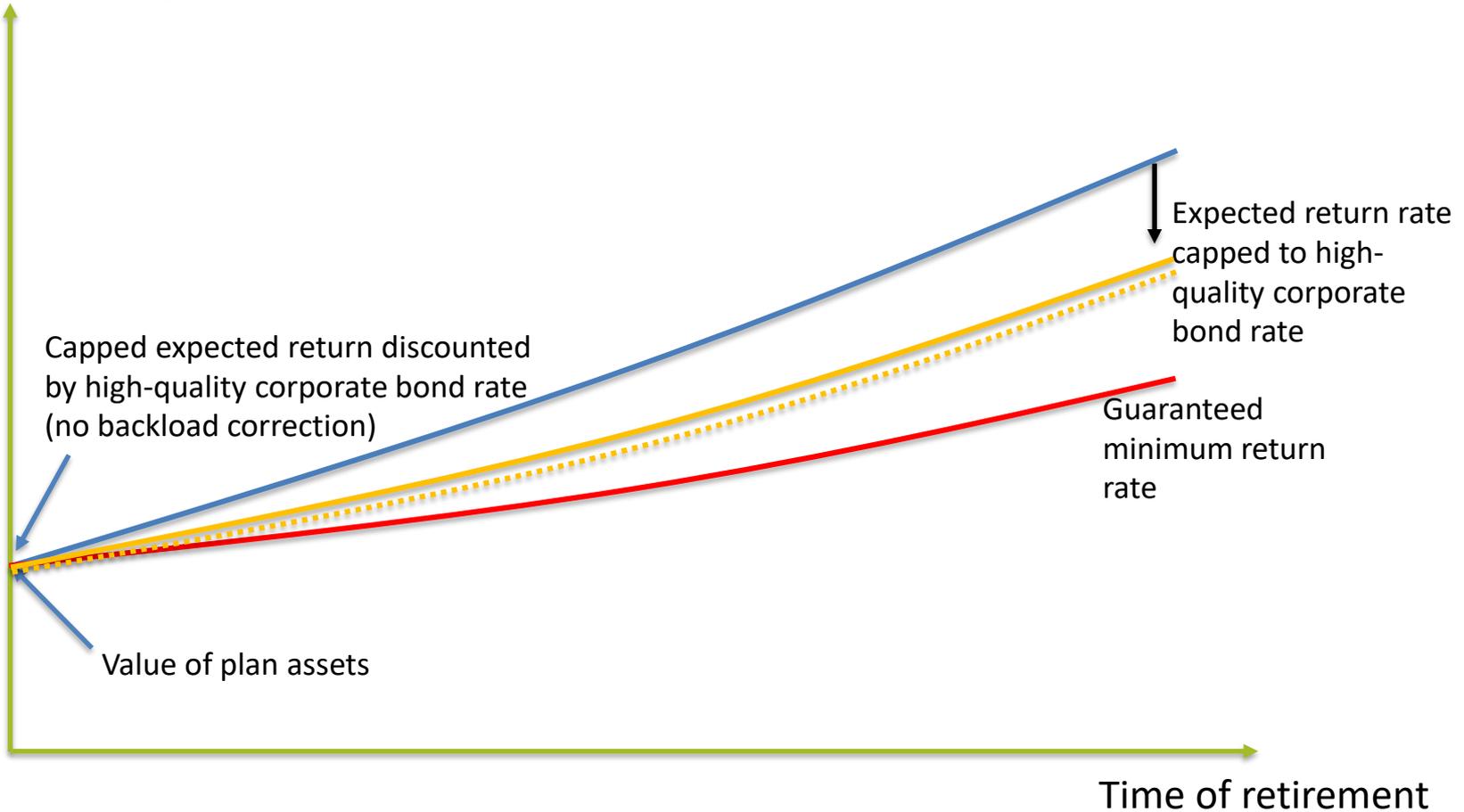
CU



Capped Asset Return approach

Pension obligation for Year X

CU



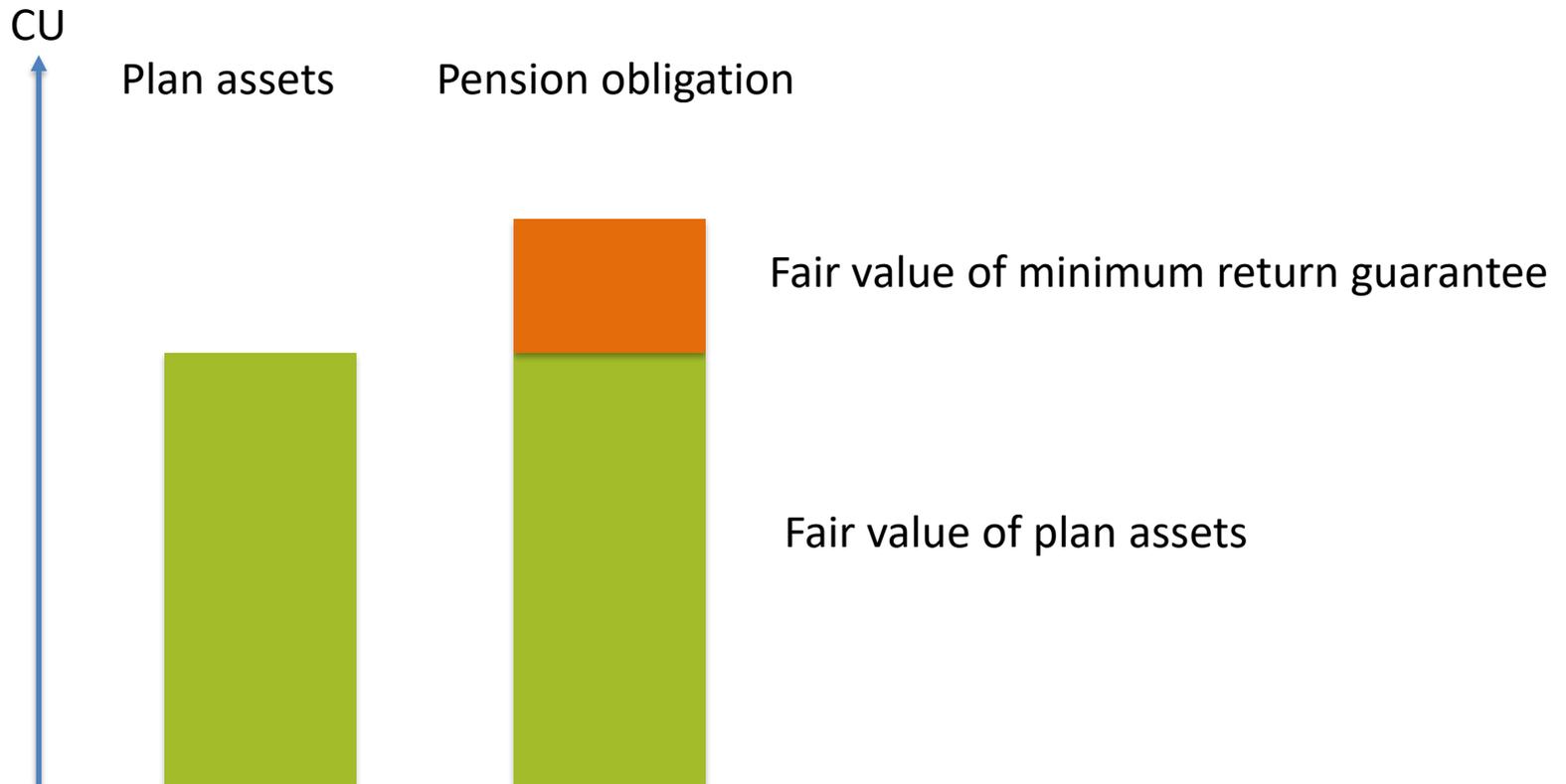
Assessment – Capped Asset Return approach

Qualitative characteristics	Capped Asset Return approach
Is the information relevant?	★☆☆
<ul style="list-style-type: none"> Does the approach reflect how the pension obligation will be settled? 	★☆☆
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Will the implementation of the approach be uncostly?	★★★

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Is the information understandable?	★☆☆
Will the implementation of the approach be uncostly?	★★★

Fair Value Based approach



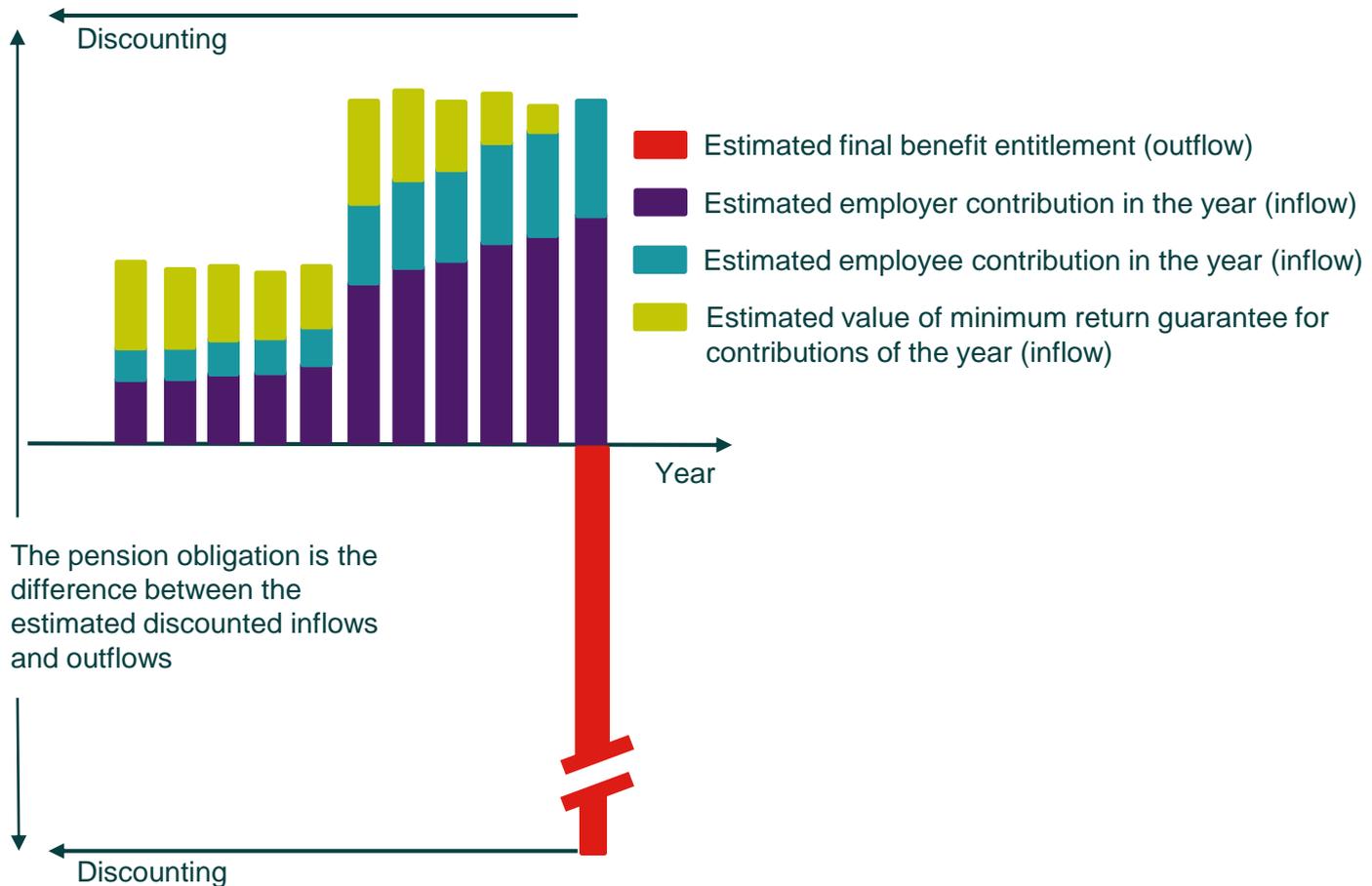
Assessments – Fair Value Based approach

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Fulfilment Value approach



Assessments – Fulfilment Value approach

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Additional content

- Evolution of pension accounting
- Statistics of pension schemes
- Illustrative examples
- Discussion on disclosure requirements
- Other possible approaches and their implications
- Journal entries for fulfilment value approach
- Issues not addressed
- [EFRAG Secretariat paper showing calculations](#) (available on EFRAG's website)

Questions for ASAF

For the pension plans within the scope of EFRAG's discussion paper:

1. Which of the three alternative approaches do you think should be considered further?
2. Do you think there are other approaches to account for the pension plans within the scope of the discussion paper that should have been considered?
3. Do you think that the three assessed approaches could also be applied to those plans with an asset-return promise, where the plan does not hold the reference assets?
4. Do you have any other comments on EFRAG's discussion paper?



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