

Employee benefits

Overview

Scope of IAS 19 includes both short and long-term employee benefits

CICA 3461 – Employee Future Benefits is replaced by IAS 19 – Employee Benefits on convergence to IFRS. The scope of IAS 19 is broader than CICA 3461, since it encompasses both short and long-term employee benefits. The basic approach to accounting for employee future benefits is in line with Canadian GAAP. However, there are some differences to watch out for which will impact the accounting treatment for entities which have defined benefit plans.

Conversion issues

Option available under IFRS to recognize actuarial gains and losses directly in equity

Issue	Canadian GAAP	IFRS
Recognition of actuarial gains/losses	<ul style="list-style-type: none"> Recognize immediately in income or over the estimated average remaining service life (EARSL) of plan participants 	<ul style="list-style-type: none"> May follow same treatment as Canadian GAAP or; May recognize as incurred directly in equity
Recognition of obligations for benefit plans	<ul style="list-style-type: none"> Recognition based both on written and unwritten actions by an entity, including past practice 	<ul style="list-style-type: none"> More specific guidance provided on concept of constructive obligation Constructive obligation may arise from informal practices which if changed would cause unacceptable damage to relationship with employees
Termination benefits	<ul style="list-style-type: none"> “Special” termination benefits recognized when communicated to employees or ratably over any minimum retention period Contractual termination benefits recognized when entitlement probable and amount can be reasonably estimated 	<ul style="list-style-type: none"> No distinction between “special” and contractual termination benefits Termination benefits recognized when the employer is demonstrably committed to pay
Recognition of past service cost for benefits that have vested	<ul style="list-style-type: none"> Generally amortized over remaining service period or life expectancy 	<ul style="list-style-type: none"> Recognized immediately

Issue	Canadian GAAP	IFRS
Limit on amount of accrued benefit asset	<ul style="list-style-type: none"> A valuation allowance is recognised for any excess of the adjusted benefit asset over the expected future benefit. 	<ul style="list-style-type: none"> Amount recognized as an accrued benefit asset cannot exceed the total of unrecognized net actuarial losses, past service costs and the present value of future refunds or reductions in contributions made to the plan There is a further cap on the above should a gain/loss arise solely from current actuarial gains/losses and past service costs

What work must be done

- **Identify** all legal and constructive obligations under benefit arrangements
- **Appoint** actuaries who are IAS 19 qualified
- **Determine** employee future benefits obligation/liability under IAS 19 at the date of transition and thereafter at all reporting dates
- **Decide** whether to apply election to recognize cumulative unamortized actuarial gains and losses in equity on conversion to IFRS (at same time may elect to recognize subsequent gains and losses over EARSL)
- **Select** accounting policy for future treatment of actuarial gains and losses

Possible changes during the conversion period

- Proposed amendments to CICA 3461 in the March 2007 exposure draft, if approved, may create more differences between Canadian GAAP and IFRS
- Convergence project underway, therefore the new differences may be addressed but unlikely to be converged prior to 2011