

# Memorandum



To: Our Clients  
From: Actuarial Department  
Date: December 4, 2013

## **Re: Canadian Pension and Benefit Plan Accounting Rule Changes for Parts II and III of the CPA Canada Handbook**

### Introduction

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The purpose of this communication is to inform our clients of the recent changes made to the CPA Canada Handbook – Accounting standards for employee future benefits.

This communication will be of special interest to entities that prepare their financial statements in accordance with either Part II (Canadian accounting standards for private enterprises) or Part III (Canadian accounting standards for not-for-profit organizations) of the CPA Canada Handbook.

### Background

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#### Section 3462

By way of background, Section 3461 (Employee Future Benefits) in Part II of the CPA Canada Handbook has recently been replaced by Section 3462 (Employee Future Benefits). The key highlights of the change from Section 3461 to Section 3462 are as follows:

- The option for an entity to defer the recognition of gains and losses on its defined benefit plans to future periods (e.g. the “deferral and amortization approach” has been eliminated.
  - As a result, the income statement will likely become more volatile as gains and losses, past service costs, and curtailments & settlements will be recognized immediately.
  - In addition, it is noted that the “interest cost” and “expected return on plan assets” will no longer be components of the expense, as they are replaced with a net interest “financing cost” component.
  
- Plan obligations and plan assets are to be measured at the balance sheet date. For clarity, the option to measure the obligations and assets at a date up to three months prior to the balance sheet date is no longer permitted.

- When measuring the benefit obligations for accounting purposes, an entity can either use:
  - An actuarial valuation prepared for accounting purposes, where the discount rate is typically determined in reference to the yields on high-quality corporate bond yields at the measurement date, and all other assumptions are Management’s best estimate assumptions (as was consistent with the “deferral and amortization approach” under Section 3461); or
  - The most recently completed going-concern actuarial valuation in a report prepared for funding purposes (as was consistent with the “immediate recognition approach” under Section 3461). [Furthermore, paragraph .031 of Section 3462 also allows an entity to prepare an actuarial valuation for an unfunded plan on a basis consistent with the “going-concern funding valuation basis” if the entity applies this approach to its funded plans. However, the concept of a “going-concern funding valuation basis” typically does not apply to unfunded plans (i.e. post-retirement health plans and supplemental pension plans), especially since such plans do not benefit from the same tax deferral status as do registered pension plan. The Canadian Accounting Standards Board has been made aware of this nuance and it is our understanding that they intend to clarify this option in the future.]
- The disclosure requirements under Section 3462 are generally less onerous than those previously required under Section 3461.
- An entity will be required to transition to Section 3462 for fiscal years that start on or after January 1, 2014, however early adoption is permitted. The changes to Section 3462 are adopted retrospectively, and will require the preparation of a “comparator year disclosure” for the year prior to adoption.

### Section 3463

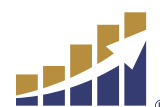
It is our understanding that the Canadian Accounting Standards Board (AcSB) will release shortly a final version of Section 3463 which will be used in Part III of the CPA Canada Handbook (i.e. for not-for-profit organizations). Section 3463 is to be largely consistent with Section 3462, but will recognize remeasurements and other items directly in net assets (as opposed to recognizing them in the income statement). Furthermore, it is our understanding that Section 3463 will also be effective for fiscal years beginning on or after January 1, 2014, with early adoption permitted.

## Options and Decisions

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The following is a brief list of issues and considerations that entities which report under Part II or Part III of the CPA Canada Handbook should consider:

- The merits of an early transition to Section 3462 (or Section 3463 if applicable).
- Whether the benefit obligations should be determined using an actuarial valuation prepared for accounting purposes, or determined using the results of the going-concern valuation in the most recently prepared funding valuation report.



## Next Steps

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Please feel free to contact us should you have any questions regarding the information provided above. We would be pleased to assist you understand the implications of the changes to the accounting standards, and assist you decide on an appropriate course of action.

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Please feel free to contact your consultant (Jason, Dean or Joe) if you would like to discuss any of the above.

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