

Employee Benefits, Proposed Section PS 3251

Tim Schuurman and C.J. James

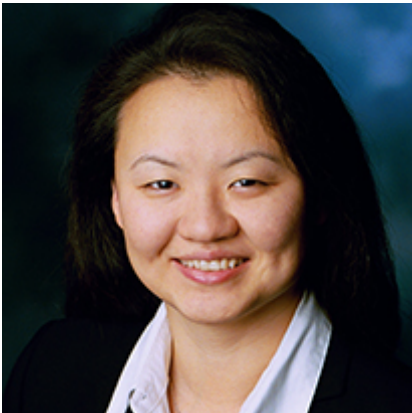
Presenters (English)



Tim Schuurman

PSAB Member, Chair of Employee Benefits Subcommittee

Associate Deputy Minister, Office of Tax, Benefits, and Finance at the Ontario Ministry of Finance



C.J. James
CPA, CA

PSAB Member, Member of Employee Benefits Subcommittee

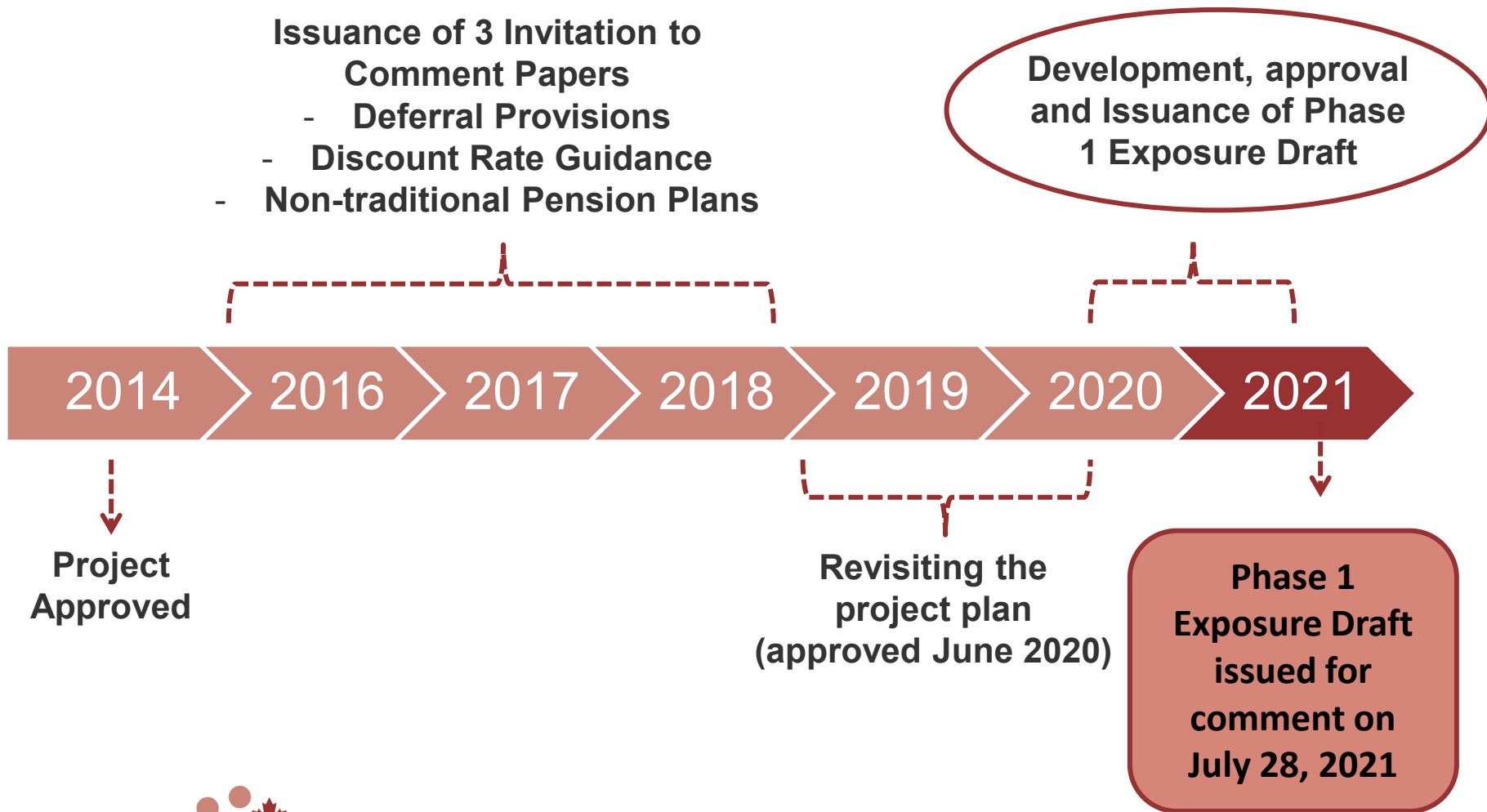
Partner, KPMG LLP

Agenda

- Project history – Employee Benefits
- Revisiting the project plan
- Multi-phase project approach
- Exposure draft principles
 - Deferral provisions
 - Discount rate guidance
 - Other topics

Project history – Employee Benefits

Where we are in the project



Stakeholder Consultation

ITC 1 – Deferral Provisions

(November 2016)

- Views of over 75 stakeholders

ITC 2 – Discount Rate Guidance

(November 2017)

- View of over 50 stakeholders

ITC 3 – Non-traditional Plans

(October 2018)

- Views of over 270 stakeholders

Phase 1 Exposure Draft

- Consultation period began July 2021

Revisiting the project plan

Why revisit the project plan?

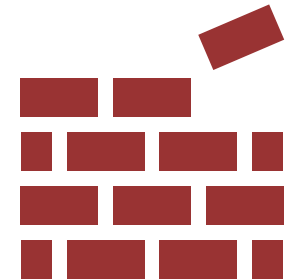
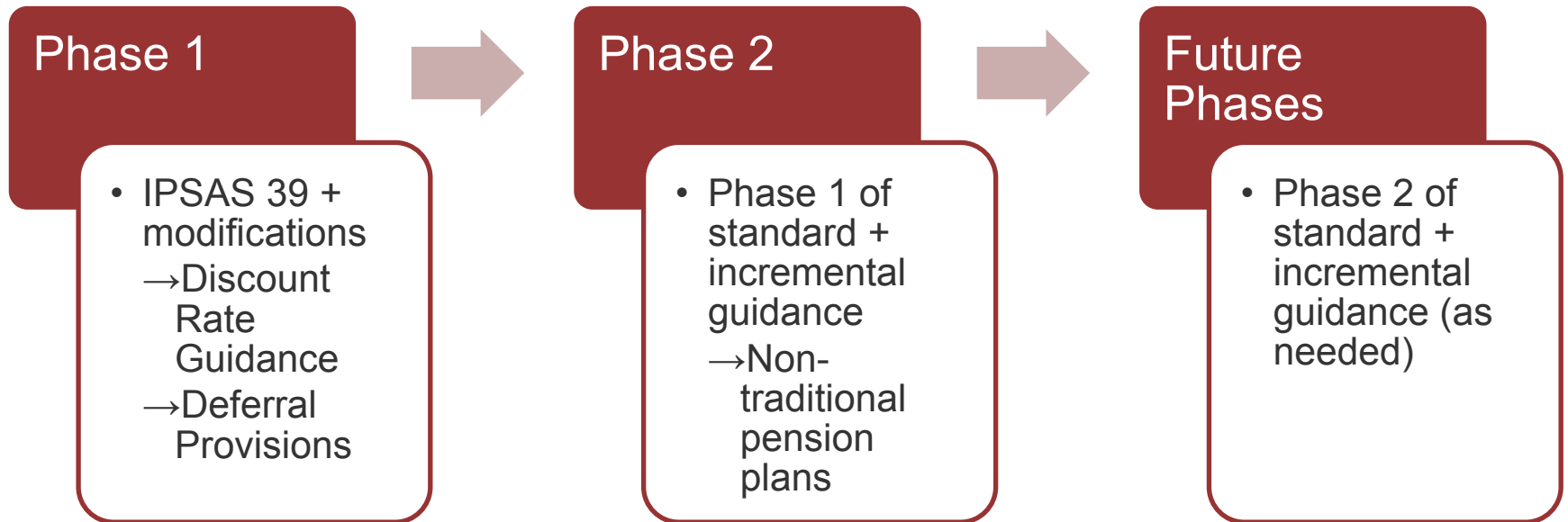
- Deliver solutions to stakeholders in a timely manner
- Consider alternative approaches for project timelines
- Take inventory of the work done to date and the best way to move forward

Revised Project Plan

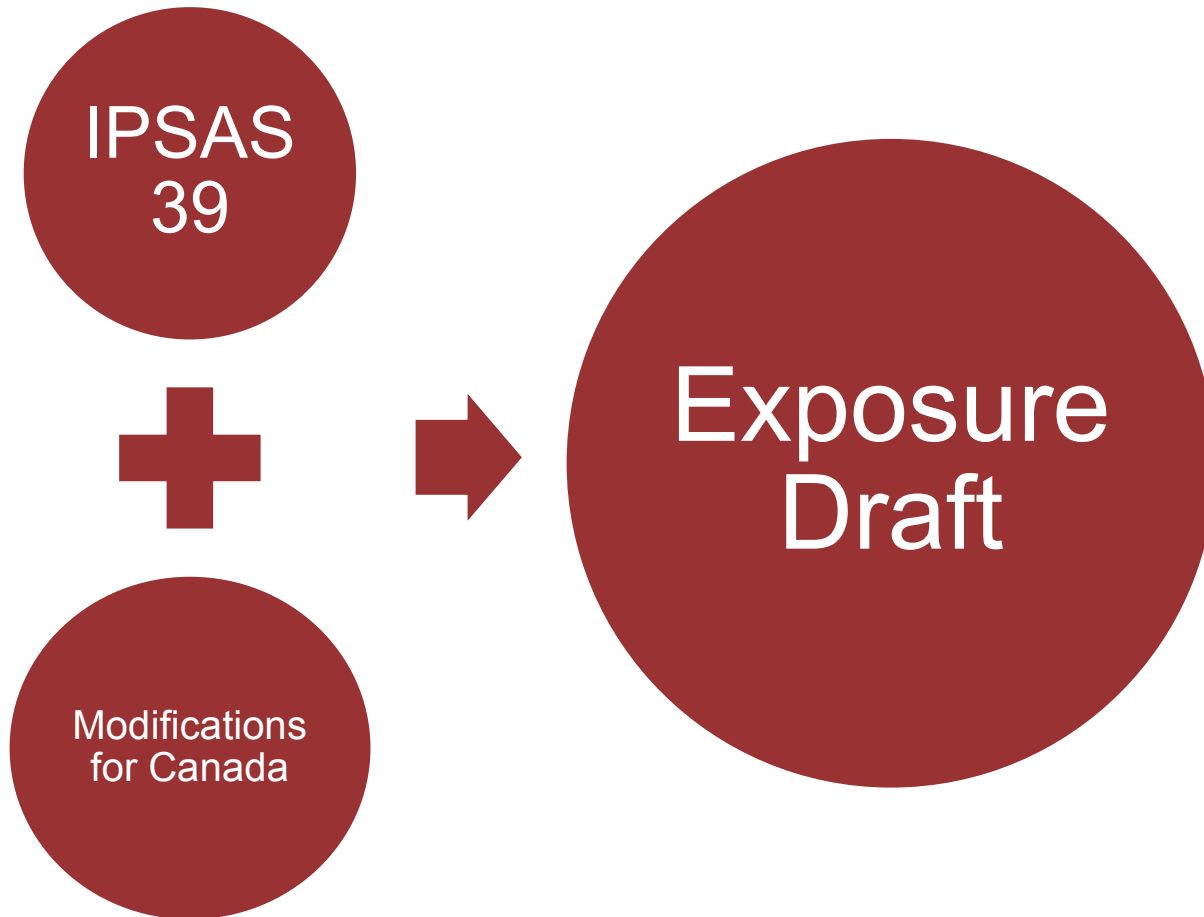
- Multiple phases for developing standard
- Phase 1 provides base guidance, later phases build upon first phase
- Exposure draft developed using IPSAS 39, *Employee Benefits* as starting point
- Proposed section will replace existing Sections PS 3250 and PS 3255

Developing the new standard

Multi-phase Strategy



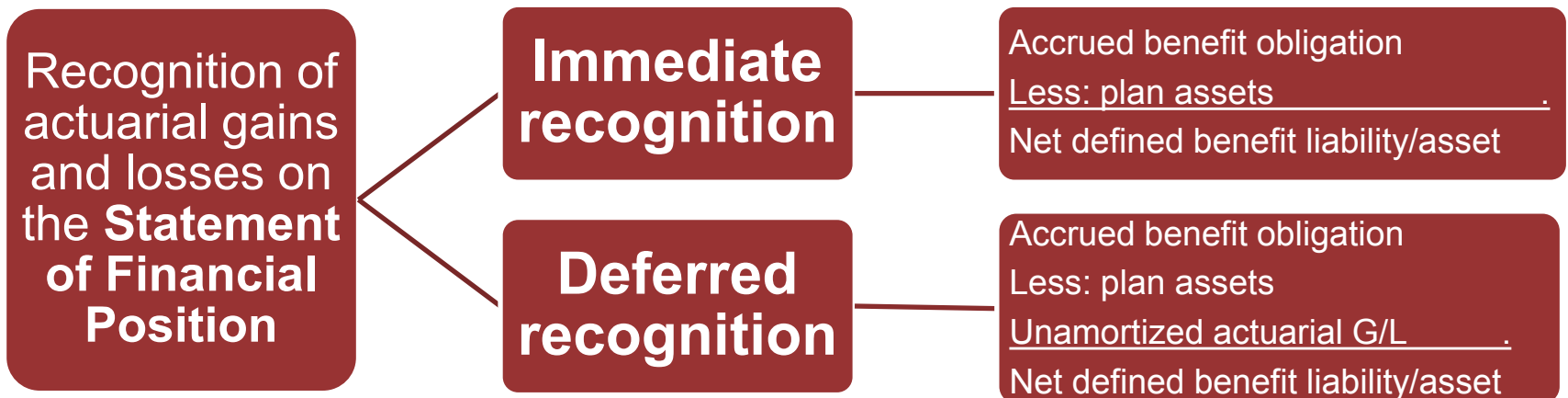
Phase 1 Exposure Draft



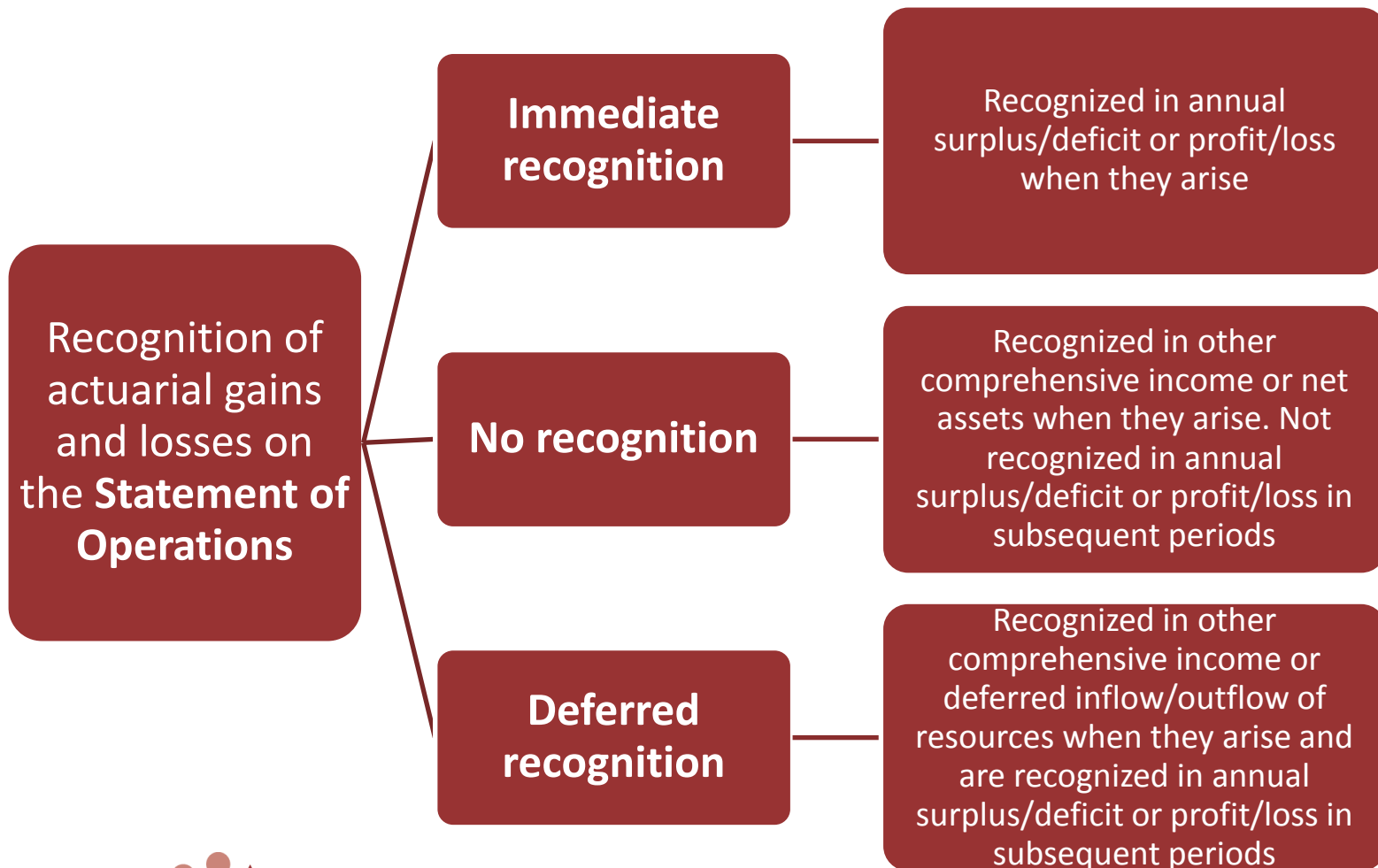
Exposure draft principles

Deferral Provisions

Statement of Financial Position (possible approaches)

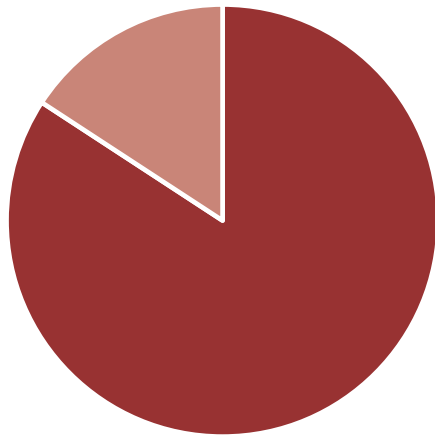


Statement of Operations (possible approaches)



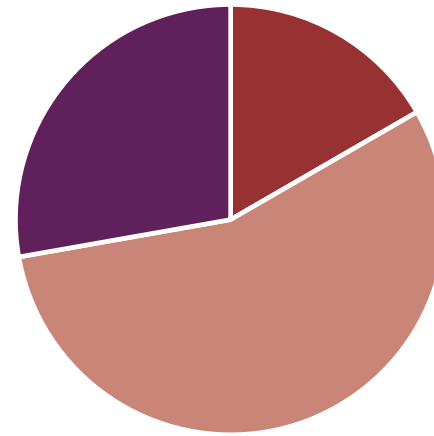
Stakeholder feedback to prior ITC paper

Recognizing actuarial gains/losses in the net defined benefit liability/asset



■ Immediate recognition ■ Deferred recognition

Recognizing actuarial gains/losses in benefit expense



■ Immediate recognition ■ Deferred recognition
■ No recognition

Revaluations of the net defined benefit liability (asset)

- Revaluations comprise of:
 - Actuarial gains and losses;
 - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
 - Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset)

Statement of Financial Position

- Statement of Financial Position
 - Immediate recognition of actuarial gains/losses in the net defined benefit liability (asset)
 - Actuarial gains/losses recorded in net assets (*within accumulated other component, pending final approval of Proposed Section PS 1202*)
- Statement of Operations
 - No recognition

Guiding principles and rationale for proposed approach

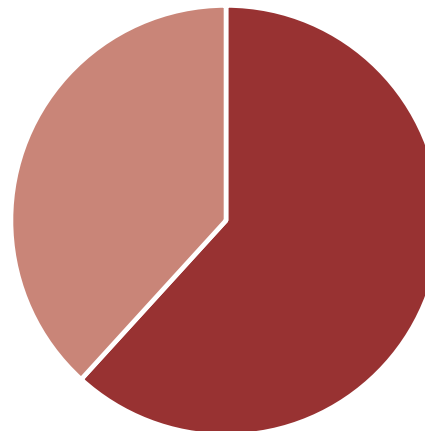
- Provide relevant and understandable information
- Faithful representation of the liability associated with defined benefit plans
- Volatility minimized over the long-term as a result of revisions to underlying assumptions

Discount Rate Guidance

Stakeholder feedback to prior ITC paper

Market-yields of high-quality debt instruments at the reporting date is a discount rate used in most other equivalent standards reviewed by PSAB.

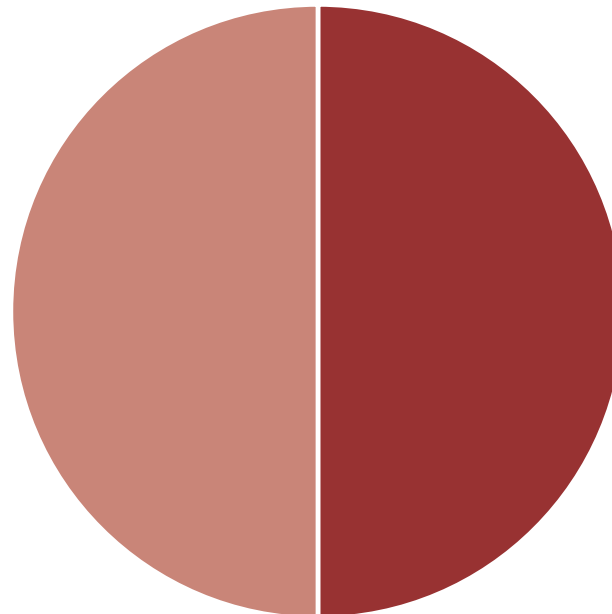
Are there any reasons that can justify that the public sector in Canada is different from others?



■ Yes ■ No

Stakeholder feedback to prior ITC paper

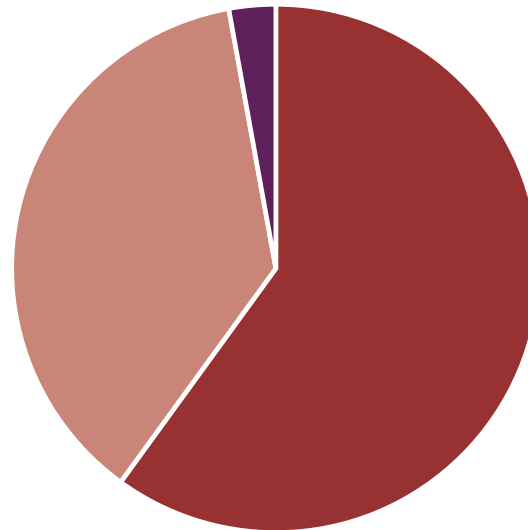
Do you support using different discount rate bases/views for fully funded, partially funded, and unfunded benefit plans?



■ Yes ■ No

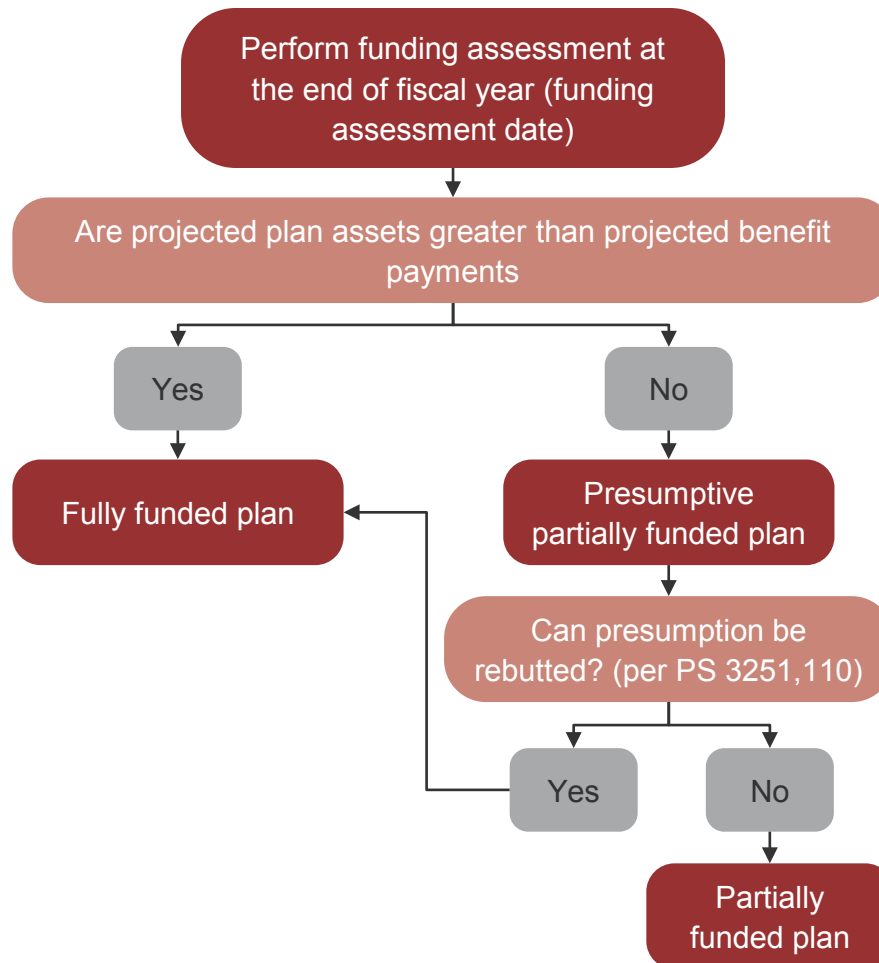
Stakeholder feedback to prior ITC paper

If you support using different discount rate bases/views for fully funded, partially funded, and unfunded benefit plans – what should the discount rate be based on?

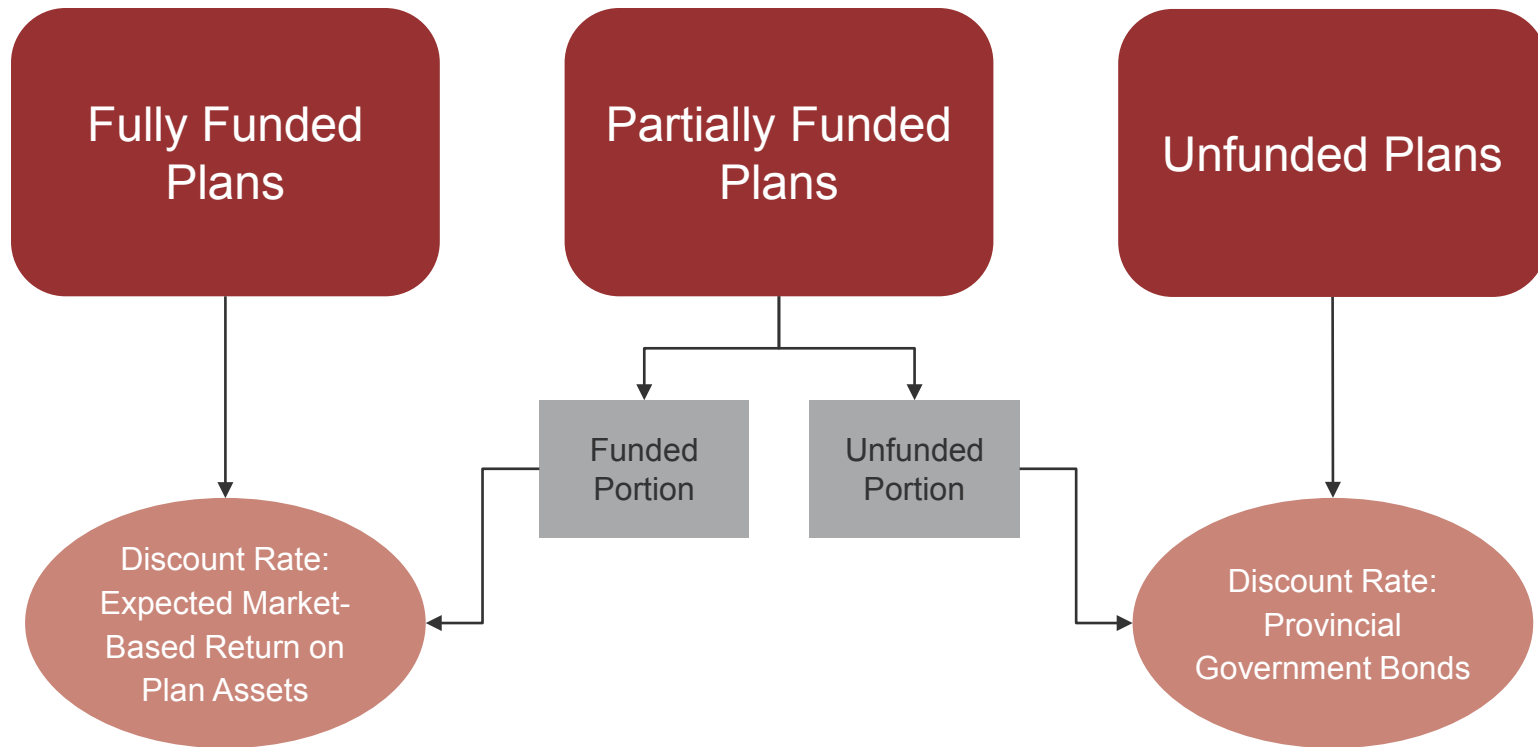


- Entity's funding policy
- Benefit plan's funding level
- Both funding policy and funding level

Funding status assessment

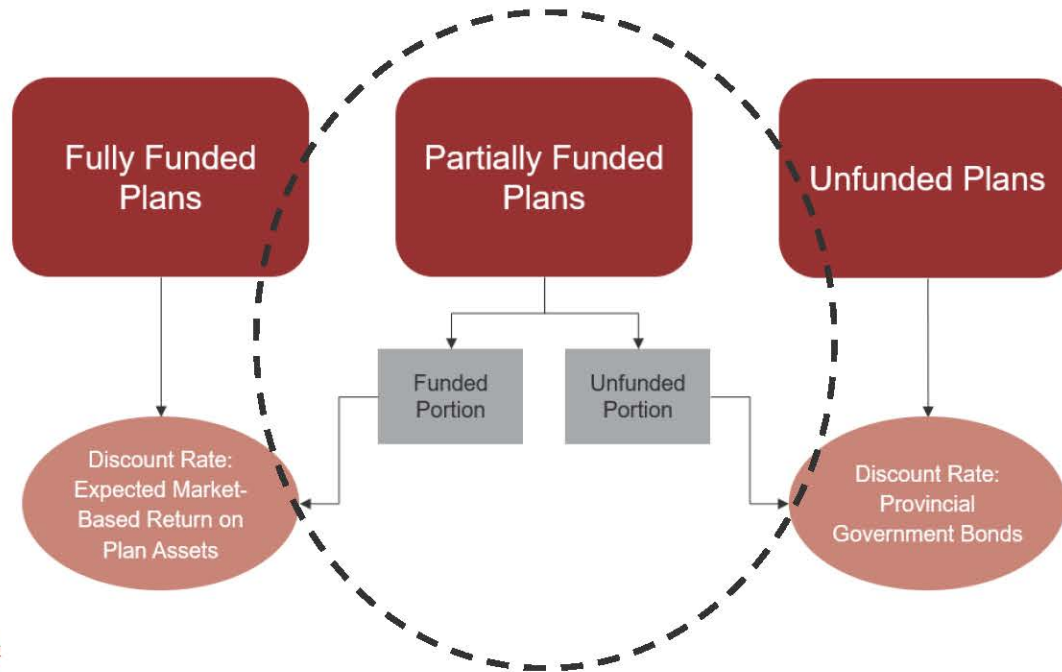


Determining discount rate



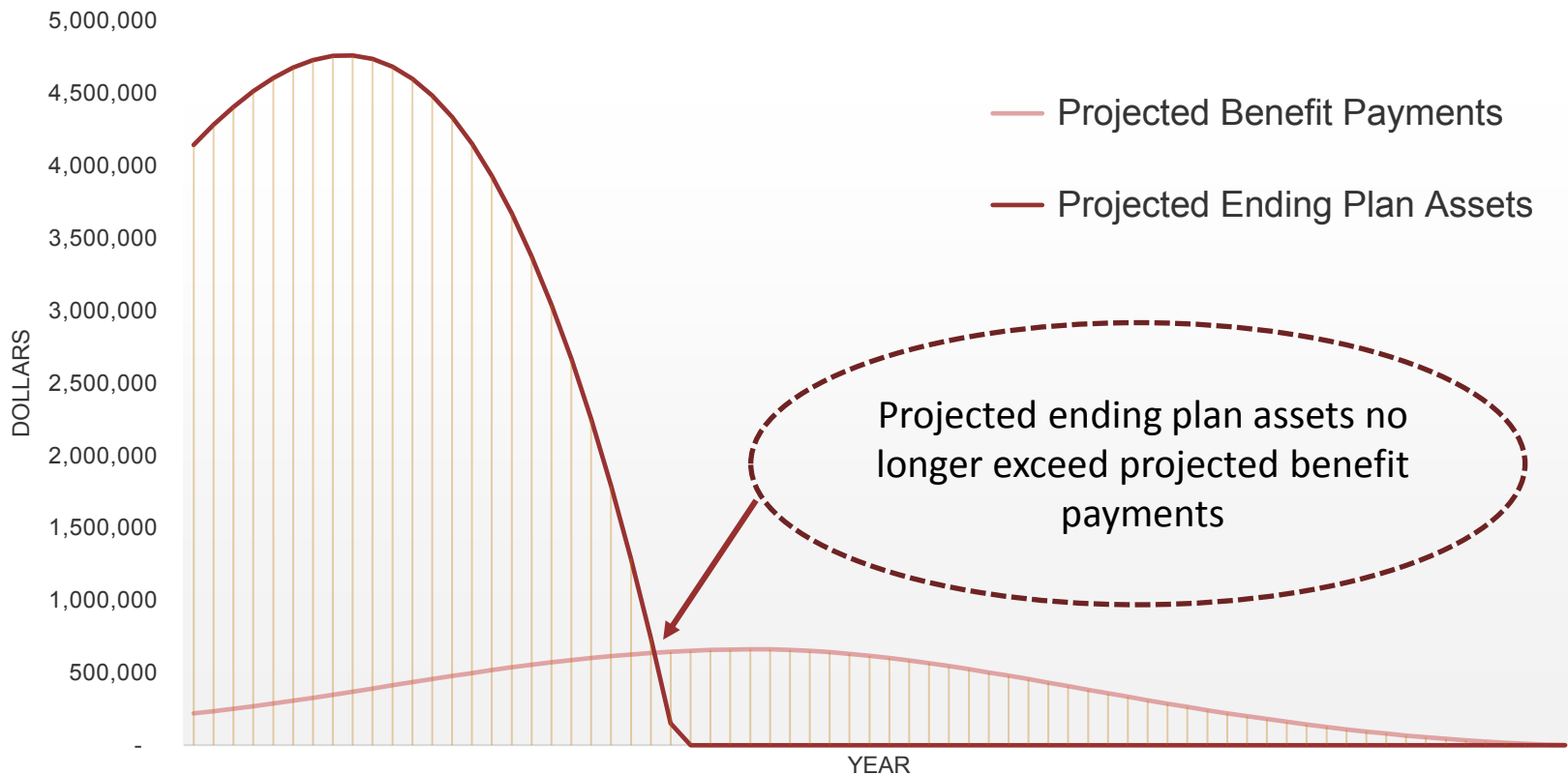
Determining discount rate (partially funded plans)

- Single rate of return
- Reflects both funded and unfunded rates
- Iterative process



Funding status assessment (example)

Funding Assessment - Partially Funded Plans



Guiding principles and rationale for proposed approach

- Serve the Canadian public interest by reflecting the unique nature of Canadian public sector pension plans

Funding status	Rationale for discount rate approach
Fully funded plan	Reflects the entity's obligation to the plan and the substance of the plan arrangement
Partially funded plan	Reflects the various pension plan arrangements offered within Canada. Avoids significant volatility as a result of temporary fluctuations in a plan's funding ratio.
Unfunded plan	Where plan assets do not exist, existing IPSAS 39 guidance sufficiently serves the Canadian public interest. Achieves comparability in discount rates for unfunded plans.

Other topics

Net interest on the net defined benefit liability (asset)

- Potential impact for partially funded and unfunded plans
- Where the discount rate used to discount the post-employment benefit obligation is less than expected return on plan assets, the net interest approach may result in a higher interest cost on the net defined benefit liability, and therefore increase defined benefit cost being recognized in the statement of operations

Joint defined benefit plans

- Guidance exists in PS 3250 but not IPSAS 39
- Inclusion of principles in ED will assist public sector entities that currently use the guidance
- Principles may be revisited as part of phase 2

Joint defined benefit plans

Minor changes to guidance:

- Direct public sector entities to use multi-employer plan guidance in accounting for its proportion of the joint defined benefit plan obligation
- Replace “sponsor” with “participating entities”

Multi-employer plans

- Approach used by participating employers for accounting for multi-employer plans relies upon the availability of sufficient information to follow defined benefit accounting

Multi-employer plans

PS 3250.109

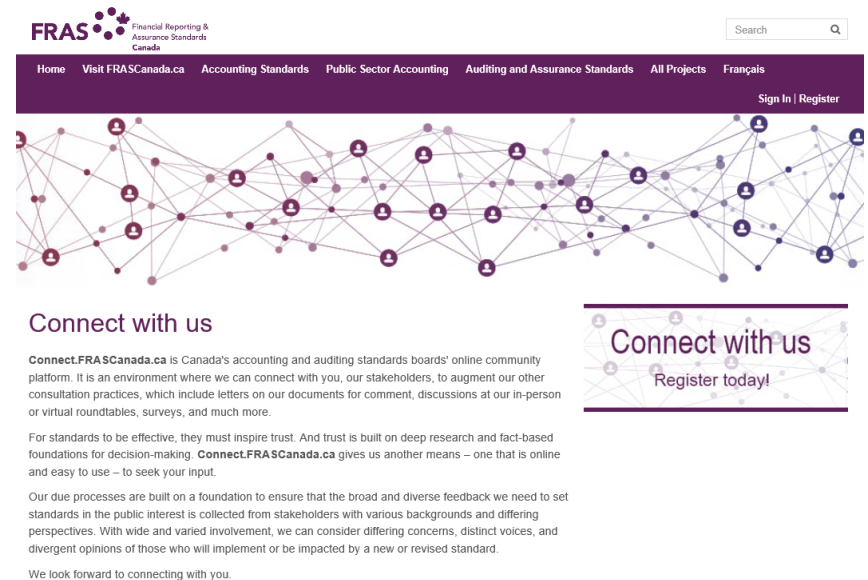
- “Sufficient information to follow the standards for defined benefit plans is not normally available for each participating employer other than the sponsoring government”

Proposed
PS 3251.033

- “When sufficient information is not available to use defined benefit accounting ... a public sector entity should account for the plan ... as if it were a defined contribution plan ...”

Stay tuned and share your thoughts!

- Comment deadline
November 25, 2021
- Share your thoughts
via:
 - Comment letter; or
 - PSAB's Community
Platform,
connect.frascanada.ca



The screenshot shows the FRAS Canada website. The header includes the FRAS logo (Financial Reporting & Assurance Standards Canada) and a search bar. The navigation menu lists: Home, Visit FRASCanada.ca, Accounting Standards, Public Sector Accounting, Auditing and Assurance Standards, All Projects, and Français. A 'Sign In | Register' link is also visible. The main content area features a network diagram with nodes and connecting lines. Below this, the 'Connect with us' section is highlighted, containing the following text:

Connect with us

Connect.FRASCanada.ca is Canada's accounting and auditing standards boards' online community platform. It is an environment where we can connect with you, our stakeholders, to augment our other consultation practices, which include letters on our documents for comment, discussions at our in-person or virtual roundtables, surveys, and much more.

For standards to be effective, they must inspire trust. And trust is built on deep research and fact-based foundations for decision-making. **Connect.FRASCanada.ca** gives us another means – one that is online and easy to use – to seek your input.

Our due processes are built on a foundation to ensure that the broad and diverse feedback we need to set standards in the public interest is collected from stakeholders with various backgrounds and differing perspectives. With wide and varied involvement, we can consider differing concerns, distinct voices, and divergent opinions of those who will implement or be impacted by a new or revised standard.

We look forward to connecting with you.



For more information, visit www.frascanada.ca

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