

1 Multi-employer defined benefit plans (Lecture A662 – 7.19 minutes)

In January 2019, the Financial Reporting Council (FRC) issued an exposure draft in the form of FRED 71 Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland Multi-employer defined benefit plans. Comments on this FRED closed on 31 March 2019 and it is likely that the changes will be finalised within Quarter 2 of 2019.

1.1 What is the issue?

Some multi-employer defined benefit plans are accounted for as a defined contribution plan because there is insufficient information available in order to apply defined benefit accounting. However, some multi-employer defined benefit plans are carrying out exercises which may enable them to be provided with sufficient information to facilitate defined benefit accounting.

FRS 102 does not specifically address how a transition from defined contribution accounting to defined benefit accounting should be dealt with and there are differences of opinion in this respect.

When a multi-employer defined benefit plan is accounted for as a defined contribution plan, the plan must recognise a liability in respect of contributions which arise from an agreement to fund a deficit (such as a schedule of contributions). Normally, in a defined benefit plan that is being accounted for as such, additional liabilities arising in respect of a schedule of contributions are not recognised because the entity recognises the additional liability as part of the net defined benefit obligation.

When information becomes available to allow the plan to apply defined benefit accounting, the provisions in FRS 102, para 28.15A will apply which does not allow a liability in respect of an agreement to fund a deficit to be recognised. Therefore, the FRC have had to come up with a solution to deal with the difference between the liability for the contributions payable arising from the agreement to fund a deficit and the net defined benefit liability that will be recognised when defined benefit accounting is applied.

Views on the proposed accounting treatment differ and the FRC have made three suggestions to deal with the transition:

- (a) to treat the transition as a change in accounting policy, with the adjusting entry in opening reserves for the earliest year the information is available;
- (b) to recognise the adjusting entry in profit or loss for the period in which the information becomes available; and
- (c) to recognise the adjusting entry in other comprehensive income for the period in which the information becomes available.

1.2 What is the proposal?

The FRC proposes to amend FRS 102, Section 28 *Employee Benefits* to require the difference between any liability for the contributions payable arising from an agreement to fund a deficit and the net defined benefit liability which is recognised when defined benefit accounting is applied to be recognised in other comprehensive income (not profit and loss).

Under this proposal, when defined benefit accounting is applied for the first time the existing provision will not be removed through profit and loss but is instead recognised in a way which is consistent with the recognition and presentation of actuarial gains and losses which arise through experience adjustments. The change in approach will be recognised in other comprehensive as a separate line item.

1.3 When does the change in accounting take place?

Sufficient information to enable defined benefit accounting to be applied can become available at any time during the reporting period (not necessarily at the start or end of the year) and the exposure draft acknowledges that the benefits of presenting defined benefit accounting information to users should not be delayed. Therefore, if information becomes available:

- (a) **during the current period:** the change in accounting takes place from that date;
- (b) **during a prior period after the financial statements have been authorised for issue:** the change in accounting takes place from the first day of the current period. Comparatives are **not** restated. This is to reflect the fact that those financial statements were prepared on the basis of information available at the time; and
- (c) **during a prior period before the financial statements have been authorised for issue:** the change takes place from that date as an adjusting event after the end of the reporting period.

1.4 When do the amendments to FRS 102 take effect?

It is proposed that the amendments to FRS 102, Section 28 will be effective for periods on or after 1 January 2020 with early adoption permissible.