



May 2019

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Multi-employer defined benefit plans

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Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Multi-employer defined benefit plans

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans amends an accounting standard. It is issued by the Financial Reporting Council, as a prescribed body, for application in the United Kingdom and the Republic of Ireland.

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Overview

- (i) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Amendments to FRS 102

- (ii) The FRC understands that some multi-employer defined benefit plans have been carrying out exercises with a view to being able to provide, for the first time, sufficient information to participating employers to facilitate the use of defined benefit accounting. As a result, participating employers will change their accounting for these defined benefit plans, transitioning from defined contribution accounting to defined benefit accounting.
- (iii) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* did not previously set out clear requirements to address the transition from defined contribution accounting to defined benefit accounting for a multi-employer defined benefit plan. There were differences of opinion over how related requirements of FRS 102 should be interpreted and applied in such circumstances. If this had led to differences in accounting practice by employers participating in the same multi-employer defined benefit plan it would have been unhelpful to users of financial statements. As a result, amendments have been made to FRS 102 to set new and explicit requirements for how an entity shall transition from defined contribution accounting to defined benefit accounting when sufficient information becomes available.
- (iv) An entity that previously applied defined contribution accounting to such a plan and had entered into an agreement that determines how it will fund a deficit will have recognised a liability for the contributions payable arising from that agreement.
- (v) These amendments to Section 28 *Employee Benefits* require the difference between any liability for the contributions payable arising from an agreement to fund a deficit and the net defined benefit liability recognised when applying defined benefit accounting to be recognised in other comprehensive income.
- (vi) The effective date for these amendments is accounting periods beginning on or after 1 January 2020, with early application permitted.

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Amendments to Section 1 Scope

- 1 The following paragraph sets out the amendments to Section 1 *Scope* (inserted text is underlined).
- 2 Paragraph 1.20 is inserted as follows:
 - 1.20 In May 2019 an amendment was made to this FRS to insert paragraphs 28.11B to 28.11D, and make other minor consequential amendments. This amendment is effective for accounting periods beginning on or after 1 January 2020. Early application is permitted. If an entity applies this amendment to an accounting period beginning before 1 January 2020 it shall disclose that fact, unless it is a small entity, in which case it is encouraged to disclose that fact.

Amendments to Section 28 *Employee Benefits*

3 The following paragraphs set out the amendments to Section 28 *Employee Benefits* (inserted text is underlined).

4 Paragraph 28.11B is inserted as follows:

28.11B When an entity participates in a defined benefit plan, which is a multi-employer plan that in accordance with paragraph 28.11 is accounted for as if the plan were a defined contribution plan, and sufficient information to use defined benefit accounting becomes available, the entity shall:

(a) apply defined benefit accounting in accordance with paragraphs 28.14 to 28.28 from the relevant date as defined in paragraph 28.11C; and

(b) recognise the difference between:

(i) its **net defined benefit liability** (after taking into account the effect of paragraph 28.22, if any) at the relevant date as defined in paragraph 28.11C; and

(ii) the carrying value at the relevant date of its liability for the contributions payable arising from an agreement to fund a deficit, if any, plus any liability recognised in accordance with paragraph 28.13(a);

as a separate item in **other comprehensive income**.

5 Paragraph 28.11C is inserted as follows:

28.11C For the purposes of applying paragraph 28.11B, the relevant date is the later of the first day for which sufficient information to use defined benefit accounting becomes available, and the first day of the current reporting period (comparative information is not restated).

6 Paragraph 28.11D is inserted as follows:

28.11D For the avoidance of doubt, the difference calculated in accordance with paragraph 28.11B(b) excludes the impact of any plan changes, curtailments or settlements occurring at the relevant date, which are accounted for in accordance with paragraphs 28.21 and 28.21A.

7 In paragraph 28.14 the term 'net defined benefit liability' is no longer shown in bold type.

8 In paragraph 28.23(d) the term 'other comprehensive income' is no longer shown in bold type.

Approval by the FRC

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans was approved for issue by the Financial Reporting Council on 9 May 2019.

Amendments to Basis for Conclusions FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

- 1 The following amendments are made to the Basis for Conclusions FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (inserted text is underlined).
- 2 An additional sub-heading is inserted before paragraph B28.4 as follows:

Multi-employer defined benefit plans

Multi-employer defined benefit plans accounted for as defined contribution plans

- 3 Paragraphs B28.8A to B28.8H and the sub-heading before them are inserted as follows:

Transition from defined contribution accounting to defined benefit accounting

B28.8A In May 2019 FRS 102 was amended to provide clear and unambiguous requirements for the transition from defined contribution accounting to defined benefit accounting when sufficient information becomes available.

B28.8B Some multi-employer defined benefit plans had been carrying out exercises with a view to being able to provide sufficient information to participating employers in the future, which generated debate over the relevant requirements of FRS 102. There were differences of opinion over how the previous requirements of FRS 102 should be applied in this circumstance, with at least three alternative treatments being proposed. If this had led to differences in accounting practice by employers participating in the same multi-employer defined benefit plan it would have been unhelpful to users of financial statements.

B28.8C Sufficient information could become available at any time; it will not necessarily become available at the start of a reporting period, and therefore the accounting needs to address the possibility that the transition may take place part way through a reporting period.

B28.8D In accordance with paragraph 28.11, whilst sufficient information is not available an entity shall account for the plan as if it were a defined contribution plan, and the fact that information subsequently becomes available does not render the accounting during the earlier period invalid. If information becomes available:

- (a) for a date during the current period, the change in accounting shall take place from that date, which may not be the first day of a reporting period, in order that the benefits to users of defined benefit accounting are not delayed;
- (b) for a date during a prior period, after the financial statements for that period have been authorised for issue, the change in accounting shall take place from the first day of the current period, with no restatement of comparatives as those financial statements were prepared on the basis of the information available at the time; and
- (c) for a date during the prior period, before those financial statements have been authorised for issue, the change in accounting shall take place from that date (as an adjusting event after the end of the reporting period).

B28.8E When an entity accounts for a multi-employer defined benefit plan as if it were a defined contribution plan, paragraph 28.11A requires it to recognise a liability for any contributions payable that arise from an agreement to fund a deficit. The change to defined benefit accounting can then be seen as a change to an improved measurement basis, using more complete information, to measure the

same underlying obligation, and the amount to be recognised in the statement of financial position is likely to change, creating a 'difference' to be recognised on transition.

B28.8F Items can only be recognised in other comprehensive income when FRS 102 specifically requires or permits it. Following the amendment made in May 2019, the difference between any existing liability arising from a schedule of contributions and the net defined benefit liability (which is a defined term and could also be an asset), at the date of transition shall be recognised in other comprehensive income. This means that the existing provision is not derecognised through profit and loss and the change is recognised in a way analogous with the recognition and presentation of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions. This is a pragmatic solution to achieve consistency in accounting practices that results in the costs recognised in profit or loss for the period being solely those usually required by the respective accounting approaches, and the impact of the change in approach being presented as a single line in other comprehensive income.

B28.8G The difference to be recognised in other comprehensive income shall be limited to the effects of the transition and excludes:

- (a) any changes in the liability for the contributions payable arising from an agreement to fund a deficit, which arise, and shall be accounted for, prior to the relevant date (such changes might relate to payments made, interest on the liability and changes to the underlying agreement);
- (b) the impact of any plan changes, curtailments or settlements occurring at the relevant date (see paragraph 28.11D); and
- (c) the impact of any plan changes, curtailments or settlements that occur between the relevant date and the reporting date.

B28.8H Paragraph 5.5A(a) requires items in other comprehensive income to be classified by nature. Therefore, to ensure that the effect of the transition from defined contribution accounting to defined benefit accounting is distinguishable from any other items relating to post-employment benefits, paragraph 28.11B(b) requires the difference on transition to be presented separately in other comprehensive income. FRS 102 already includes disclosure requirements that are relevant to the transition from defined contribution accounting to defined benefit accounting, such as those relating to accounting policies, significant judgements, defined benefit plans, amounts to be recognised in other comprehensive income and general requirements to provide information that is relevant to an understanding of the financial statements. Therefore, no additional disclosures have been required.

- 4 Table 1 *Exposure drafts and consultation documents* is amended as follows (new exposure drafts are inserted in numerical order):

Exposure draft	Date of issue	Finalised as	Date of issue	Mandatory effective date
FRED 71 <i>Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans</i>	Jan 2019	<i>Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans</i>	May 2019	1 Jan 2020



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