



January 2019

---

## FRED 71

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

Multi-employer defined benefit plans

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2019  
The Financial Reporting Council Limited is a company limited by guarantee.  
Registered in England number 2486368. Registered Office:  
8th Floor, 125 London Wall, London EC2Y 5AS



January 2019

---

## FRED 71

Draft amendments to FRS 102

*The Financial Reporting Standard  
applicable in the UK and Republic  
of Ireland*

Multi-employer defined benefit plans



# Contents

	Page
<b>Overview</b>	3
<b>Invitation to comment</b>	4
<b>Draft amendments to FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i></b>	5
Section 1 <i>Scope</i>	6
Section 28 <i>Employee Benefits</i>	7
<b>Basis for Conclusions</b>	
<b>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></b>	8
<b>Consultation stage impact assessment</b>	12



## 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.

### Draft amendments to FRS 102

- (ii) The FRC understands that some multi-employer defined benefit plans are 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.
- (iii) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* does not set out requirements to specifically address the transition from defined contribution accounting to defined benefit accounting for a multi-employer pension plan. There are differences of opinion over how related requirements of FRS 102 shall be interpreted and applied to such transitions. Any resulting differences in accounting practice by employers participating in the same multi-employer defined benefit plan could be unhelpful to users of financial statements. As a result, the FRC has decided 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) When an entity has previously applied defined contribution accounting to such a scheme and has entered into an agreement that determines how it will fund a deficit, it will have recognised a liability for the contributions payable arising from that agreement.
- (v) This FRED proposes amendments to 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 recognised when applying defined benefit accounting, to be recognised in other comprehensive income.
- (vi) It is proposed that the amendments are effective for accounting periods beginning on or after 1 January 2020, with early application permitted. The proposals are intended to improve the consistency of reporting for users of the financial statements.

## Invitation to comment

- 1 The FRC is requesting comments on FRED 71 by 31 March 2019. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of the draft standard. In particular, comments are sought in relation to the questions below.

### **Question 1**

Do you agree with the proposed amendments to FRS 102? If not, why not?

### **Question 2**

In relation to the Consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views.

- 2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 13.

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

## Draft amendments to Section 1 *Scope*

- 1 The following paragraph sets out the draft 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 and 28.11C, 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.

## Draft amendments to Section 28 *Employee Benefits*

- 3 The following paragraphs set out the draft 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 first day for which sufficient information to use defined benefit accounting becomes available, unless this would require a restatement of comparative information when the relevant date is the first day of the current reporting period.
- 6 In paragraph 28.14 the term 'net defined benefit liability' is no longer shown in bold type.
- 7 In paragraph 28.23(d) the term 'other comprehensive income' is no longer shown in bold type.

## **Basis for Conclusions**

### **FRED 71 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans**

*This Basis for Conclusions accompanies, but is not part of, this Financial Reporting Exposure Draft and summarises the main issues considered by the Financial Reporting Council (FRC) in developing FRED 71 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans.*

*When these proposals are finalised, the Basis for Conclusions accompanying FRS 102 will be updated.*

#### **Objective**

- 1 In developing financial reporting standards, the overriding objective of the FRC 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.
- 2 In achieving this objective, the FRC aims to provide succinct financial reporting standards that:
  - (a) have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
  - (b) balance improvement, through reflecting up-to-date thinking and developments in the way businesses operate and the transactions they undertake, with stability;
  - (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with proportionate and practical solutions, based on size, complexity, public interest and users' information needs;
  - (d) promote efficiency within groups; and
  - (e) are cost-effective to apply.

#### **Multi-employer defined benefit plans**

- 3 When an entity participates in a multi-employer defined benefit plan and sufficient information is not available to use defined benefit accounting, the entity accounts for the plan as if it were a defined contribution plan. However, FRS 102 does not specify what an entity shall do to transition to defined benefit accounting when sufficient information does become available.
- 4 The FRC understands that some multi-employer defined benefit plans are carrying out exercises with a view to being able to provide sufficient information to participating employers in the future, which has generated debate over the relevant requirements of FRS 102. There are differences of opinion over how the existing requirements of FRS 102 shall be applied in this circumstance, and if this leads to differences in accounting practice by employers participating in the same multi-employer defined benefit plan it will be unhelpful to users of financial statements. As a result, the FRC has decided to set new and explicit requirements for how an entity applying FRS 102 shall transition from defined contribution accounting to defined benefit accounting when sufficient information becomes available.

## **Alternative accounting treatments**

- 5 The FRC understands there are at least three alternative treatments being proposed for the transition to defined benefit accounting, each referencing different requirements of FRS 102. In overview, these are:
  - (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.
- 6 Arguments in favour of the alternative treatments have been made by reference, *inter alia*, to:
  - (a) analogies with the introduction of a new defined benefit scheme;
  - (b) the general rules on accounting for changes in accounting policies and changes in accounting estimates in Section 10 *Accounting Policies, Estimates and Errors*; and
  - (c) the specific rules on changes in actuarial assumptions and other remeasurements in the net defined benefit liability.
- 7 The FRC considered the requirements of FRS 102 to assess which, if any, of the alternative treatments was an evidently more complete and appropriate interpretation of those requirements. In the absence of specific requirements for transitioning from defined contribution accounting to defined benefit accounting, the FRC concluded that each of the treatments (and the supporting arguments) had some merit and it was not possible to clarify that a single interpretation of the current requirements could be reached. Therefore, the FRC concluded that consistency in accounting treatment could only be achieved by setting a clear and unambiguous requirement.

## **Timing of the change in accounting**

- 8 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 change in accounting may take place part way through a reporting period.
- 9 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. Indeed, sufficient information may become available for a date during a prior period, after the financial statements for that period have been authorised for issue. Providing the information was not available when the financial statements were authorised for issue, the financial statements for the prior period were prepared on the basis of the information available at the time and need not be restated in a later period.
- 10 When sufficient information becomes available for a date during the current period, the benefits of presenting defined benefit accounting information to users should not be delayed.
- 11 Therefore, it is proposed that the change in accounting shall take place from the date for which sufficient information becomes available, except when to do so would require the restatement of previously presented information. In such cases, the change in accounting should take place on the first day of the current period.

### ***When the relevant date is part way through a reporting period***

- 12 When the relevant date is part way through a reporting period, defined contribution accounting will continue until the relevant date. As a result, an entity will need to update its defined contribution accounting to that date, including any contributions payable and any interest on the liability that arises from an agreement to fund a deficit (a schedule of contributions). If a revision to the schedule of contributions has been agreed prior to sufficient information becoming available, that revision will need to be accounted for in accordance with paragraph 28.11A prior to transition to defined benefit accounting.

### ***Measurement of the pension obligation and recognition of the difference on transition***

- 13 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. Paragraph B28.5 notes that this is consistent with the recognition of a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which would also be consistent with Section 21 *Provisions and Contingencies*. Given that defined benefit accounting is not available due to the lack of sufficient information, this is the best available way of measuring the obligation to employees as a result of services rendered.
- 14 Paragraph B28.12 notes that the measurement of the present value of the obligations under a defined benefit plan for funding purposes differs from the measurement for accounting purposes (ie defined benefit accounting), but they are different measurements of the same obligation, not separate obligations. When a liability has been recognised for the present value of any contributions payable that arise from an agreement to fund a deficit, the change to defined benefit accounting can be seen as a change to an improved measurement basis, using more complete information, of the same underlying obligation.
- 15 In the case of transition from defined contribution accounting to defined benefit accounting, it is not self-evident where the difference arising would be presented. Defined benefit accounting leads to multiple line items in profit or loss and other comprehensive income representing, respectively, expected costs and experience adjustments, being the differences between expectations and actual outcomes, as well as the recognition of the net defined benefit liability in the statement of financial position. The net defined benefit liability is defined in the glossary as the present value of the defined benefit obligation minus the fair value of the plan assets (if any) out of which the obligations are to be settled – as a result, the net defined benefit liability can be negative, when it would be an asset, and its recognition may be restricted in accordance with paragraph 28.22.
- 16 The transition from defined contribution accounting to defined benefit accounting is further complicated by the necessary derecognition of any liability arising from the schedule of contributions, previously recognised in accordance with paragraph 28.11A.
- 17 Items can only be recognised in other comprehensive income when FRS 102 specifically requires or permits it, and in the absence of this any gains or losses arising in a period shall be recognised in profit or loss (unless this would be prohibited by law). The costs paragraph 28.23 requires to be recognised in profit or loss include those arising from employee service during the period and those arising from changes in the plan itself. The difference arising on the transition to defined benefit accounting does not arise solely as a result of employee service during the period, nor have there been any changes to the benefits available under the plan.
- 18 Consequently, it is proposed that the change in accounting is effected by recognising the difference between any existing liability arising from a schedule of contributions and the

net defined benefit liability, usually at the date for which sufficient information becomes available, 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 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.

- 19 The FRC also considered whether prior year adjustments should be required in cases where sufficient information first becomes available to use defined benefit accounting in respect of prior periods. The FRC concluded that the new requirements for accounting for the transition to defined benefit accounting should not be applied retrospectively, analogous to the accounting for experience adjustments which are accounted for prospectively. In such cases, defined benefit accounting should commence from the first day of the current reporting period.

### ***Presentation and disclosure***

- 20 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.
- 21 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 disclosure requirements are proposed.

## Consultation stage impact assessment

### Introduction

- 1 The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.

### Draft amendments to FRS 102

- 2 These proposals will only affect entities that participate in multi-employer defined benefit plans, for which sufficient information to apply defined benefit accounting has not been available, but now becomes available.
- 3 These proposals do not affect the ongoing accounting for the defined benefit plan, but specify how the change from defined contribution accounting to defined benefit accounting should be effected. No new information is required as a result of these proposals. However, if sufficient information becomes available part way through a reporting period and an entity's interpretation of FRS 102 had previously been that it should only apply the new requirements from the start of the next reporting period, it will need to bring forward its initial recognition of the net defined benefit liability and update its measurement of any schedule of contributions to fund a deficit to the date sufficient information became available.
- 4 The benefits of these proposals include:
  - (a) consistent information for users of the financial statements, given that when sufficient information becomes available in relation to a defined benefit plan it is likely to apply to all employers participating in that plan; and
  - (b) clarity over the requirements which may save time in the production of the financial statements.

### Conclusion

- 5 Overall, the FRC believes that the draft amendments to FRS 102 will have a positive impact on the relevance and consistency of reporting by entities with multi-employer defined benefit plans.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

[ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk)

Comments may also be sent in hard copy to:

Jenny Carter  
Financial Reporting Council  
8<sup>th</sup> Floor  
125 London Wall  
London  
EC2Y 5AS

Comments should be despatched so as to be received no later than 31 March 2019.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.







Further copies, £14.00 (post-free) can be obtained from

**FRC Publications**

Lexis House  
30 Farringdon Street  
London  
EC4A 4HH

Tel: **0845 370 1234**

Email: [customer.services@lexisnexis.co.uk](mailto:customer.services@lexisnexis.co.uk)

Or order online at: [www.frcpublications.com](http://www.frcpublications.com)

ISBN 978-0-7545-5663-3

