



# Accounting and Reporting Policy

## FRS 102

### Staff Education Note 10

#### Employee benefits

#### Defined benefit plans

#### **Disclaimer**

This Education Note has been prepared by FRC staff for the convenience of users of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. It aims to illustrate certain requirements of FRS 102, but should not be relied upon as a definitive statement on the application of the standard. The illustrative material is not a substitute for reading the detailed requirements of FRS 102.

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## Introduction

This Staff Education Note compares the accounting treatment for defined benefit plans as set out in current UK accounting standards (FRS 17 *Retirement Benefits*) and Section 28 *Employee Benefits* of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

In particular, it focuses on:

- multi-employer and group schemes; and
- general requirements.

This Staff Education Note is written to highlight key areas of consideration when transitioning to FRS 102 and is not designed to be exhaustive.

## Multi-employer schemes

FRS 17	FRS 102
<p>Does not formally define multi-employer schemes but provides that where more than one employer participates in a defined benefit scheme the employer should account for the scheme as a defined benefit scheme unless:</p> <ul style="list-style-type: none"> <li>(a) the employer’s contributions are set in relation to the current service period only (ie are not affected by any surplus or deficit in the scheme relating to past service of its own employees or any other members of the scheme). If this is the case, the employer should account for the contributions to the scheme as if it were a defined contribution scheme.</li> <li>(b) the employer’s contributions are affected by a surplus or deficit in the scheme but the employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. If this is the case, the employer should account for the contributions to the scheme as if it were a defined contribution scheme but, in addition, make specified disclosures.</li> </ul> <p>(FRS 17 paragraph 9)</p>	<p>Defines multi-employer plans to include only those where the participating employers are not under common control.</p> <p>(FRS 102 Glossary)</p> <p>Provides that multi-employer plans are classified as defined contribution or defined benefit plans on the basis of the terms of the plan, including any constructive obligation. However, where sufficient information is not available to use defined benefit accounting then the employer should account for the plan as a defined contribution plan and provide additional disclosures.</p> <p>(FRS 102 paragraph 28.11)</p> <p>Where an entity participates in a defined benefit plan, which is a multi-employer plan that is accounted for as if the plan were a defined contribution plan, and the entity has entered into an agreement with the multi-employer plan that determines how the entity will fund a deficit, the entity shall recognise a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense in profit or loss.</p> <p>(FRS 102 paragraph 28.11A)</p>

There is no change unless paragraph 28.11A of FRS 102 applies. Paragraph 28.11A applies to multi-employer schemes and requires that liabilities for contributions payable that arise from commitments to fund deficits are recognised in the statement of financial position.

## Group schemes

### Recognition and measurement

FRS 17	FRS 102
<p>Does not differentiate between group and multi-employer schemes.</p> <p>Provides that subsidiaries are not exempt and, where possible, will account for defined benefit schemes. However, many group schemes are run on a basis that does not enable individual companies within the group to identify their share of the underlying assets and liabilities. In these circumstances, the individual companies (including the parent company) within the group will account for the scheme as a defined contribution scheme and will give the additional disclosures required for multi-employer schemes.</p> <p>(FRS 17 paragraph 12)</p>	<p>States that a group plan is where an entity participates in a defined benefit plan that shares risks between entities under common control.</p> <p>Provides that an entity shall obtain information about the plan as a whole measured on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the cost of a defined benefit plan as a whole to individual group entities, the entity shall, in its individual accounts, recognise the cost of a defined benefit plan so charged.</p> <p>If there is no such agreement or policy, the cost of a defined benefit plan shall be recognised in the individual accounts of the group entity which is legally responsible for the plan. The other group entities shall, in their individual accounts, recognise a cost equal to their contribution payable for the period.</p> <p>(FRS 102 paragraph 28.38)</p>

FRS 102 does not permit the pension liability or asset to only be recognised in the consolidated financial statements, as permitted by FRS 17. Under FRS 102 at least one entity will apply defined benefit accounting depending on the policy for charging pension costs around the group. This may have an impact on distributable reserves<sup>1</sup>.

<sup>1</sup> See ICAEW Technical Release Tech 02/10 *Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Companies Act 2006* available on the ICAEW website ([www.icaew.com](http://www.icaew.com)).

**Disclosures**

FRS 17	FRS 102
<p>Requires specific disclosures to be provided for multi-employer schemes where an employer is affected by a surplus or deficit in the scheme, but is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. This may apply to individual entities participating in a group pension scheme. In these circumstances the general disclosure requirements of FRS 17 do not apply.</p> <p>(FRS 17 paragraph 9(b))</p>	<p>Where an entity accounts for an allocation of the plan's cost then it makes all the disclosures required by paragraph 28.41.</p> <p>(FRS 102 paragraph 28.41)</p> <p>If the entity accounts for the plan on a contribution basis then the disclosures are restricted to:</p> <ul style="list-style-type: none"> <li>• a general description of the plan;</li> <li>• date of the most recent actuarial valuation;</li> <li>• details of the plan assets; and</li> <li>• details of the own equity instruments or properties occupied by the entity included in the plan assets.</li> </ul> <p>This information can, however, be disclosed by cross referring to another group entity's financial statements if certain criteria are met.</p> <p>(FRS 102 paragraph 28.41A)</p>

There are differences in the disclosure requirements for entities participating in group defined benefit plans; however, paragraph 28.41A of FRS 102 permits cross referral if certain criteria are met..

## General requirements

### Actuarial method and assumptions

FRS 17	FRS 102
<p>Defined benefit scheme liabilities should be measured on an actuarial basis using the projected unit method. (FRS 17 paragraph 20)</p> <p>Full actuarial valuations by a professionally qualified actuary should be obtained for a defined benefit scheme at intervals not exceeding three years. The actuary should review the most recent actuarial valuation at the balance sheet date and update it to reflect current conditions. (FRS 17 paragraph 35)</p>	<p>An entity shall use the projected unit credit method to measure its defined benefit obligation and the related expense. (FRS 102 paragraph 28.18)</p> <p>Does not require an entity to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually. In periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics. (FRS 102 paragraph 28.20)</p>

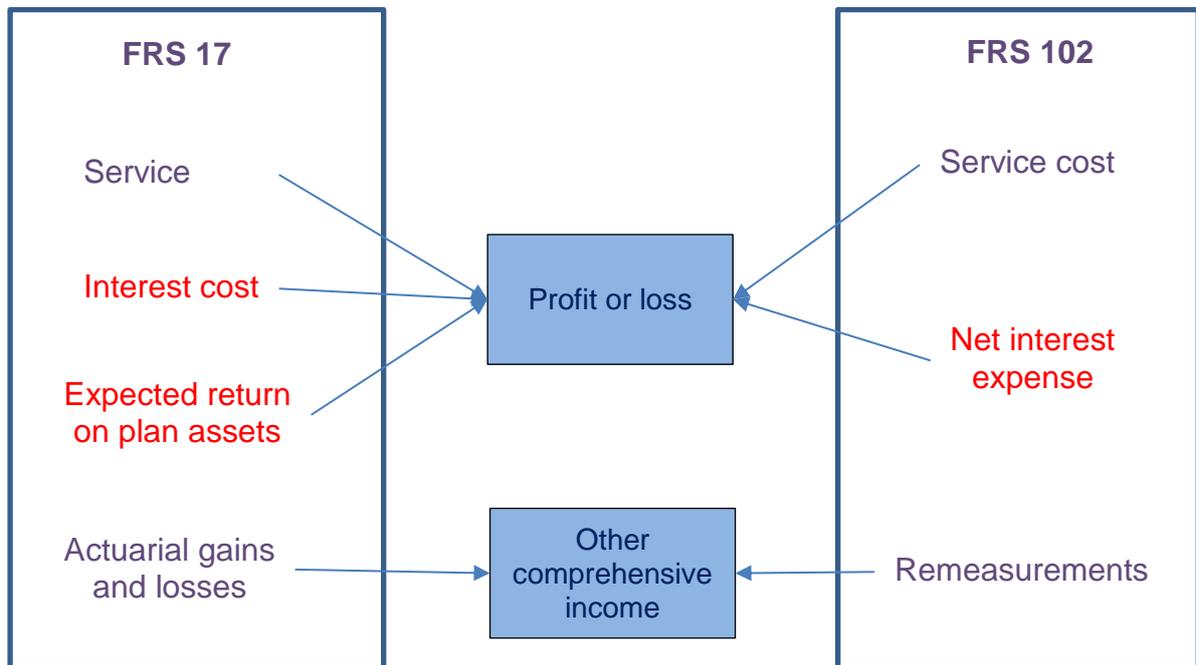
Both standards require the use of the projected unit method. However, FRS 102 does not require an independent actuary to perform the valuation nor does it stipulate how often a comprehensive valuation need be performed. Nevertheless, in practice, entities may continue to have independent actuarial valuations performed at the same regularity as they currently do.

## Cost of a defined benefit plan

FRS 17	FRS 102
<p>The change in the defined benefit asset or liability (other than arising from contributions to the scheme) should be analysed into the following components:</p> <p><b>Periodic Costs</b></p> <ul style="list-style-type: none"> <li>(a) the current service cost;</li> <li>(b) the interest cost;</li> <li>(c) the expected return on assets;</li> <li>(d) actuarial gains and losses;</li> </ul> <p><b>Non-Periodic Costs</b></p> <ul style="list-style-type: none"> <li>(e) past service costs; and</li> <li>(f) gains and losses on settlements and curtailments. (FRS 17.50)</li> </ul> <p>The current service cost should be included within operating profit. (FRS 17 paragraph 51)</p> <p>The net of the interest cost and the expected return on assets should be included as other finance costs (or income) adjacent to interest. (FRS 17 paragraph 56)</p> <p>Actuarial gains and losses should be recognised in the statement of total recognised gains and losses. (FRS 17 paragraph 57)</p> <p>Past service costs should be recognised in the profit and loss account on a straight-line basis over the period in which the increases in benefit vest. (FRS 17 paragraph 60)</p> <p>Gains and losses on settlement and curtailments not allowed for in the actuarial assumptions are recognised in the profit and loss account. (FRS 17 paragraph 64)</p>	<p>An entity shall recognise the cost of a defined benefit plan, except to the extent that another section of the FRS requires part or all of the cost to be recognised as part of the cost of an asset, as follows:</p> <ul style="list-style-type: none"> <li>(a) the change in the net defined benefit liability arising from employee service rendered during the reporting period in profit or loss (ie the current service cost);</li> <li>(b) net interest on the net defined benefit liability during the reporting period in profit or loss;</li> <li>(c) plan introductions, benefit changes, curtailments and settlements in profit or loss; and</li> <li>(d) remeasurement of the net defined benefit liability in other comprehensive income.</li> </ul> <p>(FRS 102 paragraph 28.23)</p> <p>The net interest on the defined benefit liability is the interest cost on the defined benefit obligation and interest income on plan assets excluding the effect of any surplus that is not recoverable. (FRS 102 paragraph 28.24A)</p> <p>Interest income on plan assets, excluding the effect of any surplus that is not recoverable, is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate both as determined at the start of the annual reporting period, taking account of any changes in plan assets held during the period as a result of contribution and benefit payments. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability. (FRS 102 paragraph 28.24B)</p>

FRS 17	FRS 102
	Remeasurement of the net defined benefit liability comprises: <ul style="list-style-type: none"> <li>(a) actuarial gains and losses; and</li> <li>(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability.</li> </ul> (FRS 102 paragraph 28.25)

The presentational differences between FRS 17 and FRS 102 can be illustrated as follows:



The key change from FRS 17 is the method of calculation of the interest income on the plan assets.

### Disclosures

FRS 17	FRS 102
Aligned with IAS 19 prior to it being updated in June 2011. (See FRS 17 paragraphs 76 and 77)	The disclosure requirements do not vary significantly from those of FRS 17. (FRS 102 28.41)

Although the disclosure requirements in FRS 102 do not vary significantly from FRS 17, some entities may find there is a reduction in disclosures about defined benefit pension plans on application of FRS 102.