



Pension Plans (Proposed amendment to the Scope of Section 4600) April 2010

**COMMENTS MUST BE RECEIVED BY
APRIL 30, 2010**

This Exposure Draft of proposed accounting standards is issued by the Accounting Standards Board. The Board is composed of persons knowledgeable in the preparation and use of financial statements who are drawn from public practice, business and academe. All members serve as individuals and not as representatives of their employers or organizations.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement with the Exposure Draft, they clearly explain the problem, and include a suggested alternative supported by specific reasoning. All comments received will be available on the website at www.acsbcanada.org 10 days after the comment deadline, unless confidentiality is requested.

To be considered, comments to the AcSB must be received by April 30, 2010, addressed to:

**Peter Martin, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2**

A PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by e-mail (in Word format), to: ed.accounting@cica.ca

Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to expand the scope of PENSION PLANS, [Section 4600](#), in Part IV of the CICA Handbook – Accounting (Handbook).¹ The expanded scope would include an entity that is separate from a pension plan and whose sole purpose is to hold and invest assets received from one or more pension plans, but does not itself have a pension obligation.

Background

In July 2009, the AcSB issued an Exposure Draft, “Pension Plans.” The July 2009 ED retained the guidance in PENSION PLANS, Section 4100, in Part V of the Handbook, that financial statements of defined benefit pension plans that exclude pension obligations calculated in accordance with that Section are not general purpose financial statements. Consequently, such financial statements were not within the scope of the July 2009 ED.

Some stakeholders expressed concern over the effect of this guidance on entities that invest assets on behalf of pension plans and must prepare their financial statements in accordance with Canadian generally accepted accounting principles. Under the pre-changeover standards in Part V of the Handbook, many of those entities measure all investments at fair value in accordance with ACCOUNTING GUIDELINE AcG-18, Investment Companies. However, for years beginning on or after January 1, 2011, those entities will be required to prepare financial statements using International Financial Reporting Standards (IFRSs) in Part I of the Handbook. Under IFRSs, investments that represent a controlling interest in an investee are consolidated, rather than reported at fair value. These stakeholders questioned the relevance of consolidating controlled investees in the financial statements of the investment entities as this would not meet the needs of the pension plans that are the primary users of their financial statements. (Similar issues may arise with investments that are subject to significant influence or that are an interest in a joint venture.) Instead, it was suggested that the scope of the proposed standards for pension plans be modified to include these entities.

In considering these comments, the AcSB distinguished two separate fact patterns. Some pension plans have issued so-called “pension fund” statements that exclude pension obligations. The AcSB agreed with the existing guidance that financial statements that include only the assets of a pension plan, but not its liabilities, are not general purpose financial statements. However, the AcSB also noted that some entities exist solely to hold and invest the assets of one or more pension plans. This type of entity is separate from the pension plan(s) whose assets it holds and invests. General purpose financial statements of those entities do not include pension obligations because the entities do not have pension obligations, not because obligations that exist are omitted.

The AcSB decided that the scope of the accounting standards for pension plans should be expanded to include entities that are separate from a pension plan and hold and invest assets received from one or more pension plans, but that do not have a pension obligation. Accounting in accordance with the standards for pension plans

¹ Concurrent with the issuance of this Exposure Draft, the AcSB issued PENSION PLANS, Section 4600, as Part IV of the Handbook.

will provide the most relevant information to the pension plans that are the main users of the financial statements of such entities.

The AcSB noted that some entities hold and manage assets received from entities in addition to pension plans. The proportion of assets that is received from pension plans varies — in some cases it is most of the assets while in other cases a substantial portion comes from entities other than pension plans. Any distinction between these entities would necessarily be arbitrary. Therefore, the AcSB decided that the proposed scope expansion should be restricted to those entities whose sole purpose is to hold and invest assets received from one or more pension plans.

Different meanings have been associated with the term “pension fund”. To eliminate confusion, the AcSB decided to remove this term from Section 4600 and describe the characteristics of the entities instead.

The AcSB concluded that the proposed scope expansion is a significant change to the July 2009 ED. Thus, the AcSB decided to issue Section 4600 without the scope expansion and, concurrently, issue an exposure draft proposing the scope expansion.

This Exposure Draft reflects that decision.

The AcSB observed that investment company accounting is currently being discussed by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board as part of their joint project on consolidation. The outcome of the consolidation project may affect the need for the proposed scope amendment. The AcSB intends to reach a decision concerning the proposed scope amendment in June 2010. The AcSB will continue to monitor the consolidation project and will reassess the continued need for this scope amendment once the IASB finalizes its conclusions.

Proposal

Scope expansion

This Exposure Draft proposes to expand the scope of Section 4600 to include an entity that is separate from a pension plan and whose sole purpose is to hold and invest assets received from one or more pension plans, but does not itself have a pension obligation. A master trust (as defined in Section 4600) is an example of such an entity.

Requirement to use Part IV or option to use Part I

Pension plans and other entities within the current scope of Section 4600 are required to apply Part IV of the Handbook (accounting standards for pension plans). The proposed scope expansion would bring within the scope of Section 4600 entities that have many similarities to investment companies but whose investors are exclusively pension plans. This proposed change in scope will permit those entities to prepare their financial statements on a basis consistent with the needs of the pension plans that are the primary users of those financial statements. Requiring those entities to use Part IV would mean that their financial statements would be comparable with each other.

The AcSB noted, however, that some of those entities may prefer to prepare their financial statements in accordance with IFRSs in Part I of the Handbook. These entities may wish their financial results to be comparable to other investment companies or for other reasons. The AcSB decided to request input from stakeholders

on whether entities within the proposed scope expansion should be required to use Part IV of the Handbook or should be permitted to use Part I of the Handbook. However, the AcSB noted that consistent with the development of the accounting standards for pension plans, these entities would not be permitted to apply IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

Preface and Introduction to Part IV

If these proposals are adopted, consequential amendments to the Preface and the Introduction to Part IV of the Handbook would be required.

Timing

The deadline for comments is April 30, 2010. The AcSB anticipates that it will review the comments received and reach a decision concerning the proposed amendment in June 2010. Any amendments would be finalized in time for adoption for annual financial statements relating to fiscal years beginning on or after January 1, 2011, with earlier application permitted.

The AcSB will provide updates about its redeliberations on its website, at www.acsbcanada.org.

Comments requested

For your convenience, a PDF [response form](#) has been posted with this document that can be downloaded here. You can save the form both during and after its completion for future reference. Alternatively, written comments may be submitted by e-mail (Word format preferred) to: ed.accounting@cica.ca

The AcSB welcomes comments on the following questions concerning the proposals set out in this Exposure Draft:

1. Do you agree that the scope of PENSION PLANS, Section 4600, in Part IV of the Handbook, should be expanded as proposed? If not, why not?
2. Should entities in the proposed scope expansion be required to apply the standards set out in Part IV of the Handbook (accounting standards for pension plans), or be permitted a choice to apply IFRSs in Part I of the Handbook (not including IAS 26 *Accounting and Reporting by Retirement Benefit Plans*)? Which approach do you prefer and why?
3. Do you agree that the effective date of these proposals should coincide with the effective date of Section 4600 (i.e., effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011, with earlier application permitted)? If not, why not?

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement with the proposal, they clearly explain the problem, and include a suggested alternative supported by specific reasoning.

Pension Plans (Proposed amendment to the Scope of Section 4600)

PROPOSAL

The following paragraph would be added to PENSION PLANS, Section 4600, in Part IV of the Handbook, as indicated.

PURPOSE AND SCOPE

...

- .01A These standards also apply to an entity that is separate from a pension plan and whose sole purpose is to hold and invest assets received from one or more pension plans, but does not itself have a pension obligation. A master trust is an example of such an entity.