Requirement of Actuarial Valuation Reports in compliance for IAS 19

Requirement of Actuarial Valuation Reports in compliance for International Accounting Standard 19 – IAS 19

This article is an attempt to describe about requirement of Actuarial Valuations for compliance of International Accounting Standard 19 – IAS 19 by Indian MNC's & Companies Operating Middle East and North Africa regions in at the end of Calendar year (i.e. 31.12.2019).

Introduction

Indian MNC's and Companies operating in Middle East and North Africa regions are working towards meeting global best practice standards as set out in the **International Financial Reporting Standards (IFRS)**. Increasingly, auditors and regulators are insisting that companies implement International Accounting Standard 19 (IAS 19). IAS 19 is the **International Accounting Standard** governing employee benefits accounting requirements. Under IAS 19, long-term employee benefits require an actuarial valuation.

IAS 19 requires a re-measurement of long-term employee benefits and their corresponding liabilities. Such benefits include End of Service Gratuity Benefits or lump sum termination benefits, which must be valued, validated and certified by an actuary. An IAS 19 actuarial valuation is an assessment of a company's current and future liabilities using an agreed set of financial and demographic assumptions that are based on the companies best estimates, preferably supported by historical data.

As per Para 57 of IAS 19 – It encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. **For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period**. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service and hence An IAS 19 actuarial valuation requires skilled personnel, both in qualification and in specific experience and application, to meet the stringent reporting requirements. It makes sense to appoint an experienced actuary to annually perform this task.

It is important for companies to understand with certainty their end of service gratuity liabilities and to determine whether they are under or over accruing for these employee benefit obligations. It is also important to understand the impact these liabilities will have on a company's future cash flow.

Any company or entity that chooses to meet IFRS disclosure requirements will have to comply with IAS 19 as one of the underlying requirements. Adhering to IFRS may be mandated by government, or company Head Office, or by desire to commit to global financial reporting standards and to access world markets, or as a matter of best practice.

Components of an Actuarial Report in Compliance of IAS 19

Actuarial reports fully compliant with requirement of IAS 19 has following components:

1. Data – Summary Employee Statistics
2. Assumptions – Demographic and Financial Assumptions
3. Methodology – PUC Method
4. Results – we set out the figures you should use in the year-end financials, in an easy-to-understand format, directly transferable to your financial statements
5. Disclosures – **Disclosure Components in compliance of IAS 19 are as under :**

Movements in the present value of the Defined Benefit Obligations

Opening defined benefit obligation

Current Service Cost

Interest Cost

Remeasurement (gains)/losses:

Actuarial (gains)/losses arising from changes in demographic assumptions

Actuarial (gains)/losses arising from changes in financial assumptions

Actuarial (gains)/losses arising from experience adjustments

Past service cost, including losses/(gains) on curtailments

Liabilities extinguished on settlements

Liabilities assumed in a business combination

Exchange differences on foreign plans

Benefit Paid

Closing defined benefit obligation

Movements in the fair value of the Plan Assets

Opening fair value of plan assets

Interest Income

Remeasurement gain/(loss):

Return on plan assets (excluding amounts included in net interest expense)

Others (describe)

Contributions from the employer

Benefits paid

Closing fair value of plan assets

Service Cost

Current Service Cost

Past Service Cost including curtailment gains/losses

Gains or Losses on non routine settlements

Total

Net Interest Cost (Income)

Interest Cost on Defined Benefit Obligation

Interest Income on Plan Assets

Net Interest Cost (Income)

Remeasurements of the net defined benefit liability (asset) in other comprehensive income.

Return on plan assets (excluding amounts included in net interest expense)

Actuarial (gains)/losses arising from changes in demographic assumptions

Actuarial (gains)/losses arising from changes in financial assumptions

Actuarial (gains)/losses arising from experience adjustments

Other (describe)

Adjustments for restrictions on the defined benefit asset

Components of defined benefit costs recognised in other comprehensive income

Amount recognised in the Statement of Profit or Loss

Service Cost

Net Interest Cost (Income)

Defined Benefit Cost recognized in statement of Profit or Loss

The amount included in the Statement of Financial Position

Present value of defined benefit obligation

Fair value of plan assets

Funded status

Restrictions on asset recognised

Other [describe]

Net liability arising from defined benefit obligation

Components of Net Defined Benefit Obligation

Net defined benefit liability at the start of the period

Service Cost

Net Interest Cost (Income)

Remeasurements

Contribution paid to the Fund

Benefits paid directly by the enterprise

Net defined benefit liability at the end of the period

Maturity Profile of Defined Benefit Obligation

Weighted Average duration of the defined benfit obligation

Duration of defined benefit obligation

Duration of defined benefit payments

Sensitivity Analyses

Changes in Defined benefit obligation due to x % Increase/Decease in Financial Assumptions.

Changes in Defined benefit obligation due to x % Increase/Decease in Demographic Assumptions.

I have covered maximum inputs required for compliance of IAS 19 in my article. In case of any clarification/requirement for compliance of IAS 19 (Revised 2011) IFRS you may contact me at 9211637063 & tikaramchaudhary@gmail.com