

5 November 2009

**DBP Contributors Scheme
NZ IAS 19 - Reporting by Employers**

The attached information is relevant to any employers contributing to, and required to comply with international financial reporting standards in respect of, the DBP Contributors Scheme.

Future updates will be posted on our website – www.npf.co.nz. If you would like to receive an email advising you of new updates please email enquiries@npf.co.nz with the words “IFRS Updates Request” in the subject line.

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DBP Contributors Scheme NZ IAS 19 - Reporting by Employers

The objectives of New Zealand Equivalent to International Accounting Standard 19 (“NZ IAS 19”) are to prescribe the accounting and disclosure for employee benefits by employers. It requires an employer to recognise:

1. a liability, when an employee has provided service in exchange for employee benefits to be paid in the future, and
2. an expense, when the employer consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

NPF has sought advice from the Actuary to the DBPC Scheme, Christine D A Ormrod of PricewaterhouseCoopers, as to her understanding of the requirements of NZ IAS 19, as they relate to the DBPC Scheme. This advice is based on NZ IAS 19 issued in November 2004, incorporating amendments approved up to November 2008. Based on her advice, NPF now confirm as follows.

Under the standard, the DBPC Scheme is categorised as a “defined benefit plan” and as a “multi-employer plan”. Various sections of NZ IAS 19, which relate to multi-employer plans, are reproduced in [Appendix 1](#).

Multi-employer defined benefit schemes (such as the DBPC Scheme) must be reported on as defined benefit schemes unless “*sufficient information is not available*”. The possible reasons for this are set out in paragraph 30 of NZ IAS 19, as either:

- (a) the participating employer does not have access to the necessary information; or
- (b) the scheme exposes the participating employers to actuarial risks associated with the current and former employers of other participating employers, with the result that there is no consistent and reliable basis for allocating the obligation, scheme assets and cost to individual participating employers.

In the Actuary’s view, (b) applies to the DBPC Scheme.

This means defined contribution style reporting should be used and employers must disclose the information required under paragraph 30 of NZ IAS 19. Employers will also need to make a disclosure under NZ IAS 37, in relation to their contingent liabilities under the DBPC Scheme.

Sample wording for these two disclosures is shown in [Appendix 2](#).

APPENDIX 1 – Sections of NZ IAS 19 relating to Multi-employer Plans

NZ IAS 19

29. An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:

- (a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**
- (b) disclose the information required by paragraph 120A.**

30. When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:

- (a) account for the plan under paragraphs 44-46 as if it were a defined contribution plan;**
- (b) disclose:**
 - (i) the fact that the plan is a defined benefit plan; and**
 - (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and**
- (c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:**
 - (i) any available information about that surplus or deficit;**
 - (ii) the basis used to determine that surplus or deficit; and**
 - (iii) the implications, if any, for the entity.**

32. Where sufficient information is available about a multi-employer plan which is a defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, in some cases, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

- (a) the entity does not have access to information about the plan that satisfies the requirements of this Standard; or
- (b) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the additional information required by paragraph 30.

32A There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 30 shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

32B NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires an entity to disclose information about some contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

- (a) actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or
- (b) any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

APPENDIX 2 – Disclosures

Paragraph 30

1. *Liability/Asset – Overdue/prepaid contributions at balance date.*
Expense – contributions due in respect of the financial year.
2. The DBP Contributors Scheme ('the Scheme') is a multi-employer defined benefit scheme.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine, from the terms of the Scheme, the extent to which the deficit will affect future contributions by employers, as there is no prescribed basis for allocation.
3. As at 31 March 2009, the Scheme had a past service surplus of \$15.321 million (5.7% of the liabilities). This amount is exclusive of Employer Superannuation Contribution Tax. This surplus was calculated using a discount rate equal to the expected return on the assets, but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19.

The Actuary to the Scheme has recommended the employer contribution continues at 1.0 times contributors' contributions. The 1.0 is inclusive of Employer Superannuation Contribution Tax.

Paragraph 32B

The employer is a participating employer in the DBP Contributors Scheme ('the Scheme') which is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the Scheme, the employer could be responsible for the entire deficit of the Scheme (see note [.....]). Similarly, if a number of employers ceased to participate in the Scheme, the employer could be responsible for an increased share of the deficit.