

Coping with IFRS impact on communist-era pensions

Sir, International Financial Reporting Standards (IFRS) continue to impact companies' relationships with their employee benefit plans. This article looks at some recent examples in the UK and Kazakhstan.

The recent changes to IAS19 encourage companies to recognise the true funding position of their employee benefit plans on their balance sheets immediately, but gives the option to continue using the current "corridor approach", where only cumulative gains and losses exceeding 10% of the value of the plan need to be recognised.

The UK standard (FRS17) requires recognition of gains and losses in the period they occur. Some UK companies, therefore, are adopting IAS19 in order to give them the ability to defer balance sheet recognition of their pension scheme deficits.

One example is the UK subsidiary of an overseas company, which pays an annual dividend to its parent at the maximum permitted level. They recognised that recognising the pension scheme deficit on the balance sheet would significantly reduce the dividend that could be paid. Therefore, they are

adopting IFRS this year with the corridor approach. Adoption requires the calculation of the amount of deficit which would be recognised on the balance sheet had IAS19 been adopted at the date the company commenced the plan. The fact that this date is more than 30 years ago is causing some headaches.

IAS19 is also having an effect on newer developing economies, particularly in the former Soviet Union. Here, companies raising capital on the international markets have to adopt IFRS. They are finding that in financial terms, their employee benefit

arrangements are much larger than they previously thought.

Another example is a large industrial concern in Kazakhstan. Under the Soviet system, the company ran the town; they provided housing, schools and health care. Today they still run the hospital where employees and former employees of the company are treated for free or at heavily subsidised rates. Under IAS19, they are providing post-retirement medical benefits. Therefore, they have to calculate a balance sheet reserve.

Collecting adequate data to place a realistic value on the lia-

bility is difficult. Records of former employees are not complete because, until now, there was no need to keep such details. Then, our calculations revealed that the size of the liability was much higher than expected. As a result, the company is reviewing the way in which the benefits are provided: we expect them to make changes to reduce the liabilities involved, and in particular to reduce the risk of future increases in cost.

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