Accounting and Actuarial Fundamentals of Standard on Employee Benefits – Ind AS 19

Presentation at ICAI, Ahmedabad

Jayesh Pandit   Kartikey Kandoi   Ganesh Sudrik

11-02-2017
Agenda

• Actuarial Valuation of Employee Benefits
• Applicability of Accounting Standards and AS 15
• Roadmap for applicability of Ind AS’s
• Effect of Ind AS on Actuarial Valuation requirement
• Significant changes in Ind AS 19 compared to AS 15
• Measurement Principle
• Illustrations
• Comparative Disclosures for AS 15 and Ind AS 19
• Characteristics & Risks associated with plans
• Additional disclosure requirement
• Effect and Treatment of Liability Transfer In/Out
• General Discussion on Actuarial Valuation
Accounting Standards on Employee Benefits

01-04-1974: ‘Statement on the Treatment of Retirement Gratuity in Accounts’


01-04-2016/ (MCA Roadmap): Ind AS 19 ‘Employee Benefits’
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• **Liabilities** have to be **recognised** if a company has a **present obligation** arising from past events, result in an **outflow** of **economic benefits**.

• As per AS 15/ Ind AS 19, **provision** is made using **Projected Unit Credit Method (PUCM)** after considering certain **valuation assumptions**.

• A company has to **disclose certain items** for **post employment employee benefits** in their notes to accounts, which are **calculated & provided by an Actuary** using the methodology prescribed in AS 15/ Ind AS 19.

• In some instances, the fund manager could provide **funding valuations** to the company but then the company has to ensure compliance of AS 15/ Ind AS 19 w.r.t. **measurement and disclosure**.

• As per para 70 of AS 15/ para 72 of Ind AS 19, Employee service gives rise to an obligation under a defined benefit plan even if the benefits are **conditional on future employment**, so valuation has to done even if benefit is **not vested**.
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Applicability of Accounting Standards

- Accounting Standards notified by MCA, under the Companies (Accounting Standards) Rules, 2006 are applicable to corporates, defined as Small and Medium Company (SMC) & Non - SMC. Non-SMCs are required to comply with all the Accounting Standards in their entirety, while certain exemptions/ relaxations have been given to SMCs.

- Accounting Standards as issued by the ICAI; are applicable to Non-corporate entities. There are three levels of entities. Level I as big entity whereas, Level II entities and Level III entities are considered to be the Small and Medium Entities (SMEs).

Non – SMC
i) Equity or Debt securities are listed or are in the process of being listed, or
ii) Bank, Financial institution, Insurance company, or
iii) Turnover > 50 crore in last year, or
iv) Borrowing > 10 crore in last year, or
v) Holding or subsidiary of above

SMC
Not falling in any of above

Applicability of Accounting Standard 15 (AS 15)

Following exemptions/relaxations have been given to SMCs from AS 15:

• Short-term **accumulating** compensated absences which are **non-vesting** (paragraphs 11 to 16)

• Post – Employment benefit - Para 50 to 123 for recognition and measurement principles & disclosure requirements. However, accrued liability to be determined actuarially by using the **Projected Unit** Credit Method and the **discount rate** as per para 78.

• Other long term benefit - Para 129 to 131 for recognition and measurement principles. However, accrued liability to be determined actuarially by using the **Projected Unit** Credit Method and the **discount rate** as per para 78.

• Further relaxations are also available to **non-corporate SMEs** (following AS published on ICAI) employing **less than 50 employees**, can calculate accrued liability by reference to **some other rational methods**, while Other entities have to get the liability valued by an Actuary.

**Non – SMC**

Provision along with Disclosure

**SMC**

• Provision as per Actuarial Valuation mandatory
• Exemption for Disclosure in Notes to Accounts
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Roadmap for applicability of Ind AS’s

Period on or after 1\textsuperscript{st} April, 2015

Voluntary Adoption

Period on or after 1\textsuperscript{st} April, 2016

Phase I
All companies with net worth $\geq$ INR 500 Crs.

Period on or after 1\textsuperscript{st} April, 2017

Phase II
All Listed Companies
Unlisted Companies with net worth between INR 250-500 Crs.

**Applicability:** - Apply to holding, subsidiary, joint venture or associate companies also. Once Ind AS is applicable company have to prepare standalone as well as **consolidated standard** as per Ind AS only.
Roadmap for applicability of Ind AS’s

- Scheduled commercial banks and Insurer
  - Period on or after 1st April, 2018

- NBFC – Phase I
  (All NBFCs Net worth INR 500 Crores or more)
  - Period on or after 1st April, 2018

- NBFC – Phase II
  (Listed NBFCs Net worth Less than 500 Crores; Unlisted NBFCs 250-500 Crores)
  - Period on or after 1st April, 2019
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Effect of Ind AS on Actuarial Valuation requirement

- When a company prepares its first Ind AS financial statements, it has to comply with Ind AS 101, and thereby need to provide **comparative figures for 31.03.2016** (as per roadmap applicability).

- So, Actuarial Valuation report as at **31.03.2016** will need to be provided by **both basis**, existing AS-15 and Ind AS 19.

- While preparing interim period accounts, relevant Ind AS should be followed so there will be consistency in results of quarter and year end. **Comparative results** should also be in compliance with **Ind AS**.

- As per Clause 41 of Listing Agreement with stock exchanges it requires Unaudited Financial Results to be prepared, as per this requirement listed company generally take actuarial valuation on quarterly basis, although not mandatory.

- For **Quarterly valuation**, detailed disclosure to Notes to accounts **not mandatory**.

- As per the roadmap, companies to which **Ind AS is not applicable** should have to follow the **existing Accounting Standards**.
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Significant changes in Ind AS 19 compared to AS 15

- For **Post-employment** benefit plans (example Gratuity, Pension & PRMB) **Actuarial Gain/ Loss** will be taken to **Other Comprehensive Income** and will not be reclassified into Profit or Loss in subsequent periods.

- For **Other long term** benefits, (example compensated absences & long service award) Actuarial gain/ loss continues to be recognized in **Profit or Loss**. Hence, recognition criteria **remain same** in Ind AS 19 as was in AS 15.

- **Actuarial Gain or Loss due to change in assumption** needs to be shown separately for due to change in Demographic assumption & due to change in Financial assumption.

- **Discount Rate** should be used with reference to market yields **at the end of reporting period** on **Government bonds**.
  However, for subsidiaries & JV outside India, high quality Corporate bonds is to be considered. If no such deep market is available, then Government bonds are to be considered.

- **Net interest cost** is to be calculated on **Net Liabilities/Assets**, hence Expected return on assets will be the same as the Discount rate used for the valuation of the liability.

- **Past service cost** to be recognized in Profit or Loss in year of occurrence. Ind AS 19 doesn’t differentiate between vested & non-vested past service cost recognition.
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Measurement Principle

**Objective**

- **a liability** when an employee has provided service in exchange for employee benefits to be paid in the future;

- **an expense** when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

**Method of Valuation**

**Projected Unit Credit Method**: Present Value of All Accrued Benefit on valuation Date on Projected Salaries at Exit (PBO).

- Suggested by GN’s issued by IOAI
- Required Under ASC 715 (US-GAAP)
- Required Under IAS-19 (IFRS)
- Revised AS-15 (IGAAP)
Projected Unit Credit Method

Step 1: Escalated Expected CashFlow considering all decrements based on Accrued Benefits/Discontinuance Liability

Step 2: Taking PV of all future CashFlows. Value of past service liability on projected earning to get PBO
Valuation Assumptions

**Demographic Assumptions**
- Employee Turnover
- Mortality

**Financial Assumptions**
- Future Increase in Salaries or Cost Inflation
- Discount Rate
- Expected Return on Plan Asset

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Base</th>
</tr>
</thead>
</table>
| Future Increase in Salaries or Cost Inflation | Employer’s Call  
Should be the best estimate for future Considering Past Trend  |
| Employee Turnover                       | Employer’s Call  
Should be the best estimate for future Considering Past Trend  |
| Mortality                               | IALM 2006-08                                                        |
| Discount Rate                           | Long Term Government Securities (As per AS15) 
Suitably mapped to Avg. future working life |
| Expected Return on Plan Asset           | Based on the Investment Portfolio                                    |
## Average Future Working Life

### Discount Rate-Base

<table>
<thead>
<tr>
<th>Age</th>
<th>45</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Retirement Age</td>
<td>58</td>
</tr>
<tr>
<td>Difference</td>
<td>13</td>
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</table>

<table>
<thead>
<tr>
<th>Attrition Rate</th>
<th>0%</th>
<th>5%</th>
<th>10%</th>
<th>20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>Survival Rate</td>
<td>Survival Rate</td>
<td>Survival Rate</td>
<td>Survival Rate</td>
</tr>
<tr>
<td>46</td>
<td>100.00%</td>
<td>95.00%</td>
<td>90.00%</td>
<td>80.00%</td>
</tr>
<tr>
<td>47</td>
<td>100.00%</td>
<td>90.25%</td>
<td>81.00%</td>
<td>64.00%</td>
</tr>
<tr>
<td>48</td>
<td>100.00%</td>
<td>85.74%</td>
<td>72.90%</td>
<td>51.20%</td>
</tr>
<tr>
<td>49</td>
<td>100.00%</td>
<td>81.45%</td>
<td>65.61%</td>
<td>40.96%</td>
</tr>
<tr>
<td>50</td>
<td>100.00%</td>
<td>77.38%</td>
<td>59.05%</td>
<td>32.77%</td>
</tr>
<tr>
<td>51</td>
<td>100.00%</td>
<td>73.51%</td>
<td>53.14%</td>
<td>26.21%</td>
</tr>
<tr>
<td>52</td>
<td>100.00%</td>
<td>69.83%</td>
<td>47.83%</td>
<td>20.97%</td>
</tr>
<tr>
<td>53</td>
<td>100.00%</td>
<td>66.34%</td>
<td>43.05%</td>
<td>16.78%</td>
</tr>
<tr>
<td>54</td>
<td>100.00%</td>
<td>63.02%</td>
<td>38.74%</td>
<td>13.42%</td>
</tr>
<tr>
<td>55</td>
<td>100.00%</td>
<td>59.87%</td>
<td>34.87%</td>
<td>10.74%</td>
</tr>
<tr>
<td>56</td>
<td>100.00%</td>
<td>56.88%</td>
<td>31.38%</td>
<td>8.59%</td>
</tr>
<tr>
<td>57</td>
<td>100.00%</td>
<td>54.04%</td>
<td>28.24%</td>
<td>6.87%</td>
</tr>
<tr>
<td>58</td>
<td>100.00%</td>
<td>51.33%</td>
<td>25.42%</td>
<td>5.50%</td>
</tr>
</tbody>
</table>

| AFS | 13 | 9 | 7 | 4 |

*AFS is after ignoring Mortality rate*
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Illustration 1

- **Age**: 32 years
- **Service**: 7 years
- **Retirement Age**: 58 years
- **Monthly Salary**: INR 30,000
- **Benefit Scheme**: Gratuity
  15 days salary for each year of service with a limit of INR 1,000,000/-. Benefit is payable on death or on resignation or on retirement.
- **Vesting Period***: 5 years

* Applicable on retirement or on resignation

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Accrued Amount Calculation

\[
\text{Accrued Amount} = \frac{15}{26} \times 7 \times 30,000 \\
= \text{INR 121,154}
\]

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Valuation Assumptions

**Financial Assumptions**
- Discount Rate: 8.00% p.a.
- Salary Escalation Rate: 6.00% p.a.

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Illustration 2

- **Age**: 44 years
- **Service**: 3 years
- **Retirement Age**: 58 years
- **Monthly Salary**: INR 78,000
- **Benefit Scheme**: Gratuity
  20 days salary for each year of service. Benefit is payable on death or on resignation or on retirement.
- **Vesting Period***: 5 years

* Applicable on retirement or on resignation

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Accrued Amount Calculation

\[
\text{Accrued Amount} = \frac{20}{26} \times 3 \times 78,000 \\
= \text{INR 180,000}
\]

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Valuation Assumptions

**Demographic Assumptions**
- Mortality Rate: IALM 06-08
- Attrition Rate: 10.00% p.a.
Illustrations - Continued

Results – Projected Benefit Obligation (PBO)

<table>
<thead>
<tr>
<th>PBO</th>
<th>INR 104,778</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBO @ DR + 1%</td>
<td>INR 98,175  (6.30%)</td>
</tr>
<tr>
<td>PBO @ DR - 1%</td>
<td>INR 112,370 (7.25%)</td>
</tr>
<tr>
<td>PBO @ SE + 1%</td>
<td>INR 112,446 (7.32%)</td>
</tr>
<tr>
<td>PBO @ SE - 1%</td>
<td>INR 97,999  (6.47%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PBO</th>
<th>INR 125,474</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBO @ DR + 1%</td>
<td>INR 116,798 (6.91%)</td>
</tr>
<tr>
<td>PBO @ DR - 1%</td>
<td>INR 135,113 (7.68%)</td>
</tr>
<tr>
<td>PBO @ SE + 1%</td>
<td>INR 135,208 (7.76%)</td>
</tr>
<tr>
<td>PBO @ SE - 1%</td>
<td>INR 116,563 (7.10%)</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Particulars</th>
<th>AS 15</th>
<th>Ind AS 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Assumptions (Previous Period)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount Rate</td>
<td>7.90%</td>
<td>7.90%</td>
</tr>
<tr>
<td>Expected Return on Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary Escalation</td>
<td>6.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Attrition Rate</td>
<td>7.50%</td>
<td>7.50%</td>
</tr>
<tr>
<td>Valuation Assumptions (Current Period)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount Rate</td>
<td>8.00%</td>
<td>8.00%</td>
</tr>
<tr>
<td>Expected Return on Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary Escalation</td>
<td>6.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Attrition Rate</td>
<td>10.00%</td>
<td>10.00%</td>
</tr>
</tbody>
</table>
## Change in Present Value of Benefit Obligation

<table>
<thead>
<tr>
<th>Particulars</th>
<th>AS 15</th>
<th>Ind AS19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Present Value of Defined Benefit Obligation</td>
<td>407,859,866</td>
<td>407,859,866</td>
</tr>
<tr>
<td>Interest cost</td>
<td>32,220,929</td>
<td>32,220,929</td>
</tr>
<tr>
<td>Current service cost</td>
<td>83,883,077</td>
<td>83,883,077</td>
</tr>
<tr>
<td>Past Service Cost - Vested</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Past Service Cost – Non Vested</td>
<td>0</td>
<td>N.A.</td>
</tr>
<tr>
<td>Liability Transferred In/ (Transferred Out)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(Benefit Paid Directly by the Employer)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(Benefit Paid from fund)</td>
<td>(24,147,000)</td>
<td>(24,147,000)</td>
</tr>
<tr>
<td>Actuarial (Gains)/Losses on Obligations - Due to Change in Demographic Assumptions</td>
<td>(6,076,460)*</td>
<td>1,944,467</td>
</tr>
<tr>
<td>Actuarial (Gains)/Losses on Obligations - Due to Change in Financial Assumptions</td>
<td></td>
<td>(8,020,927)</td>
</tr>
<tr>
<td>Actuarial (Gains)/Losses on Obligations – Due to Experience Adjustment</td>
<td>(13,700,030)</td>
<td>(13,700,030)</td>
</tr>
<tr>
<td><strong>Closing Present Value of Defined Benefit Obligation</strong></td>
<td><strong>480,040,382</strong></td>
<td><strong>480,040,382</strong></td>
</tr>
</tbody>
</table>

* Actuarial Gain/ loss due to change in assumption.
<table>
<thead>
<tr>
<th>Particulars</th>
<th>AS 15</th>
<th>Ind AS19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Value of Plan Assets at the Beginning of the Period</td>
<td>209,667,844</td>
<td>209,667,844</td>
</tr>
<tr>
<td>Expected return on assets/ Interest Income</td>
<td>17,821,767</td>
<td>16,563,760</td>
</tr>
<tr>
<td>Contributions by the Employer</td>
<td>72,238,733</td>
<td>72,238,733</td>
</tr>
<tr>
<td>(Benefit paid from Fund)</td>
<td>(24,147,000)</td>
<td>(24,147,000)</td>
</tr>
<tr>
<td>Actuarial Gains/(Losses) on Plan Assets</td>
<td>(3,879,820)</td>
<td>N.A.</td>
</tr>
<tr>
<td>Return on Plan Assets, Excluding Interest Income</td>
<td>N.A.</td>
<td>(2,621,813)</td>
</tr>
<tr>
<td>Fair Value of Plan Assets at the End of the Period</td>
<td>271,701,524</td>
<td>271,701,524</td>
</tr>
</tbody>
</table>
## Amount Recognized in the Financial Statement

<table>
<thead>
<tr>
<th>Amount Recognized in Balance Sheet</th>
<th>AS 15</th>
<th>Ind AS19</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Present Value of Defined Benefit Obligation)</td>
<td>(480,040,382)</td>
<td>(480,040,382)</td>
</tr>
<tr>
<td>Fair Value of Plan Assets</td>
<td>271,701,524</td>
<td>271,701,524</td>
</tr>
<tr>
<td>Net (Liability)/Asset Recognized in the Balance Sheet</td>
<td>(208,338,858)</td>
<td>(208,338,858)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses Recognized in the Statement of Profit or Loss</th>
<th>AS 15</th>
<th>Ind AS19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Service Cost</td>
<td>83,883,077</td>
<td>83,883,077</td>
</tr>
<tr>
<td>Interest cost</td>
<td>32,220,929</td>
<td>N.A.</td>
</tr>
<tr>
<td>(Expected return on assets)</td>
<td>(17,821,767)</td>
<td>N.A.</td>
</tr>
<tr>
<td>Net Interest Cost (Net Liability * Opening Discount Rate)</td>
<td>N.A.</td>
<td><strong>15,657,169</strong></td>
</tr>
<tr>
<td>Past Service Cost – Vested</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Past Service Cost – Non Vested</td>
<td>0</td>
<td>N.A.</td>
</tr>
<tr>
<td>Actuarial (Gain)/ Loss on Obligation</td>
<td>(19,776,490)</td>
<td>N.A.</td>
</tr>
<tr>
<td>Actuarial (Gain)/ Loss on Assets</td>
<td>3,879,820</td>
<td>N.A.</td>
</tr>
<tr>
<td>Total Expense recognized in Statement of Profit or Loss</td>
<td><strong>82,385,569</strong></td>
<td><strong>99,540,246</strong></td>
</tr>
</tbody>
</table>
### Amount Recognized in the Financial Statement

<table>
<thead>
<tr>
<th>Amount Recognized in Other comprehensive Income</th>
<th>AS 15</th>
<th>Ind AS19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial (Gains)/Losses on Obligations - Due to Change in Demographic Assumptions</td>
<td>N.A.</td>
<td>1,944,467</td>
</tr>
<tr>
<td>Actuarial (Gains)/Losses on Obligations - Due to Change in Financial Assumptions</td>
<td>N.A.</td>
<td>(8,020,927)</td>
</tr>
<tr>
<td>Actuarial (Gains)/Losses on Obligations - Due to Experience</td>
<td>N.A.</td>
<td>(13,700,030)</td>
</tr>
<tr>
<td>Return on plan assets excluding amounts included in net interest cost</td>
<td>N.A.</td>
<td>2,621,813</td>
</tr>
<tr>
<td>**Net (Income)/Expense For the Period Recognized in OCI **</td>
<td>N.A.</td>
<td>(17,154,677)</td>
</tr>
</tbody>
</table>

* Company shall ensure appropriate treatment is done for Deferred Tax Asset/ Liability on same.

### Net Effect on Equity/ Reserves & Surplus #

<table>
<thead>
<tr>
<th>Net Effect on Equity/ Reserves &amp; Surplus #</th>
<th>AS 15</th>
<th>Ind AS19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense recognized in Statement of Profit or Loss</td>
<td>82,385,569</td>
<td>99,540,246</td>
</tr>
<tr>
<td>Expense recognized in Other Comprehensive Income</td>
<td>N.A.</td>
<td>(17,154,677)</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td>82,385,569</td>
<td>82,385,569</td>
</tr>
</tbody>
</table>

# Above table not part of Ind AS 19 Disclosure.
Agenda

- Actuarial Valuation of Employee Benefits
- Applicability of Accounting Standards and AS 15
- Roadmap for applicability of Ind AS’s
- Effect of Ind AS on Actuarial Valuation requirement
- Significant changes in Ind AS 19 compared to AS 15
- Measurement Principle
- Illustrations
- Comparative Disclosures for AS 15 and Ind AS 19

- Characteristics & Risks associated with plans

- Additional disclosure requirement
- Effect and Treatment of Liability Transfer In/Out
- General Discussion on Actuarial Valuation
Characteristics & Risks associated with plans

Plan features

Regulatory framework

Examples:
- Final Salary DB
- DC with guarantee
- Post retirement hospitalization

Responsibility of other entities for plan governance

Example:
- Trustees
- Board members

Description of exceptions events: plan amendments, curtailments, settlements, business combination or disposal

Description of risk associated with the plan: Plan Specific risk, Entity specific risk, Concentration risk

Description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, to manage risk.
Agenda

• Actuarial Valuation of Employee Benefits
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• General Discussion on Actuarial Valuation
Additional disclosure requirement for Post-employment benefits compared to AS-15R

• **Cash flows**
  - Expected employer contributions over the coming year
  - Description of the funding arrangements
  - Maturity analysis of the defined benefit obligation

• **Sensitivity of Assumptions:** the significant assumptions used and the sensitivity of the value of the liabilities to changes in these assumptions.

• Analysis of the present value of the defined benefit obligation between **vested** benefits and accrued but **not vested** benefits.

• Weighted average duration of the defined benefit obligation.

Five-year history of asset value, liabilities, surplus/deficit and experience gains and losses is not required to be disclosed.
Disclosure – Other Long Term Benefits

No Specific Disclosures as per Ind AS 19 for Short-term employee benefits (para 25), Other long-term employee benefits (para 158) and Termination benefits (para 171), other Ind ASs may require disclosures.

- Ind AS 24 requires disclosures about employee benefits for key management personnel.
- Ind AS 1, Presentation of Financial Statements, requires disclosure of employee benefits expense.
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**Effect and Treatment of Liability Transfer In/Out**

• General Discussion on Actuarial Valuation
Effect and Treatment of Liability Transfer In/Out

For Example: - Mr. Ram who served 10 years in company X Ltd and transferred to Group Company, Y Ltd with continuation of service.

Transfer value (10 years × $\frac{15}{26}$ × Salary at time of transfer) or actuarially calculated

**In books of Transferee (Y Limited)**

*At time of transfer:*

$X$ limited A/c Dr

*To Provision for Gratuity A/c*

*At time of amount received from X limited:*

Bank A/c Dr

*To X Limited A/c*

*[If Transfer is made in to Fund, Debit will be to Gratuity Trust Fund A/c in spite of Bank Account]*

**In books of Transferor (X Limited)**

*At time of transfer:*

Provision for Gratuity A/c Dr

*To Y limited A/c*

*At time of amount paid to Y limited:*

$Y$ limited A/c Dr

*To Bank A/c*

*[If Transfer is made out of fund, Credit will be to Gratuity Trust Fund A/c in spite of Bank Account]*
Agenda

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• General Discussion on Actuarial Valuation
Current And Non-Current Liability Bifurcation

Current Liability is the amount **expected to be paid** in the next 12 months from reporting date.

**For Unfunded Plan:**

The current liability is amount payable in the next 12 months, on account of Expected Death, Expected Resignation & Retirement.

As an Illustration,

- For Gratuity, for an employee whose Past Service is 10 years and Salary is INR 50,000.
  The attrition rate is 2% and mortality rate is 0.1%,
  the Current Liability will be \( \frac{15}{26} \times 10 \times 50,000 \times (2\% + 0.1\%) = \text{INR 6,057.69/-} \)

- For Gratuity, for an employee whose Past Service is 1 year and Salary is INR 50,000.
  The attrition rate is 2% and mortality rate is 0.1%,
  the Current Liability will be \( \frac{15}{26} \times 1 \times 50,000 \times (0\% + 0.1\%) = \text{INR 28.85/-} \)

**For Funded Plan:**

The liability recognized in the balance sheet is the difference between the Defined Benefit Obligation and Plan Assets. Current liability in such case is amount payable to the trust in the next year to meet this shortfall.

Maximum Allowable contribution as per Tax rules is 8.33% of annual salary.
Frequently Asked Questions on Actuarial Valuations

• Whether company need to take Actuarial valuation as at 31.03.2015 if they are in phase I?
  Liability remain same under AS 15 and Ind AS 19, there is no need for separate actuarial valuation as at 31.03.2015 for preparing opening balance sheet as at 01.04.2015 as required under Ind AS 101.

• How Ind AS19 differs in recognising benefit expenses?
  In case of post - employment benefits Remeasurements (actuarial gain/ loss) is charged to Other Comprehensive Income, whereas in case of other long term benefits, it is charged to Profit or Loss.

• What is Remeasurements of Defined Benefit Obligation?
  ➢ Actuarial Gain/ loss on obligation due to change in Demographic Assumption
  ➢ Actuarial Gain/ loss on obligation due to change in Financial Assumption
    (i.e. decrease/ increase in liability by changing valuation assumption from opening to closing)
  ➢ Actuarial Gain/ loss due to experience being different than assumption
    o unexpectedly high or low rates of employee turnover,
    o increases in salaries, benefits or medical costs,
    o early retirement or mortality

• How to determine discount rate for actuarial valuation?
  Discount Rate relates to the benchmark rate available on Government Bonds for estimated term of the defined benefit obligations.

• What is average expected term of obligation (expected future service)?
  Expected Future service is calculated by applying Attrition rate & Death rate probabilities on potential future service (retirement age – current age).
Questions

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Ganesh@ka-pandit.com
Important Links

- Indian Accounting Standard 19
- Accounting Standard 15 (AS 15)
- Article - Accounting & Actuarial Fundamentals of Standard on Employee Benefits
- Leave Availment Analysis published in Institute of Actuaries India
- Volatility in the interest rate and it’s implication on benefit liability