Milliman White Paper

Changes to the Thai accounting standard for employee benefits

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SUMMARY

Companies reporting under Thai accounting standards must implement the updated version of Thai Accounting Standard 19 (TAS19) by 1 January 2014.

Disclosures for each company in respect of its legal severance payment plan will need to be revised. Other employee benefits offered, including defined benefit (DB) retirement benefits, gratuities, outstanding leave entitlement and other post-employment benefits, are also affected. Collectively we will refer to all these benefits as *post-employment benefits*.

The changes modify how the post-employment benefit obligations and risks will be reflected on a company's financial statements. The update also requires additional footnote disclosures.

Background

TAS19 is based on International Accounting Standard 19 (IAS19), Employee Benefits. For accounting periods beginning on 1 January 2011, companies subject to Thai accounting standards will have been reporting using TAS19, which was brought into line with IAS19. From 2011, post-employment benefits have been accounted for using an actuarial reserve for future benefits due rather than on a cash basis. The update refines this actuarial measurement with the main changes being as follows:

- The fiscal year post-employment benefits cost will consist of only two components: the service cost and the interest charge (see next bullet). Any prior service cost charge/(credit) incurred as a result of plan amendments, settlements or curtailments is included in the service cost.

- The fiscal year net interest charge as the interest on the net defined benefit liability (NDBL) and the net cash flows using the discount rate. For plans holding assets to fund the post-employment benefits, this has the effect of replacing the expected return on assets assumption with the discount rate.

- The option to reflect gains and losses through the income statement or to spread the surplus/deficit or use of the 'corridor' rules has been eliminated.

- Remeasurements of plan changes in assets and liabilities are to be displayed in other comprehensive income (OCI) in a revised presentation. Although many companies have already been following this approach, the amended standard now mandates it.

- The annual aggregate net gain or loss will be recognized as a change in OCI and is no longer a component of the fiscal year post-employment benefits cost. There are two components to the net gain or loss. The first is the difference in the defined benefit obligation (DBO) for changes during the fiscal year that are due to actual experience such as employee turnover, retirements, mortality, medical inflation and salary increases being different from those assumed, plus the impact on the DBO of any changes in the assumptions. The second is the difference in the return on plan assets during the fiscal year, adjusted for the cost of asset management, versus the assumed return based on the fiscal year discount rate.

- 'Enhanced' disclosure of information about the plan's characteristics and the employer's associated risks is required.

- The administration expenses were previously hidden as a deduction from the return on the assets. Now that the return on assets is effectively taken to be the discount rate, the administration expenses for each year are to be recognized in the profit and loss (P&L), typically in the service cost. The exception will be investment-related expenses, which will be deducted from the investment return in the OCI.

- The refinement also simplifies matters in one respect, and that is for funded plans where there is, or there is expected to be, surplus as a result of local funding rules. The provisions of International Financial Reporting Standards Interpretations Committee (IFRIC) 14 do not need to be applied, but advisors should check carefully on this point.

The requirements are effective from 1 January 2014 and require a retrospective adjustment to the financial statements on 1 January 2013.

Impact on benefit cost calculations

The changes likely to have the most impact on post-employment plan costs when sponsors adopt the amended TAS19 are as follows:

- If assets are held, the interest charge will be based on the NDBL and net cash flows using the discount rate. The NDBL will be the difference between the DBO (similar to projected benefit obligation) and the fair value of plan assets. If the expected return on the plan assets had been greater than the discount rate used for the DBO, there will now be an increase in the fiscal benefit cost for funded plans broadly equal to the difference in the expected return on assets and the discount rate applied to the assets. This extra cost will then be subsequently released in the following year to the extent that the actual return on the assets is greater than the discount rate.

- Bond yields in Thailand fell in the first half of 2014 although the change was not as big as witnessed in global markets in the past few years. All other things being equal, this will lead to an increase in the liabilities in respect of post-employment benefits. In the past, that increase could be amortized by spreading the increased cost over a future period. In many cases this cost was spread over a period equal to the average future service of the employees. The new standard requires it to be recognized immediately.

Disclosure requirements

TAS19 clarifies the elements to disclose to users of the post-employment benefits financial information. The company must:

- Explain the plan characteristics and associated risks, such as the benefit formulas, the regulatory environment, responsibilities of any trustees or boards of directors and any ‘significant concentrations of risk’ (e.g., a less diversified asset portfolio).

- Identify and explain the charges and credits to the plans, the NDBL, the effect of foreign exchange rates, contributions, asset classes and the ‘significant’ actuarial assumptions used in the calculations.

- Describe the amount, timing and ‘uncertainty’ of future cash flows by conducting a sensitivity analysis of significant actuarial assumptions, describing any asset-liability matching techniques.

- Calculate the weighted average liability duration.

- Describe the funding policy.

ACTION

All employers reporting under Thai accounting standards must ensure the changes are complied with by 1 January 2014 if they have not already done so. Some firms, such as subsidiaries of multinational parents, will have head office guidance to follow.

For more details on the changes or to explore the expected impact on your company, please contact:

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