

PRI AND IAS 19 / IFRS

IAS 19 / IFRS

– a new way of calculating and reporting pension commitments

Sweden's Association for the Development of Generally Accepted Accounting Principles' (Redovisningsrådet) Recommendation RR 29 – which is based on IAS 19 / IFRS – was introduced at the turn of the year 2003/2004. This Recommendation states that quoted companies – and companies large enough to be of significant public interest – shall apply the rules from and including the 2004 Consolidated Report.

Which Group companies are covered

- Companies that are subject to public trading
- Companies large enough to be of significant public interest
- Companies that are part of Groups that are quoted on foreign stock exchanges

Better comparability

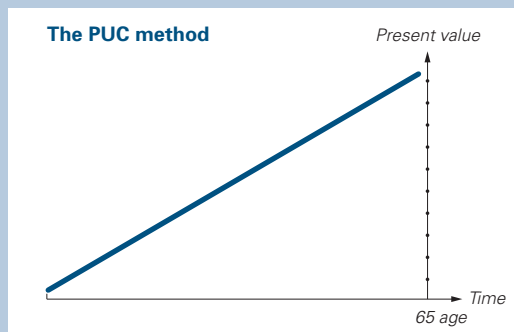
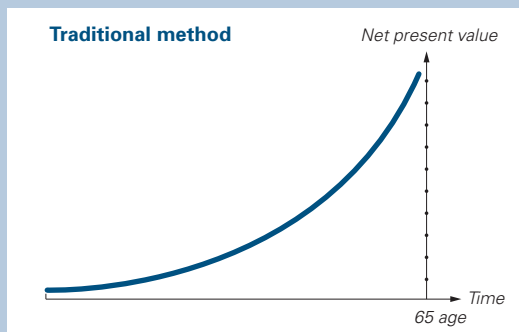
The new international rules change the principles that govern the calculating and reporting of pension commitments. The calculations according to IAS 19 / IFRS mean, among other things, that companies establish their own parameters, such as long-term commitments relating to discount rates, salary increases and inflation.

There are a number of reasons for implementing IAS 19 / IFRS. Comparability is a key word. For larger Groups, the common accounting rules improve comparability between companies in different countries. Comparability between different Groups will also improve. Company annual reporting will also develop, annual reports will contain more detail, and there will be greater transparency in financial reporting. IAS 19 / IFRS also creates the conditions for better assessments of companies' financial value, and will provide a more true and fair picture of the company. Better decision-making data will also be produced for company acquisitions.

The classification of pension plans requires expert knowledge

The recommendation requires detailed description and classification of all plans for compensation after employment has ended. This will allow these commitments to be identified as either defined contribution pension plans or defined benefit pension plans. Defined benefit pension plans are covered by the new calculation and accounting method. This classification often requires expert knowledge.

The classification involves extensive preparations, particularly for international Groups. PRI has the requisite experience and competence.



With the PUC method, pension costs are accounted linearly.

The PUC calculation method – including future earning of pension entitlements

The net present value of a defined benefit pension plan is to be performed using the PUC method (Projected Unit Credit Method). Unlike the method of calculation applied hitherto, this method also considers the future earning of pension entitlement.

The calculation is based on a number of long-term undertakings, for example future salary increases, interest assumptions, inflation and estimated numbers of staff ending their employment. The assumptions are to be based on the best assessment in each company, and shall be reported openly. Taking these long-term assumptions as a point of departure, an estimate is made of the present value of future cash flows. The intention of the PUC method is to spread the pension cost evenly over time.

The need for comprehensive information

The recommendation also needs comprehensive details about the pension plan and changes to the pension liability. If the enterprise has made transfers to a pension fund to secure its pensions, these assets ought to be valued at the real value on closing day. The net assets and gross commitments are to be reported as assets or liabilities in the balance sheet.

Some abbreviations:

IAS 19 *

International Accounting Standard 19 – the accounting of disbursements to employees.

IASC *

International Accounting Standards Committee

IFRS *

International Financial Reporting Standards

IASB *

International Accounting Standards Board

IFRIC

International Financial Reporting Interpretations Committee – the equivalent to the Financial Accounting Standards Council's Emerging Issues Task Force in Sweden.

RR 29

The Association for the Development of Generally Accepted Accounting Principles Recommendation no. 29

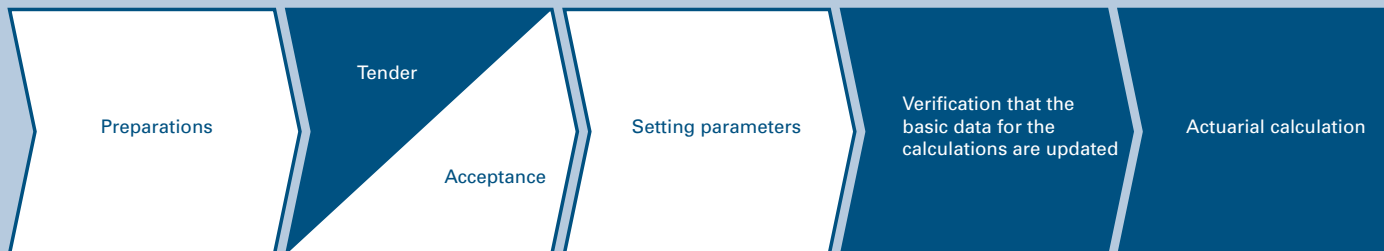
The PUC method

The Projected Unit Credit Method – a method for actuarial calculations of the present value of defined benefit pension undertakings

* The complex of rules published by IASB is called IFRS, while those developed by IASC up to 2001 are referred to as IAS.

How PRI applies IAS 19 / IFRS

– a work process involving shared responsibility



The work is performed in close cooperation with the customer company and PRI. The figure above gives an outline of the work process. The various work operations are often done parallel with one another, and require continuous communication between principal and agent.

Preparations

Before the company's pension commitments are calculated, the company must complete the following preparations, among others:

- Make an inventory of, and classify, all pledges regarding remuneration after employment has ended. (If required PRI can, of course, assist in this process.)
- Prepare for the work by establishing what actuarial, financial and other assumptions are needed for the calculation.
- Analyse the need for external help with the calculation work and contact suitable partners.
- Establish routines for updating essential basic data.
- Produce a timetable for the work.

Setting parameters

PRI discusses parameter setting with the company by following a special checklist. The company has the final say on the parameters needed for the calculations.



Verification that the basic data for the calculations are updated

It is of the utmost importance that the basic data for the calculations are up to date. PRI collects basic data for the pension plans in question.

Analysis of special events

PRI analyses and produces a separate report of the special events that have affected the change in the commitment, but that are not to be included in the actuarial profit/loss. Examples of such events include the transfer of the pension commitment to/from the company, early retirement pensions and the redemption of pension entitlements into insurance.

Analysis of the Income Statement and the Balance Sheet

PRI analyses the impact of the calculations on the Income Statement and Balance Sheet

Compiling reports

The reports that PRI delivers contains the information the company must submit about its pension commitments, and are designed to allow the company to easily integrate this information into its financial reporting. (See also Page 6.)

Preparations for next year's calculation

An evaluation of the past year's work is important preparation for the coming year's financial reporting. What worked well and what can be improved?

PRI's reporting

- meets the new demands of the company's financial reporting



One report per company, in which all pension plans are reported separately and summarised.



Group Summary



An Actuarial Report that presents the prerequisites for the calculations together with the Actuary's report on the calculation.

All reports are delivered in Swedish and/or English.

A clear focus on accounting

PRI's services with regard to IAS 19 / IFRS, include both the actuarial calculation and the basis for the company's financial reporting. Close cooperation with customer companies has been – and is – a natural part of this process.

PRI has a clear accounting perspective in its work with IAS 19 / IFRS. This has facilitated our communication with the finance and accounting departments of customer companies. Tailoring the service to customer needs is also achieved with the help of efficient system support that is constantly under development and modification.

IAS 19 / IFRS places extensive demands on the information about pension commitments that the company must submit in its financial reporting. The reports that PRI delivers to the company contain these details and are designed to allow the company to easily integrate this information into its financial reporting. Quality is assured by having a good mix of customers – from multinational corporations to smaller individual companies with foreign parent companies.

PRI's competence mix

- meets the needs of the market

The new accounting rules change the conditions for reporting the pension commitment in many Groups of companies. To meet these demands, PRI has built up its own business area. The services PRI provide are characterised by broad competence, a clear focus on accounting, and a high level of adaptation to customer requirements.

Broad and coordinated competence

In a relatively short time PRI has become one of Sweden's biggest suppliers of services relating to the reporting of pension commitments in compliance with IAS 19 / IFRS. PRI's success factors are based on broad and coordinated competence. Knowledge of IAS 19 / IFRS, accounting, ITP, actuarial calculations and debt analysis are coordinated in an effective way.

Why choose PRI?

- A clear focus on accounting
- Good system support with good analysis possibilities
- A good composition of competence
- Long experience of analysing pension liabilities
- Calculation of pension liability in different scenarios – among other things, with ALM (Asset Liability Management) studies

Analysis of pension liability

- Knowledge of the ITP plan
- Experience of how basic information is interpreted
- Experience of analysing events that affect pension liability



Economic reporting

- Knowledge of the IAS 19 / IFRS rules
- Competence and experience in the field of consolidated accounting

Actuarial calculations

- Many years' experience of calculations applying the PUC method
- Main focus on ITP



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