SSAP 34, Employee Benefits Q+A

Here are some of the questions received by the HKSA staff on the application and interpretation of the above-named HKSA' s professional pronouncement. The answers below represent solely the views given by the HKSA staff based on the facts and assumptions provided. They are intended for general guidance only and do not constitute authoritative responses on behalf of the HKSA Neither the HKSA nor the staff involved will accept any responsibility or liability whatsoever for any accounting treatment and/ or the auditing or professional procedures applied on the basis of the answers given.

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Consolidation of post employment benefit schemes

Q1: SSAP 34 requires an enterprise to account for its obligations under the established terms of a defined benefit retirement savings plan.

An enterprise makes contributions towards a post-employment defined benefit scheme that is separate, both legally and operationally, from the reporting enterprise. Prior to the introduction of SSAP 34 in 2002, the post-employment defined benefit scheme as a separate entity had appropriately not been included into the enterprise' s balance sheet and/or consolidated financial statements.

Under paragraph 24, an enterprise applies SSAP 34 to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. Furthermore, paragraph 49 suggests that it is often the case that an enterprise is, in substance, underwriting the defined benefit plan and paragraph 50 appears to suggest that the enterprise accounts for the defined benefit plan.

Does SSAP 34 have the effect of requiring such post-employment benefit schemes to be either brought onto the employer' s balance sheet or consolidated into the financial statements?

A1: No. SSAP 34 is concerned solely with the recognition, measurement, presentation and disclosure and of employee benefit-related expenses and liabilities so far as the reporting enterprise is concerned.

In the case where a retirement benefit scheme was previously and appropriately excluded from an enterprise' s balance sheet and/or consolidated financial statements on the basis that the scheme is legally and otherwise separate from the enterprise, SSAP 34 does not have the effect of now requiring such a scheme to be recognised or consolidated into the enterprise' s financial statements.

SSAP 34 broadly requires an enterprise to account for its obligations towards such a scheme or arrangement (typically referred to as a “plan” in the SSAP) and to recognise, as both a current period expense and a liability, any amount that is considered due to the retirement benefit plan. This is what is meant in paragraphs 24, 49, 50 and others when the SSAP makes reference to the reporting enterprise’s accounting for such plans.

The requirements under SSAP 34 do not equate with a supposed need to consolidate the financial statements of the retirement benefit scheme itself.

It should also be noted that, in Hong Kong, the Occupational Retirement Schemes Ordinance requires that such retirement benefit schemes be established as separate legal entities that are not under the control of the employer (reporting enterprise). It is therefore inappropriate, both in terms of the law and the accounting standards, to suggest that the financial performance and financial position of such schemes be recognised in the employer’s financial statements.

<u>The transition to SSAP 34, Employee Benefits</u>

Q2: An enterprise prepares its financial statements in accordance with Hong Kong SSAPs and, prior to the introduction of SSAP 34 for periods beginning on or after 1 January 2002, accounted for its defined benefit plan obligations under IAS 19, Employee Benefits. In so doing, the enterprise had previously applied accounting policies that are identical to SSAP 34.

The transitional provision for defined benefit obligations specified in SSAP 34 paragraph 157 is the same as that specified in IAS 19 paragraph 154 but the liability recognised at the time of transition to SSAP 34 is measured in a slightly different way to IAS 19 – actuarial gains and losses are not taken into account on the transition to SSAP 34.

A2: When an enterprise has adopted the accounting treatment in an IAS that is identical to that specified subsequently in an SSAP, it is considered that the enterprise is not transitioning (again) into the newly applicable SSAP and, instead, continues to apply the accounting policy in accordance with that required under the SSAP going forward.

As a result the defined benefit liability, recognised previously in accordance with IAS 19, would not be subject to the specific transitional provision in SSAP 34.