

SSAP 34, Employee Benefits

Background

SSAP 34 came into effect for financial statements covering periods beginning on or after 1 January 2002. Paragraph 162 (re Long Service Payments) was amended with effect for financial statements covering periods beginning on or after 1 January 2003.

Questions and answers on SSAP 34 appear below.

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Feedback welcomed

We welcome your comments and feedback. Comments and suggestions on the material in this document should be addressed to Mr. Simon Riley, Deputy Director – Accounting, Hong Kong Society of Accountants, e-mail: commentletters@hksa.org.hk.

Relevant links

SSAP 34..... http://www.hksa.org.hk/professionaltechnical/pronouncements/handbook/volume2a/2_134a.htm

Summary of SSAP 34..... <http://www.hksa.org.hk/professionaltechnical/accounting/standards/ssap34.pdf>

HKSA Financial Reporting home page <http://www.hksa.org.hk/professionaltechnical/accounting/>

Reference materials page <http://www.hksa.org.hk/professionaltechnical/accounting/rm>

SSAP 34.001-1 Consolidation of post employment benefit schemes

Q: *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?

A: 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.

SSAP 34.010-1 Provision for Annual Leave

Q: *If an entity pays a lump sum to all staff in lieu of annual leave entitlement and, as a result, extinguishes all of the entity's annual liability owed to staff as at balance sheet date, is there a need to recognise a liability for annual leave under paragraphs 10 and 14 of SSAP 34?*

A: In the above situation, if the payment was made on or before balance sheet date, there would typically be no liability arising in respect of annual leave. However, if the payment was made after balance sheet date, a liability would be reflected on the entity's balance sheet regardless of whether the amount was paid out in cash either by way of a lump sum or by way of continuing salary payments made to staff at times when annual leave is taken.

SSAP 34.092-1 Limits of the “corridor”

Q: *Is the corridor under SSAP 34 paragraph 92 subject to any maximum period of amortisation?*

A: The limits of the corridor under paragraph 92 are remeasured every year and are not subject to any amortisation period. An example of applying the corridor appears in SSAP 34 at Appendix A.

SSAP 34.154-1 The transition to SSAP 34

Q: *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 154 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.

Does the enterprise apply the SSAP 34 transitional provisions to its defined benefit plan obligations that had previously been accounted for in accordance with IAS 19?

A: 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 undergoing a fresh transition into the newly applicable SSAP but, rather, continues to apply the accounting policy in accordance with that required under the SSAP.

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.

SSAP 34.162-1 Treatment of Long Service Payments

Q: *How are long service payments treated under SSAPs?*

A: Under SSAP 34 paragraph 162, revised with effect from 1 January 2003, long service payments made under the Employment Ordinance are accounted for as “post employment benefits – defined benefit plans” in accordance with paragraphs 48 to 125 of SSAP 34. Prior to the revision, long service payments were accounted for as “other long-term employee benefits” under SSAP 34 paragraphs 126 to 131. The main difference between the two treatments is that the latter did not allow preparers to take advantage of the “corridor” provision and the transitional provision as available for defined benefit plans under paragraphs 92 and 155 of SSAP 34. Prior to the introduction of SSAP 34, long service payments were accounted for under SSAP 28, *Provisions, Contingent Liabilities and Contingent Assets*.

SSAP 34.162-2 Recognition of Long Service Payments

Q: An entity employs a number of staff, none of whom is within 10 years of retirement. All the employees have been serving the company for more than 10 years and the turnover rate is very low. The company has no plan to dismiss employees in the foreseeable future. Furthermore, according to the Employment Ordinance, obligation to make long service payment only arise at the time the employees are being dismissed or resign by having reached the age of 65.

Under SSAP 34, when should a provision for long-term service payments, payable under the Hong Kong Employment Ordinance, be recognised in the financial statements?

A: An entity should recognise a long service payment obligation for its employees for each accounting year during which the entity receives service from the employees.

A long service payment obligation is recognised on the basis set out under paragraphs 48 to 125 of SSAP 34, primarily on the basis of an actuarial valuation of the provision required in respect of all staff, irrespective of any minimum service period and regardless of whether such staff are nearing retirement age. The liability recognised will take into account the factors specified in SSAP 34 paragraph 54 and will be reflective of the percentage of employees to whom the entity expects, ultimately, to make long service payments.