

**Statement of
Financial Accounting Standards
No. 18**

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Translated by

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Financial Accounting Standards Committee

Statement of Financial Accounting Standards No.18

Accounting for Pensions

I Introduction

- (1) This Statement establishes standards of an enterprise's (employer's) accounting for pensions, of which the objectives are:
- (a) to provide information of net periodic pension cost that is understandable, fairly presented, comparable and useful;
 - (b) to disclose fully the extent of efforts that an employer undertakes to provide employee pensions; and
 - (c) to improve reporting of financial position and operating results.

The aforementioned pension benefits include those provided:

- (a) under mandatory laws and regulations;
 - (b) under formal plans announced by the enterprise or agreements between the enterprise and its employees; and
 - (c) under constructive obligation resulting from actual informal practices.
- (2) This Statement does not apply to a plan that provides only life insurance benefits and/or health insurance benefits; nor does this Statement apply to health care benefits provided through a pension plan.

II Definitions

(3) The terms used in this Statement are defined as follows:

- (a) *Employer*: The enterprise itself and not the chief executive officer or other specified individuals in the enterprise.
- (b) *Pension plan*: The formal and/or informal arrangements by the enterprise to provide pension benefits to its employees.
- (c) *Constructive obligation*: Informal practices can give rise to a constructive obligation where refusing to comply would cause material damage.
- (d) *Actuarial assumptions*: Assumed factors used to calculate actuarially the pension costs. Actuarial assumptions consist of:
 - (i) demographic assumptions such as employee mortality rates, rates of employee turnover and early retirement, etc.
 - (ii) financial assumptions such as discount rate on pension benefit obligations, future compensation level, expected rates of return on plan assets, etc.
- (e) *Actuarial present value*: The discounted value, as of a specified date, of an amount of benefits payable in the future after considering (a) the time factor and (b) the probability of payment.
- (f) *Pension benefit formula*: The provisions under a pension plan used to calculate employees' pension benefits. It is usually relevant to the period of the service and the compensation level of the employee.
- (g) *Attribution*: The process of assigning pension benefits to periods that an employee has served.

- (h) *Projected benefit obligation*: The actuarial present value as of a specified date for attributing all pension benefits payable in the future calculated by the pension benefit formula until that date. The projected benefit obligations of the future-pay-related pension plans should be estimated based on future compensation levels.
- (i) *Accumulated benefit obligation*: The actuarial present value as of a specified date for attributing all pension benefits calculated by the pension benefit formula until that date. The accumulated benefit obligations of future pay-related pension plans should be estimated based on current compensation levels.
- (j) *Vested benefits*: The benefits which the employee is entitled to receive, no matter whether the employee continues his work and even if the employee leaves the employer at that specified date, the employer has the obligation to pay. For example, a pension plan provides that employees are vested after they have served the employer for 25 years. If the employees select to continue their service after they have served the employer for 25 years and before they attain the age of forced retirement, then the employees are entitled to the benefits accumulated from the past years they served and receives the benefits when they retire any time in the future.
- (k) *Vested benefit obligation*: The actuarial present value as of a specified date calculated by discounting the vested benefits at the scheduled payment dates.
- (l) *Plan (fund) assets*: Assets specified by the pension plan and used to provide pension benefit payments. These assets are segregated from the employer. Plan (fund) assets may be certificates of deposit, stocks, bonds and other investments. The amount of plan (fund) assets includes those contributed by the employer, the employees (in the case of a contributory plan) and actual returns earned from investing the plan assets,

less benefits paid. Securities issued by the employer and held by the plan can be included in plan assets provided they are transferable anytime. For the purposes of this Statement, assets of which the usage by the employer is not effectively restricted, are not plan assets.

- (m) *Net periodic pension cost:* The amount recognized as the periodic pension cost by the employer according to its pension plan. The amount of net periodic pension cost consists of items such as service cost, interest cost, expected return on plan assets, amortization of prior service cost, amortization of pension gain or loss, amortization of unrecognized transitional net assets or benefit obligation, and curtailment or settlement gain or loss.
- (n) *Service cost:* The actuarial present value as of the end of a specified period for pension benefits payable in the future, calculated by the pension benefit formula, and attributing to services rendered by employees during that period.
- (o) *Interest cost:* The imputed interest calculated using the projected benefit obligation and the discount rate.
- (p) *Expected return on pension plan (fund) assets:* A return calculated based on the expected long-term rate of return applied to the fair value of pension plan (fund) assets. To estimate the expected long-term rate of return on plan (fund) assets, both the return already earned on plan (fund) assets and the return expected to be earned in the future should be considered to reflect the long-term average return on the pension plan (fund) assets.
- (q) *Prior service cost:* The projected benefit obligation increased due to an employee's past years of service at the initial introduction date or the subsequent amendment date of the pension plan.
- (r) *Pension gain or loss:* Gain or loss from a change in the value of

either the pension plan assets or the projected benefit obligation resulting from actual experience different from that assumed or from a change in an actuarial assumption.

- (s) *Gain or loss on pension (fund) plan assets:* The difference between the current actual return on pension plan (fund) assets and the expected return on pension plan assets.
- (t) *Actual return on plan (fund) assets:* The amount of difference between the fair value (the book value if the assets were for its own use) of pension plan (fund) assets as at the beginning and end of the period, after adjusting for contributions and payments of benefits made during the current period.
- (u) *Gain or loss on projected benefit obligation:* The change in projected benefit obligations due to the changes in actual experience or in actuarial assumptions.
- (v) *Unrecognized transitional net assets or net benefit obligation:* The amount, resulting from a change from a method other than that specified in this Statement and a method specified in this Statement, which is the difference between (a) the fair market value of plan assets plus accrued pension liabilities or less prepaid pension cost recognized previously on the books and (b) the projected benefit obligation. If the difference is positive, it is unrecognized transitional net assets; if the difference is negative, it is unrecognized transitional net benefit obligations.
- (w) *Minimum pension liability:* The excess of the accumulated benefit obligation over the pension plan (fund) assets at the balance sheet date.
- (x) *Curtailment:* An event with material financial statement effect that significantly reduces the expected years of future service of present employees or decreases the pension benefits from their future services for a significant number of employees.

- (y) *Settlement*: A transaction that simultaneously complies with three of the following conditions: (i) is a binding transaction, (ii) relieves the employer of primary responsibility for a pension benefit obligation, and (iii) eliminates significant risks related to the pension benefit obligation and the assets used to settle such obligation.
- (z) *Gain or loss on curtailment or settlement*: Net gain or loss resulting from a curtailment or settlement, including:
 - (i) any resulting change in the projected benefit obligation;
 - (ii) any resulting change in the fair value of plan assets;
 - (iii) any resulting change in the unamortized balance of prior service cost, pension gain or loss, and unrecognized transitional net assets.
- (zz) *Annuity contract*: A contract between an enterprise and an insurance company or a financial institution where the enterprise is required to pay a fixed premium or consideration and the insurance company or the financial institution assumes a legal obligation to provide specified benefits to specific individuals. An annuity contract is irrevocable and involves the transfer of significant risk from the employer to the insurance company.

III Explanation

- (4) A pension is a part of the compensation paid by an employer for an employee's services, payable in a lump upon the employee's retirement or serially after the employee's retirement. Generally, the amount of pension benefits depends on a number of future events that are incorporated in the pension plan's benefit formula, such as the timing of payments, the number of years the employee served, and the employee's compensation level at the time immediately

before retirement.

- (5) According to the method of determining pension benefits, pension plans can be classified into the following two kinds:
 - (a) *Defined contribution pension plan*: The employer contributes annually an amount defined by the pension plan to a pension fund that is entrusted to a trustee for its custody and management. The employees will be paid for the portion of the pension fund belonging to them when they retire. When this occurs, the benefits an employee will receive depend solely on the amount contributed to the fund by the employer and the returns earned thereon; and the employer does not guarantee the amount of pension benefits. Therefore, the employees bear, in substance, actuarial and investment risks.
 - (b) *Defined benefit pension plan*: The employer promises to pay a one-time pension benefit with a defined lump sum amount or to pay a serial of pension benefits with a defined annuity, regardless whether the employer makes contributions or not. In these circumstances, it is important for the employer to be able to fulfill its obligation to pay the pension benefits upon the employee's retirement. Consequently, the employer bears, in substance, actuarial and investment risks. The amount of the pension benefits are usually determined by the level of compensation and/or years of service.
- (6) For employers sponsoring defined contribution plan, the amount that should be contributed to the pension fund each period is the pension cost that the employer should recognize, under accrual basis, for that period.

For employers sponsoring defined benefit pension plan, estimates or assumptions concerning the future events that will determine the timing and amount of the pension benefit payments, and the selection of an approach to attributing the cost of pension benefits to individual years of service should be made in accounting for the pension plan.

- (6-1) If an enterprise funds pension plan by contributing to an insurance policy and if the arrangement should be classified as defined benefit plan, the enterprise should:
- (a) account for the rights under the insurance policy as assets (if the policy is held by the enterprise itself) or as plan assets (if the plan rights under the policy meet the definition of plan assets).
 - (b) account for its obligation to the employees as a liability in the same way as if there were no insurance contract.
- (6-2) Where the beneficiary of an insurance policy is the employee covered by the pension plan and, except for the payment of insurance premium, the enterprise does not have any legal or constructive obligation to pay benefits to the employee, then the insurer has sole responsibility for paying the benefits. The payment of the fixed premiums under such contracts is, in substance, settlement of the employee benefit obligation. Consequently, the enterprise no longer has a pension asset and a pension benefit liability, and therefore, it accounts for such payments as a defined contribution plan.
- (7) The pension plans can be categorized into two kinds based on the computation bases incorporated in the pension benefit:
- (a) *Plans based on future compensation levels:* The pension benefit formula is based on the compensation level effective at the retirement date in the future.
 - (b) *Plans not based on future compensation levels:* The pension benefit formula is not based on the compensation level effective at the retirement date in the future.
- (8) The projected benefit obligation is measured based on future compensation levels. The future compensation level is the estimated amount that each employee participating in the pension plan will

eventually receive. The estimation of the projected benefit obligation should incorporate the impact of changes in factors such as the general inflation level, productivity, years of service, promotion, related laws and regulation, and others.

- (9) The accumulated benefit obligation is not based on future compensation levels, therefore, it differs from the projected benefit obligation for pension plans based on future compensation levels, and is the same as the projected benefit obligation for plans not related to future compensation levels.
- (10) Some pension plans may have benefit formulas that attribute all or a major portion of the total benefits to later years of service, thereby achieving a delayed vesting of benefits. For example, a plan that provides no benefits for the first 19 years of employee's service and vests a pension benefit of \$1,000,000 for the 20th year is the same in substance as a plan that provides pension benefits of \$50,000 per year for each year of the 20 years. For such plans, the total projected benefits shall be accumulated in proportion to the ratio of the number of completed years of service to the number of years necessary to have the benefit fully vested.
- (11) The accumulated benefit obligation represents the benefit obligation the employer probably would assume if the pension plan was to be discontinued. The vested benefits represent the benefits the employer should assume if the employees left the enterprise at the balance sheet date.
- (12) The discount rate used to estimate service costs, interest costs, projected benefit obligation, accumulated benefit obligation and vested benefit obligation should reflect the rate at which the sum of the principal and the return compounded at that rate could be sufficiently settled against the future pension benefits.
- (13) The actual return on the investments of pension plan assets may fluctuate widely each period. Accordingly, and if the actual return was included in the net pension cost each period, the periodic net pension cost would also fluctuate widely and even result in a

negative net pension cost. Therefore, the expected return on investment of pension plan assets shall be used to determine the periodic net pension costs.

- (14) The measurement of the accumulated benefit obligation of ordinary pension plans shall be based on the number of years that the employees have served and current compensation levels, without considering the impact of future compensation levels and changes in laws and regulations. In measuring the accumulated benefit obligation of the following special pension benefits, however, all of the projected years of the employees' service shall be considered in determining the employees' expected eligibility for the particular benefits:
- (a) increased benefits that are granted provided a specified number of years of service are rendered (for example, a pension benefit that is increased from \$10,000 per year to \$12,000 per year for each year of service if 20 or more years of service are rendered);
 - (b) early retirement benefits;
 - (c) death benefits; and
 - (d) disability benefits.
- (15) If pension gains or losses are recognized wholly in the current period, it may easily result in wide fluctuation in the periodic pension costs, therefore pension gains or losses should be amortized periodically.
- (16) Deleted
- (16-1) When one of the following events occurs to an enterprise and the resulting gain or loss materially effects the enterprise's financial statements, it constitutes a pension curtailment:
- (a) clear commitment to significantly reduce the number of employees covered by the pension plan; or

- (b) amendment to a defined benefit plan, in order to reduce or eliminate the pension benefits eligible for employees' future service.

A curtailment may arise from an isolated event, such as the closing of a plant and termination or suspension of a plan. An event is material enough to qualify as curtailment only if the recognition of a curtailment gain or loss would have a material effect on the financial statements.

- (16-2) Examples of transactions that constitute a settlement as defined in paragraph 3(y) include (a) making lump-sum cash payments to plan participants in exchange for their rights to receive pension benefits and (b) purchasing annuity contracts to cover vested benefits.
- (16-3) Curtailment and settlement may occur separately or together. If benefits to be accumulated in future periods are reduced (for example, because half of a work force is dismissed or a plant is closed) but the plan remains in existence and continues to pay benefits, to invest assets, and to receive contributions, a curtailment has occurred but not a settlement. If an employer purchases annuity contracts for vested benefits and continues to provide defined benefits for future services, either in the same plan or in a successor plan, a settlement has occurred but not a curtailment. If a plan is terminated (that is, the obligation is settled and the plan ceases to exist) and not replaced by a successor defined benefit plan, both a settlement and a curtailment have occurred. However, the termination of a plan is not a curtailment or settlement if the plan is replaced by a new plan that offers benefits that are, in substance, identical.

IV Standards

Defined contribution plans

- (16-4) When providing defined contribution plans, an enterprise should

recognize the amounts to be contributed as current expense for the employees' employment period.

If the amount that should be contributed as of the balance sheet date exceeds the contribution paid, the enterprise should recognize that excess as a liability; if the contribution paid exceeds the amount that should be contributed as of the balance sheet date, the enterprise should recognize that excess as an asset.

(16-5) When the point of time at which the enterprise makes pension contributions exceeds one year after the end of the period in which the employees render the related service, then the benefit obligation should be discounted using the discount rate specified in paragraph 23.

(16-6) For defined contribution plans, an enterprise should disclose: (a) a description of the plans and (b) the amount of net pension cost recognized for the current period.

Defined benefit plans

Net pension costs

(17) The net pension cost recognized for each period by an employer shall include the following components:

- (a) service cost;
- (b) interest cost;
- (c) expected return on plan (fund) assets;
- (d) amortization of unrecognized prior service cost;
- (e) amortization of unrecognized pension gain or loss;
- (f) amortization of unrecognized transitional net assets or net benefit obligations; and

(g) curtailment and/or settlement gain and loss.

(18) Each significant assumption used by the enterprise shall reflect the best estimate of particular future events. All assumptions shall presume that the plan will continue in effect in the absence of evidence to the contrary.

(19) The pension benefits should be attributed to each period of the employees' service based on the method specified in or determinable from the pension benefit formula in calculation of the pension costs.

(20) If evidence indicates that an employer has committed to make future amendments and that the substance of the amended plan provide benefits attributable to prior service that are greater than those defined by the current plan, then the pension costs should be attributed based on that commitment.

(21) The impact of automatic increases in pension benefits (for example, annual adjustment based on the consumer price index) shall be considered in measuring service costs, and the projected, accumulated and vested benefit obligations. Plan amendments, if retroactive, shall also be considered in calculating the projected and accumulated benefit obligations once they have been agreed upon by the employer and employees, even if some provisions take effect only in future periods.

(22) If the benefit formula of a pension plan attributes all or a major portion of the benefits to later years of service, it is in substance delaying the vesting of pension benefits. For such plans, the projected benefit obligation shall be accumulated in proportion to the ratio of the number of years of service completed by employees to the number of years necessary to have the benefit fully vested.

Except for those plans where benefit formulas specify the relationship between a particular benefit and years of services rendered, the projected benefit obligation shall be calculated as follows:

- (a) benefits included in vested benefits (such as the increased benefit to encourage early retirement that become the vested benefits after a certain number of years) shall be accumulated in proportion to the ratio of the number of completed years of service to the number of years necessary to have the benefit fully vested;
 - (b) benefits not included in vested benefits (such as disability benefits that are entitled to the employee if and only if the disability occurs during the years the employee is in service) shall be accumulated in proportion to the ratio of completed years of service to total projected years of service.
- (23) In estimating the discount rate used for the measurement of projected, accumulated and vested benefit obligations, service costs and interest costs, the following factors shall be considered:
- (a) long-term average of the rates adopted by the institution designated to the custody and management of the pension fund;
 - (b) rates of return on relatively high-safety fixed-income investments currently available and expected to be available until maturity of the pension benefits; and
 - (c) rates implicit in annuity contracts purchased from the insurance company and used to settle pension benefits.
- (24) Investments of the plan (fund) assets shall be measured at their fair values as of the measurement date. The fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Fair value shall be measured by the market price if an active market exists. If there is no active market for the investment but there is an active market for similar investments, then the quoted prices of the similar investments may be used to estimate the fair value. If a market price is not available, a forecast of expected cash flows discounted at a rate commensurate with the risk involved may be used in estimating the

- fair value.
- (25) The portion of plan (fund) assets used in operating the fund itself (e.g., buildings, equipment, furniture and fixtures, leasehold improvements etc.) shall be measured at cost less accumulated depreciation or accumulated amortization.
 - (26) The measurement date of pension plan (fund) assets and benefit obligations shall be the date as at the end of the accounting period or, if used consistently, a date not more than three months prior to that date. The measurement date is also the date of amendment when there is a plan amendment.
 - (27) The prior service costs should be amortized on a straight-line basis over the average period from the plan effective or amendment date until the benefits become vested. When the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognize the prior service cost as expense immediately.
 - (28) If the projected benefit obligation is reduced by a plan amendment, then the reduction shall be used to reduce prior service cost for the same plan, and the excess, if any, shall be amortized over the same period specified in the preceding paragraph.
 - (29) Deleted
 - (30) If the unamortized net pension gain or loss exceeds 10 percent of the greater of projected benefit obligation or the fair value of plan assets, as at the beginning of the year, the excess shall be amortized, and the amortization shall be included in net pension costs. The minimum amount of amortization shall be that excess divided by the average remaining service period of those employees who are still in service and expected to receive pension benefits.
 - (31) Gains or losses that shall be amortized and are specified in the previous paragraph can also be amortized by using other systematic methods, provided that the amount amortized is no less than the

minimum specified in the previous paragraph. When other methods of amortization are used, the method should be: (1) applied consistently; and (2) applied similarly to both gains and losses.

- (31-1) The amount amortized for pension gain is limit to the excess of the net cumulative unamortized pension gain over the unrecognized transitional net benefit liability.

Recognition of assets and liabilities

- (32) If the amount contributed to the plan (fund) assets by the employer is less than the net pension cost, then the difference shall be recognized as an *accrued pension liability*; and if the amount contributed is larger, then the difference shall be recognized as a *prepaid pension cost*.

The carrying amount of *accrued pension liability* should be the sum of the following amounts:

- (a) projected benefit obligation as of balance sheet date;
- (b) minus (plus) unamortized pension loss (gain);
- (c) minus unamortized prior service cost;
- (d) minus (plus) unamortized unrecognized transitional net benefit liability (net asset);
- (e) minus the fair value of plan assets (plan assets used in operating the fund itself should be measured pursuant to paragraph 25, i.e. at cost less accumulated depreciation or accumulated amortization).

- (32-1) If the total amount determined by paragraph 32 is negative (prepaid pension cost), an enterprise should measure the resulting *prepaid pension cost* at the lower of:

- (a) the amount determined under paragraph 32; and
- (b) the total of: (i) unamortized pension loss; (ii) unamortized

prior service cost; and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

- (33) Minimum pension liability is the minimum amount of pension liability that is required to be recognized on the balance sheet. If the accrued pension liability recorded on the books is less than the minimum amount, the difference shall be recognized by crediting *accrued pension liability*; if the item originally recorded on the books is prepaid pension cost, then it should first comply with paragraph 32-1, and the resulting balance plus the minimum pension liability mentioned above should be credited to *accrued pension liability*. The additional accrued pension liability recognized shall be combined with the accrued pension liability or prepaid pension cost already recorded on the books, and disclosed as an accrued pension liability when preparing the balance sheet.

The situation in the previous paragraph of an additional amount being recognized usually occurs due to the existence of prior service cost and unrecognized transitional net benefit obligation. If the amount of additional liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation, then the deferred pension cost account shall be charged; if the amount of additional liability exceeds the sum, the excess shall be charged to the *net loss not yet recognized as net pension cost* account. Deferred pension cost is classified as an intangible asset; net loss not yet recognized as net pension cost is classified as a reduction of owners' equity.

The additional minimum liability and its counterpart recognized additionally shall be reversed in the following year, and the amounts recognized additionally shall be recalculated at the end of each year. The amount of minimum liability can be either recalculated, or an adjustment made to the balance as of the last balance sheet date with the subsequent net pension cost recognized and contributions made to the pension fund when the employer prepares the interim financial statements. The pension liability shall be recalculated when there is a change in the pension plan.

Pension contribution by payment of insurance premium

(33-1) If enterprise pays insurance premiums to fund a pension plan, the enterprise should treat such a plan as a defined contribution plan. However, the enterprise should treat the plan as a defined benefit plan if the enterprise will have a legal or constructive obligation to either:

- (a) pay the employee benefits directly when and after the employees retire; or
- (b) make further contributions if the insurer does not pay all future employee benefits.

Curtailment and settlement

(33-2) When curtailment and/or settlement occur to an enterprise providing defined benefit plan, the enterprise should recognize curtailment and/or settlement gains or losses as part of the net pension cost for the period.

(33-3) Before calculating the effect of curtailment and settlement gains and losses, an enterprise should use current actuarial assumptions to remeasure the projected benefit obligation and the related plan assets.

(33-4) Where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the curtailment or settlement gain or loss includes a proportionate share of the previously unrecognized prior service cost, pension gains and losses, and unrecognized transitional net assets or net benefit obligation. The proportionate share is determined on the basis of the projected benefit obligations before and after the curtailment or settlement, but any other more rational basis is also acceptable.

Disclosure

(34) An employer sponsoring a defined benefit pension plan should disclose the following items in the body or notes of its financial

statements:

- (a) A description of the plan: including employees covered by the plan, the formula which calculates benefits, the funding policy of the pension fund, plan (fund) assets and other significant matters affecting the comparability of the financial statements for all periods presented and impact thereon.
- (b) The amount of net periodic pension costs: reporting separately the service cost, the interest cost, the actual return on plan assets, and the net total of other components.
- (c) A reconciliation statement reporting the funded status of the pension plan (fund) and amounts reported in the balance sheet (simply known as statement of funding status for pension plan (fund)). The reconciliation statement shall report separately:
 - (i) the fair value of pension plan assets (plan assets used in operating the fund itself should be measured pursuant to paragraph 25);
 - (ii) the projected benefit obligation, and also disclose the accumulated benefit obligation and the vested benefit obligation separately;
 - (iii) the unamortized prior service cost;
 - (iv) the unamortized net pension gains or losses;
 - (v) the amount of any remaining balance of unrecognized transitional net assets or benefit obligation;
 - (vi) the additional accrued pension liability recognized pursuant to Paragraph 33; and
 - (vii) the prepaid pension cost or accrued pension liability recognized in the balance sheet (which should equal the sum of the preceding items (i) through (vi)).

- (d) Vested benefits.
- (e) The discount rate and rate of compensation increase used to measure the projected benefit obligation and the expected long-term rate of return on pension plan assets.
- (f) If securities of the employer and related parties are included in pension plan (fund) assets, the amounts and types of these securities.
- (g) If alternative methods are used to amortize prior service cost and pension gain or loss (pursuant to paragraphs 31), the methods; and if there are commitments to make future amendments to increase prior service cost (pursuant to paragraph 20), the fact and nature.

More than two pension plans sponsored simultaneously

- (35) When an employer sponsors two or more defined benefit pension plans applicable to different employees, the net periodic pension cost, liabilities, and pension assets of each plan should be determined separately. If one plan has the fair value of its pension plan (fund) assets in excess of its accumulated benefit obligation and the other with its accumulated benefit obligation in excess of its pension plan (fund) assets, then the pension plan assets and accumulated benefit obligation of the plans can not be offset with each other, unless each pension plan provides clearly that the assets of one plan can be used to pay the benefits of another.
- (36) Information may be separated into individual plans, or aggregated in groups of plans, following the principle of information usefulness in preparing the disclosures required by Paragraph 34, with the following exception. Aggregated disclosure is not permitted in preparing the statement of funding status for pension plans if one plan has plan assets in excess of the accumulated benefit obligation and the other plan has accumulated benefit obligation in excess of plan assets.

Disclosures for plans of institutions operated domestically, foreign branches, and consolidated foreign subsidiaries should be made separately unless those foreign plans use actuarial assumptions (eg, discount rate, rate of compensation level increase) similar to those of domestic plans.

The accounting for business combination

- (37) When an employer sponsoring defined benefit pension plans is acquired in a business combination that is accounted for by the purchase method, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation.

Accounting during the transitional period

- (38) The employer that has sponsored a pension plan and did not follow this Statement before the enforcement of this Statement should compute the transitional net assets or net benefit obligation when this Statement is first applied. The unrecognized net assets or net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits, and should be included in the net pension cost. If the average remaining service period is less than 15 years, however, the employer may elect to use a period of 15 years for amortization purposes.

The use of other reasonable methods

- (39) This Statement intends to focus on objectives and results of accounting treatment, rather than specific computational means of obtaining those results. If estimates, averages, or other computational methods can reduce the cost of applying this Statement, and the results are reasonably expected not to be materially different from the results following this Statement, their use is permitted.

V Notes

- (40) This Statement was issued on December 19, 1991, with the first revision on February 22, 2001, and the second revision on September 22, 2005.

The first revised provision of this Statement shall be effective for financial statements with fiscal years ending on or after December 31, 2002. Earlier adoption is encouraged.

Upon the effective date of the first revised provision, no retroactive adjustment is necessary for those financial statements that have been originally prepared in accordance with this Statement. The unamortized balance of prior service cost per books may continue to be amortized over the remaining amortization period; the treatment of the curtailment and settlement that have occurred prior to the effective date of the first revised provision may continue.

The second revised provision of this Statement shall be effective for financial statements with fiscal years beginning on or after January 1, 2006. Earlier adoption is prohibited.

Upon the effective date of the second revised provision, no retroactive adjustment is necessary for those financial statements that have been originally prepared in accordance with this Statement.

The provisions of this Statement need not be applied to immaterial items.