CA THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Frequently Ask Questions (FAQ) on Domestic Debt Restructuring Program

Accounting Treatment: Superannuation Funds

Q: What are the requirements for preparing financial statements for retirement benefit plans in Sri Lanka?

A: Preparers of financial statements for retirement benefit plans in Sri Lanka must consider LKAS 26 Accounting & Reporting by Retirement Benefit Plans. This standard covers the requirements for financial statement content, actuarial valuations, valuation of plan assets, and disclosures.

Q: What are the specific requirements for defined contribution plans that match the obligation of the plan?

A: For defined contribution plans that match the obligation of the plan, the plan assets may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity. This is in accordance with LKAS 26.33.

> *"Securities carry a fixed redemption value and have been acquired to match the obligation of the plan, or a specific part thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity "*
>
> *- LKAS 26- (paragraph 33)*

Q: Why does the accounting for plan assets is not considered under and not identical with the requirements of SLFRS 9 Financial Instruments?

A: Measurement of plan assets uses some of the principles in SLFRS 9 associated with Amortised Cost measurement principles. However, application of such principles to plan assets does not align with all the requirements of SLFRS 9 Financial Instruments because SLFRS 9 classification of Amortised Cost is based on the SPPI contractual cash flows of financial instruments coupled with the Hold to Collect business model. However, in a retirement benefit plan the business model for plan assets extend beyond Hold to Collect to 'Hold to Meet Obligations'. Therefore, while measuring the plan assets using the Amortised Cost principle, application of the principle in determining the initial acquisition cost and constant rate of return to maturity may be different.

Q: What does this mean for the accounting treatment of plan assets?

A: The accounting treatment of plan assets for retirement benefit plans can continue within the purview of LKAS 26 Accounting & Reporting by Retirement Benefit Plans without considering specific accounting treatments specified under SLFRS 9 Financial Instruments. This means that retirement benefit plans can continue with the existing carrying amounts by revising the constant rate of return focusing on the ultimate redemption value of plan assets, in the event of a modification of the characteristics of the asset, without revising the carrying amount, even if it differs from the fair value of the plan assets.

Q: Where can I find more information about the requirements for preparing financial statements for retirement benefit plans in Sri Lanka?

A: More information about the requirements for preparing financial statements for retirement benefit plans in Sri Lanka can be found in LKAS 26 Accounting & Reporting by Retirement Benefit Plans. This standard is available on the website of the Accounting and Auditing Standards Monitoring Board of Sri Lanka (SLAASMB) (slaasmb.gov.lk/sri-lanka-accounting-standards-and-sri-lanka-auditing-standards/).

Q: Can the measurement and accounting treatment be explained in illustrative examples?

A: Please refer the below examples

Example-1: A retirement benefit plan (RBP) has a defined contribution plan (DCP) that matches the obligation of the plan with securities that have a fixed redemption value. The securities were acquired at a cost of Rs.100 million (which was as same as the face value), at 15% coupon (as same as yield to maturity), five years ago. It has another five years to maturity from today and has no accrued interest. The government expects to cancel the existing security and issue a new security instrument with a 15-year maturity period at a rate of 12% to the face value of the existing assets. The applicable discount rate is 16% per annum.

Accounting treatment:

RBP would consider the carrying value of existing government securities as the acquisition cost of the newly issued securities. Interest income of the newly issued securities would be recognized at 12% per annum over the next 15 years.

Accordingly, RBP will not recognize any gain or loss at the point of changeover to new securities as there is no Initial Measurement requirement specified under LKAS 26.

Example-2: In the above example 1 assume that the existing securities had been purchased by the RBP at a cost of 80Mn (face value = 100Mn). All other facts remain the same.

Year		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Investment		-80															
Coupon	12%	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Maturity value																	100
Cashflow		-80	12	12	12	12	12	12	12	12	12	12	12	12	12	12	112

IRR 15.5%

Accounting treatment:

At the time of changeover RBP will continue to carry the investment at 80Mn and will adjust the IRR to 15.5% for the next 15 years.

(Further clarifications: Contact CA Sri Lanka -Technical Division 0112 353 000, Ext 1455)