

## Flash – Pension Plans

# Amendments to Section 4600, “Pension plans”

August 2024

In December 2022 and November 2023, the Accounting Standards Board of Canada (AcSB) amended Section 4600, “Pension plans”, of the *CPA Canada Handbook – Accounting*. These amendments are the result of consultations held across Canada in 2018 and 2019 by the AcSB, where stakeholders raised some concerns related to some guidance in Section 4600 that was either unclear or absent. These amendments aim at resolving some of these issues and to reduce diversity in practice.

This issue of *Flash* provides a summary of the main amendments. However, it does not deal with all potential impacts of these amendments. Readers are encouraged to refer to Section 4600 before making any decisions.

Amendments in Section 4600 relate to the following:

- Clarify that a statement of changes in pension obligations is not required for defined contribution pension plans;
- Provide guidance on determining the split or merger date for pension plans;
- Provide recognition, measurement and disclosure guidance on the accounting for guaranteed annuity contracts (commonly referred to as “buy-in” or “buy-out” annuity contracts);
- Clarify the presentation requirements for combination plans;
- Require additional risk disclosures for interests in master trusts;
- Provide relief from disclosure requirements for investments that are financial instruments not measured at fair value.

These changes are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2024. Early application is permitted. Any specificity related to transitional provisions, the case being, is described in the following sections.

### Pension plan splits and mergers

A plan split occurs when one plan becomes two (or more) plans. Conversely, a merger occurs when two (or more) plans are amalgamated into one. These operations involve several steps, including obtaining approval from the relevant regulatory authorities (such as Retraite Québec), which can extend over a period of several months, or even a few years.

Section 4600 did not include any requirements for determining the date on which a split or merger should be accounted for, which led to diversity in practice. Guidance has been added to Section 4600 to clarify that a split or merger must be accounted for at the later of the following dates:

- The date on which the transaction is effective;
- The date on which the transaction is approved by the relevant regulatory authority;
- The date on which the assets and liabilities are transferred.

#### Please note

For the affected pension plans, an Annual Information Return (AIR) must also be completed. In accordance with Retraite Québec guidelines, “The effects of a plan division or merger must be shown in AIRs for exporting and importing plans, and the amount to be transferred to the importing plan must be indicated in the return as soon as it is known”.<sup>1</sup> In practice, mergers and splits are reflected in the AIRs at their effective date.

The date on which a split or merger is accounted for in a plan's financial statements and the date on which the same transaction is reflected in the AIR may therefore not coincide.

#### Transitional provisions

These amendments apply prospectively.

### Annuity contracts – recognition and measurement

Defined benefit plans may enter into annuity contracts (e.g., with an insurance company) under which the annuity issuer agrees to pay pension benefits to the participants instead of the plan.

There are two types of insured annuity contracts:

- Without buy-in, under which the plan retains a portion of the obligations, for example in the event of bankruptcy of the sponsor or insurance company. This type of contract represents an investment for the amount of the annuity acquired by the plan, and does not eliminate the pension obligation for the plan;

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<sup>1</sup> Source: [Retraite Québec - Plan Division or Merger \(gouv.qc.ca\)](https://www.gouv.qc.ca)

- With buy-out, under which the plan transfers its obligation and responsibility for benefit payments to the annuity issuer. This type of contract represents a final discharge (settlement) of the plan’s benefit obligation.

Section 4600 did not include any requirements on how to account for each type of annuity contract when they were signed, nor on the value at which to subsequently measure any annuity contract presented as an investment in the case of annuity contracts without settlement of obligations, which led to diversity in practice.

Information has been added to Section 4600 to clarify:

- How to account for each type of annuity contract;
- Buy-in annuity contracts presented as an investment should be valued at a value equal to the related benefit obligation subject to any adjustment required if the amounts receivable under the annuity contract are not collectible in full, the amount of the corresponding obligations, adjusted for non-recoverable amounts (and adjusted to take account of the credit risk of the annuity issuer, where applicable);
- Related disclosures, including certain reductions in disclosures for buy-in annuity contracts presented as an investment (see “Other amendments” below).

### **Transitional provisions**

The application is retrospective, resulting in the cumulative effect of changes being recognized as an adjustment to the opening balance of net assets available for benefits for the earliest period presented.

### **Combination plans – presentation**

Section 4600 did not include any requirements for the presentation of financial statements for combination plans, i.e., plans with both a defined benefit and a defined contribution component.

Combination plans will henceforth be required to present the two components separately, both for the current year and for the previous year presented for comparison purposes, including in the notes to the financial statements.

### **Master trusts – disclosure in the pension plan’s financial statements**

A master trust is a structure used by some pension plans to pool their investments, thereby reducing administration costs and optimizing asset performance. Each participating plan holds a share of the assets held in the trust.

Section 4600 did not include any specific disclosure requirements.

The following disclosure requirements have been added:

- The types of investment assets and liabilities held in the master trust, including their level in the fair value hierarchy;
- The plan’s position in the master trust (as the number of units or as the percentage holding) or the plan’s position in each type of investment asset and liability held by the master trust, when the plan’s position is not proportionate to the plan’s total position in the master trust.

## Other amendments

The following changes have also been made to Section 4600:

- Clarification that a statement of changes in pension obligations is not required for defined contribution plans.
- Clarification that pension plan investment disclosures (both those required by IFRS 7 and those set out in the appendix to Section 4600) now apply only to plan investments that are financial instruments measured at fair value. This clarification excludes buy-in annuity contracts presented as an investment from these disclosure requirements.

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