

Considering a buy-in or buyout?

Company accounting – potential treatment at point of transaction

	Partial scheme buy-in		Full scheme buy-in		Buyout	
	Balance sheet	P&L	Balance sheet	P&L	Balance sheet	P&L
IAS19 / FRS 102	Recognised as asset loss (no impact on DBO)	No impact on current year. Loss flows through OCI No remeasurement triggered	This is a grey area and may depend on factors such as whether a buyout in the short term has been agreed		At the point of buyout DBO falls by excluding the liabilities bought-out and plan assets fall by the value of the assets passed to the insurer	Loss recognised immediately through P&L as a settlement Remeasurement triggered
US GAAP (ASC 715)	Two options for recognition: 1. Liability loss (set the PBO for the bought-in liabilities equal to the fair value of the insurance policy) 2. No loss (i.e. no impact on PBO or fair value of plan assets)	Option 1 – loss goes to AOCI . If mark-to-market, will be recognised in P&L in current year Option 2 – no change to PBO or fair value of plan assets so no impact on day 1 No remeasurement triggered	Same as partial scheme buy-in	Same as partial scheme buy-in	At the point of buyout PBO falls by excluding the liabilities bought-out and plan assets fall by the fair value of the assets passed to the insurer	Remeasurement of the PBO at the point of buyout so that the PBO now equals the fair value of the assets passed to the insurer. Total net gains/losses all recognised through P&L as settlement loss (or gain) Remeasurement triggered

The treatment noted above is based on the assumption that the insurance premium exceeds the DBO/PBO of the insured benefits. The comments here should not be considered as and are not a substitute for accounting advice.

Key takeaway: Engage in discussions with auditors early - the treatment of any transaction within the company accounts would need to be discussed and agreed with the company's auditors. Start these discussions early to avoid any surprises.