



**Request of Assistance on the Disclosure of the Accumulated Benefit Obligation for
Post-Employment Benefits**

1) In your jurisdiction, is the entity required to measure the defined benefit obligation on the actuarial basis, for example in accordance with IAS 19?

In Brazil, the current regulation that rules the accounting of the benefit plans in the sponsoring entity is the CVM resolution number 371/00, which, generally speaking, is a provision similar to the current IAS 19, yet inspired in the 1998 edition of the International standard.

The CVM resolution number 371/00 established that the entity should use the Projected Benefit Obligation to determine the current value of its obligations and the costs of the current service and, whenever applicable, the costs of the past service, not making any mention to the obligation of disclosure of the Accumulated Benefit Obligation.

Beside, the actuarial assumptions used for the calculation of the obligation of the benefit plan must be compatible and impartial over the demographic variable (such as employees renovation index and mortality) and financial variables (such as future salary raises, changes in the cost of health plans and other changes in the conditions of the benefits), as also required by the IAS 19.

The financial assumptions are based on businesses practiced in the market for prime papers (should there be no active market for those papers, the rate for the government bonds should be used) and on conditions consistent with the obligations of the retirement benefits.

In rhythm of convergence with the International Standards, there was the inclusion, in a draft for discussion, of the Technical Statement CPC 33, which is totally in line with the IAS 19 in its most current version.

2) If so, is the entity required or encouraged to disclose the ABO amount either for financial reporting, regulatory purposes or any other purposes?

The local regulation does not require the disclosure of the ABO amount in the financial demonstrations of the entities sponsoring benefit plans, nor is there any normative provision that requires such information. Thus, similarly to the IAS 19, the Brazilian regulation determines the use of the Projected Benefit Obligation Method to measure the actuarial obligation of the benefit plan.

As for the aspects related to the pension funds, there is the CGPC Resolution number 18, of March 28, 2006, which establishes the technical-actuarial parameters that should be followed in the structuring of a benefit plan of the modality of retirement, to be adopted by the pension funds. That resolution establishes that “In the plan in the modality of defined benefit, the method of minimum financing of the actuarial charges, in the Financial System of Capitalization, will be the one of unitary credit”. However, the aforementioned rule is not applicable to the benefit plans that are becoming extinct.

Thus, the pension fund may adopt, for the purposes of actuarial evaluation of the obligations of the benefit plan any financial method, as long as the charges are at least equivalent to the unitary credit, except for benefit plans that are becoming extinct.

3) Assuming that the entity is required to disclose the ABO amount in your jurisdiction, how costly would it be to estimate the ABO amount?

There are several financing methods, among which the unitary credit method and the method of projected unitary credit, the former being the base for the calculation of the ABO and the latter for the PBO. The difference between them is that the latter takes into account the projection of the salary growth rate between the current age of the



participant (x) and the retirement age (r), whereas the former considers that salary at the age (x) as the basis for the calculation of the benefit.

Thus, in actuarial terms, adapting the calculation to obtain the ABO for those who do it for the PBO is not complex, since the difference lies in the fact that the latter considers the reflex of the estimated salary growth during the whole active phase of the participant.

However, it is important to stress that in most companies in Brazil such estimate is made by external consulting companies, and it may be a reason to raise the cost of the rendered service.

Furthermore, it is necessary to remark the relevance of the information of the ABO in view of the efforts for the disclosure and measuring of that piece of information in the accounting demonstrations of the sponsoring entity.

For those who understand that the ABO is the best estimate of the future obligation, the argument is based on the fact that the rate of salary growth of the participant is not known and, until the moment, s/he is only entitled the current salary as a basis for the calculation of the retirement (current obligation). However, there is great controversy regarding that point of view, mainly under the perspective of the concept of legal and constructive obligation and balance of the benefit plans.

It is also necessary to point out that the sooner the company recognizes the cash exit resulting from the possible raise of the actuarial liabilities in view of the salary changes, the softer its impact tends to be, thus guaranteeing the solvency of the entity to honor its assumed future obligations.