HEALTH WEALTH CAREER

EMPLOYEE BENEFITS ACCOUNTING REQUIREMENTS IN SAUDI ARABIA

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THE ADOPTION OF IFRS IN SAUDI ARABIA

In 2012, the Saudi Organization for Certified Public Accountants (SOCPA) approved an International Financial Reporting Standards (IFRS) convergence plan, called the "SOCPA Project for Transition to International Accounting and Auditing Standards".

Saudi Arabia plans to reduce its dependence on oil by diversifying the economy and expanding its private sector. Therefore, the adoption of IFRS is a critical step towards increasing direct foreign investment in the kingdom and enhancing the quality, transparency and comparability of its companies' financial information.

TO WHOM IS THIS APPLICABLE?

- All publicly listed companies in Saudi Arabia for financial periods beginning on or after 1 January 2017
- All other companies for financial periods beginning on or after 1 January 2018

WHAT ARE THE NEW REQUIREMENTS UNDER IAS 19R?

You must report specific information about your employee benefits provisions under the International Accounting Standard 19R (IAS 19R). IAS 19R requires an actuarial valuation of long-term employee benefits.

HOW CAN MERCER HELP YOU?

Mercer can help you satisfy financial reporting requirements under IFRS by performing a periodic actuarial valuation of your employee benefits, including end-of-service benefits, long-service awards, repatriation allowances, accrued leave encashment and any other benefit plan classified as a defined benefits plan under IAS 19R. Our team of actuarial analysts has Arabic-speaking capability and is supported by our Centres of Excellence.

We have worked with organisations in the region across the private and public sector, including the "Big Four" audit firms locally and globally, who are familiar with our robust methodologies. The confidentiality of our clients' data is our top priority, and we adhere to strict quality-assurance processes.

Mercer is a leading global provider of actuarial and pension consulting services, and we have an established presence in the GCC to help you comply with all required financial information under IAS 19R standards.

WHAT ARE EMPLOYEE BENEFITS?

The IFRS standard governing employee benefits defines employee benefits as "all forms of benefits given by a company in exchange for service rendered by its employees or at termination of their employment". It identifies four benefits categories, as set out below.

IFRS TREATMENT OF EMPLOYEE BENEFITS

SHORT-TERM BENEFITS

- Typically due within 12 months following the reporting date; e.g., wages, salaries, social security contributions
- Recognised when employee has rendered service in exchange for benefits
- No actuarial valuation required under IAS 19R

TERMINATION BENEFITS

- Payable as a result of termination of employment (initiated by employer); e.g., golden handshake
- Recognised as soon as employer can no longer withdraw offer of such benefits
- No actuarial valuation required under IAS 19R

POST-EMPLOYMENT BENEFITS

- Offered after employee leaves service; e.g., retirement benefits (pensions or end-of-service gratuities), post-employment medical care
- Liability must be measured by actuarial methodology
- Service cost and interest cost recorded in income statement (P&L)
- Re-measurements due to changes in assumptions or experience adjustments reflected under OCI

OTHER LONG-TERM BENEFITS

- Typically due over a period beyond 12 months following reporting date; e.g., jubilee benefits, service awards, long-term disability benefits
- Same accounting treatment as post-employment benefits, except that re-measurements due to changes in assumptions or experience adjustments recognised in P&L rather than OCI

HOW CAN MERCER HELP?

Mercer can help you satisfy financial reporting requirements under IFRS by performing a periodic actuarial valuation of your employee benefits, including:

- End-of-service benefits
- Long-service awards
- Repatriation allowances
- Accrued leave encashment
- Any other benefit plan classified as a defined benefit plan under IAS 19R

WHAT ARE THE MAIN CHANGES AFTER IFRS ADOPTION?

	BEFORE IFRS ADOPTION	AFTER IFRS ADOPTION
FRAMEWORK	**Termination:** assuming all employees will leave on balance sheet date	**Going concern:** assuming employees will continue working beyond balance sheet date but subject to annual attrition
ASSUMPTIONS	**Irrelevant:** no assumptions used in calculation of balance sheet liability or accrual	**Key:** assumptions (turnover, salary increase, discount rate) play key role in calculation of balance sheet liability and P&L expense
LIABILITY	**Accrued:** based on accrued service and current salary on balance sheet date	**Projected:** based on accrued service and projected salary at each potential exit date
P&L IMPACT	**Total:** entire difference between accrued benefits on two consecutive balance sheet dates pushed into P&L	**Split:** difference between accrued benefits on two consecutive balance sheet dates split into portion under P&L and another portion under OCI → *lower P&L*

WHAT IS AN ACTUARIAL VALUATION?

An actuarial valuation is an assessment of your future liabilities (as of the reporting date) calculated using an agreed set of forward-looking financial and demographic assumptions based on your company's best estimates, preferably supported by historical data.

After an actuarial valuation, you will have insights into your:

- Defined benefit obligation, which represents the sum of each eligible employee's accrued liabilities, based on accrued service but using the projected salary at each potential future exit date

- Service cost, which represents the sum of each eligible employee's service cost, calculated as the present value of the employee's benefit expected to accrue during the financial year

MERCER'S BEST-PRACTICE VALUATION PROCESS

Data

- Collect and validate data
- Reconcile membership data between two actuarial valuations
- Provide employee data summaries

Assumptions

- Analyse historical turnover and salary increase experience
- Engage HR to gain better insight into HR strategies and future workforce changes
- Recommend assumptions based on historical data analysis, discussions with the client and our experience in the region

Valuation

- Perform actuarial valuation and generate results
- Discuss results with HR and Finance
- Provide training by hosting knowledge-transfer sessions
- Discuss results with the auditors

Report

- Provide complete IAS 19R standard disclosure set
- Support the transition from current to IAS 19R reporting
- Submit a comprehensive actuarial valuation report that satisfies all actuarial and accounting reporting standards, signed by qualified actuaries

CONTACT US

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