

**The Setting of “Asset Value for Recognized Cost in Net Profit or Loss” from the
Standpoint of Asset and Liability Approach**

Takashi Ogawa and Shinji Mukaikubo (Japan)

The evaluation methods of the net periodic cost of post retirement benefits have been a controversial topic since the post retirement accounting standard (ex. FAS 87, IAS 19 or Accounting Standards for Retirement Benefits in Japan) was set. Employers are said to have much discretion in deciding the expected rate of return on pension assets, which is especially a great concern. In fact, according to the latest discussion paper, the Board of International Accounting Standards (the IASB) expressed the opinion that ‘entities should not divide the return on assets into an expected return and an actuarial gain or loss’. And it also referred to ‘the subjectivity inherent in determining the expected rate of return provides entities with an opportunity to choose a rate with a view to manipulating profit or loss’. Thus, it is probable that the conventional method, ‘the expected rate of return’, will be revised, and we tried to review the methods of setting of it.

In this paper, first, we demonstrate that viewing the asset value for recognized cost of post retirement benefits in ‘net profit or loss’ different from the fair value recognized in the balance sheet is of great importance with the view of AL approach. And we will propose three requirements that make the asset value appropriate. Then, in setting the asset value, we will verify that actuarial valuation methods established by actuaries can be applied. Finally, we compare some actuarial valuation methods with the traditional one, setting of expected rate of return on pension assets, and three methods proposed in the discussion paper of the IASB and investigate each feature by conducting simulations.