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International Accounting Standard 19

Employee Benefits (with amendments for annual periods beginning on or after January 1, 2013)

Caution: Multiple versions of the following standard exist, with different effective dates.

The **original standard** was modified by **IAS 19** *Employee Benefits* (June 2011)

Effective for annual periods beginning on or after January 1, 2013:

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Introduction

IN1 **IAS 19** *Employee Benefits* prescribes the accounting and disclosure by employers for employee benefits. The Standard does not deal with reporting by employee benefit plans (see **IAS 26** *Accounting and Reporting by Retirement Benefit Plans*).

IN2 The Standard identifies four categories of employee benefits:

(a) short-term employee benefits, such as the following (if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services): wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as retirement benefits (eg pensions and lump sum payments on retirement), post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, such as long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits; and

(d) termination benefits.

IN3 The Standard requires an entity to recognise short-term employee benefits when an employee has rendered service in exchange for those benefits.

IN4 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. The Standard gives specific guidance on the classification of multi-employer plans, state plans and plans with insured benefits.

IN5 Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Standard requires an entity to recognise contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions.

IN6 All other post-employment benefit plans are defined benefit plans. Defined benefit plans may be unfunded, or they may be wholly or partly funded. The Standard requires an entity:

(a) to account not only for its legal obligation, but also for any constructive obligation that arises from the entity's practices.

(b) to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

(c) to use the projected unit credit method to measure its obligations and costs.

(d) to attribute benefit to periods of service under the plan's benefit formula, unless an employee's service in later years will lead to a materially higher level of benefit than in earlier years.

(e) to use unbiased and mutually compatible actuarial assumptions about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries, changes in medical costs and particular changes in state benefits). Financial assumptions should be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

(f) to determine the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds (or, in countries where there is no deep market in such bonds, government bonds) of a currency and term consistent with the currency and term of the post-employment benefit obligations.

(g) to deduct the fair value of any plan assets from the carrying amount of the obligation in order to determine the net defined benefit liability (asset). Some reimbursement rights that do not qualify as plan assets are treated in the same way as plan assets, except that they are presented as a separate asset, rather than as a deduction from the obligation.

(h) to limit the carrying amount of a net defined benefit asset so that it does not exceed the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

(i) to recognise all changes in the net defined benefit liability (asset) when they occur, as follows:

   (i) service cost and net interest in profit or loss; and

   (ii) remeasurements in other comprehensive income.

IN7 Employee benefits other than short-term employee benefits, post-employment benefits and termination benefits are other long-term employee benefits. For other long-term employee benefits, the Standard requires the same recognition and measurement as for post-employment benefits but all changes in the carrying amount of liabilities for other long-term employment benefits are recognised in profit or loss. The Standard does not require specific disclosures about other long-term employee benefits.

IN8 Termination benefits are employee benefits payable as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. An entity is required to recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

International Accounting Standard 19 Employee Benefits (with amendments for annual periods beginning on or after January 1, 2013)

Objective

1 The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

2 This Standard shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment* applies.

3 This Standard does not deal with reporting by employee benefit plans (see **IAS 26** *Accounting and Reporting by Retirement Benefit Plans*).

4 The employee benefits to which this Standard applies include those provided:

(a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;

(b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry or other multi-employer plans; or

(c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

5 Employee benefits include:

(a) short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:

(i) wages, salaries and social security contributions;

(ii) paid annual leave and paid sick leave;

(iii) profit-sharing and bonuses; and

(iv) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits, such as the following:

(i) retirement benefits (eg pensions and lump sum payments on retirement); and

(ii) other post-employment benefits, such as post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, such as the following:

(i) long-term paid absences such as long-service leave or sabbatical leave;

(ii) jubilee or other long-service benefits; and

(iii) long-term disability benefits; and

(d) termination benefits.

6 Employee benefits include benefits provided either to employees or to their dependants or beneficiaries and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.

7 An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include directors and other management personnel.

Definitions

8 The following terms are used in this Standard with the meanings specified:

Definitions of employee benefits

Employee benefits **are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.**

Short-term employee benefits **are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.**

Post-employment benefits **are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.**

Other long-term employee benefits **are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.**

Termination benefits **are employee benefits provided in exchange for the termination of an employee's employment as a result of either:**

(a) an entity's decision to terminate an employee's employment before the normal retirement date; or

(b) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

Definitions relating to classification of plans

Post-employment benefit plans **are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.**

Defined contribution plans **are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive**

obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) **pool the assets contributed by various entities that are not under common control; and**

(b) **use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.**

Definitions relating to the net defined benefit liability (asset)

The *net defined benefit liability* (asset) is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The *deficit or surplus* is:

(a) **the present value of the defined benefit obligation less**

(b) **the fair value of plan assets (if any).**

The *asset ceiling* is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The *present value of a defined benefit obligation* is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Plan assets comprise:

(a) **assets held by a long-term employee benefit fund; and**

(b) **qualifying insurance policies.**

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

(a) **are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and**

(b) **are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:**

   (i) **the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or**

   (ii) **the assets are returned to the reporting entity to reimburse it for employee benefits already paid.**

A *qualifying insurance policy* is an insurance policy[1] issued by an insurer that is not a related party (as defined in IAS 24 *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:

(a) **can be used only to pay or fund employee benefits under a defined benefit plan; and**

(b) **are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:**

- **(i)** **the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or**

- **(ii)** **the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.**

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Definitions relating to defined benefit cost

Service cost comprises:

(a) *current service cost*, **which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;**

(b) *past service cost*, **which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and**

(c) **any gain or loss on settlement.**

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprise:

(a) **actuarial gains and losses;**

(b) **the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and**

(c) **any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).**

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

(a) **experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and**

(b) **the effects of changes in actuarial assumptions.**

The *return on plan assets* is interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

(a) **any costs of managing plan assets; and**

(b)

any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

A *settlement* is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-term employee benefits

9 Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:

(a) wages, salaries and social security contributions;

(b) paid annual leave and paid sick leave;

(c) profit-sharing and bonuses; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

10 An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and measurement

All short-term employee benefits

11 When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(b) as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*).

12 Paragraphs 13, 16 and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.

Short-term paid absences

13 An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

14 An entity may pay employees for absence for various reasons including holidays, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to paid absences falls into two categories:

(a) accumulating; and

(b) non-accumulating.

15 Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation exists, and is recognised, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

16 An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

17 The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.

Example illustrating paragraphs 16 and 17

An entity has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31 December 20X1 the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X2 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31 December 20X1 (one and a half days each, for eight employees). Therefore, the entity recognises a liability equal to twelve days of sick pay.

18 Non-accumulating paid absences do not carry forward: they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave and paid absences for jury service or military service. An entity recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-sharing and bonus plans

19 An entity shall recognise the expected cost of profit-sharing and bonus payments under paragraph 11 when, and only when:

(a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and

(b) a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

20 Under some profit-sharing plans, employees receive a share of the profit only if they remain with the entity for a specified period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments.

Example illustrating paragraph 20

A profit-sharing plan requires an entity to pay a specified proportion of its profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3 per cent of profit. The entity estimates that staff turnover will reduce the payments to 2.5 per cent of profit.

The entity recognises a liability and an expense of 2.5 per cent of profit.

21 An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

22 An entity can make a reliable estimate of its legal or constructive obligation under a profit-sharing or bonus plan when, and only when:

(a) the formal terms of the plan contain a formula for determining the amount of the benefit;

(b) the entity determines the amounts to be paid before the financial statements are authorised for issue; or

(c) past practice gives clear evidence of the amount of the entity's constructive obligation.

23 An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.

24 If profit-sharing and bonus payments are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 153–158).

Disclosure

25 Although this Standard does not require specific disclosures about short-term employee benefits, other IFRSs may require disclosures. For example, IAS 24 requires disclosures about employee benefits for key management personnel. IAS 1 *Presentation of Financial Statements* requires disclosure of employee benefits expense.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

26 Post-employment benefits include items such as the following:

(a) retirement benefits (eg pensions and lump sum payments on retirement); and

(b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

27 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

28 Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

29 Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

(a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

(b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.

30 Under defined benefit plans:

(a) the entity's obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

31 Paragraphs 32–49 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans and insured benefits.

Multi-employer plans

32 An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

33 If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall:

(a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and

(b) disclose the information required by paragraphs 135–148 (excluding paragraph 148(d)).

34 When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:

(a) account for the plan in accordance with paragraphs 51 and 52 as if it were a defined contribution plan; and

(b) disclose the information required by paragraph 148.

35 One example of a multi-employer defined benefit plan is one where:

(a) the plan is financed on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and

(b) employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have either to increase its contributions or to persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

36 Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan; or

(b) the entity does not have access to sufficient information about the plan to satisfy the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the information required by paragraph 148.

37 There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 34 shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

Example illustrating paragraph 37

An entity participates in a multi-employer defined benefit plan that does not prepare plan valuations on an IAS 19 basis. It therefore accounts for the plan as if it were a defined contribution plan. A non-IAS 19 funding valuation shows a deficit of CU100 million [2] in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. The entity's total contributions under the contract are CU8 million.

The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.

38 Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

39 In determining when to recognise, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Defined benefit plans that share risks between entities under common control

40 Defined benefit plans that share risks between entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.

41 An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan as a whole measured in accordance with this Standard, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

42 Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, disclose the information required by paragraph 149.

State plans

43 An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 32–39).

44 State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) that is not subject to control or influence by the reporting entity. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.

45 State plans are characterised as defined benefit or defined contribution, depending on the entity's obligation under the plan. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Nevertheless, in most state plans the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans. However, when a state plan is a defined benefit plan an entity applies paragraphs 32–39.

Insured benefits

46 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation either:

(a) to pay the employee benefits directly when they fall due; or

(b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

47 The benefits insured by an insurance policy need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance policies are subject to the same distinction between accounting and funding as other funded plans.

48 Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

(a) accounts for a qualifying insurance policy as a plan asset (see paragraph 8); and

(b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criterion in paragraph 116).

49 Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-employment benefits: defined contribution plans

50 Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

Recognition and measurement

51 When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(b) as an expense, unless another IFRS requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IAS 2 and IAS 16).

52 When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 83.

Disclosure

53

An entity shall disclose the amount recognised as an expense for defined contribution plans.

54 Where required by **IAS 24** an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment benefits: defined benefit plans

55 Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Recognition and measurement

56 Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability, and willingness, to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.

57 Accounting by an entity for defined benefit plans involves the following steps:

(a) determining the deficit or surplus. This involves:

(i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 67–69). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70–74) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 75–98).

(ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 67–69 and 83–86).

(iii) deducting the fair value of any plan assets (see paragraphs 113–115) from the present value of the defined benefit obligation.

(b) determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 64).

(c) determining amounts to be recognised in profit or loss:

(i) current service cost (see paragraphs 70–74).

(ii) any past service cost and gain or loss on settlement (see paragraphs 99–112).

(iii) net interest on the net defined benefit liability (asset) (see paragraphs 123–126).

(d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) actuarial gains and losses (see paragraphs 128 and 129);

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 130); and

(iii)

any change in the effect of the asset ceiling (see paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

58 **An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.**

59 This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

60 In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the constructive obligation

61 **An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.**

62 The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of financial position

63 **An entity shall recognise the net defined benefit liability (asset) in the statement of financial position.**

64 **When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:**

(a) the surplus in the defined benefit plan; and

(b) the asset ceiling, determined using the discount rate specified in paragraph 83.

65 A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognises a net defined benefit asset in such cases because:

(a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c)

future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and measurement: present value of defined benefit obligations and current service cost

66 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:

(a) to apply an actuarial valuation method (see paragraphs 67–69);

(b) to attribute benefit to periods of service (see paragraphs 70–74); and

(c) to make actuarial assumptions (see paragraphs 75–98).

Actuarial valuation method

67 An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

68 The projected unit credit method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 70–74) and measures each unit separately to build up the final obligation (see paragraphs 75–98).

Example illustrating paragraph 68

A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is CU10,000 and is assumed to increase at 7 per cent (compound) each year. The discount rate used is 10 per cent per year. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	*1*	*2*	*3*	*4*	*5*
	CU	*CU*	*CU*	*CU*	*CU*
Benefit attributed to:					
– prior years	*0*	*131*	*262*	*393*	*524*
– current year (1% of final salary)	*131*	*131*	*131*	*131*	*131*
– current and prior years	*131*	*262*	*393*	*524*	*655*
Opening obligation	*–*	*89*	*196*	*324*	*476*
Interest at 10%	*–*	*9*	*20*	*33*	*48*
Current service cost	*89*	*98*	*108*	*119*	*131*
Closing obligation	*89*	*196*	*324*	*476*	*655*

Note:

1 *The opening obligation is the present value of the benefit attributed to prior years.*

2 *The current service cost is the present value of the benefit attributed to the current year.*

3

The closing obligation is the present value of the benefit attributed to current and prior years.

69 An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing benefit to periods of service

70 In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

(a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until

(b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

71 The projected unit credit method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

Examples illustrating paragraph 71

1 A defined benefit plan provides a lump sum benefit of CU100 payable on retirement for each year of service.

A benefit of CU100 is attributed to each year. The current service cost is the present value of CU100. The present value of the defined benefit obligation is the present value of CU100, multiplied by the number of years of service up to the end of the reporting period.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

2 A plan provides a monthly pension of 0.2 per cent of final salary for each year of service. The pension is payable from the age of 65.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2 per cent of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2 per cent of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

72 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the

measurement of the obligation, but does not determine whether the obligation exists.

Examples illustrating paragraph 72

A plan pays a benefit of CU100 for each year of service. The benefits vest after ten years of service.

1 *A benefit of CU100 is attributed to each year. In each of the first ten years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete ten years of service.*

A plan pays a benefit of CU100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

2 *No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of CU100 is attributed to each subsequent year.*

73 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

Examples illustrating paragraph 73

1 A plan pays a lump sum benefit of CU1,000 that vests after ten years of service. The plan provides no further benefit for subsequent service.

A benefit of CU100 (CU1,000 divided by ten) is attributed to each of the first ten years.

The current service cost in each of the first ten years reflects the probability that the employee may not complete ten years of service. No benefit is attributed to subsequent years.

2 A plan pays a lump sum retirement benefit of CU2,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of CU100 (CU2,000 divided by twenty) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2,000 divided by twenty) to each of the first twenty years.

For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of CU200 (CU2,000 divided by ten) to each of the first ten years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

3 A post-employment medical plan reimburses 40 per cent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.

Under the plan's benefit formula, the entity attributes 4 per cent of the present value of the expected medical costs (40 per cent divided by ten) to each of the first ten years and 1 per cent (10 per cent divided by ten) to each of the second ten years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within ten years, no benefit is attributed.

4 A post-employment medical plan reimburses 10 per cent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.

Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity attributes benefit on a *straight-line basis under paragraph 71. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2.5 per cent of the present value of the expected medical costs (50 per cent divided by twenty).*

For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 1 per cent of the present value of the expected medical costs.

For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within ten years, no benefit is attributed.

74 Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph 70(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Example illustrating paragraph 74

Employees are entitled to a benefit of 3 per cent of final salary for each year of service before the age of 55.

Benefit of 3 per cent of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Actuarial assumptions

75 Actuarial assumptions shall be unbiased and mutually compatible.

76 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) mortality (see paragraphs 81 and 82);

(ii) rates of employee turnover, disability and early retirement;

(iii) the proportion of plan members with dependants who will be eligible for benefits;

(iv) the proportion of plan members who will select each form of payment option available under the plan terms; and

(v) claim rates under medical plans.

(b) financial assumptions, dealing with items such as:

(i) the discount rate (see paragraphs 83–86);

(ii) benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 87–95);

(iii) in the case of medical benefits, future medical costs, including claim handling costs (ie the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs 96–98); and

(iv) taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service.

77 Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

78 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

79 An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyperinflationary economy (see **IAS 29** *Financial Reporting in Hyperinflationary Economies*), or where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.

80 Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

Actuarial assumptions: mortality

81 An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.

82 In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial assumptions: discount rate

84 One actuarial assumption that has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

85 The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

86 In some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter-term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds.

Actuarial assumptions: salaries, benefits and medical costs

87 An entity shall measure its defined benefit obligations on a basis that reflects:

(a) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;

(b) any estimated future salary increases that affect the benefits payable;

(c) the effect of any limit on the employer's share of the cost of the future benefits;

(d) contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and

(e) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

(i) those changes were enacted before the end of the reporting period; or

(ii) historical data, or other reliable evidence, indicate that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

88 Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

(a) the entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;

(b) the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 108(c)); or

(c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

89 Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:

(a) past service cost, to the extent that they change benefits for service before the change; and

(b) current service cost for periods after the change, to the extent that they change benefits for service after the change.

90 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

91 Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

(a) the estimated life of the entity; and

(b) the estimated life of the plan.

92 Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 116. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

95 Some post-employment benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.

96 Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

97 Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.

98 The level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Past service cost and gains and losses on settlement

99 Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

100 An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognises past service cost before any gain or loss on settlement.

101 A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

Past service cost

102 Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

103 An entity shall recognise past service cost as an expense at the earlier of the following dates:

(a) when the plan amendment or curtailment occurs; and

(b) when the entity recognises related restructuring costs (see IAS 37) or termination benefits (see paragraph 165).

104 A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

105 A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

106

Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

107 Where an entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

108 Past service cost excludes:

(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 88); and

(d) the increase in vested benefits (ie benefits that are not conditional on future employment, see paragraph 72) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered).

Gains and losses on settlement

109 The gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

110 An entity shall recognise a gain or loss on the settlement of a defined benefit plan when the settlement occurs.

111 A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

112 In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 46) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 116–119 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and measurement: plan assets

Fair value of plan assets

113 The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus. When no market price is available, the fair value of plan assets is estimated, for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation).

114 Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

115 Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

116 When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall:

(a) recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.

(b) disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 124 and 125). The components of defined benefit cost recognised in accordance with paragraph 120 may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.

117 Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 8, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 116 is not relevant (see paragraphs 46–49 and 115).

118 When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 116 is relevant to such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph 140(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

119 If the right to reimbursement arises under an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of defined benefit cost

120 An entity shall recognise the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:

(a) service cost (see paragraphs 66–112) in profit or loss;

(b)

net interest on the net defined benefit liability (asset) (see paragraphs 123–126) in profit or loss; and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130) in other comprehensive income.

121 Other IFRSs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant and equipment (see IAS 2 and IAS 16). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 120.

122 Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.

Net interest on the net defined benefit liability (asset)

123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

124 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 64.

125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

126 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset)

127 Remeasurements of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses (see paragraphs 128 and 129);

(b) the return on plan assets (see paragraph 130), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 125); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 126).

128 Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:

(a)

unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) the effect of changes to assumptions concerning benefit payment options;

(c) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) the effect of changes in the discount rate.

129 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

130 In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 76). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

131 An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:

(a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and

(b) intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

132 The offsetting criteria are similar to those established for financial instruments in IAS 32 *Financial Instruments: Presentation*.

Current/non-current distinction

133 Some entities distinguish current assets and liabilities from non-current assets and liabilities. This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

Components of defined benefit cost

134 Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with IAS 1.

Disclosure

135 An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139);

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144); and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 145–147).

136 To meet the objectives in paragraph 135, an entity shall consider all the following:

(a) the level of detail necessary to satisfy the disclosure requirements;

(b) how much emphasis to place on each of the various requirements;

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

137 If the disclosures provided in accordance with the requirements in this Standard and other IFRSs are insufficient to meet the objectives in paragraph 135, an entity shall disclose additional information necessary to meet those objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) between amounts owing to active members, deferred members, and pensioners.

(b) between vested benefits and accrued but not vested benefits.

(c) between conditional benefits, amounts attributable to future salary increases and other benefits.

138 An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:

(a) different geographical locations.

(b) different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.

(c) different regulatory environments.

(d) different reporting segments.

(e) different funding arrangements (eg wholly unfunded, wholly or partly funded).

Characteristics of defined benefit plans and risks associated with them

139 An entity shall disclose:

(a) information about the characteristics of its defined benefit plans, including:

(i) the nature of the benefits provided by the plan (eg final salary defined benefit plan or contribution-based plan with guarantee).

(ii) a description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 64).

(iii) a description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of board members of the plan.

(b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, eg property, the plan may expose the entity to a concentration of property market risk.

(c) a description of any plan amendments, curtailments and settlements.

Explanation of amounts in the financial statements

140 An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) the net defined benefit liability (asset), showing separate reconciliations for:

(i) plan assets.

(ii) the present value of the defined benefit obligation.

(iii) the effect of the asset ceiling.

(b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

141 Each reconciliation listed in paragraph 140 shall show each of the following, if applicable:

(a) current service cost.

(b) interest income or expense.

(c) remeasurements of the net defined benefit liability (asset), showing separately:

(i) the return on plan assets, excluding amounts included in interest in (b).

(ii) actuarial gains and losses arising from changes in demographic assumptions (see paragraph 76(a)).

(iii) actuarial gains and losses arising from changes in financial assumptions (see paragraph 76 (b)).

(iv) changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, ie whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.

(d) past service cost and gains and losses arising from settlements. As permitted by paragraph 100, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.

(e) the effect of changes in foreign exchange rates.

(f) contributions to the plan, showing separately those by the employer and by plan participants.

(g) payments from the plan, showing separately the amount paid in respect of any settlements.

(h) the effects of business combinations and disposals.

142 An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in **IFRS 13** *Fair Value Measurement* [3]) and those that do not. For example, and considering the level of disclosure discussed in paragraph 136, an entity could distinguish between:

(a) cash and cash equivalents;

(b) equity instruments (segregated by industry type, company size, geography etc);

(c) debt instruments (segregated by type of issuer, credit quality, geography etc);

(d) real estate (segregated by geography etc);

(e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc);

(f) investment funds (segregated by type of fund);

(g) asset-backed securities; and

(h) structured debt.

143 An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.

144 An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 76). Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows

145 An entity shall disclose:

(a) a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 144) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.

(b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

146 An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

147 To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

(a) a description of any funding arrangements and funding policy that affect future contributions.

(b) the expected contributions to the plan for the next annual reporting period.

(c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-employer plans

148 If an entity participates in a multi-employer defined benefit plan, it shall disclose:

(a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

(b) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

(c) a description of any agreed allocation of a deficit or surplus on:

(i) wind-up of the plan; or

(ii) the entity's withdrawal from the plan.

(d) if the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 139–147:

(i) the fact that the plan is a defined benefit plan.

(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.

(iii) the expected contributions to the plan for the next annual reporting period.

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

(v) an indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Defined benefit plans that share risks between entities under common control

149 If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) the policy for determining the contribution to be paid by the entity.

(c) if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 135–147.

(d) if the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 135–137, 139, 142–144 and 147 (a) and (b).

150 The information required by paragraph 149(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

(a) that group entity's financial statements separately identify and disclose the information required about the plan; and

(b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure requirements in other IFRSs

151 Where required by **IAS 24** an entity discloses information about:

(a) related party transactions with post-employment benefit plans; and

(b) post-employment benefits for key management personnel.

152 Where required by **IAS 37** an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long-term employee benefits

153 Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service:

(a) long-term paid absences such as long-service or sabbatical leave;

(b) jubilee or other long-service benefits;

(c) long-term disability benefits;

(d) profit-sharing and bonuses; and

(e) deferred remuneration.

154 The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognise remeasurements in other comprehensive income.

Recognition and measurement

155 In recognising and measuring the surplus or deficit in an other long-term employee benefit plan, an entity shall apply paragraphs 56–98 and 113–115. An entity shall apply paragraphs 116–119 in recognising and measuring any reimbursement right.

156 For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset:

(a) service cost (see paragraphs 66–112);

(b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126); and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130).

157 One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

Disclosure

158 Although this Standard does not require specific disclosures about other long-term employee benefits, other IFRSs may require disclosures. For example, **IAS 24** requires disclosures about employee benefits for key management personnel. **IAS 1** requires disclosure of employee benefits expense.

Termination benefits

159 This Standard deals with termination benefits separately from other employee benefits because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

160 Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

161 The form of the employee benefit does not determine whether it is provided in exchange for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

(a) enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.

(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

162 Indicators that an employee benefit is provided in exchange for services include the following:

(a) the benefit is conditional on future service being provided (including benefits that increase if further service is provided).

(b) the benefit is provided in accordance with the terms of an employee benefit plan.

163 Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.

164 Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some jurisdictions as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits.

Recognition

165 An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

166 For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) when the employee accepts the offer; and

(b) when a restriction (eg a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

167 For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

(b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.

(c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

168 When an entity recognises termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 103).

Measurement

169 An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

(a) if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.

(b) if the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long-term employee benefits.

170 Because termination benefits are not provided in exchange for service, paragraphs 70–74 relating to the attribution of the benefit to periods of service are not relevant.

Example illustrating paragraphs 159–170

Background

As a result of a recent acquisition, an entity plans to close a factory in ten months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of CU30,000. Employees leaving before closure of the factory will receive CU10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are CU3,200,000 (ie 20 × CU10,000 + 100 × CU30,000). As required by paragraph 160, the entity accounts for benefits provided in exchange for termination of employment as termination benefits and accounts for benefits provided in exchange for services as short-term employee benefits.

Termination benefits

The benefit provided in exchange for termination of employment is CU10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (ie all employees will leave employment when the factory closes). Therefore the entity recognises a liability of CU1,200,000 (ie 120 × CU10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the factory.

Benefits provided in exchange for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are in exchange for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the annual reporting period. In this example, discounting is not required, so an expense of CU200,000 (ie CU2,000,000 ÷ 10) is recognised in each month during the service period of ten months, with a corresponding increase in the carrying amount of the liability.

Disclosure

171 Although this Standard does not require specific disclosures about termination benefits, other IFRSs may require disclosures. For example, **IAS 24** requires disclosures about employee benefits for key management personnel. **IAS 1** requires disclosure of employee benefits expense.

Transition and effective date

172 An entity shall apply this Standard for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact.

173 An entity shall apply this Standard retrospectively, in accordance with **IAS 8** *Accounting Policies, Changes in Accounting Estimates and Errors*, except that:

(a) an entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts this Standard.

(b) in financial statements for periods beginning before 1 January 2014, an entity need not present comparative information for the disclosures required by paragraph 145 about the sensitivity of the defined benefit obligation.

Approval by the Board of Actuarial Gains and Losses, Group Plans and Disclosures (Amendment to IAS 19) issued in December 2004

Actuarial Gains and Losses, Group Plans and Disclosures (Amendment to **IAS 19**) was approved for issue by twelve of the fourteen members of the International Accounting Standards Board. Messrs Leisenring and Yamada dissented. Their dissenting opinions are set out after the Basis for Conclusions.

Sir David Tweedie	Chairman
Thomas E Jones	Vice-Chairman
Mary E Barth	
Hans-Georg Bruns	
Anthony T Cope	
Jan Engström	
Robert P Garnett	
Gilbert Gélard	
James J Leisenring	
Warren J McGregor	
Patricia L O'Malley	
John T Smith	
Geoffrey Whittington	
Tatsumi Yamada	

Approval by the Board of IAS 19 issued in June 2011

International Accounting Standard 19 *Employee Benefits* (as amended in 2011) was approved for issue by thirteen of the fifteen members of the International Accounting Standards Board. Messrs Engström and Yamada dissented. Their dissenting opinions are set out after the Basis for Conclusions.

Sir David Tweedie	Chairman
Stephen Cooper	
Philippe Danjou	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Prabhakar Kalavacherla	
Elke König	

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Basis for Conclusions on IAS 19 Employee Benefits

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on IAS 19 *Employee Benefits*. Individual Board members gave greater weight to some factors than to others.

BC2 The Board's predecessor, the International Accounting Standards Committee (IASC), approved IAS 19 *Employee Benefits* in 1998, replacing a previous version of the standard. IASC developed the revision of IAS 19 in 1998 following its consideration of the responses to its exposure draft E54 *Employee Benefits* published in 1996. Since that date, IASC and the Board have made the following amendments that are still relevant:

(a) In October 2000 IASC extended the definition of plan assets (see paragraphs BC178–BC190) and introduced recognition and measurement requirements for reimbursements (see paragraphs BC195–BC199).

(b) In December 2004 the Board amended the accounting for multi-employer plans and group plans (see paragraphs BC35–BC38 and BC40–BC50).

(c) In June 2011 the Board eliminated previous options for deferred recognition of changes in the net defined benefit liability (asset), amended where those changes should be recognised, amended the disclosure requirements for defined benefit plans and multi-employer plans, and made a number of other amendments (see paragraphs BC3–BC13).

Amendments made in 2011

BC3 Accounting for post-employment benefit promises is an important financial reporting issue. Anecdotal evidence and academic research suggested that many users of financial statements did not fully understand the information that entities provided about post-employment benefits under the requirements of IAS 19 before the amendments made in 2011. Both users and preparers of financial statements criticised those accounting requirements for failing to provide high quality, transparent information about post-employment benefits. For example, delays in the recognition of gains and losses give rise to misleading amounts in the statement of financial position and the existence of various options for recognising gains and losses and a lack of clarity in the definitions lead to poor comparability.

BC4 In July 2006 the Board added to its agenda a project on the accounting for post-employment benefit promises in response to calls for a comprehensive review of the accounting for post-employment benefit promises to improve the quality and transparency of financial statements. However, a comprehensive project to address all areas of post-employment benefit accounting could take many years to complete. Nevertheless, the Board recognised a short-term need to provide users of financial statements with better information about post-employment benefit promises.

BC5 Accordingly, the Board undertook a limited scope project, and in March 2008 the Board published a discussion paper *Preliminary Views on Amendments to IAS 19* Employee Benefits that included the Board's preliminary views on the following areas of **IAS 19**:

(a) the deferred recognition of some gains and losses arising from defined benefit plans.

(b) presentation of the changes in the net defined benefit liability or asset.

(c) accounting for employee benefits that are based on contributions and a promised return and employee benefits with a 'higher of' option (contribution-based promises).

BC6 The discussion paper also asked respondents to identify:

(a) any additional issues that should be addressed in this project given that its objective was to address specific issues in a limited time frame.

(b) what disclosures the Board should consider as part of its review of disclosures.

BC7 The IASB received 150 comment letters in response to that discussion paper. In the light of those responses, the Board deferred its review of contribution-based promises to a possible future project. The Board considered the additional issues raised in those responses and extended the scope of the project to include:

(a) a review of the disclosures for defined benefit plans and multi-employer plans; and

(b) additional issues raised in the responses to the discussion paper and matters that had been submitted to the International Financial Reporting Interpretations Committee (IFRIC) for interpretation that the Board considered could be addressed expeditiously, would not require a fundamental review of defined benefit obligation measurement and would lead to an improvement in the reporting of defined benefit plans.

BC8 In April 2010 the Board published an exposure draft *Defined Benefit Plans* (the 2010 ED). The Board received 227 comment letters in response. In addition to the formal consultation provided by the 2010 ED, the Board undertook an extensive programme of outreach activities during the exposure period with a wide range of users and preparers of financial statements, regulators and others interested in the financial reporting of employee benefits from a wide variety of geographical areas.

BC9 Some respondents to the 2010 ED and the discussion paper requested a comprehensive review of the accounting for employee benefits, preferably as a joint project with the US national standard-setter, the Financial Accounting Standards Board (FASB), and questioned why the Board was addressing employee benefits in a limited scope project, expressing concern that successive changes could be disruptive. The Board reiterated its previous concern that a comprehensive review of the accounting for employee benefits would take many years to complete and that there was an urgent need to improve the financial reporting of employee benefits in the short term, so that users of financial statements receive more useful and understandable information.

BC10 In June 2011 the Board issued amendments to **IAS 19** that targeted improvements in the following areas:

(a) recognition of changes in the net defined benefit liability (asset) (see paragraphs BC65–BC100), including:

(i) immediate recognition of defined benefit cost (see paragraphs BC70–BC72).

(ii) disaggregation of defined benefit cost into components (see paragraphs BC73–BC87).

(iii) recognition of remeasurements in other comprehensive income (see paragraphs BC88–BC100).

(b) plan amendments, curtailments and settlements (see paragraphs BC152–BC173).

(c) disclosures about defined benefit plans (see paragraphs BC203–BC252).

(d) accounting for termination benefits (see paragraphs BC11 and BC254–BC268).

(e) miscellaneous issues, including:

(i) the classification of employee benefits (see paragraphs BC16–BC24).

(ii) current estimates of mortality rates (see paragraph BC142).

(iii) tax and administration costs (see paragraphs BC121–BC128).

(iv) risk-sharing and conditional indexation features (see paragraphs BC143–BC150).

(f) some matters that had been submitted to the IFRIC for interpretation, including:

(i) IFRIC rejection March 2007—Special wage tax (see paragraphs BC121–BC124).

(ii) IFRIC rejection November 2007—Treatment of employee contributions (see paragraphs BC143–BC150).

(iii) IFRIC rejection January 2008—Pension promises based on performance hurdles (see paragraphs BC143–BC150).

(iv) IFRIC rejection May 2008—Settlements (see paragraph BC163).

BC11 The Board issued the amendments resulting from the 2010 ED together with amendments relating to termination benefits resulting from the exposure draft *Proposed Amendments to IAS 37* Provisions, Contingent Liabilities and Contingent Assets *and **IAS 19*** Employee Benefits (the 2005 ED), published in June 2005. The Board concluded that it would be better to issue both sets of amendments together rather than delay the completion of the amendments for termination benefits until it completed its work on **IAS 37** *Provisions, Contingent Liabilities and Contingent Assets*.

Matters not addressed as part of the limited scope project

BC12 Respondents to the 2010 ED and the discussion paper raised matters that were outside the scope of this project (such as measurement of the defined benefit obligation). The Board did not consider these matters in detail. Any project addressing issues beyond the scope of the targeted improvements would be subject to the Board's agenda-setting process.

BC13 In selecting issues to address, the Board discussed the following issues, but took no action in the amendments made in 2011.

(a) *Contribution-based promises*—The discussion paper included proposals on contribution-based promises. The Board will consider whether to develop those proposals further if it undertakes a comprehensive review of employee benefit accounting.

(b) *Discount rate for employee benefits*—The Board did not proceed with the proposals in its exposure draft *Discount Rate for Employee Benefits*, published in August 2009. The Board decided it would address issues relating to the discount rate only in the context of a fundamental review (see paragraphs BC138 and BC139).

(c) *The effect of expected future salary increases on the attribution of benefits*—The 2010 ED proposed that expected future salary increases should be included in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit to later years. The Board did not proceed with that proposal because it is closely related to a fundamental review of the accounting for contribution-based promises (see paragraphs BC117 –BC120).

(d) *Exemption for entities participating in multi-employer defined benefit plans*—The Board rejected a proposal to permit all entities participating in a multi-employer defined benefit plan to account for these plans as defined contribution plans. The Board concluded that extending that exemption would be contrary to its general approach of limiting exceptions. The Board also believes that such an exemption would not be appropriate for all multi-employer plans, such as when an entity becomes a dominant participant in a multi-employer plan, perhaps because other participants leave the plan (see paragraph BC39).

(e) *IFRIC-related matters*—The Board did not incorporate into **IAS 19** the requirements of **IFRIC 14** ***IAS 19****—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. Incorporating **IFRIC 14** would require changes to the drafting, which could have unintended consequences. The Board also considered other questions received by the IFRIC but concluded that it would not amend **IAS 19** at this time.

Employee Benefits Working Group

BC14 The Board established an Employee Benefits Working Group in 2007 to help by providing a variety of expert perspectives, including those of auditors, preparers and users of financial statements, actuaries and regulators. The group consisted of senior professionals with extensive practical experience in the operation, management, valuation, financial reporting, auditing or regulation of a variety of post-employment benefit arrangements.

BC15 Members of the group assisted the Board by reviewing early drafts of the amendments made in 2011, and the preceding discussion paper and exposure draft. The Board greatly appreciates the time and energy that group members have devoted to this process and the quality of their contributions.

Classification of benefits

Short-term employee benefits: amendments issued in 2011

BC16 The amendments made in 2011 clarify that the classification of benefits as short-term employee benefits depends on the period between the end of the annual reporting period in which the employee renders the service that gives rise to the benefit and the date when the benefit is expected to be settled.

BC17 The Board's objective in defining the scope of the short-term employee benefits classification was to identify the set of employee benefits for which a simplified measurement approach would not result in measuring those benefits at an amount different from the general measurement requirements of **IAS 19**.

BC18 The Board concluded that the classification of a short-term employee benefit on the basis of the timing of expected settlement would best meet this objective and would be most consistent with the measurement basis in **IAS 19**.

BC19 Other alternatives that the Board considered for the basis for classification of short-term employee benefits included:

(a) *The earliest possible settlement date (ie entitlement)*—The Board rejected this alternative because it would have the result that a benefit classified as a short-term employee benefit could be measured at an amount materially different from its present value. For example, this could occur if an employee is entitled to a benefit within twelve months, but the benefit is not expected to be settled until many years later.

(b)

The latest possible settlement date—The Board rejected this alternative because, although the latest possible settlement date would be consistent with the Board's objective of minimising differences between the measurement of short-term employee benefits and the measurement of the same benefits using the model for post-employment benefits, this would result in the smallest set of benefits that would meet the definition.

BC20 However, classifying short-term employee benefits on the basis of expected settlement raises the following additional concerns:

(a) *Unit of account*—the expected settlement date is determined on the basis of a combination of the characteristics of the benefits and the characteristics of the employees, and would reflect the actuarial assumptions for a particular year rather than the characteristics of the benefits promised. The Board concluded that the classification of the benefits should reflect the characteristics of the benefits, rather than the demographic or financial assumptions at a point in time.

(b) *Splitting benefits into components*—some benefits are expected to be settled over a period of time. The Board concluded that an entity should classify a benefit as a short-term employee benefit if the whole of the benefit is expected to be settled before twelve months after the end of the annual reporting period in which the related service was provided. This will ensure that the benefit is measured on the same basis throughout its life and is consistent with the measurement requirements of paragraph 69.

(c) *Reclassification*—if the expected settlement date of a benefit classified initially as a short-term employee benefit changes subsequently to a date more than twelve months after the end of the reporting period, then the undiscounted amount of that benefit could differ materially from its present value. The Board concluded that the classification of a short-term employee benefit should be revisited if it no longer meets the definition. This maintains the objective that the benefits should not be measured at an amount that would differ materially from their present value. However, the Board concluded that a temporary change in expectation should not trigger reclassification because such a change would not be indicative of a change in the underlying characteristics of the benefit. The Board noted that reclassification of a benefit from other long-term employee benefits to short-term employee benefits is less of a concern because in that case measuring the benefit at its undiscounted amount should not differ materially from measuring the benefit at its present value.

BC21 Other approaches that the Board considered for addressing the concerns above included:

(a) *Unit of account*—by requiring an entity to classify benefits on an employee-by-employee basis. The Board concluded that this would not be practical and would not meet the objectives of the classification.

(b) *Reclassification*—prohibiting the entity from revising the classification of a short-term employee benefit after initial classification. This approach would maintain continuity of measurement throughout the life of the benefit, but the Board rejected it because measuring the benefit at the undiscounted amount could result in an amount that differs from its present value if the entity no longer expects to settle the benefit before twelve months after the end of the annual reporting period.

Long-term employee benefits: exposure draft published in 2010

BC22 The Board considered combining post-employment benefits and other long-term employee benefits into a single category. The main differences between accounting for other long-term benefits and accounting for post-employment benefits were:

(a) the previous option to defer recognition of actuarial gains and losses ('the corridor'); and

(b) the previous requirement to recognise unvested past service cost over the vesting period.

BC23 As proposed in the 2010 ED, the Board removed these differences in 2011. In the light of that proposal, the 2010 ED also proposed the removal of the distinction between post-employment benefits and other long-term employee benefits. However, many respondents to the 2010 ED did not support this removal of that distinction. They did not think that the recognition and disclosure requirements for post-employment benefits were appropriate for other long-term employee benefits, because in their view:

(a) the costs of applying the recognition and disclosure requirements for post-employment benefits to other long-term employee benefits outweigh the benefits.

(b) accounting for other long-term employee benefits was not originally within the scope of the project. Accounting for other long-term employee benefits was not an area they viewed as requiring improvement.

BC24 After reviewing the responses to the 2010 ED, the Board decided not to combine post-employment and other long-term employee benefits into a single category for the reasons expressed by respondents.

Short-term employee benefits

Paid absences

BC25 Some argue that an employee's entitlement to future paid absences does not create an obligation if that entitlement is conditional on future events other than future service. However, IASC concluded in 1998 that an obligation arises as an employee renders service that increases the employee's entitlement (conditional or unconditional) to future paid absences; for example, accumulating paid sick leave creates an obligation because any unused entitlement increases the employee's entitlement to sick leave in future periods. The probability that the employee will be sick in those future periods affects the measurement of that obligation, but does not determine whether that obligation exists.

BC26 IASC considered three alternative approaches to measuring the obligation that results from unused entitlement to accumulating paid absences:

(a) recognise the entire unused entitlement as a liability, on the basis that any future payments are made first out of unused entitlement and only subsequently out of entitlement that will accumulate in future periods (a FIFO approach);

(b) recognise a liability to the extent that future payments for the employee group as a whole are expected to exceed the future payments that would have been expected in the absence of the accumulation feature (a group LIFO approach); or

(c) recognise a liability to the extent that future payments for individual employees are expected to exceed the future payments that would have been expected in the absence of the accumulation feature (an individual LIFO approach).

These methods are illustrated by the following example.

BC Example 1

An entity has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one year. Such leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis).

At 31 December 20X1 the average unused entitlement is two days per employee. The entity expects, on the basis of past experience that is expected to continue, that 92 employees will take no more than four days of paid sick leave in 20X2 and that the remaining 8 employees will take an average of six and a half days each.

Method (a):	*The entity recognises a liability equal to the undiscounted amount of 200 days of sick pay (two days each, for 100 employees). It is assumed that the first 200 days of paid sick leave result from the unused entitlement.*
Method (b):	*The entity recognises no liability because paid sick leave for the employee group as a whole is not expected to exceed the entitlement of five days each in 20X2.*
Method (c):	*The entity recognises a liability equal to the undiscounted amount of 12 days of sick pay (one and a half days each, for 8 employees).*

BC27 IASC selected method (c), the individual LIFO approach, because that method measures the obligation at the present value of the additional future payments that are expected to arise solely from the accumulation feature. IAS 19 notes that, in many cases, the resulting liability will not be material.

Post-employment benefits

Distinction between defined contribution plans and defined benefit plans

Defined contribution plans

BC28 IAS 19 before its revision in 1998 defined:

(a) **defined contribution plans** as retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to contributions to a fund together with investment earnings thereon; and

(b) **defined benefit plans** as retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

BC29 IASC considered these definitions unsatisfactory because they focused on the benefit receivable by the employee, rather than on the cost to the entity. The definitions introduced in 1998 focused on the downside risk that the cost to the entity may increase. The definition of defined contribution plans does not exclude the upside potential that the cost to the entity may be less than expected.

Defined benefit plans: amendments issued in 2011

BC30 The amendments made in 2011 clarify that the existence of a benefit formula does not, by itself, create a defined benefit plan, but rather that there needs to be a link between the benefit formula and contributions that creates a legal or constructive obligation to contribute further amounts to meet the benefits specified by the benefit formula. This amendment to paragraph 29 addressed a concern that can arise when a plan has a benefit formula determining the benefits to be paid if there are sufficient plan assets, but not requiring the employer to pay additional contributions if there are insufficient plan assets to pay those benefits. In effect, the benefit payments are based on the lower of the benefit formula and the plan assets available. The amendments clarify that such a plan is a defined contribution plan.

Multi-employer plans and state plans

BC31 An entity may not always be able to obtain sufficient information from multi-employer plans to use defined benefit accounting. IASC considered three approaches to this problem:

(a) use defined contribution accounting for some and defined benefit accounting for others;

(b) use defined contribution accounting for all multi-employer plans, with additional disclosure where the multi-employer plan is a defined benefit plan; or

(c) use defined benefit accounting for those multi-employer plans that are defined benefit plans. However, where sufficient information is not available to use defined benefit accounting, an entity should disclose that fact and use defined contribution accounting.

BC32 IASC believed that there was no conceptually sound, workable and objective way to draw a distinction so that an entity could use defined contribution accounting for some multi-employer defined benefit plans and defined benefit accounting for others. In addition, IASC believed that it was misleading to use defined contribution accounting for multi-employer plans that are defined benefit plans. This is illustrated by the case of French banks that used defined contribution accounting for defined benefit pension plans operated under industry-wide collective agreements on a pay-as-you-go basis. Demographic trends made these plans unsustainable and a major reform in 1993 replaced them by defined contribution arrangements for future service. At that point, the banks were compelled to quantify their obligations. Those obligations had previously existed, but had not been recognised as liabilities.

BC33 IASC concluded that an entity should use defined benefit accounting for those multi-employer plans that are defined benefit plans. However, where sufficient information is not available to use defined benefit accounting, an entity should disclose that fact and use defined contribution accounting. IASC applied the same principle to state plans, observing that most state plans are defined contribution plans.

BC34 In response to comments on E54, IASC considered a proposal to exempt wholly-owned subsidiaries (and their parents) participating in group defined benefit plans from the recognition and measurement requirements in their individual non-consolidated financial statements, on cost-benefit grounds. IASC concluded that such an exemption would not be appropriate.

Multi-employer plans: amendments issued in 2004

BC35 In April 2004 the IFRIC published a draft Interpretation, D6 *Multi-employer Plans*, which proposed the following guidance on how multi-employer plans should apply defined benefit accounting, if possible:

(a) The plan should be measured in accordance with **IAS 19** using assumptions appropriate for the plan as a whole.

(b) The plan should be allocated to plan participants so that they recognise an asset or liability that reflects the impact of the surplus or deficit on the future contributions from the participant.

BC36 The concerns raised by respondents to D6 about the availability of the information about the plan as a whole, the difficulties in making an allocation as proposed and the resulting lack of usefulness of the information provided by defined benefit accounting were such that the IFRIC decided not to proceed with the proposals.

BC37 When discussing group plans (see paragraphs BC40–BC50) in 2004 the Board noted that, if there were a contractual agreement between a multi-employer plan and its participants on how a surplus would be distributed or a deficit funded, the same principle that applied to group plans should apply to multi-employer plans, ie the participants should recognise an asset or liability. In relation to the funding of a deficit, the Board regarded this principle as consistent with the recognition of a provision in accordance with **IAS 37**.

BC38 The Board therefore clarified that a participant in a multi-employer defined benefit plan must recognise the asset or liability arising from that contractual agreement if the participant:

(a) accounts for that participation on a defined contribution basis in accordance with paragraph 34 because it has insufficient information to apply defined benefit accounting, but

(b) has a contractual agreement that determines how a surplus would be distributed or a deficit funded.

Multi-employer plans: exposure draft published in 2010

BC39 The Board considered and rejected a proposal to permit all entities participating in multi-employer defined benefit plans to account for those plans as defined contribution plans. The Board concluded that extending that exemption would be contrary to its general approach of limiting exceptions. In the Board’s view such an exemption would not be appropriate for all multi-employer plans, such as when an entity becomes a dominant participant in a multi-employer plan, perhaps because other participants leave the plan.

Group plans: amendments issued in 2004

BC40 Some constituents asked the Board to consider whether entities participating in a group defined benefit plan should, in their separate or individual financial statements, either have an unqualified exemption from defined benefit accounting or be able to treat the plan as a multi-employer plan.

BC41 In developing the exposure draft *Actuarial Gains and Losses, Group Plans and Disclosures* published in April 2004 (the 2004 ED), the Board did not agree that an unqualified exemption from defined benefit accounting for group defined benefit plans in the separate or individual financial statements of group entities was appropriate. In principle, the requirements of International Financial Reporting Standards (IFRSs) should apply to separate or individual financial statements in the same way as they apply to any other financial statements. Following that principle would mean amending **IAS 19** to allow group entities that participate in a plan that meets the definition of a multi-employer plan, except that the participants are under common control, to be treated as participants in a multi-employer plan in their separate or individual financial statements.

BC42 However, in the 2004 ED the Board concluded that entities within a group should always be presumed to be able to obtain the necessary information about the plan as a whole. This implies that, in accordance with the requirements for multi-employer plans, defined benefit accounting should be applied if there is a consistent and reliable basis for allocating the assets and obligations of the plan.

BC43 In the 2004 ED the Board acknowledged that entities within a group might not be able to identify a consistent and reliable basis for allocating the plan that results in the entity recognising an asset or liability that reflects the extent to which a surplus or deficit in the plan would affect its future contributions. This is because there may be uncertainty in the terms of the plan about how surpluses will be used or deficits funded across the consolidated group. However, the Board concluded that entities within a group should always be able to make at least a consistent and *reasonable* allocation, for example on the basis of a percentage of pensionable pay.

BC44 The Board then considered whether, for some group entities, the benefits of defined benefit accounting using a consistent and reasonable basis of allocation were worth the costs involved in obtaining the information. The Board decided that this was not the case for entities that meet criteria similar to those in **IAS 27** *Consolidated and Separate Financial Statements* [4] for the exemption from preparing consolidated financial statements.

BC45 The 2004 ED therefore proposed the following for entities that participate in a plan that would meet the definition of a multi-employer plan except that the participants are under common control:

(a) If the entities meet the criteria as proposed in the 2004 ED, they should be treated as if they were participants in a multi-employer plan. This means that if there is no consistent and reliable basis for allocating the assets and liabilities of the plan, the entity should use defined contribution accounting and provide additional disclosures.

(b) In all other cases, the entities should be required to apply defined benefit accounting by making a consistent and reasonable allocation of the assets and liabilities of the plan.

BC46 Respondents to the 2004 ED generally supported the proposal to extend the requirements on multi-employer plans to group entities. However, many disagreed with the criteria proposed in the 2004 ED, for the following reasons:

(a) The proposed amendments and the interaction with D6 (see paragraphs BC35–BC38) were unclear.

(b) The provisions for multi-employer accounting should be extended to a listed parent company.

(c) The provisions for multi-employer accounting should be extended to group entities with listed debt.

(d) The provisions for multi-employer plan accounting should be extended to all group entities, including partly-owned subsidiaries.

(e) There should be a blanket exemption from defined benefit accounting for all group entities.

BC47 The Board agreed that the proposed requirements for group plans were unnecessarily complex. The Board also concluded that it would be better to treat group plans separately from multi-employer plans because of the difference in information available to the participants: in a group plan, information about the plan as a whole should generally be available. The Board further noted that, if the parent wishes to comply with IFRSs in its separate financial statements or wishes its subsidiaries to comply with IFRSs in their individual financial statements, then it must obtain and provide the necessary information at least for the purposes of disclosure.

BC48 The Board noted that, if there were a contractual agreement or stated policy on charging the net defined benefit cost to group entities, that agreement or policy would determine the cost for each entity. If there is no such contractual agreement or stated policy, the entity that is the sponsoring employer bears the risk relating to the plan by default. The Board therefore concluded that a group plan should be allocated to the individual entities within a group in accordance with any contractual agreement or stated policy. If there is no such agreement or policy, the net defined benefit cost is allocated to the sponsoring employer. The other group entities recognise a cost equal to any contribution collected by the sponsoring employer.

BC49 This approach has the advantages of (a) all group entities recognising the cost they have to bear for the defined benefit promise and (b) being simple to apply.

BC50 The Board also noted that participation in a group plan is a related party transaction. As such, disclosures are required to comply with **IAS 24** *Related Party Disclosures*. **IAS 24** requires an entity to disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. The Board noted that information about each of (a) the policy on charging the defined benefit cost, (b) the policy on charging current contributions and (c) the status of the plan as a whole was required to give an understanding of the potential effect of the participation in the group plan on the entity's separate or individual financial statements.

State plan and group plan disclosures: amendments issued in 2011

BC51 The amendments made in 2011 updated, without reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control, to be consistent with the disclosure requirements for multi-employer plans and defined benefit plans. However, those amendments permit an entity to include those disclosures by cross-reference to the required disclosures in another group entity's financial statements, if specified conditions are met.

Defined benefit plans: recognition and measurement

BC52 Although **IAS 19** before its revision in 1998 did not deal explicitly with the recognition of retirement benefit obligations as a liability, it is likely that most entities recognised a liability for retirement benefit obligations at the same time under the requirements in **IAS 19** before and after its revision in 1998. However, the requirements in **IAS 19** before and after its revision in 1998 differed in the measurement of the resulting liability.

BC53 Paragraph 63 of **IAS 19** is based on the definition of, and recognition criteria for, a liability in IASC's *Framework for the Preparation and Presentation of Financial Statements*. [5] The *Framework* defined a liability as 'a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'. The *Framework* stated that an item which meets the definition of a liability should be recognised if:

(a) it is probable that any future economic benefit associated with the item will flow from the entity; and

(b) the item has a cost or value that can be measured with reliability.

BC54 IASC believed that:

(a) an entity has an obligation under a defined benefit plan when an employee has rendered service in return for the benefits promised under the plan. Paragraphs 70–74 deal with the attribution of benefit to individual periods of service in order to determine whether an obligation exists.

(b) an entity should use actuarial assumptions to determine whether the entity will pay those benefits in future reporting periods (see paragraphs 75–98).

(c) actuarial techniques allow an entity to measure the obligation with sufficient reliability to justify recognition of a liability.

BC55 IASC believed that an obligation exists even if a benefit is not vested, in other words if the employee's right to receive the benefit is conditional on future employment. For example, consider an entity that provides a benefit of CU100 [6] to employees who remain in service for two years. At the end of the first year, the employee and the entity are not in the same position as at the beginning of the first year, because the employee will need to work for only one more year, instead of two, before becoming entitled to the benefit. Although there is a possibility that the benefit may not vest, that difference is an obligation and, in IASC's view, should result in the recognition of a liability at the end of the first year. The measurement of that obligation at its present value reflects the entity's best estimate of the probability that the benefit may not vest.

Measurement date

BC56 Some national standards permit entities to measure the present value of defined benefit obligations at a date up to three months before the end of the reporting period. However, IASC decided that entities should measure the present value of defined benefit obligations, and the fair value of any plan assets, at the end of the reporting period. Consequently, if an entity carries out a detailed valuation of the obligation at an earlier date, the results of that valuation should be updated to take account of any significant transactions and other significant changes in circumstances up to the balance sheet date (end of the reporting period).

BC57 In response to comments on E54, IASC clarified that full actuarial valuation was not required at the end of the reporting period, provided that an entity determined the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements did not differ materially from the amounts that would be determined at the balance sheet date.

Interim reporting: effects of the amendments issued in 2011

BC58 The 2010 ED did not propose any substantial amendments to the requirements in **IAS 34** *Interim Financial Reporting*. Respondents to the 2010 ED were concerned that the requirements for the immediate recognition of changes in the net defined benefit liability (asset) would imply that entities should remeasure the net defined benefit liability (asset) at each interim reporting date.

BC59 The Board noted that an entity is not always required to remeasure a net defined benefit liability (asset) for interim reporting purposes under **IAS 19** and **IAS 34**. Both indicate that the entity needs to exercise judgement in determining whether it needs to remeasure the net defined benefit liability (asset) at the end of the (interim or annual) reporting period.

BC60 The amendments made in 2011 require an entity to recognise remeasurements in the period in which they arise. Thus, remeasurements are now more likely to have a material effect on the amount recognised in the financial statements than would have been the case before those amendments if an entity elected to defer recognition of actuarial gains and losses. It follows that entities previously deferring recognition of some gains and losses are now more likely to judge that remeasurement is required for interim reporting.

BC61 The Board considered setting out explicitly whether an entity should remeasure a net defined benefit liability (asset) at interim dates. However, in the Board's view, such a change would be an exemption from the general requirements of **IAS 34** and consequently it decided against such an amendment. The Board is not aware of concerns with the application of these interim reporting requirements for entities that applied the immediate recognition option under the previous version of **IAS 19**.

BC62 Some respondents to the 2010 ED asked the Board to clarify whether the assumptions used to determine defined benefit cost for subsequent interim periods should reflect the assumptions used at the end of the prior financial year or for the most recent measurement of the defined benefit obligation (for example, in an earlier interim period or in determining the effect of a plan amendment or settlement).

BC63 The Board noted that if assumptions for each interim reporting period were updated to the most recent interim date, the measurement of the entity's annual amounts would be affected by how frequently the entity reports, ie whether the entity reports quarterly, half-yearly or with no interim period. In the Board's view this would not be consistent with the requirements of paragraphs 28 and 29 of **IAS 34**.

BC64 Similarly, in the Board's view, there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in determining current service cost and net interest, ie determining how much service the employee has rendered to date and the effect of the time value of money to date. The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement. In accordance with paragraph B9 of **IAS 34** the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year.

Recognition: amendments issued in 2011

BC65 The amendments made in 2011 require entities to recognise all changes in the net defined benefit liability (asset) in the period in which those changes occur, and to disaggregate and recognise defined benefit cost as follows:

(a) service cost, relating to the cost of the services received, in profit or loss.

(b) net interest on the net defined benefit liability (asset), representing the financing effect of paying for the benefits in advance or in arrears, in profit or loss.

(c) remeasurements, representing the period-to-period fluctuations in the amounts of defined benefit obligations and plan assets, in other comprehensive income.

BC66 Before those amendments, **IAS 19** permitted three options for the recognition of actuarial gains and losses:

(a) leaving actuarial gains and losses unrecognised if they were within a 'corridor' and deferred recognition of actuarial gains and losses outside the corridor in profit or loss;

(b) immediate recognition in profit or loss; or

(c) immediate recognition in other comprehensive income. Actuarial gains and losses recognised in other comprehensive income are transferred directly to retained earnings.

BC67 The amendments in 2011 made the following changes to the recognition requirements:

(a) immediate recognition—elimination of the corridor (paragraphs BC70–BC72).

(b) redefining the components of defined benefit cost (paragraphs BC73–BC87).

(c) recognition of the remeasurements component in other comprehensive income (paragraphs BC88–BC100).

BC68 Many respondents to the 2010 ED agreed that the Board should address within the project the disaggregation of defined benefit cost and where the components of defined benefit cost should be recognised. However, some respondents said that the determination of an appropriate disaggregation method was intrinsically linked to the accounting model and should not be considered until there is a fundamental review of **IAS 19**. The Board considered the components of defined benefit cost in the context of the accounting model of **IAS 19**. In the Board’s view, the disaggregation requirements are consistent with that model and provide useful information.

BC69 Others said that the Board should not address those matters until it completes its project on financial statement presentation, including the conceptual basis for deciding whether items should ultimately be reclassified to profit or loss from other comprehensive income. However, the Board concluded that improving the understandability and comparability of the changes in the net defined benefit liability or asset would be necessary if changes are to be recognised immediately, and that improving the understandability of those changes should not be delayed until it completes its project on financial statement presentation.

Immediate recognition: elimination of the corridor

BC70 In the Board’s view, immediate recognition provides information that is more relevant to users of financial statements than the information provided by deferred recognition. It also provides a more faithful representation of the financial effect of defined benefit plans on the entity and is easier for users to understand. In contrast, deferred recognition can produce misleading information: for example,

(a) an asset may be recognised in the statement of financial position, even when a plan is in deficit; or

(b) the statement of comprehensive income may include gains and losses that arise from economic events that occurred in past periods.

BC71 In addition, eliminating accounting options makes it easier for users to compare entities.

BC72 Most respondents supported the proposal to recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. However, some respondents expressed concerns about immediate recognition:

(a) *Measurement model requires further work*—some respondents expressed the view that the measurement model needs a comprehensive review and that it would be disruptive to move to immediate recognition of changes arising from the measurement model in **IAS 19**. However, in the Board’s view, deferred recognition makes accounting for defined benefit plans obscure and difficult for users to understand. Consequently, the Board decided not to delay the introduction of the requirement for immediate recognition.

(b) *Relevance of information*—some respondents expressed the view that some changes to the net defined benefit liability (asset) occurring in a period are not relevant to the measurement of a long-term liability. This is because past gains or losses may be offset by future losses or gains. However, in the Board’s view it is not inevitable that future gains or losses will occur and offset past losses or gains.

(c) *Volatility*—many respondents were concerned that volatility might result if an entity reported all changes in the net defined benefit liability (asset) in each period and that this volatility would impede year-on-year comparability, and would obscure the profitability of the entity’s core business. However, the Board believes that a measure should be volatile if it faithfully represents transactions and other events that are themselves volatile, and that financial statements should not omit such information. In the Board’s view, that information should be presented in a way that is most useful to users of financial statements. Therefore, the Board introduced a presentation that allows users of financial statements to isolate remeasurements of the entity’s net defined benefit liability (asset) (see paragraphs BC88–BC100).

(d) *Behavioural and social consequences*—some respondents expressed concerns that immediate recognition might have adverse behavioural and social consequences. For example, they were concerned that entities might try to eliminate short-term volatility by making long-term economically inefficient decisions about the allocation of plan assets, or by making socially undesirable amendments to plan terms. However, in the Board’s view, it is not the responsibility of accounting standard-setters to encourage or discourage particular behaviour. Their responsibility is to set standards that result in the provision of relevant information that faithfully represents an entity's financial position, financial performance and cash flows so that users of that information can make well-informed decisions.

(e) *Potential effect on debt covenants*—some respondents were concerned that immediate recognition could lead to difficulties with debt covenants based on earnings or net assets, and impair entities' ability to pay dividends because of legal restrictions based on amounts in financial statements. In the Board's view, it is up to the entity and the holder of a covenant to determine whether to insulate a debt covenant from the effects of a new or amended accounting standard or to determine how they might renegotiate any existing covenant.

Components of defined benefit cost: service cost

BC73 The service cost component includes current service cost, past service cost and any gain or loss on settlement, but excludes changes in the defined benefit obligation that result from changes in demographic assumptions that are included in the remeasurements component together with other actuarial gains and losses. In the Board's view, including the effect of changes in demographic assumptions in the service cost component would combine amounts with different predictive values and, consequently, the service cost component is more relevant for assessing an entity's continuous operational costs if it does not include changes in past estimates of service cost. Most respondents agreed with the proposals in the 2010 ED that service cost should exclude changes in demographic assumptions.

Components of defined benefit cost: net interest

BC74 The amendments made in 2011 require an entity to calculate net interest on the net defined benefit liability (asset) using the same discount rate used to measure the defined benefit obligation (the net interest approach).

BC75 The amendments are consistent with the view that a net defined benefit liability is equivalent to a financing amount owed by the entity to the plan or to the employees. The economic cost of that financing is interest cost, calculated using the rate specified in paragraph 83. Similarly, a net defined benefit asset is an amount owed by the plan or by the employees to the entity. The entity accounts for the present value of economic benefits that it expects to receive from the plan or from the employees in the form of reductions in future contributions or as refunds. The entity discounts those economic benefits using the rate specified in paragraph 83.

BC76 In the Board's view, a net interest approach provides more understandable information than would be the case if finance income and expenses were to be determined separately on the plan assets and defined benefit obligation that combine to make a net defined benefit liability (asset). The net interest approach results in an entity recognising interest income when the plan has a surplus, and interest cost when the plan has a deficit.

BC77 The Board concluded that, in principle, the change in value of any asset can be divided into an amount that arises from the passage of time and amounts that arise from other changes. The interest cost on the defined benefit obligation arises from the passage of time. Consequently, the 2010 ED proposed that the net interest component of defined benefit cost should include not only the interest cost on the defined benefit obligation, but also the part of the return on plan assets that arises from the passage of time. In addition, the Board concluded that, to be consistent with the principle of separating components of defined benefit cost with different predictive implications, the net interest component should not include the part of the return on plan assets that does not arise from the passage of time.

BC78 The Board found it difficult to identify a practical method for identifying the change in the fair value of plan assets that arises from the passage of time, particularly for assets that do not bear explicit interest. The Board rejected approximations to this amount using:

(a) the expected return on plan assets (as required by **IAS 19** before the amendments made in 2011) because it could not be determined in an objective way, and because it might include a return that is not simply attributable to the passage of time; and

(b) dividends (but not capital gains) received on equity plan assets and interest earned on debt plan assets. In the Board's view, dividends are not a faithful representation of the time value of money.

BC79 Consequently, the 2010 ED proposed that entities should calculate interest income on plan assets using the rate used to discount the defined benefit obligation. This approach produces interest income that is equivalent to determining a net interest on the net defined benefit liability (asset). The difference between the actual return on assets and the interest income on plan assets is included in the remeasurements component (see paragraph BC86).

BC80 Respondents generally agreed with the principle that the net interest component should include changes both in the defined benefit obligation and in plan assets that arise from the passage of time. However, some supported the approach proposed in the 2010 ED and others supported the expected return approach used in **IAS 19** before the amendments made in 2011 (ie based on the expected return on plan assets).

BC81 The Board agreed with the views of respondents who reasoned that the net interest approach is a simple and pragmatic solution that is consistent with the presentation in the statement of financial position and, by reflecting the underlying economics of the net defined benefit liability (asset), provides more relevant and understandable information than the expected return approach. The net interest approach represents the economics of the entity's decision on how to finance the plan by reporting net interest income when the plan is in surplus and net interest expense when the plan is in deficit.

BC82 Respondents to the 2010 ED expressed concerns that:

(a) plan assets may be made up of many different types of investments. The return on high quality corporate bonds would be arbitrary and would not be a faithful representation of the return that investors require or expect from each type of asset. However, in the Board's view, using the same rate as the rate used to discount the liability is a practical approach that:

(i) would not require an entity to make a subjective judgement on how to divide the return on plan assets into an interest component and a remeasurement.

(ii) results in amounts recognised in profit or loss that reflect the effect of the time value of money on both the defined benefit obligation and on plan assets. Consequently, the amounts recognised in profit or loss reflect the differences between funded and unfunded plans.

(b) the requirements in paragraph 83 for determining the discount rate can result in economically similar defined benefit obligations being reported at different amounts, depending on whether there is a deep market in high quality corporate bonds. As noted in paragraph BC13, the Board considered improving the discount rate requirements of **IAS 19**, but decided to defer consideration of the discount rate until it decides whether to review measurement of the defined benefit obligation as a whole.

BC83 The Board considered the expected return approach, but noted that:

(a) although the expected return approach is consistent with the discount rate used in the measurement of the plan assets at fair value, the net interest approach better represents the economics of the net defined benefit liability (asset) and consequently provides more comparable information on the changes in that net amount presented in the statement of financial position.

(b) although the expected return approach is not theoretically more subjective than the net interest approach, in practice it is more likely that observable information will not be available to determine the expected return than is the case for the discount rate used for the net interest approach.

(c) the expected return approach results in the reporting of the expected performance of the plan assets, regardless of their actual performance during the period. For a high risk investment, this has the effect of recognising the anticipated higher return in profit or loss, and the effect of higher risk in other comprehensive income. In contrast, the net interest approach recognises in other comprehensive income both the higher return and the effects of higher risk.

BC84 Supporters of both the net interest approach and the expected return approach reasoned that their favoured approach produces more relevant, comparable and understandable information. These contrasting views may reflect how different respondents consider the net defined benefit liability (asset) recognised in the statement of financial position as either comprising two components (the plan assets and the defined benefit obligation), which are measured separately but presented together (the gross view), or representing a single amount owed to, or from, the plan (the net view). These differences in views may also reflect differences in plan design, such as the degree of an entity's control over the plan assets. The expected return approach is more consistent with the gross view and the net interest approach is more consistent with the net view. The Board concluded that the net view is more consistent with the presentation of the net defined benefit liability (asset) in the statement of financial position, and therefore the disaggregation of the defined benefit cost in the statement of comprehensive income should also be based on the net view.

BC85 Supporters of both the net interest approach and the expected return approach reasoned that their approach does not provide an uneconomic incentive to invest assets in a particular way. In coming to its conclusion, the Board did not aim to encourage or discourage any particular behaviour, but considered which approach would provide the most relevant information that faithfully represents the changes in the plan assets and defined benefit obligation.

Components of defined benefit cost: remeasurements

BC86 As a result of the Board's decisions on the service cost and net interest components, the amendments made in 2011 define the remeasurement component as comprising:

(a) actuarial gains and losses on the defined benefit obligation;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any changes in the effect of the asset ceiling, excluding the amount included in net interest on the net defined benefit liability (asset).

BC87 The definition of remeasurements differs from the definition of actuarial gains and losses in **IAS 19** before the amendments made in 2011 because the introduction of the net interest approach changed the disaggregation of the return on plan assets and the effect of the asset ceiling.

Components of defined benefit cost: recognition of the remeasurements component

BC88 As described in paragraphs BC70–BC72, the amendments made in 2011 eliminated deferred recognition. To distinguish the remeasurement component from service cost and net interest in an informative way, the 2010 ED proposed that entities should recognise the remeasurements component as an item of other comprehensive income, thus removing the previous option to recognise in profit or loss all changes in the net defined benefit liability (asset). The Board noted that although changes included in the remeasurements component may provide more information about the uncertainty and risk of future cash flows, they provide less information about the likely amount and timing of those cash flows.

BC89 Most respondents agreed with the proposal in the 2010 ED to recognise remeasurements in other comprehensive income. But some respondents expressed the following concerns:

(a) *Remeasurements in profit or loss*—some respondents did not support the proposal in the 2010 ED because, in their view:

(i) there is no conceptual basis for recognising amounts in other comprehensive income, thus recognition in profit or loss would be more appropriate.

(ii) the fact that the remeasurements component's predictive value is different from that of other components should not lead to the conclusion that this component should be recognised in other comprehensive income, but instead should indicate that there is a need to present this component as a separate line item in profit or loss.

(iii) if changes in assumptions are not recognised in profit or loss in the same way as service costs, this might encourage mis-estimation of service costs to achieve an accounting result.

(b) *Remeasurements option*—some respondents expressed the view that the Board should maintain the option to recognise remeasurements in profit or loss:

(i) because the Board should not eliminate this option until it develops a principle for determining which items should be recognised in profit or loss and which items should be recognised in other comprehensive income;

(ii) because recognising remeasurements in profit or loss is the conceptually best method;

(iii) to keep the accounting simple for entities with small plans; and

(iv) because recognising remeasurements in other comprehensive income may lead to an accounting mismatch (eg for an unfunded plan, if the entity holds assets to fund the obligation, and gains and losses on the assets are recognised in profit or loss).

(c) *Reclassification to profit or loss*—some respondents were concerned that amounts recognised in other comprehensive income are not reclassified to profit or loss in subsequent periods because:

(i) the amounts in other comprehensive income would never be recognised in profit or loss.

(ii) this change diverges from US generally accepted accounting principles (GAAP), because amounts in other comprehensive income under US GAAP are subsequently reclassified to profit or loss.

BC90 In finalising the amendments made in 2011, the Board confirmed the proposal made in the 2010 ED that an entity should recognise remeasurements in other comprehensive income. The Board acknowledged that the *Conceptual Framework* and **IAS 1** do not describe a principle that would identify the items an entity should recognise in other comprehensive income rather than in profit or loss. However, the Board concluded that the most informative way to disaggregate the components of defined benefit cost with different predictive values is to recognise the remeasurements component in other comprehensive income.

BC91 The Board considered and rejected alternative approaches that would address some of the concerns expressed in paragraph BC89(a) and (b) for the reasons discussed in paragraphs BC92–BC98. Subsequent reclassification of amounts recognised in other comprehensive income to profit or loss is discussed in paragraph BC99.

Components of defined benefit cost: other approaches to recognising remeasurements

BC92 The Board considered the following alternatives for recognising the remeasurements component:

(a) previous options in **IAS 19** for immediate recognition (paragraph BC93).

(b) recognition of all components in profit or loss (paragraphs BC94–BC96).

(c) a hybrid approach requiring recognition of the remeasurements component in other comprehensive income or profit or loss in different circumstances (paragraphs BC97 and BC98).

BC93

Before its amendment in 2011, IAS 19 permitted two methods for recognising actuarial gains and losses immediately: in profit or loss or in other comprehensive income. Many respondents to the 2010 ED suggested that the Board should permit an entity to recognise remeasurements either in profit or loss or in other comprehensive income. Retaining those options would have allowed entities with small plans to keep the accounting simple and would have allowed entities to eliminate the accounting mismatches noted in paragraph BC89(b). However, the Board concluded that eliminating options would improve financial reporting.

BC94 Some respondents to the 2010 ED expressed the view that entities should recognise all components of defined benefit cost within profit or loss, rather than using other comprehensive income for some items. They offered the following reasons for their position:

(a) Some indicated that the *Framework* and IAS 1 do not describe a principle that would identify the items an entity should recognise in other comprehensive income rather than in profit or loss.

(b) Some believe that an entity should show amounts relating to defined benefit plans in aggregate, as a single net amount arising from personnel or employment expense, in conformity with the presentation of a single net amount in the statement of financial position.

BC95 However, most respondents to the 2010 ED expressed the view that it would be inappropriate to recognise in profit or loss short-term fluctuations in an item that is long-term in nature. The Board concluded that in the light of the improved presentation of items of other comprehensive income in its amendment to IAS 1 issued in June 2011, the most informative way to disaggregate the components of defined benefit cost with different predictive values is to recognise the remeasurement component in other comprehensive income.

BC96 Many respondents urged the Board to carry out a project to identify what items of income and expense an entity should recognise in other comprehensive income, and whether an entity should subsequently reclassify items recognised in other comprehensive income to profit or loss. If the Board carries out such a project, the Board may need in due course to revisit its decisions on the recognition of the remeasurements component.

BC97 The Board noted that an accounting mismatch could arise for entities that hold assets to fund the obligation that do not qualify as plan assets because an entity would recognise changes in the defined benefit obligation in other comprehensive income, but changes in the carrying amount of those assets in profit or loss. The Board considered whether to permit (or perhaps require) entities to recognise the remeasurement component in profit or loss if that would reduce or eliminate an accounting mismatch from profit or loss.

BC98 However, the Board did not pursue such a hybrid approach because doing so would have required the Board to add significant complexity to the requirements in IAS 19 to address matters such as the following:

(a) introducing criteria to identify an accounting mismatch.

(b) determining whether to make such an election irrevocable, and whether an entity could revisit its election if there are changes in facts (such as in the case of a plan amendment, merger or plans switching between funded and unfunded status).

Components of defined benefit cost: reclassification to profit or loss

BC99 Both before and after the amendments made in 2011, IAS 19 prohibits subsequent reclassification of remeasurements from other comprehensive income to profit or loss. The Board prohibited such reclassification because:

(a) there is no consistent policy on reclassification to profit or loss in IFRSs, and it would have been premature to address this matter in the context of the amendments made to IAS 19 in 2011.

(b) it is difficult to identify a suitable basis to determine the timing and amount of such reclassifications.

Components of defined benefit cost: cumulative remeasurements

BC100 The 2010 ED proposed to carry forward the requirement that an entity should transfer amounts recognised in other comprehensive income directly to retained earnings. However, IFRSs do not define the phrase 'retained earnings' and the Board has not discussed what it should mean. Moreover, there exist jurisdiction-specific restrictions on components of equity. The amendments made in 2011 permit an entity to transfer the cumulative remeasurements within equity, and do not impose specific requirements on that transfer.

The asset ceiling

BC101 In some cases, paragraph 63 of **IAS 19** requires an entity to recognise an asset. E54 proposed that the amount of the asset recognised should not exceed the aggregate of the present values of:

(a) any refunds expected from the plan; and

(b) any expected reduction in future contributions arising from the surplus.

In approving E54, IASC took the view that an entity should not recognise an asset at an amount that exceeds the present value of the future benefits that are expected to flow to the entity from that asset. This view was consistent with IASC's proposal in its exposure draft E55 *Impairment of Assets* that assets should not be carried at more than their recoverable amount. **IAS 19** before its revision in 1998 contained no such restriction.

BC102 Some commentators argued that the limit in E54 was not operable because it would require an entity to make extremely subjective forecasts of expected refunds or reductions in contributions. In response to those comments, IASC agreed that the limit should reflect the available refunds or reductions in contributions.

An additional minimum liability

BC103 IASC considered whether it should require an entity to recognise an additional minimum liability where:

(a) an entity's immediate obligation if it discontinued a plan at the balance sheet date would be greater than the present value of the liability that would otherwise be recognised on the statement of financial position.

(b) vested post-employment benefits are payable at the date when an employee leaves the entity. Consequently, because of the effect of discounting, the present value of the vested benefit would be greater if an employee left immediately after the balance sheet date than if the employee completed the expected period of service.

(c) the present value of vested benefits exceeds the amount of the liability that would otherwise be recognised in the balance sheet. Before the amendments made to **IAS 19** in 2011 this could have occurred where a large proportion of the benefits were fully vested and an entity had not recognised actuarial losses or past service cost.

BC104 One example of a requirement for an entity to recognise an additional minimum liability was in the US standard SFAS 87 *Employers' Accounting for Pensions*: the minimum liability was based on current salaries and excluded the effect of deferring some past service cost and actuarial gains and losses. If the minimum liability exceeded the obligation measured on the normal projected salary basis (with deferred recognition of some types of income and expense), the excess was recognised as an intangible asset (not exceeding the amount of any unamortised past service cost, with any further excess deducted directly from equity) and as an additional minimum liability.

BC105 IASC believed that such additional measures of the liability were potentially confusing and did not provide relevant information. They would also conflict with the *Framework*'s assumption that the entity is a going concern and with its definition of a liability. **IAS 19** does not require the recognition of an additional minimum liability. Some of the circumstances discussed in the preceding two paragraphs might have given rise to contingent liabilities requiring disclosure under **IAS 37**.

Recognition of defined benefit cost as part of an asset: amendments issued in 2011

BC106 IAS 19 requires an entity to recognise defined benefit costs as income or expense unless another IFRS requires or permits their inclusion in the cost of an asset. Some respondents to the 2010 ED asked the Board to clarify whether remeasurements recognised in other comprehensive income result in income or expense that is eligible for inclusion in the cost of an asset. Some respondents said that recognising remeasurements as part of an asset and then recognising that asset as an expense in profit or loss would be inconsistent with the Board's conclusion that reclassification from other comprehensive income to profit or loss should be prohibited.

BC107 In relation to determining the cost of an asset, IFRSs include no principle distinguishing between income and expense presented in profit or loss and income and expense recognised in other comprehensive income. In the Board's view, whether an item is included in the cost of an asset depends on its nature and whether it meets the definition of cost in the relevant IFRS for that asset. Furthermore, in the Board's view this would be consistent with its conclusions on the reclassification of amounts recognised in other comprehensive income because amounts recognised as part of an asset would not be recognised in other comprehensive income first. Accordingly, the Board added no further guidance on this matter.

Actuarial valuation method

BC108 IAS 19 before its revision in 1998 permitted both accrued benefit valuation methods (benchmark treatment) and projected benefit valuation methods (allowed alternative treatment). The two groups of methods were based on fundamentally different, and incompatible, views of the objectives of accounting for employee benefits:

(a) **accrued benefit methods** (sometimes known as 'benefit', 'unit credit' or 'single premium' methods) determine the present value of employee benefits attributable to service to date; but

(b) **projected benefit methods** (sometimes described as 'cost', 'level contribution' or 'level premium' methods) project the estimated total obligation at retirement and then calculate a level funding cost, taking into account investment earnings, that will provide the total benefit at retirement.

BC109 The two methods may have similar effects on the income statement, but only by chance or if the number and age distribution of participating employees remain relatively stable over time. There can be significant differences in the measurement of liabilities under the two groups of methods. For these reasons, IASC believed that a requirement to use a single group of methods would significantly enhance comparability.

BC110 IASC considered whether it should continue to permit projected benefit methods as an allowed alternative treatment while introducing a new requirement to disclose information equivalent to the use of an accrued benefit method. However, IASC believed that disclosure cannot rectify inappropriate accounting in the balance sheet and income statement. IASC concluded that projected benefit methods were not appropriate, and should be eliminated, because such methods:

(a) focus on future events (future service) as well as past events, whereas accrued benefit methods focus only on past events;

(b) generate a liability that does not represent a measure of any real amount and can be described only as the result of cost allocations; and

(c) do not attempt to measure fair value and cannot, therefore, be used in a business combination, as required by IAS 22 *Business Combinations*.[7] If an entity used an accrued benefit method in a business combination, it would not be feasible for the entity to use a projected benefit method to account for the same obligation in subsequent periods.

BC111 IAS 19 before its revision in 1998 did not specify which forms of accrued benefit valuation method should be permitted under the benchmark treatment. IAS 19 as revised in 1998 required a single accrued benefit method: the most widely used accrued benefit method, which is known as the projected unit credit method (sometimes known as the 'accrued benefit method pro-rated on service' or as the 'benefit/years of service method').

BC112 IASC acknowledged that the elimination of projected benefit methods, and of accrued benefit methods other than the projected unit credit method, had cost implications. However, with modern computing power, it would be only marginally more expensive to run a valuation on two different bases and the advantages of improved comparability would outweigh the additional cost.

BC113 An actuary may sometimes recommend, for example in the case of a closed fund, a method other than the projected unit credit method for funding purposes. Nevertheless, IASC agreed to require the use of the projected unit credit method in all cases because that method was more consistent with the accounting objectives laid down in **IAS 19** as revised in 1998.

Attributing benefit to periods of service

BC114 As explained in paragraph BC54, IASC believed that an entity has an obligation under a defined benefit plan when an employee has rendered service in return for the benefits promised under the plan. IASC considered three alternative methods of accounting for a defined benefit plan that attributes different amounts of benefit to different periods:

(a) apportion the entire benefit on a straight-line basis over the entire period to the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

(b) apportion benefit under the plan's benefit formula. However, a straight-line basis should be used if the plan's benefit formula attributes a materially higher benefit to later years.

(c) apportion the benefit that vests at each interim date on a straight-line basis over the period between that date and the previous interim vesting date.

The three methods are illustrated by the following two examples.

BC Example 2

A plan provides a benefit of CU400 if an employee retires after more than ten and less than twenty years of service and a further benefit of CU100 (CU500 in total) if an employee retires after twenty or more years of service.

The amounts attributed to each year are as follows:

	Years 1–10	*Years 11–20*
Method (a)	*25*	*25*
Method (b)	*40*	*10*
Method (c)	*40*	*10*

BC Example 3

A plan provides a benefit of CU100 if an employee retires after more than ten and less than twenty years of service and a further benefit of CU400 (CU500 in total) if an employee retires after twenty or more years of service.

The amounts attributed to each year are as follows:

	Years 1–10	*Years 11–20*
Method (a)	*25*	*25*
Method (b)	*25*	*25*
	10	*40*

Note: this plan attributes a higher benefit to later years, whereas the plan in BC Example 2 attributes a higher benefit to earlier years.

BC115 In approving E54, IASC adopted method (a) on the grounds that this method was the most straightforward and that there were no compelling reasons to attribute different amounts of benefit to different years, as would occur under either of the other methods.

BC116 A significant minority of commentators on E54 favoured following the benefit formula (or alternatively, if the standard were to retain straight-line attribution, the recognition of a minimum liability based on the benefit formula). IASC agreed with these comments and decided to require the method described in paragraph BC114(b).

Attributing benefit to periods of service: exposure draft published in 2010

BC117 Paragraph 70 requires an entity to attribute benefits on a straight-line basis if an employee's service in later years will lead to a materially higher level of benefit than in earlier years. If a benefit formula is expressed as a constant proportion of current salary, some believe that expected future salary increases are not included in determining whether the benefit formula allocates a higher level of benefit in later years.

BC118 However, if that view is taken, the attribution for career average salary benefits (benefits described as a percentage of the average salary multiplied by the number of years of service) would differ from the attribution for current salary benefits (benefits described as a percentage of current salary), even though such benefits could be the same economically. In the Board's view, benefits that are economically the same should be measured similarly regardless of how the benefit formula describes them. Consequently, the 2010 ED proposed that expected future salary increases should be included in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years.

BC119 Some respondents to the 2010 ED disagreed with that proposal for the reason that:

(a) service in previous or subsequent periods does not change the benefit increment earned in a particular year; and

(b) the fact that the entity remunerates later periods of service at higher levels is an intrinsic part of the plans and there is no reason for smoothing costs over all periods of service—they are not intended to remunerate for overall services on a straight-line basis.

BC120 The Board concluded that it should not address this issue at this stage because the issue is closely related to a fundamental review of the accounting for contribution-based promises that the Board decided was beyond the scope of the project (see paragraph BC13).

Actuarial assumptions—tax payable by the plan: amendments issued in 2011

BC121 The amendments made in 2011 clarify that:

(a) the estimate of the defined benefit obligation includes the present value of taxes payable by the plan if they relate to service before the reporting date or are imposed on benefits resulting from that service, and

(b) other taxes should be included as a reduction to the return on plan assets.

BC122 The Board noted that **IAS 19** requires an entity to estimate the ultimate cost of providing long-term employee benefits. Thus, if the plan is required to pay taxes when it ultimately provides benefits, the taxes payable will be part of the ultimate cost. Similarly, the ultimate cost would include any taxes payable by the plan when the contribution relates to service before the period (such as in the case of contributions to reduce a deficit).

BC123 Some respondents to the 2010 ED asked the Board to address:

(a) country-specific tax regimes;

(b) taxes paid by the employer; and

(c) taxes on the return on plan assets.

BC124 However, the Board noted that a wide variety of taxes on pension costs exists worldwide and it is a matter of judgement whether they are income taxes within the scope of **IAS 12** *Income Taxes*, costs of liabilities within the scope of **IAS 37**, or costs of employee benefits within the scope of **IAS 19**. Given the variety of tax arrangements, the Board decided that it could not address issues beyond those relating to taxes payable by the plan itself in a reasonable period of time and therefore did not address them in the amendment made in 2011.

Actuarial assumptions—administration costs: amendments issued in 2011

BC125 The amendments made in 2011 require administration costs to be recognised when the administration services are provided, with costs relating to the management of plan assets deducted from the return on plan assets. Before those amendments, **IAS 19** required that costs of administering the plan, other than those included in the actuarial assumptions used to measure the defined benefit obligation, should be deducted from the return on plan assets. But **IAS 19** did not specify which costs should be included in those actuarial assumptions.

BC126 In the Board's view, the treatment of plan administration costs should depend on the nature of those costs. Therefore, the 2010 ED proposed that:

(a) costs of managing plan assets should be the only administration costs that are deducted in determining the return on plan assets (that is part of the remeasurements component). Other administration costs, eg the cost of administering benefit payments, are unrelated to the plan assets.

(b) the present value of the defined benefit obligation should include the present value of costs relating to the administration of benefits attributable to current or past service. This is consistent with the measurement objective that the defined benefit obligation should be determined on the basis of the ultimate cost of the benefits.

BC127 Respondents to the 2010 ED raised practical concerns, including how entities should identify and estimate costs of managing plan assets and other administration services, and how the other administration services costs should be allocated to current, past and future service. In response to those concerns, the Board decided that an entity should recognise administration costs when the administration services are provided. This practical expedient avoids the need to attribute costs between current and past service and future service.

BC128 In some cases, a total fee is charged for both managing plan assets and other administration services, but in the Board's view the cost of managing plan assets would not be excessively costly or difficult to estimate under these circumstances. An entity could estimate such costs by estimating the administration costs if there were no plan assets, or by observing the prices for such services in the market.

Actuarial assumptions—discount rate

BC129 One of the most important issues in measuring defined benefit obligations is the selection of the criteria used to determine the discount rate. According to **IAS 19** before its revision in 1998, the discount rate that was assumed in determining the actuarial present value of promised retirement benefits reflected the long-term rates, or an approximation thereto, at which such obligations were expected to be settled. IASC rejected the use of such a rate because it was not relevant for an entity that does not contemplate settlement and it was an artificial construct, because there may be no market for settlement of such obligations.

BC130 Some believe that, for funded benefits, the discount rate should be the expected rate of return on the plan assets actually held by a plan, because the return on plan assets represents faithfully the expected ultimate cash outflow (ie future contributions). IASC rejected this approach because the fact that a fund has chosen to invest in particular kinds of asset does not affect the nature or amount of the obligation. In particular, assets with a higher expected return carry more risk and an entity should not recognise a smaller liability merely because the plan has chosen to invest in riskier assets with a higher expected return. Consequently, the measurement of the obligation should be independent of the measurement of any plan assets actually held by a plan.

BC131 The most significant decision was whether the discount rate should be a risk-adjusted rate (one that attempts to capture the risks associated with the obligation). Some expressed the view that the most appropriate risk-adjusted rate is given by the expected return on an appropriate portfolio of plan assets that would, over the long term, provide an effective hedge against such an obligation. An appropriate portfolio might include:

(a) fixed interest securities for obligations to former employees to the extent that the obligations are not linked, in form or in substance, to inflation;

(b) index-linked securities for index-linked obligations to former employees; and

(c) equity securities for benefit obligations towards current employees that are linked to final pay. This is based on the view that the long-term performance of equity securities is correlated with general salary progression in the economy as a whole and hence with the final-pay element of a benefit obligation.

It is important to note that the portfolio actually held need not necessarily be an appropriate portfolio in this sense. Indeed, in some countries, regulatory constraints may prevent plans from holding an appropriate portfolio. For example, in some countries, plans are required to hold a specified proportion of their assets in the form of fixed interest securities. Furthermore, if an appropriate portfolio is a valid reference point, it is equally valid for both funded and unfunded plans.

BC132 Those who support using the interest rate on an appropriate portfolio as a risk-adjusted discount rate argue that:

(a) portfolio theory suggests that the expected return on an asset (or the interest rate inherent in a liability) is related to the undiversifiable risk associated with that asset (or liability). Undiversifiable risk reflects not the variability of the returns (payments) in absolute terms but the correlation of the returns (or payments) with the returns on other assets. If cash inflows from a portfolio of assets react to changing economic conditions over the long term in the same way as the cash outflows of a defined benefit obligation, the undiversifiable risk of the obligation (and hence the appropriate discount rate) must be the same as that of the portfolio of assets.

(b) an important aspect of the economic reality underlying final salary plans is the correlation between final salary and equity returns that arises because they both reflect the same long-term economic forces. Although the correlation is not perfect, it is sufficiently strong that ignoring it will lead to systematic overstatement of the liability. In addition, ignoring this correlation will result in misleading volatility due to short-term fluctuations between the rate used to discount the obligation and the discount rate that is implicit in the fair value of the plan assets. These factors will deter entities from operating defined benefit plans and lead to switches from equities to fixed-interest investments. Where defined benefit plans are largely funded by equities, this could have a serious impact on share prices. This switch will also increase the cost of pensions. There will be pressure on companies to remove the apparent (but non-existent) shortfall.

(c) if an entity settled its obligation by purchasing an annuity, the insurance company would determine the annuity rates by looking to a portfolio of assets that provides cash inflows that substantially offset all the cash flows from the benefit obligation as those cash flows fall due. Consequently, the expected return on an appropriate portfolio measures the obligation at an amount that is close to its market value. In practice, it is not possible to settle a final pay obligation by buying annuities because no insurance company would insure a final pay decision that remained at the discretion of the person insured. However, evidence can be derived from the purchase or sale of businesses that include a final salary pension scheme. In this situation the vendor and purchaser would negotiate a price for the pension obligation by reference to its present value, discounted at the rate of return on an appropriate portfolio.

(d)

although investment risk is present even in a well-diversified portfolio of equity securities, any general decline in securities would, in the long term, be reflected in declining salaries. Because employees accepted that risk by agreeing to a final salary plan, the exclusion of that risk from the measurement of the obligation would introduce a systematic bias into the measurement.

(e) time-honoured funding practices in some countries use the expected return on an appropriate portfolio as the discount rate. Although funding considerations are distinct from accounting issues, the long history of this approach calls for careful scrutiny of any other proposed approach.

BC133 Those who oppose a risk-adjusted rate argue that:

(a) it is incorrect to look at returns on assets in determining the discount rate for liabilities.

(b) if a sufficiently strong correlation between asset returns and final pay actually existed, a market for final salary obligations would develop, yet this has not happened. Furthermore, where any such apparent correlation does exist, it is not clear whether the correlation results from shared characteristics of the portfolio and the obligations or from changes in the contractual pension promise.

(c) the return on equity securities does not correlate with other risks associated with defined benefit plans, such as variability in mortality, timing of retirement, disability and adverse selection.

(d) in order to evaluate a liability with uncertain cash flows, an entity would normally use a discount rate lower than the risk-free rate, but the expected return on an appropriate portfolio is higher than the risk-free rate.

(e) the assertion that final salary is strongly correlated with asset returns implies that final salary will tend to decrease if asset prices fall, yet experience shows that salaries tend not to decline.

(f) the notion that equities are not risky in the long term, and the associated notion of long-term value, are based on the fallacious view that the market always bounces back after a crash. Shareholders do not get credit in the market for any additional long-term value if they sell their shares today. Even if some correlation exists over long periods, benefits must be paid as they become due. An entity that funds its obligations with equity securities runs the risk that equity prices may be down when benefits must be paid. In addition, the hypothesis that the real return on equities is uncorrelated with inflation does not mean that equities offer a risk-free return, even in the long term.

(g) the expected long-term rate of return on an appropriate portfolio cannot be determined sufficiently objectively in practice to provide an adequate basis for an accounting standard. The practical difficulties include specifying the characteristics of the appropriate portfolio, selecting the time horizon for estimating returns on the portfolio and estimating those returns.

BC134 IASC had not identified clear evidence that the expected return on an appropriate portfolio of assets provides a relevant and reliable indication of the risks associated with a defined benefit obligation, or that such a rate can be determined with reasonable objectivity. Consequently, IASC decided that the discount rate should reflect the time value of money, but should not attempt to capture those risks. Furthermore, the discount rate should not reflect the entity's own credit rating, because otherwise an entity with a lower credit rating would recognise a smaller liability. IASC decided that the rate that best achieves these objectives is the yield on high quality corporate bonds. In countries where there is no deep market in such bonds, the yield on government bonds should be used.

BC135 Another issue was whether the discount rate should be the long-term average rate, based on past experience over a number of years, or the current market yield at the balance sheet date for an obligation of the appropriate term. Those who supported a long-term average rate expressed the view that:

(a) a long-term approach is consistent with the transaction-based historical cost approach that was either required or permitted by other International Accounting Standards.

(b) point in time estimates aim at a level of precision that is not attainable in practice and lead to volatility in reported profit that may not be a faithful representation of changes in the obligation, but may simply reflect an unavoidable inability to predict accurately the future events that are anticipated in making period-to-period measurements.

(c) for an obligation based on final salary, neither market annuity prices nor simulation by discounting expected future cash flows can determine an unambiguous annuity price.

(d) over the long term, a suitable portfolio of plan assets may provide a reasonably effective hedge against an employee benefit obligation that increases in line with salary growth. However, there is much less assurance that, at a given measurement date, market interest rates will match the salary growth built into the obligation.

BC136 IASC decided that the discount rate should be determined by reference to market yields at the balance sheet date, because:

(a) there is no rational basis for expecting efficient market prices to drift towards any assumed long-term average, because prices in a market of sufficient liquidity and depth incorporate all publicly available information and are more relevant and reliable than an estimate of long-term trends by any individual market participant.

(b) the cost of benefits attributed to service during the current period should reflect prices of that period.

(c) if expected future benefits are defined in terms of projected future salaries that reflect current estimates of future inflation rates, the discount rate should be based on current market interest rates (in nominal terms), because these also reflect current market expectations of inflation rates.

(d) if plan assets are measured at a current value (ie fair value), the related obligation should be discounted at a current discount rate in order to avoid introducing irrelevant volatility through a difference in the measurement basis.

BC137 The reference to market yields at the balance sheet date did not mean that short-term discount rates should be used to discount long-term obligations. **IAS 19** requires that the discount rate should reflect market yields (at the balance sheet date) on bonds with an expected term that is consistent with the expected term of the obligations.

Actuarial assumptions—discount rate: exposure draft published in 2009

BC138 The discount rate requirements in **IAS 19** may result in an entity reporting a significantly higher defined benefit obligation in a jurisdiction that does not have a deep market in high quality corporate bonds than it would in a similar jurisdiction that does have a deep market in such bonds, even when the underlying obligations are very similar.

BC139 To address this issue, in August 2009 the Board published an exposure draft *Discount Rate for Employee Benefits*, that proposed eliminating the requirement to use a government bond rate if there is no deep market in high quality corporate bonds. However, responses to that exposure draft indicated that the proposed amendment raised more complex issues than had been expected. After considering those responses, the Board decided not to proceed with the proposals but to address issues relating to the discount rate only in the context of a fundamental review (see paragraph BC13(b)).

Actuarial assumptions—salaries, benefits and medical costs

BC140 Some argue that estimates of future increases in salaries, benefits and medical costs should not affect the measurement of assets and liabilities until they are granted, on the grounds that:

(a) future increases are future events; and

(b) such estimates are too subjective.

BC141 IASC believed that the assumptions were used not to determine whether an obligation exists, but to measure an existing obligation on a basis that provides the most relevant measure of the estimated outflow of resources. If no increase was assumed, this was an implicit assumption that no change will occur and it would be misleading to assume no change if an entity did expect a change. **IAS 19** maintains the requirement in **IAS 19** before its revision in 1998 that measurement should take account of estimated future salary increases. IASC also believed that increases in future medical costs can be estimated with sufficient reliability to justify incorporation of those estimated increases in the measurement of the obligation.

Actuarial assumptions—mortality: amendments issued in 2011

BC142 The amendments made in 2011 make explicit that the mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. In the Board's view, current mortality tables might need to be adjusted for expected changes in mortality (such as expected mortality improvement) to provide the best estimate of the amount that reflects the ultimate cost of settling the defined benefit obligation.

Actuarial assumptions—risk-sharing: amendments issued in 2011

BC144 Some defined benefit plans include features that share the benefits of a surplus or the cost of a deficit between the employer and the plan participants. Similarly, some defined benefit plans provide benefits that are conditional to some extent on whether there are sufficient assets in the plan to fund them. Such features share risk between the entity and the plan participants and affect the ultimate cost of the benefits. Hence, the 2010 ED proposed to clarify that the present value of the defined benefit obligation should reflect the best estimate of the effect of risk-sharing and conditional indexation features. Many respondents agreed with that proposal.

BC145 However, some respondents expressed doubts about whether the proposals could adequately address risk-sharing features because of the existing defined benefit and defined contribution distinction and because of the existing measurement model for defined benefit plans. They suggested that the Board should not address risk-sharing features until it conducted a fundamental review of classification and measurement in order to address the whole spectrum of plans from defined contribution to defined benefit (including contribution-based promises). However, the Board observed that the current model is based on the ultimate cost of the benefit, and thus should be able to take into account risk-sharing features that reduce the ultimate cost of the benefit to the entity.

BC146 Many respondents requested further clarification on:

(a) conditional indexation (paragraphs BC147–BC149); and

(b) other points (paragraph BC150).

Conditional indexation

BC147 Some defined benefit plans provide conditional indexation (such as additional benefits contingent on returns on plan assets). In general, according to paragraph 88, the measurement of the benefit obligation must reflect the best estimate of any future effect of such conditional indexation. However, some respondents noted that the strict separation of the measurement of plan assets and liabilities under **IAS 19** results in a mismatch: the conditional indexation is included in the present value of the defined benefit obligation, but not in the measurement of the plan assets. Some argue that the effect of conditional indexation should not be included in the measurement of the liability until the underlying returns are included in the measurement of the plan assets.

BC148 In the Board's view, projecting the benefit on the basis of current assumptions of future investment performance (or other criteria to which the benefits are indexed) is consistent with estimating the ultimate cost of the benefit, which is the objective of the measurement of the defined benefit obligation, as stated in paragraph 76. The Board also considered other changes to the measurement approach, such as using option pricing techniques to capture the effect of the conditional indexation in a manner consistent with the fair value of the plan assets. However, the Board rejected those alternatives because they would require changing the fundamental measurement of the defined benefit obligation. The Board noted that concerns regarding measurement of benefits with conditional indexation are similar to concerns regarding the measurement of contribution-based promises discussed in its 2008 discussion paper. Addressing these concerns was beyond the scope of the amendments made in 2011.

BC149 Some respondents interpreted the 2010 ED as proposing that in determining the effect of conditional indexation, an entity would be required to project the future funding position (on the basis used to set contribution rates) and then establish the effect that the funding level might have on future benefits and contribution requirements. These respondents believe that projecting the funding position would involve a significant amount of additional work and that in most regions it would be very difficult to establish a suitable adjustment to the liabilities to reflect the effect of conditional indexation based on the funding position. In the Board's view, an entity should estimate the likely conditional indexation of benefits based on the current funding status of the plan, consistently with how financial assumptions are determined in accordance with paragraph 80. Paragraph 80 requires financial assumptions to be based on market expectations at the end of the reporting period for the period over which the obligations are to be settled.

Other clarifications

Curtailments and settlements

BC151 Under **IAS 19** before its revision in 1998, curtailment and settlement gains were recognised when the curtailment or settlement occurred, but losses were recognised when it was probable that the curtailment or settlement would occur. IASC concluded that management's intention to curtail or settle a defined benefit plan was not a sufficient basis to recognise a loss. **IAS 19** revised in 1998 required that curtailment and settlement losses, as well as gains, should be recognised when the curtailment or settlement occurs. The guidance on the recognition of curtailments and settlements conformed to the proposals in E59 *Provisions, Contingent Liabilities and Contingent Assets*.

Plan amendments, curtailments and settlements: amendments issued in 2011

BC152 The amendments made in 2011:

(a) require immediate recognition of all past service cost (paragraphs BC154–BC159); and

(b) amend the definitions of past service cost, curtailments and settlements (paragraphs BC160–BC163).

BC153 The Board also considered other approaches to account for plan amendments and settlements (paragraphs BC164–BC173).

Immediate recognition—past service cost

BC154 The amendments made in 2011 require an entity to recognise both vested and unvested past service cost in the period of the plan amendment that gives rise to the past service cost. Before that amendment, **IAS 19** required immediate recognition for *vested* past service cost and recognition over the vesting period for *unvested* past service cost.

BC155 Many respondents to the 2010 ED supported the proposal for immediate recognition of unvested past service cost. Other respondents objected to the proposal for the reasons set out below:

(a) Most plan amendments are initiated with the intention of benefiting the entity in future periods. Moreover, the principle in **IAS 19** is that employee benefit expense is recognised in the period when the employee must provide the service needed to qualify for the benefit. It would be more consistent with that principle to require recognition of unvested past service cost over the remaining service periods until vesting.

(b) Recognising unvested past service cost over the vesting period would be consistent with what the Board thought were the best conceptual answers that it adopted in **IFRS 2** Share-based Payment.

(c) The proposal may provide potential for arbitrage. If unvested past service cost were recognised immediately, an entity could change how much of the total expense is recognised by changing the past service period without changing the amount and timing of benefits.

BC156 For the following reasons, the Board confirmed the requirement to recognise both vested and unvested past service cost immediately:

(a) **IAS 19** requires an entity to attribute benefits to periods of service in accordance with the benefit formula, even if the benefits are conditional on future employment. Therefore, recognising unvested past service cost immediately is consistent with the recognition of unvested current service cost that **IAS 19** treats as an obligation in paragraph 72. The Board noted that recognising unvested past service cost immediately would not be consistent with **IFRS 2**. However, in the Board's view, internal consistency within **IAS 19** is more desirable than consistency with **IFRS 2**.

(b) The Board acknowledged that recognising unvested past service cost immediately may introduce an opportunity for accounting arbitrage by selection of the benefit formula, but recognising unvested past service cost over the vesting period may also be open to accounting arbitrage. If an entity recognised unvested past service cost over the vesting period, an entity could change how much of the total expense is recognised by changing the amount subject to vesting conditions and the vesting period. Any approach to attributing unvested benefits to periods of service is arbitrary. However, recognising unvested past service cost immediately is more consistent with paragraph 72 and the recognition of unvested current service cost.

BC157 Before the amendments made in 2011, an entity recognised curtailments resulting from a significant reduction in the number of employees covered by the plan when the entity was demonstrably committed to making the reduction. The amendments made in 2011 require an entity to recognise a plan amendment and a curtailment when they occur.

BC158 Some respondents to the 2010 ED asked the Board to clarify whether, in the context of a plan amendment or curtailment, 'occurs' means when the change is announced, when it is executed or when the change is effective. If a plan amendment or curtailment occurs in isolation (ie it is not triggered by a settlement, termination benefit or restructuring), determining when the plan amendment occurs requires the exercise of judgement. The timing of recognition would depend on the individual facts and circumstances and how they interact with the constructive obligation requirements in paragraphs 61 and 62. The Board concluded that providing further guidance on when a plan amendment 'occurs' is beyond the scope of the amendments made in 2011.

BC159 The amendments made in 2011 also:

(a) remove the 'demonstrably committed' recognition criterion for termination benefits (paragraphs BC258–BC260); and

(b) align the recognition of related plan amendments, curtailments, termination benefits and restructuring costs (paragraphs BC262–BC268).

Definitions of past service cost, curtailments and settlements

BC160 The Board noted that recognising unvested past service cost immediately results in the same accounting for past service cost and curtailments. As a result, the amendments made in 2011 revised the definitions of plan amendments and curtailments. Before those amendments, **IAS 19** defined the curtailment of a plan as follows:

A curtailment occurs when an entity either:

(a) is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or

(b)

amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

BC161 The distinction between past service cost and curtailments was necessary in **IAS 19** before the amendments made in 2011 because curtailments were recognised immediately, but unvested past service cost was recognised over the vesting period. However, because the amendments made in 2011 require immediate recognition of unvested past service costs, there is no longer any reason for the distinction between past service cost and the second part of the definition of curtailments. Accordingly, the Board removed the second part of that definition. Consequently, past service cost will include amounts attributed to past service resulting from any plan amendment and would be recognised immediately.

BC162 The Board retained the first part of the definition of curtailments. This distinguishes the closure of a plan to a significant number of employees (which is closer to a plan amendment) and an increase in estimated employee turnover (which is closer to a change in actuarial assumption). Thus, if a reduction in the number of employees is judged significant, then an entity accounts for it in the same way as for a plan amendment, and if not significant an entity will have to determine whether it is a change in actuarial assumption or a plan amendment. Because **IAS 19** now treats plan amendments and curtailments in the same way, it now treats gains or losses on a curtailment as one form of past service cost.

BC163 The amendment made in 2011 clarifies that a settlement is a payment of benefits that is not set out in the terms of the plan. The payment of benefits that are set out in the terms of the plan, including terms that provide members with options on the nature of benefit payment such as an option to take a lump sum instead of an annuity, would be included in the actuarial assumptions. Therefore, any difference between an estimated benefit payment and the actual benefit payment is an actuarial gain or loss.

Other alternatives considered for accounting for plan amendments and settlements

BC164 The Board considered two other alternatives:

(a) *Confirming the proposals in the 2010 ED*—the 2010 ED proposed that past service cost and a gain or loss on curtailment should be included in the service cost component and a gain or loss on settlement should be included in the remeasurements component (see paragraphs BC165–BC170).

(b) *Remeasurements approach*—requiring past service cost and a gain or loss on curtailment or settlement to be included in the remeasurements component (see paragraphs BC171–BC173).

Other alternatives considered: confirming the proposals in the 2010 ED

BC165 The Board's view in developing the 2010 ED was that gains and losses arise on settlements because of a difference between the defined benefit obligation, as remeasured at the transaction date, and the settlement amount. Therefore, the 2010 ED proposed that:

(a) gains and losses on settlements should be treated in the same way as actuarial gains and losses, by being included in the remeasurements component; and

(b) the effect of plan amendments and curtailments should be included in the service cost component.

BC166 Many respondents to the 2010 ED supported the proposals for the recognition of past service cost and gains and losses on curtailments in profit or loss and the recognition of gains and losses on routine settlements in other comprehensive income. But many respondents disagreed with the proposal to recognise the effects of settlements in other comprehensive income, for the following reasons:

(a) There is overlap between the definitions of settlements, curtailments and plan amendments and the transactions usually happen at the same time, so it can be difficult to allocate the gains and losses between them. Requiring different accounting treatments for settlements, curtailments and plan amendments would introduce practical difficulties, diversity in practice and structuring opportunities.

(b) Settlements with third parties typically involve additional cost (such as a profit margin for the third party) and the effect of management's decision to incur this additional cost should be reflected in profit or loss when that transaction occurs.

(c) Recognising a gain or loss on derecognition of a liability in other comprehensive income seems inconsistent with other IFRSs that require a gain or loss on derecognition of a liability to be recognised in profit or loss.

(d) If settlements are the result of an event accounted for separately in profit or loss, then the gain or loss on settlement should be recognised in the same place as that event.

(e) A settlement can be interpreted as an 'action' of the plan sponsor, so the argument that past service cost should be recognised in profit or loss 'because [the plan amendment] occurs [when] an entity takes an action that reduces the benefits provided by the plan to employees' (Basis for Conclusions on 2010 ED, paragraph BC48) is applicable for the treatment of settlements as well.

BC167 Some interpret the definition of settlements as overlapping with the definitions of plan amendments, curtailments and changes in actuarial assumptions. If a transaction closes a plan and eliminates all further legal or constructive obligations, the transaction may have elements of plan amendments, curtailments and changes in actuarial assumptions because the definitions are not mutually exclusive. For example, if an entity negotiates a lump sum to be paid in connection with the closure of a defined benefit plan, one view is that the entire change in the defined benefit obligation is a settlement, because the lump sum eliminates all further legal and constructive obligations. The other view is that the effect of eliminating future pay growth, earlier payment than expected and the conversion of the benefits to a lump sum is a plan amendment and curtailment, with the settlement occurring when the payment is made.

BC168 In the Board's view, it is not clear whether the definitions overlap (because the definitions are not mutually exclusive) or whether it is merely difficult to distinguish the effects of a plan amendment, curtailment and settlement when they occur together. However, entities would need to distinguish these items if entities were required to include the amount relating to each in a different component of defined benefit cost.

BC169 The Board decided to treat past service cost and gains and losses arising from settlements (defined as non-routine settlements in the 2010 ED) as part of the service cost component. This does not require entities to make a distinction between those items if they occur at the same time. It is also consistent with the requirements in **IAS 19** before the amendments made in 2011, and with the recognition in profit or loss of amounts from other related transactions, such as termination benefits and restructuring costs.

BC170 Such an approach requires a distinction between routine benefit payments and settlements (ie routine and non-routine settlements as defined in the 2010 ED), because a gain or loss on a settlement is included in the service cost component, and a gain or loss on a routine benefit payment is included in remeasurements. However, respondents appeared less concerned about making this distinction than about making one between plan amendments and settlements.

Other alternatives considered: remeasurements approach

BC171 Some respondents suggested that the effect of past service cost and gains or losses on settlement should be included in the remeasurements component. Such an approach would not require a distinction between past service cost, gains and losses on settlements and actuarial gains and losses. The gains and losses arising from all of these transactions would be included in the remeasurements component.

BC172 These respondents justified including the effects of plan amendments in the remeasurements component on the basis that past service cost provides less information about the amount and timing of future cash flows than does current service cost. Respondents noted that this would have the effect of limiting the service cost component to current service cost, and would maintain the Board's conclusion that amounts with different predictive value should be presented separately. Furthermore, such an approach would eliminate the requirement to distinguish between past service cost, the effects of settlements, and actuarial gains and losses for the purpose of presentation.

BC173 However, the Board concluded that past service cost and gains and losses on settlements arise as a result of a new transaction, as opposed to the remeasurement of a prior period transaction, and therefore should be differentiated from remeasurements of the defined benefit obligation. In addition, a plan amendment or settlement might occur as part of a related restructuring or termination benefit, for which the resulting gain or loss is recognised in profit or loss.

Plan assets

BC174 **IAS 19** requires explicitly that the defined benefit liability or asset should be recognised as the defined benefit obligation after deducting plan assets (if any) out of which the obligations are to be settled directly (see paragraph 8). IASC noted that this was already widespread, and probably universal, practice. IASC believed that plan assets reduce (but do not extinguish) an entity's own obligation and result in a single, net liability. Although the presentation of that net liability as a single amount in the balance sheet differs conceptually from the offsetting of separate assets and liabilities, IASC decided that the definition of plan assets should be consistent with the offsetting criteria in **IAS 32** *Financial Instruments: Disclosure and Presentation*.[8] **IAS 32** states that a financial asset and a financial liability should be offset and the net amount reported in the balance sheet when an entity:

(a) has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

BC175 **IAS 19** as revised in 1998 defined plan assets as assets (other than non-transferable financial instruments issued by the reporting entity) held by an entity (a fund) that satisfies all of the following conditions:

(a) The entity is legally separate from the reporting entity.

(b) The assets of the fund are to be used only to settle the employee benefit obligations, are not available to the entity's own creditors and cannot be returned to the entity (or can be returned to the entity only if the remaining assets of the fund are sufficient to meet the plan's obligations).

(c) To the extent that sufficient assets are in the fund, the entity will have no legal or constructive obligation to pay the related employee benefits directly.

BC176 In issuing **IAS 19** in 1998, IASC considered whether the definition of plan assets should include a fourth condition: that the entity does not control the fund. IASC concluded that control is not relevant in determining whether the assets in a fund reduce an entity's own obligation.

BC177 In response to comments on E54, IASC modified the definition of plan assets to exclude non-transferable financial instruments issued by the reporting entity. If this had not been done, an entity could reduce its liabilities, and increase its equity, by issuing non-transferable equity instruments to a defined benefit plan.

Plan assets: amendments issued in 2000

BC178 In 1999 IASC began a limited scope project to consider the accounting for assets held by a fund that satisfies parts (a) and (b) of the definition set out in paragraph BC175, but does not satisfy condition (c) because the entity retains a legal or constructive obligation to pay the benefits directly. IAS 19 before the amendments made in 2000 did not address assets held by such funds.

BC179 IASC considered two main approaches to such funds:

(a) a **net** approach—the entity recognises its entire obligation as a liability after deducting the fair value of the assets held by the fund; and

(b) a **gross** approach—the entity recognises its entire obligation as a liability and recognises its rights to a refund from the fund as a separate asset.

BC180 Supporters of a net approach made one or more of the following arguments:

(a) A gross presentation would be misleading, because:

(i) where conditions (a) and (b) of the definition in paragraph BC175 are met, the entity does not control the assets held by the fund; and

(ii) even if the entity retains a legal obligation to pay the entire amount of the benefits directly, this legal obligation is a matter of form rather than substance.

(b) A gross presentation would be an unnecessary change from current practice, which generally permits a net presentation. It would introduce excessive complexity into the standard, for limited benefit to users, given that paragraph 140(a) already requires disclosure of the gross amounts.

(c) A gross approach may lead to measurement difficulties because of the interaction with the 10 per cent corridor that existed for the obligation before the amendments made to IAS 19 in 2011.

(d) A net approach might be viewed as analogous to the treatment of joint and several liabilities under paragraph 29 of IAS 37. An entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable. The part of the obligation that is expected to be met by other parties is treated as a contingent liability.

BC181 Supporters of a gross approach advocated that approach for one or more of the following reasons:

(a) Paragraph BC174 gives a justification for presenting defined benefit obligations net of plan assets. The explanation focuses on whether offsetting is appropriate. Part (c) of the 1998 definition focuses on offsetting. This suggests that assets that satisfy parts (a) and (b) of the definition, but fail part (c), should be treated in the same way as plan assets for recognition and measurement purposes, but should be shown gross in the balance sheet without offsetting.

(b) If offsetting is allowed when condition (c) is not met, this would seem to be equivalent to permitting a net presentation for 'in-substance defeasance' and other analogous cases where IAS 32 indicates explicitly that offsetting is inappropriate. IASC rejected 'in-substance defeasance' for financial instruments (see IAS 39 *Financial Instruments: Recognition and Measurement* paragraph AG59) [9] and there was no obvious reason to permit it in accounting for defined benefit plans. In these cases the entity retains an obligation that should be recognised as a liability and the entity's right to reimbursement from the plan is a source of economic benefits that should be recognised as an asset. Offsetting would be permitted if the conditions in paragraph 42 of IAS 32 are satisfied.

(c) IASC decided in IAS 37 to require a gross presentation for reimbursements related to provisions, even though this was not previously general practice. There is no conceptual reason to require a different treatment for employee benefits.

(d) Although some consider that a gross approach requires an entity to recognise assets that it does not control, others believe that this view is incorrect. A gross approach requires the entity to recognise an asset representing its right to receive reimbursement from the fund that holds those assets. It does not require the entity to recognise the underlying assets of the fund.

(e) In a plan with plan assets that meet the definition adopted in 1998, the employees' first claim is against the fund—they have no claim against the entity if sufficient assets are in the fund. In the view of some, the fact that employees must first claim against the fund is more than just a difference in form—it changes the substance of the obligation.

(f) Defined benefit plans might be regarded under **SIC–12** *Consolidation—Special Purpose Entities* [10] as special purpose entities that the entity controls—and that it should consolidate. Because the offsetting criterion in **IAS 19** was consistent with offsetting criteria in other International Accounting Standards, it was relatively unimportant whether the pension plan is consolidated in cases where the obligation and the plan assets qualify for offset. If the assets are presented as a deduction from the related benefit obligations in cases where condition (c) is not met, it could become important to assess whether the entity should consolidate the plan.

BC182 Some argued that a net approach should be permitted when an entity retains an obligation to pay the entire amount of the benefits directly, but the obligation was considered unlikely to have any substantive effect in practice. IASC concluded that it would not be practicable to establish guidance of this kind that could be applied in a consistent manner.

BC183 IASC also considered the possibility of adopting a 'linked presentation' that UK Financial Reporting Standard FRS 5 *Reporting the Substance of Transactions* required for non-recourse finance. Under FRS 5, the balance sheet presents both the gross amount of the asset and, as a direct deduction, the related non-recourse debt. Supporters of this approach argued that it portrays the close link between related assets and liabilities without compromising general offsetting requirements. Opponents of the linked presentation argued that it creates a form of balance sheet presentation that IASC had not previously used and might cause confusion. IASC decided not to adopt the linked presentation.

BC184 IASC concluded that a net presentation is justified where there are restrictions (including restrictions that apply on bankruptcy of the reporting entity) on the use of the assets so that the assets can be used only to pay or fund employee benefits. Accordingly, it modified the definition of plan assets set out in paragraph BC175 by:

(a) emphasising that the creditors of the entity should not have access to the assets held by the fund, even on bankruptcy of the reporting entity; and

(b) deleting condition (c), so that the existence of a legal or constructive obligation to pay the employee benefits directly does not preclude a net presentation, and modifying condition (b) to explicitly permit the fund to reimburse the entity for paying the long-term employee benefits.

BC185 When an entity retains a direct obligation to the employees, IASC acknowledged that the net presentation was inconsistent with the derecognition requirements for financial instruments in **IAS 39** [11] and with the offsetting requirements in **IAS 32**. However, in IASC's view, the restrictions on the use of the assets created a sufficiently strong link with the employee benefit obligations that a net presentation was more relevant than a gross presentation, even if the entity retained a direct obligation to the employees.

BC186 IASC believed that such restrictions were unique to employee benefit plans and did not intend to permit this net presentation for other liabilities if the conditions then in **IAS 32** and **IAS 39** were not met. Accordingly, condition (a) in the new definition refers to the reason for the existence of the fund. IASC believed that an arbitrary restriction of this kind was the only practical way to permit a pragmatic exception to IASC's general offsetting criteria without permitting an unacceptable extension of this exception to other cases.

BC187 In some plans in some countries, an entity is entitled to receive a reimbursement of employee benefits from a separate fund, but the entity has discretion to delay receipt of the reimbursement or to claim less than the full reimbursement. Some argue that this element of discretion weakens the link between the benefits and the reimbursement so much that a net presentation is not justifiable. They believe that the definition of plan assets should exclude assets held by such funds and that a gross approach should be used in such cases. IASC concluded that the link between the benefits and the reimbursement was strong enough in such cases that a net approach was still appropriate.

BC188 IASC's proposal for extending the definition of plan assets was set out in exposure draft E67 *Pension Plan Assets*, published in July 2000. The vast majority of the 39 respondents to E67 supported the proposal.

BC189 A number of respondents to E67 proposed a further extension of the definition to include particular insurance policies that have similar economic effects to funds whose assets qualify as plan assets under the revised definition proposed in E67. Accordingly, IASC extended the definition of plan assets to include some insurance policies (described in **IAS 19** as qualifying insurance policies) that satisfy the same conditions as other plan assets. These decisions were implemented in amendments to **IAS 19** approved by IASC in October 2000.

BC190 A qualifying insurance policy is not necessarily an insurance contract as defined in **IFRS 4** *Insurance Contracts*.

Plan assets—measurement

BC191 **IAS 19** before its revision in 1998 stated that plan assets are valued at fair value, but did not define fair value. However, other International Accounting Standards defined fair value as ‘the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm’s length transaction’. [12] This might be taken to imply that no deduction is made for the estimated costs that would be necessary to sell the asset (in other words, it is a mid-market value, with no adjustment for transaction costs). However, some argue that a plan will eventually have to dispose of its assets in order to pay benefits. Consequently, IASC concluded in E54 that plan assets should be measured at market value. Market value was defined, as in IAS 25 *Accounting for Investments*, [13] as the amount obtainable from the sale of an asset, in an active market.

BC192 Some commentators on E54 felt that the proposal to measure plan assets at market value would not be consistent with IAS 22 *Business Combinations* [14] and with the measurement of financial assets as proposed in the discussion paper *Accounting for Financial Assets and Financial Liabilities* published by IASC’s Financial Instruments Steering Committee in March 1997. Consequently, IASC decided that plan assets should be measured at fair value.

BC193 Some argue that concerns about volatility in reported profit should be countered by permitting or requiring entities to measure plan assets at a market-related value that reflects changes in fair value over an arbitrary period, such as five years. IASC believed that the use of market-related values would add excessive and unnecessary complexity and that the combination of the ‘corridor’ approach to actuarial gains and losses with deferred recognition outside the ‘corridor’ was sufficient to deal with concerns about volatility. [15]

BC194 IASC decided that there should not be a different basis for measuring investments that have a fixed redemption value and those that match the obligations of the plan, or specific parts thereof. **IAS 26** *Accounting and Reporting* by Retirement Benefit Plans permits such investments to be measured on an amortised cost basis.

Reimbursements: amendments issued in 2000

BC195 Paragraph 48 states that an entity recognises its rights under an insurance policy as an asset if the policy is held by the entity itself. **IAS 19** before the amendments made in 2000 did not address the measurement of these insurance policies. The entity’s rights under the insurance policy might be regarded as a financial asset. However, rights and obligations arising under insurance contracts are excluded from the scope of **IAS 39**. [16] In addition, **IAS 39** does not apply to ‘employers’ rights and obligations under employee benefit plans, to which **IAS 19** *Employee Benefits* applies’. Paragraphs 46–49 discuss insured benefits in distinguishing defined contribution plans and defined benefit plans, but this discussion does not deal with measurement.

BC196 In reviewing the definition of plan assets (see paragraphs BC178–BC190), IASC reviewed the treatment of insurance policies that an entity holds in order to fund employee benefits. Even under the revised definition adopted in 2000, the entity’s rights under an insurance policy that is not a qualifying insurance policy (as defined in the 2000 revision of **IAS 19**) are not plan assets.

BC197 In 2000 IASC introduced recognition and measurement requirements for reimbursements under such insurance policies (see paragraphs 116–119). IASC based those requirements on the treatment of reimbursements under paragraphs 53–58 of **IAS 37**. In particular, **IAS 19** requires an entity to recognise a right to reimbursement of post-employment benefits as a separate asset, rather than as a deduction from the related obligations. In all other respects (for example, the treatment of actuarial gains and losses), the standard requires an entity to treat such reimbursement rights in the same way as plan assets. This requirement reflects the close link between the reimbursement right and the related obligation.

BC198 Paragraph 115 states that where plan assets include insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the plan's rights under those insurance policies are measured at the same amount as the related obligations. Paragraph 119 extends that conclusion to insurance policies that are assets of the entity itself.

BC199 **IAS 37** states that the amount recognised for the reimbursement should not exceed the amount of the provision. Paragraph 116 contains no similar restriction, because the limit in paragraph 64 already applies to prevent the recognition of a net defined benefit asset that exceeds the asset ceiling.

Defined benefit plans—presentation of assets and liabilities

BC200 IASC decided not to specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits, because such a distinction may sometimes be arbitrary.

Defined benefit plans—presentation of defined benefit cost: amendments issued in 2011

BC201 The amendments made in 2011 do not specify how an entity should present the service cost and net interest components in profit or loss. Instead, an entity is required to present them in accordance with the requirements of **IAS 1** *Presentation of Financial Statements*, consistently with **IAS 19** before the amendments made in 2011.

BC202 The Board also considered:

(a) requiring the net interest component to be included in the finance cost line item of **IAS 1**, as proposed in the 2010 ED. However, if the Board had adopted this approach, it would have needed to consider whether the requirement would apply when the net interest component represents income because **IAS 1** requires only finance cost and not finance income to be presented separately. The Board would also have needed to consider in due course whether it should apply similar treatment to amounts related to the passage of time in other projects, such as revenue recognition, insurance contracts and leases. The Board concluded that this would be beyond the scope of the project and that it should consider this aspect of presentation in the statement of profit or loss and other comprehensive income more broadly as part of the financial statement presentation project.

(b) amending **IAS 1** to require a separate line item for the net interest component or to require presentation of a line item that would combine service cost and net interest. The Board concluded that although these amounts would be material to many entities, there is no reason to single out post-employment benefits for special treatment in the statement of profit or loss and other comprehensive income. If an entity thinks that information about pensions is sufficiently important to the users of its financial statements, **IAS 1** already permits that entity to provide disaggregated information in the performance statements. The Board would also have had to consider the implications of adding mandatory line items to **IAS 1** if the entity presented its expenses by function. The Board concluded that this was beyond the scope of the project.

Defined benefit plans—disclosures: amendments issued in 2011

BC203 The amendments made in 2011 updated the disclosure requirements, because of concerns:

(a) that the disclosures required by the previous version of **IAS 19** did not enable users of financial statements to understand the financial effect of liabilities and assets arising from defined benefit plans on the financial statements as a whole.

(b) that the volume of disclosures about defined benefit plans in many financial statements risked reducing understandability and usefulness by obscuring important information. This concern was particularly pronounced for multinational entities that have many varied plans in many jurisdictions.

BC204 The disclosure amendments made in 2011 related to:

(a) disclosure objectives (paragraphs BC212–BC214).

(b) the characteristics of the defined benefit plan and amounts in the financial statements (paragraphs BC215–BC228).

(c) the amount, timing and uncertainty of the entity's future cash flows (paragraphs BC229–BC243).

(d) multi-employer defined benefit plans (paragraphs BC245–BC252).

BC205 Paragraph BC244 discusses disclosures considered but rejected by the Board.

BC206 In reviewing the disclosure requirements, the Board considered:

(a) the comment letters on the discussion paper and the 2010 ED.

(b) publications from other bodies interested in financial reporting, including the Pro-active Accounting Activities in Europe (PAAinE) discussion paper *The Financial Reporting of Pensions*; the UK Accounting Standards Board (ASB) Reporting Statement *Retirement Benefits – Disclosures*; and FASB Staff Position No. 132(R) *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1).

(c) proposals from the Investors Technical Advisory Committee (ITAC) of the FASB for a 'principle-based' disclosure framework, and a draft discussion paper on the disclosure of information in financial statements, prepared by the staff of the Canadian Accounting Standards Board (AcSB).

(d) advice received from the Global Preparers' Forum and the Board's Analyst Representative Group and Employee Benefits Working Group.

(e) the need to update the disclosure requirements in **IAS 19** to reflect developments in IFRSs on disclosures, in particular **IFRS 7** *Financial Instruments: Disclosures* and **IFRS 13** *Fair Value Measurement*.

The Board's approach to disclosures about defined benefit plans

BC207 The Board sought an approach that:

(a) provides sufficient disclosures about defined benefit plans when those plans are material to the entity's operations.

(b) provides users of financial statements with relevant information that is not obscured by excessive detail.

BC208 Accordingly, the amendments made in 2011 introduced explicit objectives for disclosures about defined benefit plans.

BC209 In developing the proposals in the 2010 ED, the Board noted that entities must comply with the general materiality requirements in paragraphs 17(c) and 31 of **IAS 1**, including the requirement to disclose additional information if necessary, and that the financial statements need not contain disclosures that are not material.

BC210 However, some respondents were concerned that entities might have difficulty in exercising judgement when assessing the materiality of disclosures because:

(a) there is no universal quantitative criterion for defined benefit plans for separating material disclosure items from immaterial ones; and

(b) the notion of materiality seems best suited to a binary decision (whether to provide or omit a particular disclosure) and is not well suited to determining the extent of disclosure required to meet a disclosure requirement or to determining the overall balance with other disclosure requirements.

BC211 Although many respondents supported the inclusion of disclosure objectives, they believed that supplementing the objectives with an extensive list of disclosure requirements would not achieve the result that the Board intended. Many supported a principle-based approach to disclosure that would put more emphasis on meeting the disclosure objectives. Some suggested that it would be better if the Board supported the disclosure objectives through the use of 'encouraged but not required' disclosures or by including examples illustrating the application of the disclosure objectives in different circumstances. In response to these concerns the Board included a requirement that an entity should consider the level of disclosure necessary to satisfy the disclosure objectives and how much emphasis to place on each requirement.

Selecting disclosure objectives

BC212 The Board considered whether it should require the same disclosure objectives for defined benefit plans as for long-term financial instruments and insurance contracts. All three expose the entity to similar risks, including risks that the ultimate cost of settling the liability may vary from the amount estimated and risks arising from the complexity of measuring the liability. Many respondents stated that the disclosures in **IAS 19** do not provide users of financial statements with the information about risk that is provided for other assets and liabilities. However, the Board concluded that much of the information required by **IFRS 7** and **IFRS 4** *Insurance Contracts* for assets would be unnecessary in depicting an entity's involvement with a defined benefit plan because:

(a) the entity may not manage plan assets directly and may not have an unrestricted ability to access the economic benefits from those assets. Thus, plan assets differ from assets held directly by the entity. Consequently, disclosures about market risk and credit risk of plan assets are less relevant than for assets an entity holds directly. Moreover, an entity may have limited information about them.

(b) liquidity risk arises from the timing and amount of contributions that the entity is required to make to the plan and not from the need to meet directly the payments required by the defined benefit obligation.

BC213 Accordingly, the Board focused the disclosure objectives in **IAS 19** on the matters most relevant to users of the employer's financial statements, ie information that:

(a) explains the characteristics of the defined benefit plans.

(b) identifies and explains the amounts in the financial statements arising from the defined benefit plans.

(c) describes how involvement in defined benefit plans affects the amount, timing and uncertainty of the entity's future cash flows.

BC214 In response to suggestions by respondents, the Board included a requirement for entities to disclose additional information if required to meet the disclosure objectives.

Characteristics of the defined benefit plan and amounts in the financial statements

BC215 The disclosures about the characteristics of defined benefit plans and the amounts in the financial statements arising from defined benefit plans are based on those in **IAS 19** before the amendments made in 2011 with the following changes:

(a) additional information about exposure to risk (paragraphs BC216–BC218);

(b) distinguishing between actuarial gains and losses arising from demographic and financial assumptions (paragraph BC219);

(c) not requiring an entity to distinguish between plan amendments, curtailments and settlements if they occur together (paragraph BC220);

(d) stating a principle for the disaggregation of plan assets rather than listing the categories required (paragraphs BC221–BC226); and

(e) stating a principle for the disclosure of significant actuarial assumptions rather than listing the assumptions required to be disclosed (paragraphs BC227 and BC228).

Exposure to risk

BC216 The amendments in 2011 require entities to provide a narrative description of exposure to risk arising from their involvement with the plan. The 2010 ED proposal for additional disclosure regarding risk was in response to requests from users.

BC217 Some respondents to the 2010 ED suggested limiting the narrative disclosure about risk to any risks that are specific to the entity, or that are unusual, so that it does not result in boilerplate disclosure regarding generic risks to which all entities with defined benefit plans are exposed.

BC218 The Board agreed with respondents that requiring disclosure of all material risks would result in extensive generic disclosures that would not be particularly useful. However, in the Board's view it would not be practical to limit the disclosure to risks that are specific or unusual without providing a clear definition of those terms. Instead, the amendments in 2011 require an entity to focus the disclosure on risks that the entity judges to be significant or unusual.

Actuarial gains and losses arising from demographic and financial assumptions

BC219 The amendments made to **IAS 19** in 2011 require entities to disclose the effect of changes in demographic assumptions separately from the effect of changes in financial assumptions. Some respondents to the 2010 ED stated that this separation would be arbitrary because of the interrelationships between some actuarial assumptions, particularly between financial assumptions. For example, discount rates may be correlated with inflation rates. However, the Board observed that, in general, financial assumptions are less intertwined with demographic assumptions than with other financial assumptions. Thus, the Board concluded that it would not be unduly difficult to distinguish the effects of changes in financial assumptions from the effects of changes in demographic assumptions.

Plan amendments, curtailments and settlements

BC220 The amendments made in 2011 retain similar disclosure for plan amendments, curtailments and settlements. However, the Board agreed with the views of respondents to the 2010 ED that when plan amendments, curtailments and settlements occur together, requiring entities to distinguish them for disclosure would be excessive. Therefore, the amendments do not require an entity to distinguish them when they occur together.

Plan assets

BC221 The amendments made in 2011 replace the minimum list of categories for the disaggregation of plan assets with a requirement to disaggregate the fair value of the plan assets:

(a) into assets that have a quoted price in an active market and assets that do not; and

(b) into classes that distinguish the risk and liquidity characteristics of those assets.

BC222 In addition to stating the principle for the disaggregation, the 2010 ED proposals would have required an entity to distinguish, at a minimum, debt instruments and equity instruments that have a quoted market price in an active market from those that do not. The proposals also specified a list of minimum categories into which an entity should disaggregate plan assets (based on the categories in **IAS 19** at that time).

BC223 Respondents to the 2010 ED agreed with the principle of the disaggregation, but noted that the proposed minimum categories may not always meet that principle. The Board agreed with respondents that entities should focus on the principle of the disclosure: to disaggregate plan assets into classes that distinguish the risk and liquidity characteristics of those assets. In support of that principle, the amendments provide a list of example categories that would allow entities to adapt their disclosures to the nature and risks of the assets in their plans.

BC224 Some respondents also had concerns about the requirement to distinguish assets that have a quoted market price from those that do not. They indicated that disaggregating debt and equity instruments into those that have a quoted market price and those that do not would result in extensive disclosures that would be unlikely to add much to the understandability of the financial statements. However, users have requested information about the level of measurement uncertainty in items measured at fair value, such as the fair value hierarchy in **IFRS 13**. Therefore, the Board retained the proposal to disaggregate debt and equity instruments into those that have a quoted market price and those that do not.

BC225 In coming to this conclusion, the Board noted that this disaggregation requirement would be less onerous than the requirement in **IFRS 13** to disaggregate on the basis of a three-level hierarchy.

BC226 Some hold the view that entities should disclose disaggregated information about how they invest plan assets. However, the Board concluded that extensive disaggregated information about plan assets is not necessary for users of the employer entity's financial statements because the entity does not hold those assets directly. Similarly, the Board concluded that for plan assets the disclosures about fair value required by **IFRS 13** would not be relevant.

Actuarial assumptions

BC227 The amendments made in 2011 replace the previous mandatory list of actuarial assumptions with a requirement to disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation.

BC228 The Board did not specify particular assumptions for which disclosure is required, because particular disclosures may not be needed in every case to meet the disclosure objectives. Indeed, such disclosures may obscure important information with excessive detail. Accordingly, the 2010 ED proposed an approach in which entities would use judgement to determine which actuarial assumptions require disclosure. Respondents to the 2010 ED generally supported this proposal.

Amount, timing and uncertainty of future cash flows

BC229 The amendments made in 2011 improve the required disclosures about the amount, timing and uncertainty of future cash flows in the following respects:

(a) information about asset-liability matching strategies (paragraphs BC230–BC234);

(b) sensitivity analysis (paragraphs BC235–BC239); and

(c) information about the funding and duration of the liability (paragraphs BC240–BC243).

Asset-liability matching strategies

BC230 The amendments made in 2011 require an entity to disclose information about its asset-liability matching strategy.

BC231 In developing the proposals in the 2010 ED, the Board considered requiring entities to discuss their strategies for mitigating risks arising from defined benefit plans. However, the Board concluded that such a requirement would result in generic disclosure that would not provide enough specific information to be useful to users of financial statements. Nonetheless, in the Board's view, information about an entity's use of asset-liability matching strategies, or about the use of techniques such as annuities or longevity swaps to manage longevity risk, would provide additional information on how the entity manages the risk inherent in its defined benefit plan. Accordingly, the 2010 ED proposed a requirement to disclose information about these items.

BC232 Respondents' views on the proposals regarding asset-liability matching strategies were mixed. Some respondents to the 2010 ED supported the disclosure, whereas others expressed the view that it should be part of a broader disclosure regarding risk management and investment strategy or that it should be removed altogether. Those who believed that it should be part of a broader discussion about risks suggested linking the disclosure with the requirement to describe the nature of risks to which the plan exposes the entity, by requiring the entity to describe how it manages those risks. Respondents also noted that the disclosure could be better integrated with the disclosures on plan assets. Respondents that did not support the asset-liability matching disclosure were concerned that:

(a) any disclosure of strategy would be generic and boilerplate;

(b) a user would be able to perform a better assessment using the disclosures on plan assets and on defined benefit obligations (ie the results of such a strategy are more relevant than a narrative discussion); and

(c) the requirement might be interpreted as implying that all entities should be performing asset-liability matching.

BC233 In the Board's view, disclosure about the asset-liability matching strategy may be more useful than disclosure about the general investment strategy because an asset-liability matching strategy aims to match the amount and timing of cash inflow from plan assets with those of cash outflow from the defined benefit obligation.

BC234 The amendments require the entity to disclose details of asset-liability matching strategies used by the plan or the entity, if any, and do not intend to imply that all plans or entities should be performing asset-liability matching.

Sensitivity analysis

BC235 The amendments made in 2011 require an entity to disclose how the effect of reasonably possible changes to significant actuarial assumptions affect the defined benefit obligation.

BC236 Users of financial statements have consistently emphasised the fundamental importance of sensitivity analyses to their understanding of the risks underlying the amounts recognised in the financial statements.

BC237 In the Board's view, a sensitivity analysis on the net defined benefit liability (asset) would be more useful than a sensitivity analysis on the defined benefit obligation only. However, the Board concluded that a sensitivity analysis on the net defined benefit liability (asset) should not be required because, for example, showing how the fair value of equities would respond to changes in the assumptions used to measure the present value of the defined benefit obligation would be complex and difficult to perform.

BC238 The Board proposed in the 2010 ED a sensitivity analysis for service cost showing how the service cost would have varied in response to changes in assumptions that were reasonably possible at the beginning of the period. Many respondents did not see the relevance of disclosing how the effect of a change to an assumption at the beginning of the reporting period would have affected current service cost. The Board agreed with this view and consequently withdrew that proposal.

BC239 Respondents expressed the following concerns about the sensitivity analysis on the defined benefit obligation:

(a) The sensitivity disclosure would not take into account the correlations between various actuarial assumptions. Some respondents suggested that a scenario analysis would be more useful. The Board concluded that, although a scenario analysis could provide more useful information, the complexity and cost of producing the information would outweigh the benefits.

(b) Some respondents were concerned that carrying out a series of sensitivity analyses on several actuarial assumptions would be onerous. Some requested that the sensitivity analysis should be limited to the assumptions that have a significant effect on the financial statements, such as the discount rate. The Board agreed with these respondents that in many cases the discount rate would be one of the most significant assumptions. However, depending on the plan and other facts and circumstances, other assumptions might be significant. The 2010 ED proposed that the sensitivity analysis should apply only to 'significant actuarial assumptions'. Consequently, the Board confirmed that proposal.

(c) Some respondents raised a concern that a 'reasonably possible' change is open to subjectivity and suggested that **IAS 19** should specify a quantitative range. However, although setting the range to a particular percentage might improve comparability, the Board was concerned that a quantitative range might not reflect the reasonably possible ranges in different circumstances. The Board noted that requiring sensitivity on the basis of changes in the relevant actuarial assumption that were 'reasonably possible' at that date is consistent with the sensitivity disclosure requirements of other standards, such as **IFRS 7**.

Information about the funding and duration of the liability

BC240 The amendments made in 2011 require an entity to disclose:

(a) a narrative description of any funding arrangement and funding policy;

(b) the amount of expected contribution in the next year (carried forward from the previous version of **IAS 19**); and

(c) information about the maturity profile of the obligation, including the weighted average duration.

BC241 To provide users with information about the effect of a defined benefit plan on an entity's future cash flow, the 2010 ED proposed that an entity should discuss the factors that may cause contributions to differ from service cost. However, many respondents suggested that a disclosure about the effect of a defined benefit plan on an entity's future cash flows should instead focus on:

(a) the funding arrangement and funding policy; and

(b) the amount and timing of expected contributions and benefit payments.

BC242 In the Board's view, the disclosures suggested by respondents will be more relevant to users in assessing the risk related to changes in contribution and forecasting how much cash outflow will be incurred to cover the employee benefits than the proposal in the 2010 ED, discussed further in paragraph BC244(d).

BC243 Accordingly, the Board concluded that disclosing when, on average, the liabilities of a defined benefit plan mature would help users to understand the profile of cash flows required to meet the obligation. The Board considered requiring entities to disclose a maturity analysis of the obligation but, because the cost of such a disclosure might be onerous, the Board concluded that an entity should be required to disclose only the weighted average duration of the obligation. However, the amendments include a maturity analysis as an example of additional disclosures that could meet the disclosure objectives. The disclosure of the average duration provides information similar to the maturity analysis and will enhance the usefulness of other disclosures, such as the disclosure of actuarial assumptions dependent on the duration.

Other disclosures considered but rejected by the Board

BC244 The Board also considered, but rejected, requiring disclosure of:

(a) *actuarial assumptions and the process used to determine them*—the 2010 ED proposed that if the disclosure of demographic assumptions (such as mortality) would be difficult to interpret without additional demographic information, the entity should explain how it made those actuarial assumptions. Few respondents supported that proposal. Respondents commented that the disclosure would lead to boilerplate descriptions that would not be particularly helpful and that users rely on the entity, its actuaries and auditors to ensure that the demographic assumptions are reasonable. The Board agreed with these views and withdrew the proposal.

(b) *an alternative measure of the long-term employee benefit liability*—the 2010 ED proposed that entities should disclose the defined benefit obligation, excluding projected growth in salaries (sometimes referred to as the accumulated benefit obligation). Many respondents said that the relevance of such a disclosure would vary by country and by plan and that it would be inappropriate to require a disclosure simply because it would be relevant to some users in limited circumstances. The Board agreed with those respondents and withdrew the proposal.

(c) *disaggregation of the defined benefit obligation*—some respondents suggested that instead of the proposed disclosure as described in paragraph BC244(b), a more relevant disclosure would be a disaggregation of the defined benefit obligation showing, for example, vested benefits, accrued but unvested benefits, future salary increases, other constructive obligations and amounts owing to active members, deferred members and pensioners. The Board concluded that disaggregating the defined benefit obligation to distinguish components with different risk characteristics, as suggested by some respondents, would better meet the disclosure objectives, but requiring any particular disaggregation would be costly for preparers. However, disaggregation of the defined benefit obligation is included as an example of additional information that an entity may provide in order to meet the disclosure objectives.

(d) *factors that may cause contributions to differ from service cost*—in the Board's view, information about the effect of a surplus or deficit on the timing and amount of an entity's contributions is useful. Consequently, the 2010 ED proposed disclosure of factors that could cause contributions over the next five years to differ from current service cost. Many respondents did not support that proposal, observing that an entity's cash flows would be determined by funding requirements and not by the service cost as determined in accordance with **IAS 19**. Consequently, a discussion of those factors would not be relevant to a user's understanding of the entity's cash flows. The Board agreed with those respondents and withdrew the proposal.

(e) *historical information*—the amendments made in 2011 deleted the previous requirement to disclose historical information over five years about amounts in the statement of financial position and experience adjustments. The Board concluded that this requirement provided information about the defined benefit plan that was already available in previous financial statements and therefore was redundant.

Multi-employer plans

BC245 The amendments made in 2011 require disclosures for multi-employer defined benefit plans based on those in the previous version of **IAS 19** with the following additional disclosure:

(a) qualitative information about any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan (paragraphs BC247–BC249).

(b) the expected contribution for the next annual period (paragraph BC250).

(c) the level of participation in a multi-employer plan (paragraphs BC251 and BC252).

BC246 In the Board's view, entities participating in a defined benefit multi-employer plan face greater risks than other entities: for example, risks that result from actions by other participants in the plan. Respondents to the discussion paper expressed the view that the disclosures in **IAS 19** were insufficient to inform users about the potential effect on the amount, timing and uncertainty of future cash flows associated with an entity's participation in multi-employer defined benefit plans. Accordingly, the 2010 ED proposed additional disclosures about participation in a multi-employer plan and respondents generally welcomed those proposals.

Withdrawal obligations

BC247 IAS 37 requires an entity to disclose information about contingent liabilities and IAS 19 notes that contingent liabilities may arise from an entity's participation in a multi-employer plan. The Board identified two cases in which such information may be relevant, namely withdrawal from the plan and the wind-up of a plan. In the Board's view, disclosure of the withdrawal liability should be limited to qualitative information, for the following reasons:

(a) If an entity is not committed to withdrawing from the plan, the plan is not committed to being wound up or a withdrawal liability has not been agreed between the entity and the plan, determining the withdrawal liability would be difficult. Furthermore, additional measurement requirements would have to be developed as well as further disclosure about the assumptions used.

(b) Withdrawal is not always an option for an entity. However, the Board decided that an entity should disclose whether it is unable to withdraw from a plan because that would be useful information for a user of the financial statements.

(c) The cost of obtaining the information would make the disclosure onerous if it were required for all entities in all circumstances. Moreover, an entity may be unable to obtain the information.

BC248 Some respondents stated that disclosure of a withdrawal liability should not be required because different plans or jurisdictions use different assumptions to determine the withdrawal amount, and therefore the amounts are not comparable. The Board did not agree with that view. The amount required to withdraw from a plan faithfully represents the obligation, whether that amount is determined on the same basis as for another plan or on a different basis. If the amounts are determined on the basis of different underlying requirements, the actual amounts required to withdraw will differ.

BC249 The Board noted that if it is probable that the entity will withdraw from the plan, any additional liability should be recognised and measured under IAS 37. This requirement was implicit in IAS 19, but the Board made it explicit in the amendments made in 2011. Requiring entities to recognise an additional liability when it is probable that the entity will withdraw from the plan also converges with similar requirements in US GAAP.

Future contributions

BC250 The Board agreed with respondents' views that the proposal in the 2010 ED for an entity to disclose the contributions for the next five years would require estimates that may be difficult to determine and very subjective. Thus the Board aligned this disclosure with the general requirement for defined benefit plans, which requires an entity to disclose the expected contribution for a defined benefit plan for the next annual period. The Board confirmed the proposal in the ED for a narrative description of any funding arrangement and funding policy. That requirement is consistent with the requirement for single employer defined benefit plans.

Level of participation

BC251 The amendments made in 2011 require an entity that accounts for its participation in a multi-employer defined benefit plan as a defined contribution plan to disclose an indication of the level of its participation in the plan compared with other plan participants. Together with information about the whole plan, that disclosure provides information about the effect of any surplus or deficit on the amount, timing and uncertainty of an entity's future cash flows.

BC252 The Board provided examples of measures that might indicate the entity's level of participation, but did not specify a particular measure because a single measure may not be relevant in all cases.

Other long-term employee benefits

Death-in-service benefits

BC253 E54 proposed guidance on cases where death-in-service benefits are not insured externally and are not provided through a post-employment benefit plan. IASC concluded that such cases will be rare. Accordingly, IASC deleted the guidance on death-in-service benefits.

Termination benefits: amendments issued in 2011

BC254 The proposals in the 2005 ED proposed to align the accounting for termination benefits with the requirements in FASB Accounting Standards Codification (ASC) topic 420 *Exit or Disposal Cost Obligations* (FASB ASC Topic 420), relating to 'one-time termination benefits' and FASB ASC Topic 712 *Compensation—Nonretirement Postemployment Benefits*, relating to 'special termination benefits'. The Board acknowledged that differences with US GAAP would remain following the introduction of these amendments. Nonetheless, the Board believed that the proposed amendments would converge with some US GAAP requirements and would improve the accounting for termination benefits. The proposals for termination benefits complemented proposed amendments to the requirements on restructurings in **IAS 37** in the 2005 ED. The Board received 123 comment letters in response to the proposals in the 2005 ED.

BC255 The Board considered the following:

(a) benefits payable in exchange for future service (see paragraphs BC256 and BC257);

(b) recognition of termination benefits (see paragraphs BC258–BC260);

(c) measurement of termination benefits (see paragraph BC261); and

(d) interaction with restructuring costs, plan amendments, curtailments and settlements (see paragraphs BC262–BC268).

Benefits payable in exchange for services

BC256 **IAS 19** requires an entity to account for termination benefits separately from other employee benefits, because the event that gives rise to a present obligation is the termination of employment rather than employee service. In contrast, FASB ASC Topic 420 regards some involuntary termination benefits as being provided in exchange for employees' future services (or, expressed another way, a 'stay bonus'). In such cases under US GAAP, an entity recognises the cost of those benefits over the period of the employees' service, consistently with the accounting for other employee benefits.

BC257 In the 2005 ED, the Board proposed that **IAS 19** should specify recognition requirements for an entity providing termination benefits in exchange for future service, consistent with Topic 420. However, when finalising the amendments made in 2011, the Board noted the potential for confusion caused by accounting for some benefits provided in exchange for future service as termination benefits. The Board concluded that treating benefits provided in exchange for future service as short-term or other long-term employee benefits or post-employment benefits would result in the same recognition as is required under Topic 420 (ie the cost of those benefits would be recognised over the period of service), and would maintain the existing distinction between benefits provided in exchange for termination of employment and benefits provided in exchange for services.

Recognition

BC258 **IAS 19** before the amendments made in 2011 specified that an entity should recognise termination benefits when the entity was demonstrably committed to providing those benefits. In revisiting that conclusion, the Board considered the following circumstances:

(a) an offer of termination benefits that an entity can withdraw at its own discretion before acceptance by the employee.

(b) an offer of termination benefits that an entity cannot withdraw, including benefits provided as a result of an entity's decision to terminate an employee's employment (ie if the employee has no choice but to accept what is given).

BC259 The Board decided that the factor determining the timing of recognition is the entity's inability to withdraw the offer of termination benefits. In the circumstances in (a) this would be when the employee accepts the offer and in the circumstances in (b) this would be when the entity communicates a termination plan to the affected employees. The Board concluded that until these events occur the employer has discretion to avoid paying termination benefits and, therefore, a liability does not exist.

BC260 The criteria in Topic 420 relating to the termination plan are similar to the criteria in IAS 19 before the amendments made in 2011 for establishing whether an entity is demonstrably committed to a termination plan and, therefore, should recognise termination benefits. However, there was no requirement in that version of IAS 19 to communicate the plan of termination to employees. The Board added a requirement specifying that an entity does not have a present obligation to provide termination benefits until it has communicated its plan of termination to each of the affected employees. The Board also replaced the criteria in IAS 19 relating to the plan of termination with those in Topic 420. Although those criteria were very similar, the Board concluded that it would be better if they were identical.

Measurement

BC261 IAS 19 before the amendments made in 2011 required termination benefits that become due more than twelve months after the reporting date to be discounted, but provided no further measurement guidance. The Board amended the standard to state explicitly that the measurement of termination benefits should be consistent with the measurement requirements for the nature of the underlying benefits.

Interaction between plan amendments, curtailments, settlements, termination benefits and restructuring costs

BC262 In finalising the amendments made in 2011, the Board decided that an entity should:

(a) recognise a plan amendment or curtailment when it occurs (paragraphs BC154–BC159); and

(b) recognise termination benefits when the entity can no longer withdraw the offer of those benefits (paragraphs BC258–BC260).

BC263 Respondents to the 2010 ED were concerned about the accounting interactions between plan amendments, curtailments, settlements, termination benefits and restructurings because they often occur together, and it could be difficult to distinguish the gain or loss that arises from each transaction if they have different recognition requirements or are included in different components of defined benefit cost. Some respondents to the 2010 ED suggested aligning the timing of recognition of amounts resulting from plan amendments, curtailments, settlements, termination benefits and restructuring if they are related.

BC264 The requirements of IAS 19 before the amendments made in 2011 aligned the timing of recognition for a curtailment with the timing of recognition of a related restructuring, and suggested that when an entity recognises termination benefits the entity may also have to account for a curtailment. The objective of these requirements was to ensure that any gain or loss on curtailment is recognised at the same time as an expense resulting from a related termination benefit, from a restructuring provision or from both. In IAS 19 before the amendments made in 2011 and IAS 37, the recognition criteria for termination benefits and restructuring provisions were very similar and would have resulted in related termination benefits and restructuring being recognised together because both required recognition when an entity was demonstrably committed to the transaction.

BC265

The 2005 ED proposed to amend the timing of recognition of curtailments from being aligned with a related restructuring to being aligned with a related termination benefit. The 2010 ED did not include this amendment because the Board was in the process of finalising the amendments for termination benefits at the time.

BC266 To avoid an inconsistency in the timing of recognition for related transactions, the Board decided that:

(a) past service cost should be recognised at the earlier of:

(i) when the plan amendment occurs; and

(ii) when any related restructuring costs or termination benefits are recognised.

(b) termination benefits should be recognised at the earlier of:

(i) when the entity can no longer withdraw the offer of those benefits; and

(ii) when any related restructuring costs are recognised.

BC267 The Board also considered other approaches, including the proposal in the 2010 ED to align the timing of recognition for a plan amendment or curtailment with a related termination benefit but not with a related restructuring. In the Board's view the amendments made in 2011 have the following benefits over other approaches:

(a) They align the timing of recognition for related transactions for all combinations of curtailments, termination benefits and restructurings (which is consistent with the current requirements).

(b) They include the stand-alone recognition criteria developed for plan amendments and curtailments (ie that the plan amendment will be recognised when it occurs).

BC268 The 2005 ED proposed that the specific recognition criterion for restructuring costs should be withdrawn from **IAS 37**. If the Board confirms this proposal as part of its future discussion, then the references to the timing of recognition for restructuring costs will become redundant and the timing of recognition for plan amendments and curtailments will be aligned only with the timing of recognition for termination benefits. The Board will review the timing of recognition for restructuring costs when it finalises the amendments to **IAS 37** resulting from the 2005 ED.

Transition

BC269 The amendments made in 2011 are to be applied retrospectively in accordance with the general requirements of **IAS 8** *Accounting Policies, Changes in Accounting Estimates and Errors*, with two exceptions:

(a) The carrying amount of assets outside the scope of **IAS 19** need not be adjusted for changes in employee benefit costs that were included in the carrying amount before the beginning of the financial year in which the amendments are first applied. Thus entities may recognise previously unrecognised actuarial gains and losses and past service cost by adjusting equity, instead of by allocating part of those adjustments against the carrying amount of assets such as inventories. In the Board's view, such an allocation could have been costly and would have provided little or no benefit to users.

(b) In financial statements for periods beginning before 1 January 2014, an entity need not provide comparatives for the disclosures about the sensitivity of the defined benefit obligation. The Board provided this exemption to provide sufficient lead time for entities to implement the necessary systems.

First-time adopters

BC270

For entities adopting IFRSs for the first time, the amendments made in 2011 are to be applied retrospectively as required by **IFRS 1** *First-time Adoption of International Financial Reporting Standards*. The Board included a temporary exemption for entities adopting IFRSs to use paragraph 173(b) for the same reasons as given in paragraph BC269(b).

Early application

BC271 The amendments made in 2011 will improve the accounting and, in particular, the disclosures provided by a reporting entity in relation to its participation in defined benefit plans. In addition, some of the amendments address existing problems in applying **IAS 19** in practice. The Board noted that the majority of the amendments made in 2011 are permitted by the previous version of **IAS 19**. Consequently, the Board permitted early application of all the amendments made in 2011.

Summary of changes from the 2010 ED and 2005 ED: amendments issued in 2011

BC272 The main changes from the 2010 ED are:

(a) The amendments do not specify where in profit or loss an entity should present the net interest component. The 2010 ED proposed that an entity should include the net interest component as part of finance cost in profit or loss.

(b) The amendments require gains and losses on settlement to be included in service cost. The 2010 ED proposed that gains and losses on settlement should be included in remeasurements.

(c) The amendments do not require the following disclosures proposed in the 2010 ED:

(i) the defined benefit obligation, excluding projected growth in salaries;

(ii) sensitivity of current service cost to changes in actuarial assumptions; and

(iii) a description of the process used to determine the demographic actuarial assumptions.

(d) The amendments align the timing of recognition for plan amendments, termination benefits and restructuring costs. The 2010 ED proposed aligning the timing of recognition for plan amendments and termination benefits only.

(e) The amendments do not:

(i) combine the post-employment and other long-term employee benefit categories, as had been proposed in the 2010 ED.

(ii) state whether expected future salary increases should be included in determining whether a benefit formula allocates a materially higher level of benefit to later years, as had been proposed in the 2010 ED.

(iii) incorporate **IFRIC 14** ***IAS 19***—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* as had been proposed in the 2010 ED.

BC273 The main changes from the 2005 ED are:

(a) The amendment requires entities to recognise termination benefits when the entity can no longer withdraw an offer of those benefits. The 2005 ED proposed that voluntary termination benefits should be recognised when accepted by the employee, and that involuntary termination benefits should be recognised when the entity has a plan that meets specified criteria.

(b) The amendment clarifies the measurement requirements for termination benefits.

Convergence with US GAAP: amendments issued in 2011

Multi-employer plan disclosures

BC274 In March 2010 the FASB announced a new project to review disclosures about an employer's participation in a multi-employer plan and to develop disclosure requirements that would give better information about the risks that an entity faces by participating in a multi-employer plan. The FASB published a proposed Accounting Standards Update in the second quarter of 2010 with disclosure requirements similar to those relating to multi-employer defined benefit plans. The FASB expects to issue a final Accounting Standards Update in 2011.

Recognition of defined benefit cost

BC275 The amendments made in 2011 result in the measurement of an entity's surplus or deficit in a defined benefit plan in the statement of financial position, consistently with the requirements in US GAAP. Although both US GAAP and **IAS 19** require the immediate recognition of changes in the net defined benefit liability (asset), there are differences in where those changes are recognised.

BC276 US GAAP defines net periodic pension cost [17] as comprising current service cost, interest cost on the defined benefit obligation, expected return on plan assets, amortisation of unrecognised prior service cost (if any), gains or losses recognised and amortised after exceeding a specified corridor (if any), amortisation of unrecognised initial net obligation and/or initial net asset. The **IAS 19** requirements for the disaggregation of defined benefit cost and recognition of the components of defined benefit cost differ from the requirements in US GAAP as follows:

(a) *Disaggregation of the return on plan assets*—US GAAP distinguishes the expected return on plan assets and the difference between the expected and actual returns. The net interest approach in **IAS 19** distinguishes an implied interest income on plan assets and the difference between the implied interest income and actual returns.

(b) *Past service cost*—US GAAP recognises past service cost in other comprehensive income initially, and then reclassifies past service cost from other comprehensive income to profit or loss in subsequent periods. **IAS 19** requires past service cost to be included together with current service cost in profit or loss.

(c) *Reclassification*—US GAAP requires the reclassification of amounts recognised in other comprehensive income to profit or loss in subsequent periods. **IAS 19** prohibits subsequent reclassification.

Termination benefits

BC277 FASB ASC Topic 420 specifies the accounting for a class of termination benefits known as 'one-time termination benefits'. Topic 420 requires an entity to recognise a 'stay bonus' over the period of the employees' service and to recognise other termination benefits when the entity has a plan of termination that meets specified criteria. The amendments made in 2011 distinguish benefits provided in exchange for service and benefits provided in exchange for the termination of employment. A 'stay bonus' would not be classified as a termination benefit under **IAS 19** because it is provided in exchange for service and, therefore, would be attributed to periods of service in accordance with paragraph 70 of **IAS 19**.

BC278 FASB ASC Topic 712 specifies the accounting for a class of termination benefits known as 'special termination benefits'. Topic 712 requires an entity to recognise these special termination benefits when the employees accept the employer's offer of termination benefits. The amendments made to **IAS 19** in 2011 are consistent with those requirements. Topic 712 also specifies the accounting for a class of termination benefits known as 'contractual termination benefits'. Topic 712 requires an entity to recognise contractual termination benefits when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. The amendments made in 2011 do not converge with those requirements; instead, **IAS 19** requires those benefits to be recognised when an entity can no longer withdraw an offer of those benefits.

BC279 FASB ASC Topic 420 specifies that an entity should measure 'one-time' termination benefits at fair value (or at an amount based on fair value for benefits provided in exchange for future service).

The Board did not align the measurement requirements of IAS 19 for termination benefits with those of Topic 420. When an entity provides termination benefits through a post-employment defined benefit plan (for example, by enhancing retirement benefits) the Board concluded that it would be unduly complex to specify that an entity should measure the benefits at fair value. To do so would require the effect of the changes to the plan arising from the termination of employment to be isolated, on a continuous basis, from the remainder of the plan.

Cost-benefit considerations: amendments issued in 2011

BC280 The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. To attain this objective, the Board seeks to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement changes to existing requirements might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

BC281 The evaluation of costs and benefits is necessarily subjective. In making its judgement, the Board considered the following:

(a) the costs incurred by preparers of financial statements.

(b) the costs incurred by users of financial statements when information is not available.

(c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information.

(d) the benefit of better economic decision-making as a result of improved financial reporting.

(e) the costs of transition for users, preparers and others.

BC282 The objective of the amendments made in 2011 is to improve the usefulness of information available to users for their assessment of the amounts, timing and uncertainty of future cash flows arising from defined benefit plans of the entity. However, the Board also considered the cost of implementing the proposed amendments and applying them on a continuous basis. In evaluating the relative costs and benefits of the proposed amendments, the Board was assisted by the information received in meetings with its Employee Benefits Working Group.

BC283 The amendments should improve the ability of users to understand the financial reporting for post-employment benefits by:

(a) reporting changes in the carrying amounts of defined benefit obligations and changes in the fair value of plan assets in a more understandable way;

(b) eliminating some recognition options that were allowed by IAS 19, thus improving comparability;

(c) clarifying requirements that have resulted in diverse practices; and

(d) improving information about the risks arising from an entity's involvement in defined benefit plans.

BC284 Costs will be involved in the adoption and continuing application of the amendments. Those costs will depend on the complexity of an entity's defined benefit arrangements and the options in IAS 19 that the entity currently elects to apply. However, those costs should be minimal because in order to apply the previous version of IAS 19 entities need to obtain much of the information that the amendments require. Consequently, the Board believes that the benefits of the amendments outweigh the costs.

Appendix
Amendments to the Basis for Conclusions on other IFRSs

This appendix contains amendments to the Basis for Conclusions (and related appendices) on other IFRSs that are necessary in order to ensure consistency with IAS 19 and the related amendments to other IFRSs. Amended paragraphs are shown with new text underlined and deleted text struck through.

IFRS 1 First-time Adoption of International Financial Reporting Standards

BCA1 Paragraphs BC48 and BC52 are deleted.

IFRS 2 Share-based Payment

BCA2 In paragraph BC244 the quotation is footnoted as follows:

(*) IAS 19 *Employee Benefits* (as amended in June 2011) renumbered and amended paragraphs BC11–BC14 as paragraphs BC52–BC55. The amendments changed the terminology for consistency with IAS 19.

IFRS 9 Financial Instruments (November 2009)

BCA3 Paragraph BCA10 and the related heading are deleted.

IFRS 9 Financial Instruments (October 2010)

BCA4 Paragraphs BCA11 and BCA12 and the related heading are deleted.

IFRS 10 Consolidated Financial Statements

BCA5 Paragraph BCA9 and the related heading are deleted.

IFRS 13 Fair Value Measurement

BCA6 Paragraphs BCA54 and BCA55 and the related heading are deleted.

IAS 36 Impairment of Assets

BCA7 Paragraph BCZ6 is amended and footnoted to read as follows:

(BCA7)IAS 19 *Employee Benefits* contains an upper limit on the amount at which an enterprise should recognise an asset arising from employee benefits. Therefore, IAS 36 does not deal with such assets. ~~The limit in IAS 19 is determined on a discounted basis that is broadly compatible with the requirements of IAS 36. The limit does not override the deferred recognition of certain actuarial losses and certain past service costs.~~*

(*) sentence deleted when IAS 19 Employee Benefits was amended in 2011.

IAS 40 Investment Property

BCA8 Paragraph B56 is footnoted as follows:

(*) Paragraph 57 was renumbered as paragraph 59 when IAS 19 was amended in 2011.

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

BCA9 Paragraph BC8(c) is footnoted as follows:

(*) Paragraph BC68I was renumbered as paragraph BC186 when IAS 19 was amended in 2011.

IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

BCA10 In paragraphs BC2, BC31, BC34, BC35 and BC41 the references to ‘paragraph 58’ are replaced with references to ‘paragraph 64’.

BCA11 Paragraph BC5 is amended as follows:

(BC5) Funding requirements would not normally affect the accounting for a plan under IAS 19. However, paragraph ~~58~~ 64 of IAS 19 limits the amount of the net defined benefit asset to the available economic benefit ~~plus unrecognised amounts~~. The interaction of a minimum funding requirement and this limit has two possible effects:

(a) the minimum funding requirement may restrict the economic benefits available as a reduction in future contributions, and

(b) the limit may make the minimum funding requirement onerous because contributions payable under the requirement in respect of services already received may not be available once they have been paid, either as a refund or as a reduction in future contributions.

BCA12 In paragraph BC20 the reference to ‘paragraph BC77 of the Basis for Conclusions on IAS 19’ is footnoted as follows:

(*) As a result of the amendments to IAS 19 in June 2011, paragraph BC77 was deleted.

BCA13 Paragraphs BC36 and BC37 are deleted.

BCA14 The reference to ‘paragraph 58A’ in paragraph BC39 is footnoted as follows:

(*) IAS 19 (as amended in June 2011) eliminated deferred recognition of actuarial gains and losses and deleted paragraph 58A.

BCA15 Paragraph BC41(e) is added as follows:

…

(e) In June 2011 the Board issued an amended IAS 19 that eliminated the deferred recognition of actuarial gains and losses. As a consequence of that amendment, the Board deleted paragraphs 25 and 26, amended paragraphs 1, 6, 17, 24 and amended Examples 1–4 in the illustrative examples accompanying IFRIC 14. As a result of those changes paragraphs BC36 and BC37 of this Basis for Conclusions were deleted and paragraph BC5 was amended. Lastly, cross-references to IAS 19 were updated.

Dissenting opinions

Dissent of James J Leisenring and Tatsumi Yamada from the issue in December 2004 of Actuarial Gains and Losses, Group Plans and Disclosures (Amendment to IAS 19) [18]

Mr Leisenring

DO1 Mr Leisenring dissents from the issue of the Amendment to **IAS 19** Employee Benefits—*Actuarial Gains and Losses, Group Plans and Disclosures*.

DO2 Mr Leisenring dissents because he disagrees with the deletion of the last sentence in paragraph 40 and the addition of paragraphs 41 and 42. He believes that group entities that give a defined benefit promise to their employees should account for that defined benefit promise in their separate or individual financial statements. He further believes that separate or individual financial statements that purport to be prepared in accordance with IFRSs should comply with the same requirements as other financial statements that are prepared in accordance with IFRSs. He therefore disagrees with the removal of the requirement for group entities to treat defined benefit plans that share risks between entities under common control as defined benefit plans and the introduction instead of the requirements of paragraph 41.

DO3 Mr Leisenring notes that group entities are required to give disclosures about the plan as a whole but does not believe that disclosures are an adequate substitute for recognition and measurement in accordance with the requirements of **IAS 19**.

Mr Yamada

DO4 Mr Yamada dissents from the issue of the Amendment to **IAS 19** Employee Benefits—*Actuarial Gains and Losses, Group Plans and Disclosures*.

DO5 Mr Yamada agrees that an option should be added to **IAS 19** that allows entities that recognise actuarial gains and losses in full in the period in which they occur to recognise them outside profit or loss in a statement of recognised income and expense, even though under the previous **IAS 19** they can be recognised in profit or loss in full in the period in which they occur. He agrees that the option provides more transparent information than the deferred recognition options commonly chosen under **IAS 19**. However, he also believes that all items of income and expense should be recognised in profit or loss in some period. Until they have been so recognised, they should be included in a component of equity separate from retained earnings. They should be transferred from that separate component of equity into retained earnings when they are recognised in profit or loss. Mr Yamada does not, therefore, agree with the requirements of paragraph 93D. [19]

DO6 Mr Yamada acknowledges the difficulty in finding a rational basis for recognising actuarial gains and losses in profit or loss in periods after their initial recognition in a statement of recognised income and expense when the plan is ongoing. He also acknowledges that, under IFRSs, some gains and losses are recognised directly in a separate component of equity and are not subsequently recognised in profit or loss. However, Mr Yamada does not believe that this justifies expanding this treatment to actuarial gains and losses.

DO7 The cumulative actuarial gains and losses could be recognised in profit or loss when a plan is wound up or transferred outside the entity. The cumulative amount recognised in a separate component of equity would be transferred to retained earnings at the same time. This would be consistent with the treatment of exchange gains and losses on subsidiaries that have a measurement currency different from the presentation currency of the group.

DO8 Therefore, Mr Yamada believes that the requirements of paragraph 93D mean that the option is not an improvement to financial reporting because it allows gains and losses to be excluded permanently from profit or loss and yet be recognised immediately in retained earnings.

Dissent of Jan Engström and Tatsumi Yamada from the issue in June 2011 of IAS 19 as amended

Mr Engström

DO1 Mr Engström voted against the amendments made to **IAS 19** in 2011. The project was a limited scope project focused on bringing the full post-employment benefit onto the statement of financial position and on eliminating the corridor approach.

DO2 In Mr Engström's view, during the project it has become increasingly clear that a review of the measurement principles is much needed— something not included in the limited scope of the project. During the recent financial crisis the defined benefit obligation could be as much as 50 per cent higher in one company compared with an identical defined benefit obligation in another company operating in an adjacent country, with basically equal macroeconomic parameters, due to the imperfections in measurement requirements of **IAS 19**.

DO3 In Mr Engström's view, the amendments to **IAS 19** made in 2011 introduce some radical changes from a principle point of view by not requiring some income and expenses truly related to a company's activities ever to be presented in profit or loss, indeed actually prohibiting such presentation. The adjustments of the defined benefit obligation, and of the plan assets, have for many companies been a very significant amount and by presenting income and expenses resulting from these adjustments only in other comprehensive income this project continues the gradual erosion of the concept of profit or loss.

DO4 Mr Engström sees no reason why the remeasurements component could not be subsequently reclassified to profit or loss on a reasonable basis consistently with the assumptions used to measure the defined benefit obligation.

DO5 Mr Engström would favour a comprehensive review of **IAS 19**, including a review of measurement, and he would prefer presentation to be decided only after the IASB has taken a stance on what profit or loss is, what other comprehensive income is and what should be subsequently reclassified into profit or loss.

DO6 As a consequence of these amendments made to **IAS 19**, and of the option introduced in **IFRS 9** *Financial Instruments*, some material amounts may never be presented in profit or loss. **IFRS 9** introduced an option to present some gains and losses on equity instruments not held for trading in other comprehensive income, without subsequent reclassification to profit or loss. In Mr Engström's view, these recent ad hoc decisions push financial reporting de facto towards a single income statement as some matters truly related to a company's activities are never to be presented in profit or loss.

Mr Yamada

DO7 Mr Yamada voted against the amendments made to **IAS 19** in 2011.

DO8 Mr Yamada agrees with the Board's view in paragraph BC70 that immediate recognition of all changes in the fair values of plan assets and in the defined benefit obligation in the period in which those changes occur provides information that is more relevant to users of financial statements than the information provided by deferred recognition. Mr Yamada also agrees that immediate recognition provides a more faithful representation of defined benefit plans and is easier for a user to understand.

DO9 However, Mr Yamada does not agree with:

(a) the disaggregation of defined benefit cost (see paragraph DO10);

(b) the definition of net interest and remeasurements of the net defined benefit liability (asset) (see paragraphs DO11–DO14); and

(c) the presentation of remeasurements of the net defined benefit liability (asset) in other comprehensive income (see paragraphs DO15–DO17).

Disaggregation of defined benefit cost

DO10 In Mr Yamada's view the disaggregation of defined benefit cost into components (ie service cost, net interest and remeasurements) in profit or loss and other comprehensive income in paragraph 120 is not consistent with the presentation of plan assets and the defined benefit obligation in the statement of financial position. In his view, to be consistent with the presentation of a single net defined benefit liability (asset) in the statement of financial position, the presentation of changes in the net defined benefit liability (asset) should be a single net amount presented in profit or loss. Therefore, he does not agree with paragraph 134 not to specify how to present service cost and net interest on the net defined benefit liability (asset). He understands the usefulness of disaggregated information, but believes that an appropriate way of providing information on the components of defined benefit cost is to show them in the notes to the financial statements.

Definition of net interest and remeasurements on the net defined benefit liability (asset)

DO11 Mr Yamada sees no principle behind the disaggregation described in paragraph 120 (ie service cost, net interest and remeasurements). In particular, in his view the approach for calculating net interest on the net defined benefit liability (asset) is not an improvement in financial reporting.

DO12 In Mr Yamada's view there is no reason for requiring the component of the return on plan assets presented in profit or loss to be determined using the rate used to discount the defined benefit obligation as is in paragraph 125. He agrees with the respondents' concerns summarised in paragraph BC82 that plan assets may be made up of many different types of investments, and that 'the return on high quality corporate bonds would be arbitrary and would not be a faithful representation of the return that investors require or expect from each type of asset.' Therefore, in his view, it does not provide more useful information to use the rate used to discount the defined benefit obligation in place of the previous requirement to use expected return on plan assets.

DO13 Mr Yamada does not agree that the Board should require 'using the same rate [for plan assets] as the rate used to discount the liability [as] a practical approach that … would not require an entity to make a subjective judgement on how to divide the return on plan assets into an interest component and a remeasurement' (paragraph BC82). He agrees that determining the 'expected return on plan assets' that is used by the previous version of **IAS 19** requires judgement by management, but this does not mean that the 'expected return on plan assets' is unreliable. In his view, estimating the 'expected return on plan assets' requires the same degree of judgement as do other accounting estimates.

DO14 In Mr Yamada's view, there is no clear explanation about the nature of the remeasurements component, nor why disaggregation of this amount is appropriate. In the previous version of **IAS 19**, actuarial gains and losses on plan assets were defined as experience adjustments, ie the effects of differences between the previous actuarial assumptions (the expected return on assets) and what actually occurred. However, paragraph BC86 explains the nature of the remeasurements component as being a residual after determining the service cost and net interest components, and simply restates the definition of remeasurements in paragraph 7.

Presentation of remeasurements in other comprehensive income

DO15 Paragraph BC88 sets out the Board's reasoning that the remeasurement component should be presented in other comprehensive income because 'although changes included in the remeasurements component may provide more information about the uncertainty and risk of future cash flows, they provide less information about the likely amount and timing of those cash flows'. Mr Yamada does not agree with that reasoning because, in his view, the actual return on plan assets provides information about the performance of plan assets during the period, but the disaggregation of the actual return into interest income and a remeasurements component does not provide information about the likely timing and amount of future cash flows. Therefore, in his view, it does not represent faithfully the performance of plan assets if the actual returns on plan assets in excess of the interest income on plan assets are presented in other comprehensive income and not presented in profit or loss when they occur. Instead, all the components should be presented in profit or loss when they occur. Therefore, he does not agree with paragraph 120(c). In his view the amount representing remeasurements does not have a clearly defined characteristic that justifies its presentation in other comprehensive income.

DO16 Mr Yamada notes that the definition of net interest on the net defined benefit liability (asset) results in the difference between the rate used to discount the defined benefit obligation applied to plan assets and the actual return on plan assets being presented in other comprehensive income. To do so eliminates from profit or loss the effects of differences between the actual return on plan assets and the rate applied to the defined benefit obligation. In his view the elimination of these differences introduces a type of smoothing mechanism. Thus, in his view the proposal is not an improvement on the previous version of **IAS 19**.

DO17 Given that the Board decided to present part of the defined benefit cost (ie remeasurements) in other comprehensive income, he is of the view that the Board should have retained the notion of actuarial gains and losses in the previous version of **IAS 19** (paragraphs 93A–93D) rather than introduce a similar but not clearly better new notion of 'remeasurements'. This would mean that the expected return on plan assets is recognised in profit or loss and the difference between the expected return on plan assets and the actual return on plan assets is recognised in other comprehensive income. As stated in paragraph DO15, in Mr Yamada's view, this difference gives better information than the revised remeasurement component.

Amendments to guidance on other IFRSs

These amendments to guidance on IFRSs are necessary in order to ensure consistency with the amendments to ***IAS 19*** *. In the amended paragraphs, new text is underlined and deleted text is struck through.*

IFRS 1 First-time Adoption of International Financial Reporting Standards

IGA1 In the guidance on implementing **IFRS 1**, paragraph IG18 is deleted.

IAS 1 Presentation of Financial Statements

IGA2 In the guidance on implementing **IAS 1**, in the illustrative financial statements in part 1, 'Actuarial gains (losses) on' is replaced by 'Remeasurements of', and in footnote (k) 'actuarial gains on' and in footnote (l) 'actuarial losses on' are replaced by 'remeasurements of'.

IAS 34 Interim Financial Reporting

IGA3 In the illustrative examples of applying the recognition and measurement principles paragraphs B9 and B10 are amended as follows:

(B9) Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for ~~significant curtailments, settlements, or other~~ significant ~~one-time~~ <u>one-off</u> events<u>, such as plan amendments, curtailments and settlements</u>.

(B10) Accumulating ~~compensated~~ <u>paid</u> absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. **IAS 19** *Employee Benefits* requires that an entity measure the expected cost of and obligation for accumulating ~~compensated~~ <u>paid</u> absences at the amount the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. That principle is also applied at the end of interim financial reporting periods. Conversely, an entity recognises no expense or liability for non-accumulating ~~compensated~~ paid absences at the end of an interim reporting period, just as it recognises none at the end of an annual reporting period.

~~IFRIC 14~~ IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IGA4 In Example 1 of the illustrative examples accompanying IFRIC 14, the table following paragraph IE1 and paragraph IE2 are amended as follows:

Market value of assets	1,200
Present value of defined benefit obligation under IAS 19	(1,100)
Surplus	100
~~Defined benefit asset (before consideration of the minimum funding requirement)~~ [20]	~~100~~

Application of requirements

(IE2) Paragraph 24 of IFRIC 14 requires the entity to recognise a liability to the extent that the contributions payable are not fully available. Payment of the contributions of 200 will increase the IAS 19 surplus from 100 to 300. Under the rules of the plan this amount will be fully refundable to the entity with no associated costs. Therefore, no liability is recognised for the obligation to pay the contributions and the net defined benefit asset is 100.

IGA5 In Example 2, the table following paragraph IE3 and paragraphs IE7 and IE8 are amended and the table following paragraph IE7 is replaced as follows:

Market value of assets	1,000
Present value of defined benefit obligation under IAS 19	(1,100)
Deficit	100
~~Defined benefit asset (before consideration of the minimum funding requirement)~~ [21]	~~100~~

(IE7) Therefore, the net defined benefit liability is 180, comprising the deficit of 100 plus the additional liability of 80 resulting from the requirements in paragraph 24 of IFRIC 14. ~~the entity increases the defined benefit liability by 80. As required by paragraph 26 of IFRIC 14, 80 is recognised immediately in accordance with the entity's adopted policy for recognising the effect of the limit in paragraph 58 and the entity recognises a net liability of 180 in the statement of financial position.~~ No other liability is recognised in respect of the statutory obligation to pay contributions of 300.

Summary

Market value of assets	1,000
Present value of defined benefit obligation under IAS 19	(1,100)
Deficit	(100)
Effect of the asset ceiling	(80)
Net defined benefit liability	(180)

(IE8) When the contributions of 300 are paid, the net defined benefit asset ~~recognised in the statement of financial position~~ will be 120.

IGA6 In Example 3, paragraphs IE10, IE14 and IE19–IE21 and the table following paragraph IE20 are amended as follows:

(IE10) Plan C also has an **IAS 19** surplus at the end of the reporting period of 50, which cannot be refunded to the entity under any circumstances. ~~There are no unrecognised amounts.~~

(IE14) When these contributions are paid into the plan, ~~the present value of~~ the **IAS 19** surplus (ie the fair value of assets less the present value of the defined benefit obligation) would, other things being equal, increase from 50 to 350 (300 + 50).

(IE19) Paragraph 24 of **IFRIC 14** requires the entity to recognise a liability to the extent that the additional contributions payable will not be fully available. Therefore, the ~~entity reduces the defined benefit asset by~~ effect of the asset ceiling is 294 (50 + 300 – 56).

(IE20) ~~As required by paragraph 26 of **IFRIC 14**, the 294 is recognised immediately in accordance with the entity's adopted policy for recognising the effect of the limit in paragraph 58 and~~ T the entity recognises a net defined benefit liability of 244 in the statement of financial position. No other liability is recognised in respect of the obligation to make contributions to fund the minimum funding shortfall.

Summary

Surplus	50
Net ~~D~~ defined benefit asset (before consideration of the minimum funding requirement)	50
~~Adjustment in respect of minimum funding requirement~~ Effect of the asset ceiling	294
Net defined benefit liability ~~recognised in the statement of financial position [22]~~	(244)

(IE21) When the contributions of 300 are paid into the plan, the net defined benefit asset ~~recognised in the statement of financial position~~ will become 56 (300 – 244).

IGA7 In Example 4, paragraphs IE23 and IE27 are amended as follows:

(IE23) Plan D has an **IAS 19** surplus of 35 at the beginning of 20X1. ~~There are no cumulative unrecognised net actuarial losses and past service costs.~~ This example assumes that the discount rate and expected return on assets are 0 per cent, and that the plan cannot refund the surplus to the entity under any circumstances but can use the surplus for reductions of future contributions.

(IE27) Assuming a discount rate of 0 per cent, the present value of the economic benefit available as a reduction in future contributions is equal to 30. Thus in accordance with paragraph ~~58~~ 64 of **IAS 19** the entity recognises a~~n~~ net defined benefit asset of 30 (because this is lower than the **IAS 19** surplus of 65).

Table of concordance

This table shows how the contents of the superseded version of **IAS 19** (as revised in 2004) and **IAS 19** as amended in 2011 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded IAS 19 paragraph	IAS 19 (2011) paragraph
Objective	1
1–6	2–7
7	8
8	9
9	None
10	11, 12
11–23	13–25
24	26
25	27, 28
26–28	29–31
29	32, 33
30	34 and 148
31	35
32	36
32A	37
32B	None
33	38
34–34B	40–42 and 149
35	Deleted in a previous amendment of IAS 19
36–38	43–45
39–42	46–49
43–47	50–54
48–50	55–57
51	60
52, 53	61, 62
54	63
55	None
56, 57	58, 59
58	64
58A, 58B	None
59	65
60	None
61, 62	120, 121
63	66
64–66	67–69
67–71	70–74
72–77	75–80
78–81	86–86
82	None
83	87
84	90
85	88
86	89
87	95
88–90	96–98
91	92–94
92–93D	None

94	128
95	None
96, 97	None
98	108
99, 100	None
101	107
102–104	113–115
104A–104D	116–119
105, 106	None
107	130
108	None
109	109, 110
110	99
111	105
111A	None
112	111
113	112
114	101
115	None
116–119	131–134
120	135
120A(a)	None
120A(b)	139(a)
120A(c), (e), (g), (h)	140, 141
120A(d)	138
120A(f), (i)	None
120A(j), (k)	142, 143
120A(l), (m)	None
120A(n)	144
120A(o), (p)	None
120A(q)	147(b)
121	139(a)
122	138
123	148
124, 125	151, 152
126–131	153–158
132	159
133, 134	165–167
135	161
136	160 and 164
137	None
138	168
139, 141	None
142, 143	171
144–152	Deleted in a previous amendment of IAS 19
163–161	None
None	10, 39, 81, 82, 91, 100, 102–104, 106, 122, 123–126, 127, 129, 136, 137, 139(b), 139 (c), 145, 146, 147(a), 147(c), 150, 162, 163, 169, 170, 172, 173

Footnotes