



Press Release

27 March 2008

IASB opens discussion on proposals to increase transparency in the accounting for post-employment benefits

The International Accounting Standards Board (IASB) today published for public comment a discussion paper on IAS 19 *Employee Benefits*. The paper sets out the IASB's preliminary views on how the accounting for some post-employment benefits, including pensions, could be improved.

The discussion paper, developed in consultation with the IASB's Employee Benefits Working Group, addresses the main concerns expressed by a wide range of interested parties that the accounting model set out in IAS 19 is inadequate and should be reviewed. Constituents have pointed out that:

- the deferral of the recognition of gains and losses leads to misleading figures in the statement of financial position;
- the multiple options for deferring recognition lead to poor comparability across companies;
- the lack of clarity in the definitions of benefit promises lead to inconsistencies and poor comparability for those benefit promises that include a promised return on contributions linked to an asset or an index;
- the required measurement method is inadequate for those benefit promises that include a promised return on contributions linked to an asset or an index.

The IASB's preliminary views on how to address those main issues are:

- to remove the options for deferred recognition of gains and losses in defined benefit plans
- to introduce a new classification of benefit promises into contribution-based promises and defined benefit promises, with a new measurement attribute for contribution-based promises

Introducing the discussion paper, Sir David Tweedie, IASB Chairman, said:

Accounting for pensions is a complex area of huge importance. The total liability for 80 of the top companies around the world alone is estimated to be around £700 billion. In some cases, the pension liability even exceeds the market capitalisation of the company. The financial statement of a company must provide investors, analysts and companies with clear, reliable and comparable information on a company's pension obligations. It is in the interest of all of us to find ways to improve this area of financial reporting, and the discussion paper on post-employment benefits is the starting point.

The IASB invites comments on the discussion paper by 26 September 2008. For more details on the project, see the project Website on www.iasb.org.

The IASB plans to redeliberate the issues and publish an exposure draft of proposed amendments to IAS 19, with a view to issuing a revised standard by 2011.

The discussion paper *Preliminary Views on Amendments to IAS 19 Employee Benefits* is available for eIFRS subscribers from today and will be freely available on the Website from 7 April. Those wishing to subscribe to eIFRSs should visit the online shop at www.iasb.org or contact:

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Printed copies (ISBN 978-1-905590-62-9) will be available shortly, at £10.00 each plus shipping, from the IASC Foundation Publications Department.

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Note to Editors

About the discussion paper

1. IAS 19 allows a company many different options for recognising gains and losses. The IASB believes that there should be only one approach for recognising gains and losses and that immediate recognition of all gains and losses in the period they occur is the best approach. Three approaches for doing this, with different effects on profit or loss, have been suggested.
2. IAS 19 has two types of benefit promises—defined benefit or defined contribution. However, some benefit promises such as cash balance plans or promises linked to contributions with a minimum guaranteed return appear to have characteristics of both. As a result, some plans that are defined benefit are sometimes classified incorrectly. The IASB thinks that a good solution, given the targeted approach being considered, would be to introduce a new category of benefit promises to deal with cash balance and similar plans (contribution-based promises). These are promises that can be expressed in terms of a known contribution (ie a fixed amount or an amount independent of future salary increases) and a promised return linked to an asset or an index.
3. The IASB's preliminary view is that the measurement of the entity's liability for a contribution-based promise should be based on current best estimates, unbiased, probability-weighted amounts and observable market values where they exist. Also, the entity should assume that the benefit promise does not change. The IASB believes that the measurement attribute *fair value assuming that the benefit promise does not change* best expresses this approach.

About the IASB Employee Benefits Working Group

The working group was established in March 2007 to help the IASB in its project on post-employment benefits by providing a variety of expert perspectives, including those of actuaries, auditors and other experts, preparers and users of financial statements, and regulators. The group consists 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. A list of the members and official observers of the working group is accessible through the Post-employment benefits project pages on www.iasb.org.

About the IASB

The IASB was established in 2001 and is the standard-setting body of the International Accounting Standards Committee (IASC) Foundation, an independent private sector, not-for-profit organisation. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that provide high quality transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international

and national bodies around the world. Its 14 members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. They are appointed by and accountable to the Trustees of the IASC Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience.