

April 2010

Exposure Draft ED/2010/3

# Defined Benefit Plans

## Proposed amendments to IAS 19

Comments to be received by 6 September 2010



International  
Accounting Standards  
Board®

# **DEFINED BENEFIT PLANS**

**(Proposed amendments to  
IAS 19 *Employee Benefits*)**

*Comments to be received by 6 September 2010*

**ED/2010/3**

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ISBN: 978-1-907026-70-6

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## Introduction

The International Accounting Standards Board has published this exposure draft of proposed amendments to IAS 19 *Employee Benefits* as part of its project to improve the accounting for employee benefits. The Board has developed the proposals having considered responses to its discussion paper *Preliminary Views on Amendments to IAS 19*, published in March 2008.

The Board's objective is to finalise, by the middle of 2011, short-term, targeted improvements to the accounting for defined benefit plans.

## Recognition and presentation

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This exposure draft proposes that entities should recognise all changes in defined benefit obligations and in the fair value of plan assets when those changes occur. IAS 19 already permits entities to recognise all gains and losses when they occur, but also permits another option: to leave actuarial gains and losses unrecognised if they are within a 'corridor'<sup>\*</sup> and to defer recognition of actuarial gains and losses outside the corridor. This proposal would remove that option.

This exposure draft also proposes a new presentation approach for changes in defined benefit obligations and the fair value of plan assets. Entities would split changes in the defined benefit obligation and the fair value of plan assets into service cost, finance cost and remeasurement components and present:

- (a) the service cost component in profit or loss.
- (b) the finance cost component, ie net interest on the net defined benefit liability or asset, as part of finance costs in profit or loss.
- (c) the remeasurement component in other comprehensive income.

Consequently, the exposure draft removes from IAS 19 the option for entities to recognise in profit or loss all changes in defined benefit obligations and in the fair value of plan assets.

In the context of the Board's forthcoming exposure draft on the presentation of items of other comprehensive income, the Board believes that the clearest way to present remeasurements of a net defined benefit asset or liability is in other comprehensive income. The Board plans to finalise amendments to the presentation of the remeasurement component in conjunction with amendments resulting from that exposure draft and has no plan to review subsequently the presentation of the remeasurement component.

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\* The greater of 10 per cent of plan assets and 10 per cent of plan liabilities.

These proposals, if confirmed, will make it easier for users of an entity's financial statements to understand how defined benefit plans affect the entity's financial position and financial performance, and how they may affect its future cash flows.

## **Disclosures**

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The exposure draft proposes improved disclosures, focused on specified objectives, including disclosures about:

- (a) the characteristics of an entity's defined benefit plans and the amounts in the financial statements resulting from those plans.
- (b) risk arising from defined benefit plans, including sensitivity analyses of changes in demographic risk.
- (c) participation in multi-employer plans.

The proposal to require immediate recognition of actuarial gains and losses would enable the Board to eliminate disclosures about deferred recognition of those items.

## **Other issues**

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In response to requests in the comment letters, the exposure draft contains proposals to address the following practice issues:

- (a) how expected future salary increases affect the attribution of benefits to different periods.
- (b) how risk-sharing and conditional indexation affect the measurement of defined benefit obligations.
- (c) when the measurement of defined benefit obligations include tax and administrative costs.
- (d) the classification of employee benefits as long-term or short-term.

The exposure draft also proposes:

- (a) that IAS 19 should incorporate, without substantive change, the requirements of IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, and
- (b) clarifications responding to some questions received by the International Financial Reporting Interpretations Committee.

## **Presentation of text in exposure draft**

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The exposure draft proposes extensive additions and deletions to IAS 19. For ease of reference the text retains the existing IAS 19 paragraph numbers and designates new paragraphs with a letter suffix. However, the paragraphs will be renumbered when the Board finalises the amendments arising from the exposure draft.

## **Next steps**

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The Board will review the responses to this exposure draft, and will then modify or confirm its proposals. The Board will then develop an amendment to IAS 19.

*Preliminary Views on Amendments to IAS 19* also contained proposals on the accounting for contribution-based promises. The Board will consider whether to develop those proposals further after it has completed the amendments proposed in the exposure draft. The Board may do this as part of a comprehensive review of employee benefit accounting. The Board will not begin such a comprehensive review before mid-2011.

## Invitation to comment

The Board invites comments on the amendments to IAS 19 proposed in this exposure draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph or group of paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative that the Board should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues that, in their view, warrant comment.

The Board is not requesting comments on matters in IAS 19 not addressed in this exposure draft.

Comments should be submitted in writing so as to be received no later than 6 September 2010.

## Recognition

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### Question 1

The exposure draft proposes that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. (Paragraphs 54, 61 and BC9–BC12) Do you agree? Why or why not?

### Question 2

Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?

## Disaggregation

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### Question 3

Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18) Why or why not?



## Defining the service cost component

### Question 4

Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?

## Defining the finance cost component

### Question 5

The exposure draft proposes that the finance cost component should comprise net interest on the net defined benefit liability (asset) determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset). As a consequence, it eliminates from IAS 19 the requirement to present an expected return on plan assets in profit or loss.

Should net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset)? Why or why not? If not, how would you define the finance cost component and why? (Paragraphs 7, 119B, 119C and BC23–BC32)

## Presentation

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### Question 6

Should entities present:

- (a) service cost in profit or loss?
- (b) net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss?
- (c) remeasurements in other comprehensive income?

(Paragraphs 119A and BC35–BC45) Why or why not?

## Settlements and curtailments

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### Question 7

- (a) Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) Why or why not?

- (b) Do you agree that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss? (Paragraphs 98A, 119A(a) and BC48)
- (c) Should entities disclose (i) a narrative description of any plan amendments, curtailments and non-routine settlements, and (ii) their effect on the statement of comprehensive income? (Paragraphs 125C(c), 125E, BC49 and BC78) Why or why not?

## **Disclosures**

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### **Defined benefit plans**

#### **Question 8**

The exposure draft states that the objectives of disclosing information about an entity's defined benefit plans are:

- (a) to explain the characteristics of the entity's defined benefit plans;
- (b) to identify and explain the amounts in the entity's financial statements arising from its defined benefit plans; and
- (c) to describe how defined benefit plans affect the amount, timing and variability of the entity's future cash flows. (Paragraphs 125A and BC52–BC59) Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

#### **Question 9**

To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:

- (a) information about risk, including sensitivity analyses (paragraphs 125C(b), 125I, BC60(a), BC62(a) and BC63–BC66);
- (b) information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e));
- (c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f));
- (d) information about asset-liability matching strategies (paragraphs 125J and BC62(b)); and
- (e) information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c)).

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Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?

### Multi-employer plans

#### Question 10

The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? (Paragraphs 33A and BC67–BC69) Why or why not?

### State plans and defined benefit plans that share risks between various entities under common control

#### Question 11

The exposure draft updates, without further 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 make them consistent with the disclosures in paragraphs 125A–125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not?

### Other comments

#### Question 12

Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)

### Other issues

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#### Question 13

The exposure draft also proposes to amend IAS 19 as summarised below:

- (a) The requirements in IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, as amended in November 2009, are incorporated without substantive change. (Paragraphs 115A–115K and BC73)
- (b) ‘Minimum funding requirement’ is defined as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan. (Paragraphs 7 and BC80)
- (c) Tax payable by the plan shall be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax. (Paragraphs 7, 73(b), BC82 and BC83)

- (d) The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84–BC86)
- (e) Expected future salary increases shall be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years. (Paragraphs 71A and BC87–BC90)
- (f) 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. (Paragraphs 73(a)(i) and BC91)
- (g) Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92–BC96)

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

### **Multi-employer plans**

#### **Question 14**

IAS 19 requires entities to account for a defined benefit multi-employer plan as a defined contribution plan if it 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. In the Board's view, this would apply to many plans that meet the definition of a defined benefit multi-employer plan. (Paragraphs 32(a) and BC75(b))

Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?

### **Transition**

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#### **Question 15**

Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?

## **Benefits and costs**

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### **Question 16**

In the Board's assessment:

- (a) the main benefits of the proposals are:
  - (i) reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.
  - (ii) eliminating some presentation options currently allowed by IAS 19, thus improving comparability.
  - (iii) clarifying requirements that have resulted in diverse practices.
  - (iv) improving information about the risks arising from an entity's involvement in defined benefit plans.
- (b) the costs of the proposal should be minimal, because entities are already required to obtain much of the information required to apply the proposed amendments when they apply the existing version of IAS 19.

Do you agree with the Board's assessment? (Paragraphs BC103–BC107) Why or why not?

## **Other comments**

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### **Question 17**

Do you have any other comments on the proposals?

## [Draft] Amendments to IAS 19 *Employee Benefits*

Paragraphs proposed to be amended are shown with new text underlined and deleted text struck through.

The term 'post-employment benefit' is replaced by 'long-term employee benefit' and the term 'post-employment benefits' is replaced by 'long-term employee benefits', unless otherwise stated below.

### Scope

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Paragraph 4 is amended (new text is underlined and deleted text is struck through).

- 4 Employee benefits include:
- (a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if ~~payable~~ expected to become due to be settled within twelve months of the end of the reporting period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.;
  - (b) long-term employee benefits, ~~post-employment benefits~~ such as retirement benefits (eg pensions), ~~other retirement benefits~~, post-employment life insurance, ~~and~~ post-employment medical care.;
  - (c) ~~other long-term employee benefits, including~~ long-service leave or sabbatical leave, jubilee or other long-service benefits, ~~long-term disability benefits~~ and, if they are not expected to become due to be settled ~~payable~~ wholly within twelve months after the end of the reporting period, long-term disability benefits, profit-sharing, bonuses and deferred compensation.;
  - ~~(d)~~ termination benefits.

Because each category identified in (a)-(c) above has different characteristics, this Standard establishes separate requirements for each category.

## Definitions

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Paragraph 7 is amended (new text is underlined and deleted text is struck through).

- 7 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.

*Short-term employee benefits* are employee benefits (other than termination benefits) that the entity expects to become ~~are~~ due to be settled within twelve months after the end of the reporting period in which the employees renders the related service and before the completion of employment.

~~Post-employment~~ *Long-term employee benefits* are employee benefits (other than termination benefits) ~~which are payable after the completion of employment~~ that the entity expects to become due to be settled:

- (a) twelve months or more after the end of the reporting period in which the employee renders the related service; or
- (b) after the completion of employment.

*Termination benefits* are employee benefits payable 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 voluntary redundancy in exchange for those benefits.

### **Definitions relating to classification of long-term employee benefit plans**

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

*Defined contribution plans* are ~~post-employment~~ long-term employee 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~~ long-term employee 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 concerned.

*Other long-term employee benefits* are ~~employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.~~

*Termination benefits* are ~~employee benefits payable 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 voluntary redundancy in exchange for those benefits.~~

*Vested employee benefits* are ~~employee benefits that are not conditional on future employment.~~

### **Definitions relating to recognition and measurement of long-term employee benefit plans**

*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.

*Current service cost* is ~~the increase in the present value of a defined benefit obligation resulting from employee service in the current period.~~



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~~Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.~~

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.

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\* 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:

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\* A qualifying insurance policy is not necessarily an insurance contract, as defined in IFRS 4 *Insurance Contracts*.

- (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.~~

Service cost comprises:

- (a) current service cost, which is the increase in the present value of a defined benefit obligation resulting from employee service in the current period; and
- (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 the introduction of, or changes to, long-term employee benefits.

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 time value of money.

The net defined benefit liability (asset) is the total of the following amounts:

- (a) the deficit or surplus; and
- (b) any effect of the limit in paragraph 115B.

The deficit or surplus in a defined benefit plan is:

- (a) the present value of the defined benefit obligation; less
- (b) the fair value of plan assets (if any).

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

- (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 limit described in paragraph 115B, excluding amounts included in net interest on the net defined benefit liability (asset).

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The return on plan assets is:

- (a) interest, dividends and other ~~revenue~~ income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less
- (b) any costs of managing plan assets administering the plan ~~(other than those included in the actuarial assumptions used to measure the defined benefit obligation)~~ and less any tax payable by the plan itself, other than tax on contributions relating to service before the reporting date or on benefits resulting from that service.

Actuarial gains and losses are changes in the defined benefit obligation resulting from ~~comprise~~:

- (a) experience adjustments (ie the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

~~Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. 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 existing benefits are changed so that the present value of the defined benefit obligation decreases).~~

Minimum funding requirements are any enforceable requirements to fund a long-term employee benefit plan.

A curtailment is either:

- (a) a significant reduction in the number of employees covered by a plan; or
- (b) an amendment to 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.

A non-routine settlement is a transaction (other than routine payment of benefits to, or on behalf of, employees) that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan.

## Short-term employee benefits

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Paragraphs 8 and 22 are amended (new text is underlined and deleted text is struck through) as follows.

- 8 Short-term employee benefits include items such as:
- (a) wages, salaries and social security contributions;
  - (b) short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is expected to become due to be settled within twelve months after the end of the period in which the employees render the related employee service;
  - (c) profit-sharing and bonuses ~~payable if they are expected to become~~ due to be settled within twelve months after the end of the period in which the employees render the related service; and
  - (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.
- 22 If profit-sharing and bonus payments are not expected to become due to be settled wholly within twelve months after the end of the period in which the employees render the related service, those payments are ~~other~~ long-term employee benefits (see paragraphs ~~126-131~~ 24-125K).

## Long-term employee ~~Post-employment~~ benefits: distinction between defined contribution plans and defined benefit plans

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### Multi-employer plans

Paragraphs 29, 30 and 32 are amended (new text is underlined and deleted text is struck through). Paragraph 29A and a heading and paragraph 33A are added as follows.

- 29 **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). ~~Where a multi-employer plan is a defined benefit plan, an entity shall:~~**

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- 29A** If an entity participates in a defined benefit multi-employer plan, 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, unless paragraph 30 applies; and~~
  - ~~(b) disclose the information required by paragraph 120A.~~
- 30** When sufficient information is not available to use defined benefit accounting for a defined benefit multi-employer plan ~~that is a defined benefit plan~~, an entity shall:
- ~~(a) account for the plan in accordance with under paragraphs 44-46 as if it were a defined contribution plan;~~
  - ~~(b) disclose:~~
    - ~~(i) the fact that the plan is a defined benefit plan; and~~
    - ~~(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and~~
  - ~~(c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:~~
    - ~~(i) any available information about that surplus or deficit;~~
    - ~~(ii) the basis used to determine that surplus or deficit; and~~
    - ~~(iii) the implications, if any, for the entity.~~
- 32** ~~When~~ Where sufficient information is available about a defined benefit multi-employer plan ~~which is a defined benefit plan~~, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and ~~post-employment~~ long-term employee benefit cost associated with the plan in the same way as for any other defined benefit plan. However, in some cases, 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 entity does not have access to information about the plan that satisfies the requirements of this Standard; or~~
  - ~~(b) 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 information about the plan that satisfies 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 additional information required by paragraph 33A(f) ~~30~~.

### **Disclosure**

- 33A** If an entity participates in a defined benefit multi-employer 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) 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) the total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available.
  - (d) details of 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.
  - (e) if the entity accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in accordance with paragraph 29A, all the information required by paragraphs 125A-125K for that proportionate share.
  - (f) if the entity accounts for the plan as if it were a defined contribution plan in accordance with paragraph 30:
    - (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 five annual reporting periods, and a description of the contractual agreement or other basis used to determine the expected contributions.
    - (iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis

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used to determine that deficit or surplus and the implications, if any, for the entity.

### Defined benefit plans that share risks between various entities under common control

Paragraph 34B is amended as follows (new text is underlined and deleted text is struck through).

- 34B 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, make the following disclosures:
- (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 in accordance with paragraph 34A, all the information about the plan as a whole ~~in accordance with~~ required by paragraphs ~~125A-125K~~ 120-121.
  - (d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole ~~required in accordance with~~ by paragraphs ~~125A-125C, 125F, 125G and 125K, 120A(b)-(e), (j), (n), (o), (q) and 121. The other disclosures required by paragraph 120A do not apply.~~

### State plans

Paragraphs 36 and 38 are amended as follows (new text is underlined and deleted text is struck through).

- 36 **An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 29 and-30) and disclose the information required by paragraph 33A.**
- 38 State plans are characterised as defined benefit or defined contribution in nature based 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, in the rare cases when a state plan is a defined benefit plan, an entity applies the treatment prescribed in paragraphs 29 ~~and 30~~ and discloses the information required by paragraph 33A.

### **Post-employment Long-term employee benefits: defined benefit plans**

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The heading above paragraph 49 is deleted and paragraph 50 is amended as follows (new text is underlined and deleted text is struck through). Paragraphs 56 and 57 are moved, renumbered as paragraphs 50A and 50B and amended as follows (new text is underlined and deleted text is struck through).

- 50 Accounting by an entity for a defined benefit plans involves the following steps:
- (a) determining the deficit or surplus. This involves:
    - (i) using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 67–71A) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality rates) and financial variables (such as future increases in salaries and medical costs) that will ~~influence~~ affect the cost of the benefit (see paragraphs 72–91);
    - (~~b~~ii) discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 64–66); The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets, or adjusting for the effect of the limit in paragraph 115B.
  - (e) ~~determining the fair value of any plan assets (see paragraphs 102–104);~~



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- (d) ~~determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognised (see paragraphs 92–95);~~
  - (iie) ~~where~~ when a plan has been introduced, ~~or~~ changed or curtailed, determining the resulting past service cost and gain or loss on curtailment (see paragraphs ~~96A–98A~~ 96–101); ~~and~~
  - (iv) determining the fair value of any plan assets (see paragraphs 102–104).
- (b) determining the amount of the net defined benefit liability (asset) from the amount of deficit or surplus. This involves:
  - (i) assessing the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (see paragraphs 115A–115J).
  - (ii) assessing whether an additional liability is needed because of the interaction between a minimum funding requirement and the limit in paragraph 115B (see paragraphs 115A and 115K).
- (c) determining amounts presented in the statement of comprehensive income. This involves:
  - (i) determining net interest on the net defined benefit liability (asset) (see paragraphs 119B and 119C).
  - (ii) determining the amount of actuarial gains and losses (see paragraph 119D).
- (f) ~~where a plan has been curtailed or settled, determining the resulting gain or loss (see paragraphs 109–115).~~

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

**50A56** An entity shall determine the net defined benefit liability (asset) ~~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.

~~50B~~<sup>57</sup> This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material ~~post-employment~~ defined 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.

The heading above paragraph 54 is amended (new text is underlined and deleted text is struck through). Paragraph 54A is added. Paragraphs 54, 55, 58A–60 and the example following paragraph 60 are deleted, paragraphs 56 and 57 are amended and moved to paragraphs 50A and 50B, and paragraph 58 is amended and moved to paragraph 115B.

**Recognition: Statement of financial position**

**54A** An entity shall recognise the net defined benefit liability (asset) in the statement of financial position.

The heading above paragraph 61 and paragraph 61 are amended as follows (new text is underlined and deleted text is struck through). Paragraph 62 is deleted.

**Profit or loss Recognition: statement of comprehensive income**

**61** An entity shall recognise changes in the net defined benefit liability (asset) in the statement of comprehensive income ~~the net total of the following amounts in profit or loss~~, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- (a) ~~current service cost (see paragraphs 63–91);~~
- (b) ~~interest cost (see paragraph 82);~~
- (c) ~~the expected return on any plan assets (see paragraphs 105–107) and on any reimbursement rights (see paragraph 104A);~~
- (d) ~~actuarial gains and losses, as required in accordance with the entity's accounting policy (see paragraphs 92–93D);~~
- (e) ~~past service cost (see paragraph 96);~~

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- (f) ~~the effect of any curtailments or settlements (see paragraphs 109 and 110); and~~
- (g) ~~the effect of the limit in paragraph 58(b), unless it is recognised outside profit or loss in accordance with paragraph 93C.~~

In paragraphs 63(b) and 65, the references to 'paragraphs 67–71' are amended to 'paragraphs 67–71A'. In example 2 illustrating paragraph 68 and in the example illustrating paragraph 71, the first word of the answer, 'Benefit', is replaced with 'Unless paragraph 71A applies, benefit'. The headings above paragraphs 63 and 96, and paragraphs 69, 73, 83, 85, 97 and 98 are amended as follows (new text is underlined and deleted text is struck through), the heading above paragraph 92, paragraphs 82, 92–95, 96, the example following paragraph 97 and paragraphs 99–101 are deleted and paragraphs 64A, 71A, 96A, 97A and 98A are added.

### **Recognition and ~~m~~Measurement: present value of defined benefit obligations and current service cost**

- 64A Contributions by employees to the ongoing cost of the plan reduce the amount of the current service cost recognised as an expense by the entity. The present value of contributions that will be receivable from employees in respect of current service cost or past service cost are included in the determination of the defined benefit obligation. The measurement of the defined benefit obligation includes the effect of any requirement for employees to reduce or eliminate an existing deficit.
- 69 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 ~~certain post-employment~~ some long-term employee 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 69**

- |   |  |
|---|--|
| 1 | <p>A plan pays a benefit of 100 for each year of service. The benefits vest after ten years of service.</p> <p><i>A benefit of 100 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.</i></p>       |
| 2 | <p>A plan pays a benefit of 100 for each year of service, excluding service before the age of 25. The benefits vest immediately.</p> <p><i>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 100 is attributed to each subsequent year.</i></p> |
| 3 | <p><u>A plan pays a long-term disability benefit that increases with each year of service.</u></p> <p><i>The obligation is recognised 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.</i></p>                             |
| 4 | <p><u>A plan pays a long-term disability benefit that is the same for any disabled employee regardless of the length of service.</u></p> <p><i>The expected cost of those benefits is recognised when an event occurs that causes a long-term disability.</i></p>  |

- 71A In determining whether an employee's service in later years will lead to a materially higher level of benefit than in earlier years (see paragraph 67), an entity shall consider estimates of all factors that affect the level of benefits, including expected future increases in salaries, and its best estimate of benefits that are contingent on performance targets.
- 73 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing ~~post-employment~~ long-term employee benefits. Actuarial assumptions comprise:
- (a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are

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eligible for benefits. Demographic assumptions deal with matters such as:

- (i) current estimates of the expected mortality rates of plan members, both during and after employment;
  - (ii) rates of employee turnover, disability and early retirement;
  - (iii) the proportion of plan members with dependants who will be eligible for benefits; ~~and~~
  - (iv) the proportion of plan members who will select each form of settlement option available under the plan terms; and
  - (iv) claim rates under medical plans; and
- (b) financial assumptions, dealing with items such as:
- (i) the discount rate (see paragraphs 78-81~~2~~);
  - (ii) future salary and benefit levels (see paragraphs 83-87);
  - (iii) in the case of medical benefits, future medical costs, ~~including, where material, the cost of administering claims and benefit payments~~ (see paragraphs 88-91); ~~and~~
  - (iv) ~~the expected rate of return on plan assets (see paragraphs 105-107).~~
  - (iv) taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service; and
  - (v) the cost of administering claims and benefit payments relating to service before the reporting period.

### **Actuarial assumptions: salaries, benefits and medical costs**

83 ~~Post-employment~~ Long-term employee benefit obligations shall be measured on a basis that reflects:

- (a) ~~estimated future salary increases;~~
- (~~b~~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; and
- (b) any estimated future salary increases that affect the benefits payable; and

- (c) **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) **past history, or other reliable evidence, indicates 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.**

85 If the formal terms of a plan (or a constructive obligation that goes beyond those terms) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case ~~if when~~, for example:

- (a) the entity has a past 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; ~~or~~
- (b) ~~actuarial gains have already been recognised in the financial statements and~~ 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 98(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.

#### **Past service cost and curtailment**

96A In accordance with paragraph 61, an entity recognises:

- (a) past service cost in the period of any plan amendment; and
- (b) gains and losses on curtailment in the period when the curtailment occurs (see paragraph 98A).

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- 97 ~~Past service cost arises when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, the entity recognises past service cost over that period, regardless of the fact that the cost refers to employee service in previous periods. The entity measures past service cost as the change in the liability resulting from the amendment (see paragraph 64). Negative past service cost arises when an entity changes the benefits attributable to past service so that the present value of the defined benefit obligation decreases.~~
- 97A 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 existing benefits are changed so that the present value of the defined benefit obligation decreases).
- 98 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 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. Such obligations may arise from legislation, the formal terms of a plan or a constructive obligation that goes beyond those terms. (There is no past service cost because the resulting increase in the obligation is an actuarial loss and not past service cost, see paragraph 85(b));~~
  - (d) ~~the increase in vested benefits (ie benefits that are not conditional on future employment, see paragraph 69) 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); and~~

- (e) the effect of plan amendments that reduce benefits for future service (a curtailment).

- 98A A curtailment occurs when an entity significantly reduces the number of employees covered by a plan or amends the terms of a defined benefit plan so that future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits. 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, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case, an entity accounts for a curtailment at the same time as for the related restructuring.

After paragraph 101 a heading and paragraphs 102, 104, 104A, 104C and 104D are amended (new text is underlined and deleted text is struck through), the examples following paragraphs 104C and 115 and paragraphs 105–115 are deleted, paragraph 58 is inserted, amended and renumbered paragraph 115B, and headings above paragraphs 115A, 115B and 115K and paragraphs 115A and 115C–115K are added.

## **Recognition and ~~m~~Measurement: plan assets**

### **Fair value of plan assets**

- 102 The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus amount recognised in the statement of financial position under paragraph 54. 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).
- 104 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, ~~as described in paragraph 54~~ (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

### **Reimbursements**

- 104A When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined**



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**benefit obligation, an entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. An entity shall disaggregate changes in its right to reimbursement in the same way as for changes in plan assets (see paragraph 119C). The amounts presented in the statement of comprehensive income in accordance with paragraph 119A may be presented net of amounts relating to changes in the carrying amount of the right to reimbursement. In all other respects, an entity shall treat that asset in the same way as plan assets. In the statement of comprehensive income, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.**

- 104C When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 104A deals with 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 ~~deficit or surplus~~. ~~defined benefit liability recognised under paragraph 54; in all other respects, the entity treats that asset in the same way as plan assets. In particular, the defined benefit liability recognised under paragraph 54 is increased (reduced) to the extent that net cumulative actuarial gains (losses) on the defined benefit obligation and on the related reimbursement right remain unrecognised under paragraphs 92 and 93. Paragraph 125D(b) 120A(f)(iv)~~ requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.
- 104D 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, ~~as described in paragraph 54~~ (subject to any reduction required if the reimbursement is not recoverable in full).

### **Measurement: availability of economic benefits**

- 115A A net defined benefit asset does not exceed the present value of economic benefits available to the entity (see paragraphs 115B–115J). Similarly, if minimum funding requirements will compel an entity to make contributions for employee service before the end of the reporting period and a resulting surplus would exceed the present value of economic benefits available to the entity, the entity recognises an additional liability that increases the net defined benefit liability or decreases the net defined benefit asset (see paragraph 115K).

### Reduction in net defined benefit asset

**~~58115B~~ The amount determined under paragraph 54 may be negative (an asset). An entity shall measure the resulting asset at the lower of: 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 the amount determined under paragraph 54; and~~**
- ~~(b) the total of:~~**
  - ~~(i) any cumulative unrecognised net actuarial losses and past service cost (see paragraphs 92, 93 and 96); and~~**
  - ~~(ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (see paragraphs 115C-115J). The present value of these economic benefits shall be determined using the discount rate specified in paragraph 78.~~**

115C The entity determines the amount of future economic benefits available:

- (a) considering the maximum economic benefit available from refunds, reductions in future contributions or a combination of both, regardless of how the entity intends to use the surplus. An entity shall not recognise economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.
- (b) in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan that are contracted or substantively enacted at the end of the reporting period.
- (c) using assumptions consistent with:
  - (i) those used to determine the defined benefit obligation.
  - (ii) the situation that exists at the end of the reporting period.
  - (iii) a stable workforce in the future unless the entity is demonstrably committed at the end of the reporting period to reduce the number of employees covered by the plan.

115D An economic benefit is available to an entity as a refund only if the entity has an unconditional right to the refund during the life of the plan or when plan liabilities are settled (either gradually over time, or on

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wind-up). A right to a refund is not unconditional if it depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control. An unconditional right to a refund can exist regardless of the funding level of a plan at the end of the reporting period.

- 115E The economic benefit available as a refund is the amount of the surplus at the end of the reporting period that the entity has a right to receive as a refund, less any costs associated with obtaining the refund. For example, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.
- 115F If an entity has a right to a refund only when a plan is wound up, the economic benefit available as a refund includes the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than by the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.
- 115G If the amount of a refund is determined as the full amount of the surplus or a proportion of the surplus, rather than a fixed amount, the entity shall make no adjustment for the time value of money, even if the refund is realisable only at a future date.
- 115H The economic benefit available as a reduction in future contributions is:
- (a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (ie paid the amount before being required to do so); plus
  - (b) the estimated current service cost to the entity (ie excluding amounts that will be borne by employees) for future periods over the shorter of the expected life of the plan and the expected life of the entity; less
  - (c) any estimated minimum funding requirement contributions that would be required for future service if there were no prepayment as described in (a).
- 115I An entity shall estimate the amount described in paragraph 115H(c) taking into account:
- (a) assumptions consistent with the minimum funding basis. For factors not specified by that basis, an entity shall use assumptions that comply with paragraph 115C(c).

- (b) the effect of any existing surplus determined using the minimum funding basis but excluding any prepayment as described in paragraph 115H(a); and
  - (c) any changes in assumptions expected as a result of the entity paying the minimum contributions when they are due.
- 115J When an entity determines the amount described in paragraph 115H, if the estimated minimum funding requirement contributions for future service exceed the estimated current service cost to the entity for future periods, that excess reduces the amount of any economic benefit available as a reduction in future contributions. However, the total of any estimated minimum funding requirement contributions (ie the amount in paragraph 115H(c)) does not exceed the total estimated current service cost to the entity for future periods (ie the amount in paragraph 115H(b)).

#### **Additional liability arising from minimum funding requirement**

- 115K If an entity has an obligation under a minimum funding requirement to pay contributions for current or past service, the entity determines whether the limit in paragraph 115B will have an effect when the entity pays those contributions. If that limit will have an effect, the entity adjusts the net defined benefit liability (asset) so that no gain or loss is expected to result from applying paragraph 115B when the contributions are paid.

#### **Presentation**

A heading 'Statement of financial position' is inserted after the heading 'Presentation'. The heading above paragraph 119 is amended as follows (new text is underlined and deleted text is struck through), paragraph 119 is deleted and paragraphs 119A–119D are added.

#### **Statement of comprehensive income ~~Financial components of post-employment benefit costs~~**

- 119A An entity shall present:
- (a) **service cost (see paragraphs 63–91 and 96A–98) and gains and losses arising from curtailments (see paragraph 98A) in profit or loss.**
  - (b) **net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss (see paragraphs 119B and 119C).**

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- (c) **remeasurements of the net defined benefit liability (asset) in other comprehensive income (see paragraphs 115A–115K, 119C and 119D). Those remeasurements shall be transferred immediately to retained earnings. They shall not be reclassified to profit or loss in a subsequent period.**
- 119B Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) throughout the period by the discount rate specified in paragraph 78 as determined at the start of that period, taking account of any material changes in the net liability (asset).**
- 119C Net interest on the net defined benefit liability (asset) can be disaggregated into interest income on plan assets, interest cost on the defined benefit obligation and the effect of the limit in paragraph 115B. Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the plan assets throughout the period by the discount rate specified in paragraph 78 as determined at the start of the period, taking account of any material changes in the plan assets. The remaining return on plan assets is a remeasurement of the net defined benefit liability (asset).
- 119D Remeasurements of a net defined benefit liability (asset) include gains and losses that arise 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 (a settlement). Before determining the effect of a settlement, an entity remeasures the net defined benefit liability (asset) using current actuarial assumptions (including current market interest rates and other current market prices). The gain or loss on settlement is the difference between the net defined benefit liability (asset), as remeasured at the transaction date, and the settlement price.

### Disclosure

Paragraphs 120–125 are deleted and paragraphs 125A–125K are added.
--

- 125A An entity shall disclose information that:**
  - (a) **explains the characteristics of its defined benefit plans (see paragraph 125C);**
  - (b) **identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 125D–125H); and**

- (c) **describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 125I-125K).**

125B 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 could 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, post-employment medical plans, long-service leave or long-term disability benefits;
- (c) different regulatory environments; or
- (d) different funding arrangements, ie wholly unfunded or wholly or partly funded.

#### **Characteristics of defined benefit plans**

125C 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) the effect of the regulatory framework in which the plan operates, for example the effect of any minimum funding requirements.
  - (iii) a description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees.
  - (iv) any restrictions on the amount recognised as a net defined benefit asset in accordance with paragraph 115B. 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 combination of both.
- (b) a narrative description of the extent of the risks to which the plan exposes the entity and of any concentrations of risk. For example,

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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 narrative description of any plan amendments, curtailments and non-routine settlements.

### **Explanation of amounts in the financial statements**

125D 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 limit in paragraph 115B.
- (b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

125E Each reconciliation listed in paragraph 125D shall show each of the following, if applicable:

- (a) service cost, showing current and past service cost separately.
- (b) interest income or expense (see paragraphs 119B and 119C).
- (c) remeasurements of the net defined benefit liability (asset), showing separately:
  - (i) the return on plan assets, excluding amounts presented as interest income in (b).
  - (ii) actuarial gains and losses arising from changes in demographic assumptions, showing separately the effect of non-routine settlements.
  - (iii) actuarial gains and losses arising from changes in financial assumptions, showing separately the effect of non-routine settlements.
  - (iv) the effect of the limit in paragraph 115B, excluding amounts included in interest income or exposure.
- (d) gains and losses arising from curtailments.

- (e) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency.
- (f) contributions to the plan, showing separately those by the employer and by plan participants.
- (g) payments from the plan, showing separately the effect of any non-routine settlements.
- (h) the effects of business combinations and disposals.

*Other information about amounts recognised in the financial statements*

- 125F An entity shall disaggregate the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets. At a minimum, an entity shall distinguish the following, subdividing each class of debt instruments and equity instruments into those that have a quoted market price in an active market and those that do not:
- (a) property.
  - (b) government debt instruments.
  - (c) other debt instruments.
  - (d) the entity's own equity instruments.
  - (e) other equity instruments.
- 125G An entity shall disclose:
- (a) quantitative information about actuarial assumptions used to determine the defined benefit obligation (see paragraph 73). 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.
  - (b) a brief description of the process used to determine demographic actuarial assumptions to supplement the disclosures provided in accordance with (a).
- 125H An entity shall disclose the present value of the defined benefit obligation, adjusted to exclude the effect of projected growth in salaries.



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### **Amount, timing and uncertainty of future cash flows**

- 125I An entity shall disclose:
- (a) how the effect of a change to each significant actuarial assumption that:
    - (i) is reasonably possible at the end of the reporting period would have affected the defined benefit obligation at the end of the reporting period; and
    - (ii) was reasonably possible at the beginning of the reporting period would have affected current service cost that was determined for the reporting period.
  - (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.
- 125J An entity shall disclose details of any asset-liability matching strategies used by the plan, including the use of annuities and other techniques, such as longevity swaps, to manage longevity risk.
- 125K An entity shall provide a narrative discussion of factors that could cause contributions over the next five years to differ significantly from current service cost over that period. For example, an entity shall disclose how it expects any surplus or deficit to affect the level and timing of its contributions over the next five years, and the period over which it expects the surplus or deficit to disappear.

The headings above paragraphs 126, 128, 131, 153 and 157, and paragraphs 126–131 and 153–161 are deleted. In paragraph 138, the reference to 'paragraph 109' is amended to 'paragraph 98A'. A heading and paragraph 162, and a heading and paragraph 163 are added as follows.

### **Transition and effective date**

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- 162 An entity shall apply this [draft] Standard for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies this [draft] Standard for an earlier period, it shall disclose that fact.

## **Withdrawal of IFRIC 14**

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- 163 This [draft] Standard supersedes IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

## Amendments to other IFRSs

The Board expects to make the amendments described below when it finalises the proposed amendments to IAS 19.

Standard	Description of amendment
<ul style="list-style-type: none"> <li>IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i></li> </ul>	<ul style="list-style-type: none"> <li>Delete exemptions relating to IAS 19 in Appendix D because they are no longer required.</li> </ul>
<ul style="list-style-type: none"> <li>IFRS 4 <i>Insurance Contracts</i></li> <li>IFRS 7 <i>Financial Instruments: Disclosures</i></li> <li>IAS 32 <i>Financial Instruments: Presentation</i></li> <li>IAS 39 <i>Financial Instruments: Recognition and Measurement</i></li> </ul>	<ul style="list-style-type: none"> <li>Amend the scope exclusion for 'employers' assets and liabilities under employee benefit plans' to 'employers' assets and liabilities within the scope of IAS 19 <i>Employee Benefits</i>' to be consistent with the conclusions in the IFRIC rejection notice November 2005 – Employee long-service leave.</li> </ul>
<ul style="list-style-type: none"> <li>IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></li> </ul>	<ul style="list-style-type: none"> <li>Replace references to 'settlements' with 'non-routine settlements.'</li> </ul>
<ul style="list-style-type: none"> <li>IAS 1 <i>Presentation of Financial Statements</i></li> </ul>	<ul style="list-style-type: none"> <li>Amend references to 'actuarial gains and losses' to be consistent with the proposals in the exposure draft.</li> </ul>
<ul style="list-style-type: none"> <li>IAS 24 <i>Related Party Disclosures</i></li> </ul>	<ul style="list-style-type: none"> <li>Amend definition of 'compensation' to be consistent with the changes to definitions of 'long-term employee benefits' and 'short-term employee benefits' proposed in the exposure draft.</li> </ul>

## Illustrative examples

*These examples accompany, but are not part of, the draft amendments to IAS 19.*

The Guidance on implementing IAS 19 is deleted and replaced by illustrative examples. Illustrative examples 1–4 accompanying IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* are inserted, renumbered as examples 2–5 and amended (new text is underlined and deleted text is struck through). Examples 1 and 6 are added.

### **Example 1—Presentation of service cost, finance cost and remeasurement components**

*This example illustrates one possible way in which an entity can present changes in the net defined benefit liability in accordance with paragraph 119A. IAS 1 permits other presentations.*

<b>Profit or loss</b>	<b>2011</b>	<b>2010</b>
Revenues	3,083	2,945
Cost of goods sold <sup>(a)</sup>	(1,918)	(1,799)
Gross margin	<u>1,165</u>	<u>1,146</u>
Other business expenses <sup>(b)</sup>	(760)	(811)
Total operating income	<u>405</u>	<u>335</u>
Finance costs <sup>(c)</sup>	(91)	(94)
Profit before tax	<u>314</u>	<u>241</u>
Tax expense	(129)	(82)
<b>Profit or loss</b>	<b><u>185</u></b>	<b><u>159</u></b>
<b>Other comprehensive income</b>		
Gains on property revaluation	22	–
Loss on remeasuring pension plan deficit	(55)	(36)
<b>Other comprehensive income</b>	<b><u>(33)</u></b>	<b><u>(36)</u></b>
<b>Comprehensive income</b>	<b><u>152</u></b>	<b><u>123</u></b>

(a) includes the service cost component of pensions for production employees

(b) includes the service cost component of pensions for other employees

(c) includes the finance cost component of pensions

### **Example 4 2—Effect of the minimum funding requirement when there is an IAS 19 surplus and the minimum funding contributions payable are fully refundable to the entity**

#### **Background**

- IE1 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IAS 19) of 82 per cent in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to contribute 200 to Plan A immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. The year-end valuations for Plan A are set out below.

Market value of assets	1,200
Present value of defined benefit obligation under IAS 19	(1,100)
Surplus	<u>100</u>
<del>Defined benefit asset (before consideration of the minimum funding requirement)<sup>(a)</sup></del>	<u><u>100</u></u>

(a) For simplicity, it is assumed that there are no unrecognised amounts.

#### **Application of requirements**

- IE2 Paragraph ~~115K 24~~ of ~~IAS 19~~ ~~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.

### **Example 23—Effect of a minimum funding requirement when there is an IAS 19 deficit and the minimum funding contributions payable would not be fully available**

#### **Background**

IE3 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under IAS 19) of 77 per cent in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to pay additional contributions of 300 to Plan B. The plan rules permit a maximum refund of 60 per cent of the IAS 19 surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the IAS 19 service cost. The year-end valuations for Plan B are set out below.

Market value of assets	1,000
Present value of defined benefit obligation under IAS 19	(1,100)
Deficit	<u>(100)</u>
<del>Defined benefit (liability) (before consideration of the minimum funding requirement)<sup>(a)</sup></del>	<u>100</u>

(a) For simplicity, it is assumed that there are no unrecognised amounts.

#### **Application of requirements**

IE4 The payment of 300 would change the IAS 19 deficit of 100 to a surplus of 200. Of this 200, 60 per cent (120) is refundable.

IE5 Therefore, of the contributions of 300, 100 eliminates the IAS 19 deficit and 120 (60 per cent of 200) is available as an economic benefit. The remaining 80 (40 per cent of 200) of the contributions paid is not available to the entity.

IE6 Paragraph ~~115K 24~~ of ~~IAS 19~~ ~~IFRIC 14~~ requires the entity to recognise a liability to the extent that the additional contributions payable are not available to it.

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IE7 Therefore, ~~the net defined benefit liability is 180, comprising the deficit of 100 plus the additional liability of 80 resulting from the requirement in paragraph 115K, 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)
<del>Defined benefit liability (before consideration of the minimum funding requirement)<sup>(a)</sup></del>	<del>(100)</del>
<del>Adjustment in respect of minimum funding requirement</del>	<del>(80)</del>
<del>Additional liability in accordance with paragraph 115K</del>	<del>(80)</del>
<del>Net defined benefit liability recognised in the statement of financial position</del>	<del>(180)</del>

(a) For simplicity, it is assumed that there are no unrecognised amounts.

IE8 When the contributions of 300 are paid, the net defined benefit asset ~~recognised in the statement of financial position~~ will be 120.

### **Example 3 4—Effect of a minimum funding requirement when the contributions payable would not be fully available and the effect on the economic benefit available as a future contribution reduction**

#### **Background**

IE9 An entity has a funding level on the minimum funding basis (which it measures on a different basis from that required by IAS 19) of 95 per cent in Plan C. The minimum funding requirements require the entity to pay contributions to increase the funding level to 100 per cent over the next three years. The contributions are required to make good the deficit on the minimum funding basis (shortfall) and to cover future service.

- 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.~~
- IE11 The nominal amounts of contributions required to satisfy the minimum funding requirements in respect of the shortfall and the future service for the next three years are set out below.

Year	Total contributions for minimum funding requirement	Contributions required to make good the shortfall	Contributions required to cover future service
1	135	120	15
2	125	112	13
3	115	104	11

### Application of requirements

- IE12 The entity's present obligation in respect of services already received includes the contributions required to make good the shortfall but does not include the contributions required to cover future service.
- IE13 The present value of the entity's obligation, assuming a discount rate of 6 per cent per year, is approximately 300, calculated as follows:
- $$[120/(1.06) + 112/(1.06)^2 + 104/(1.06)^3].$$
- IE14 When these contributions are paid into the plan, the present value of the IAS 19 surplus (ie the fair value of plan assets less the present value of the defined benefit obligation) would, other things being equal, increase from 50 to 350 (300 + 50).
- IE15 However, the surplus is not refundable although an asset may be available as a future contribution reduction.
- IE16 In accordance with paragraph ~~115H 20~~ of ~~IAS 19~~ ~~IFRIC 14~~, the economic benefit available as a reduction in future contributions is the sum of:
- any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (ie paid the amount before being required to do so); ~~plus and~~
  - the estimated current service cost to the entity (ie excluding amounts that will be borne by employees) for future periods over the shorter of the expected life of the plan and the expected life of the entity; less



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(b) ~~the estimated future service cost in each period in accordance with paragraphs 16 and 17, less the any~~ estimated minimum funding requirement contributions that would be required for future service ~~in those periods~~ if there were no prepayment as described in (a).

IE17 In this example there is no prepayment as described in paragraph ~~20(a)~~ 115H(a). The amounts available as a reduction in future contributions when applying paragraph ~~20(b)~~ 115H are set out below.

Year	IAS 19 service cost	Minimum contributions required to cover future service	Amount available as contribution reduction
1	13	15	(2)
2	13	13	0
3	13	11	2
4+	13	9	4

IE18 Assuming a discount rate of 6 per cent, the present value of the economic benefit available as a future contribution reduction is therefore equal to:

$$(2)/(1.06) + 0/(1.06)^2 + 2/(1.06)^3 + 4/(1.06)^4 \dots = 56.$$

Thus in accordance with paragraph ~~58~~ 115B(b) of IAS 19, the present value of the economic benefit available from future contribution reductions is limited to 56.

IE19 Paragraph ~~24~~ 115K of IAS 19 ~~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 the effect of the limit in paragraph 115B~~ 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~~ 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
<del>Defined benefit asset (before consideration of the minimum funding requirement)</del>	<del>50</del>
<del>Effect of limit in paragraph 115B Adjustment in respect of minimum funding requirement</del>	<del>(294)</del>
<del>Net defined benefit liability recognised in the statement of financial position<sup>(a)</sup></del>	<del>(244)</del>

(a) For simplicity, it is assumed that there are no unrecognised amounts.

- 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).

### **Example 54—Effect of a prepayment when a minimum funding requirement contribution exceeds the expected future service charge**

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**Background**

- IE22 An entity is required to fund Plan D so that no deficit arises on the minimum funding basis. The entity is required to pay minimum funding requirement contributions to cover the service cost in each period determined on the minimum funding basis.
- 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.
- IE24 The minimum contributions required to cover future service are 15 for each of the next five years. The expected IAS 19 service cost is 10 in each year.

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IE25 The entity makes a prepayment of 30 at the beginning of 20X1 in respect of years 20X1 and 20X2, increasing its surplus at the beginning of 20X1 to 65. That prepayment reduces the future contributions it expects to make in the following two years, as follows:

Year	IAS 19 service cost	Minimum funding requirement contribution before prepayment	Minimum funding requirement contribution after prepayment
20X1	10	15	0
20X2	10	15	0
20X3	10	15	15
20X4	10	15	15
20X5	10	15	15
Total	50	75	45

**Application of requirements**

IE26 In accordance with paragraphs ~~20 and 22~~ 115H and 115J of IAS 19 ~~IFRIC 14~~, at the beginning of 20X1, the economic benefit available as a reduction in future contributions is the sum of:

- (a) 30, being the prepayment of the minimum funding requirement contributions; and
- (b) nil. The estimated minimum funding requirement contributions required for future service would be 75 if there was no prepayment. Those contributions exceed the estimated ~~current future~~ current service cost for future periods (50); therefore the entity cannot use any part of the surplus of 35 noted in paragraph IE23 (see paragraph 115J 22).

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~~ 115B of IAS 19 the entity recognises an asset of 30 (because this is lower than the IAS 19 surplus of 65).

### Example 6—Illustration of requirements in paragraphs 125D and 125E

Example 6 illustrates how an entity might comply with the proposed requirements in paragraphs 125D and 125E.

Net defined benefit liability	million	
	20X7	20X8
At 1 January	(1,097)	<b>(156)</b>
Current service cost	(255)	<b>(246)</b>
Past service cost	6	<b>(11)</b>
Net interest expense	(29)	<b>(47)</b>
Remeasurements		
Net return on assets	314	<b>(2,304)</b>
Actuarial gains arising from changes in demographic assumptions	259	<b>561</b>
Actuarial gains arising from changes in financial assumptions	127	<b>250</b>
Effect of non-routine settlements	22	<b>30</b>
Restriction on surplus	-	<b>(5)</b>
Foreign currency exchange rate changes	(7)	<b>(210)</b>
Contributions	504	<b>443</b>
At 31 December	(156)	<b>(1,695)</b>

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Defined benefit obligation	million			Group
	UK	US	Rest of world	
At 1 January 20X7	(7,444)	(1,949)	(952)	<b>(10,345)</b>
Current service cost	(138)	(60)	(57)	<b>(255)</b>
Past service cost	-	7	(1)	<b>6</b>
Interest expense	(335)	(107)	(41)	<b>(483)</b>
Remeasurements				
Actuarial gains arising from changes in demographic assumptions	205	13	41	<b>259</b>
Actuarial gains arising from changes in financial assumptions	100	7	20	<b>127</b>
Non-routine settlements	26	(5)	4	<b>25</b>
Foreign currency exchange rate changes	-	34	(80)	<b>(46)</b>
Benefits paid	215	115	44	<b>374</b>
At 31 December 20X7	(7,371)	(1,945)	(1,022)	<b>(10,338)</b>
Current service cost	(126)	(61)	(59)	<b>(246)</b>
Past service cost	-	(10)	(1)	<b>(11)</b>
Interest expense	(377)	(121)	(53)	<b>(551)</b>
Remeasurements				
Actuarial gains arising from changes in demographic assumptions	505	26	30	<b>561</b>
Actuarial gains arising from changes in financial assumptions	210	12	28	<b>250</b>
Non-routine settlements	25	(12)	19	<b>32</b>
Foreign currency exchange rate changes	-	(753)	(353)	<b>(1,106)</b>
Benefits paid	249	126	55	<b>430</b>
At 31 December 20X8	(6,885)	(2,738)	(1,356)	<b>(10,979)</b>

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<b>Plan assets</b>	million			<b>Group</b>
	UK	US	Rest of world	
At 1 January 20X7	6,554	1,953	741	<b>9,248</b>
Interest income	319	98	37	<b>454</b>
Remeasurements				
Net return on plan assets	286	46	(18)	<b>314</b>
Non-routine settlements	(5)	-	2	<b>(3)</b>
Foreign currency exchange rate changes	-	(29)	68	<b>39</b>
Contributions	397	8	99	<b>504</b>
Benefits paid	(215)	(115)	(44)	<b>(374)</b>
At 31 December 20X7	7,336	1,961	885	<b>10,182</b>
Interest income	364	96	43	<b>503</b>
Remeasurements				
Net return on plan assets	(1,556)	(614)	(134)	<b>(2,304)</b>
Non-routine settlements	(5)	-	3	<b>(2)</b>
Foreign currency exchange rate changes	-	598	298	<b>896</b>
Contributions	340	10	93	<b>443</b>
Benefits paid	(249)	(126)	(55)	<b>(430)</b>
At 31 December 20X7	6,230	1,925	1,133	<b>9,288</b>

<b>Restriction on surplus</b>	million	
	Rest of world	<b>Group</b>
At 1 January 20X7 and 1 January 20X8	24	<b>24</b>
Net interest	1	<b>1</b>
Remeasurement of restriction on surplus	(5)	<b>(5)</b>
At 31 December 20X8	20	<b>20</b>

## **Draft amendments to guidance on other IFRSs**

*These draft amendments to guidance on IFRSs are proposed for consistency with the proposed 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 Implementation Guidance accompanying IFRS 1, paragraph IG18 is deleted.

### **IAS 1 *Presentation of Financial Statements***

- IGA2 In the illustrative financial statements, references to 'Actuarial gains (losses) on defined benefit pension plans' are replaced by 'Remeasurements of defined benefit pension plans'.

### **IAS 34 *Interim Financial Reporting***

- IGA3 In Appendix B (Examples of applying the recognition and measurement principles), paragraph B9 is amended as follows:

#### **Pensions**

- 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 events, such as plan amendments, curtailments and non-routine settlements.

## **Approval by the Board of *Defined Benefit Plans* published in April 2010**

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The exposure draft *Defined Benefit Plans* was approved for publication by fourteen of the fifteen members of the International Accounting Standards Board. Mr Yamada voted against its publication. His alternative views are set out after the Basis for Conclusions.

Sir David Tweedie

Chairman

Stephen Cooper

Philippe Danjou

Jan Engström

Patrick Finnegan

Robert P Garnett

Gilbert Gélard

Amaro Luiz de Oliveira Gomes

Prabhakar Kalavacherla

James J Leisenring

Patricia McConnell

Warren J McGregor

John T Smith

Tatsumi Yamada

Wei-Guo Zhang



## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the proposed amendments to IAS 19.*

### Introduction

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- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching the conclusions in the exposure draft *Defined Benefit Plans*. Individual Board members gave greater weight to some factors than to others.
- BC2 In March 2008 the Board published a discussion paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*, setting out proposals for limited improvements to IAS 19. The Board has developed this exposure draft after considering the 150 comment letters received on the discussion paper, as well as input obtained from meetings with the Board's Employee Benefits Working Group, users, preparers, regulators and others interested in the financial reporting of employee benefits.
- BC3 Some respondents to the discussion paper questioned why the Board plans to address employee benefits in several phases and expressed concern that successive changes could be disruptive.
- BC4 A comprehensive review of the accounting for long-term employee benefits would take many years to complete. However, in the Board's view there is an urgent need to improve the financial reporting of long-term employee benefits, so that users of financial statements receive more useful and understandable information. If the proposals in this exposure draft are confirmed after exposure, they will meet that need 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 presentation options currently 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.

- BC5 The Board acknowledges that frequent changes to accounting requirements are disruptive. The Board will not begin further work on future phases of this project until after mid-2011. Moreover, the Board has made no tentative decisions about the scope and directions of any such future phases. Consequently, any decisions made in this phase of the project will remain in place for several years.
- BC6 Because the Board's intention was not to reconsider all of the Standard's requirements for the accounting for employee benefits, this Basis for Conclusions does not discuss requirements in IAS 19 that the Board has not reconsidered.

### **The proposed amendments**

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- BC7 The exposure draft proposes targeted improvements to IAS 19 in the following areas:
- (a) recognition of changes in defined benefit obligations and in plan assets (see paragraphs 54, 61 and BC9-BC13).
  - (b) disaggregation of, and presentation of changes in, defined benefit obligations and in plan assets (see paragraphs 119A and BC14-BC45).
  - (c) disclosures about defined benefit plans (see paragraphs 33A, 34B, 36, 38, 125A-125K and BC50-BC70).
  - (d) miscellaneous issues, including:
    - (i) the classification of employee benefits as long-term or short-term (see paragraphs 7 and BC79).
    - (ii) tax and administration costs included in the measurement of defined benefit obligations (see paragraphs 7, 73(b) and BC82-BC86).
    - (iii) the effect of expected future salary increases on the attribution of benefits (see paragraphs 71A and BC87-BC90).
    - (iv) mortality assumptions used to determine the defined benefit obligation (see paragraphs 73(a)(i) and BC91).
    - (v) risk-sharing and conditional indexation features (see paragraphs 64A, 85(c) and BC92-BC96).
- BC8 The exposure draft also proposes to bring into the main text of IAS 19 conclusions published by the International Financial Reporting Interpretations Committee (IFRIC) (see paragraph BC73).

## **Elimination of the corridor approach and deferred recognition (paragraphs 54 and 61)**

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- BC9 The discussion paper proposed that entities should recognise all changes in the value of plan assets and in the post-employment benefit obligation in the financial statements in the period in which they occur. The exposure draft confirms that preliminary view.
- BC10 In the Board's view, immediate recognition provides the most useful information to users of financial statements because:
- (a) the resulting amounts in the statements of financial position and comprehensive income are relevant to users of financial statements and easier for them to understand. In contrast, deferred recognition can produce misleading amounts, for example:
    - (i) an asset may be recognised in the statement of financial position, even when a plan is in deficit; or
    - (ii) the statement of comprehensive income may include gains and losses that arise from economic events that occurred in past periods.
  - (b) it improves comparability across entities by eliminating the options allowed by IAS 19.
- BC11 Respondents to the discussion paper expressed several concerns about immediate recognition:
- (a) *measurement model requires further work*: respondents argued that the measurement model needs a substantial review, and that it would be disruptive to move to immediate recognition of changes reported by the existing measurement model in IAS 19. Until that review is performed, some believe the existing corridor approach is needed to take account of the long-term nature of the defined benefit obligation. The Board agrees that several aspects of the measurement model require investigation and that investigation might lead to changes in measurement. However, in the Board's view, deferred recognition is not a necessary component of the existing measurement model for defined benefit plans. Moreover, failure to recognise all gains and losses during the period means that the amount reported as a net defined benefit liability (asset) is not a faithful representation of the entity's obligation. In addition, the Board believes that any future review will retain the fundamental conclusion that an entity must account for its

obligation to provide benefits as a result of services already rendered by employees. Consequently, the Board believes that proposals for immediate recognition need not be delayed until further work on the measurement model is completed.

- (b) *relevance of information*: some respondents expressed the view that some changes to the net defined benefit liability 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, it is not inevitable that future gains or losses will occur and that they will offset past losses or gains. Indeed, if the actuarial assumptions at the end of the reporting period are valid, future fluctuations would offset each other and would not offset past fluctuations.
- (c) *volatility*: many respondents were concerned that volatility of reported profit or loss 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 financial statements should not omit such information. The Board agrees that information should be presented in a way that is most useful to users of financial statements. The Board therefore proposes to require a presentation that permits users of financial statements to isolate remeasurements of the entity's net defined benefit liability (asset) (see paragraphs BC35–BC44).
- (d) *behavioural and social consequences*: some respondents expressed fears that there might be adverse behavioural and social consequences if the Board required entities to recognise all changes in the defined benefit obligation and in plan assets. For example, 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. 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.

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- (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. However, 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 future IFRS or to determine how they might renegotiate any existing covenant so that it reflects only changes in an underlying financial condition rather than those that result from changes in reporting.

BC12 In the Board's view, financial reporting will be significantly improved if entities recognise all changes in the fair value of plan assets and in the long-term employee benefit obligation in the period in which those changes occur. Accordingly, the exposure draft proposes to delete from IAS 19 the options in paragraphs 92–93D and 95 that allow an entity to defer the recognition of actuarial gains and losses.

### **Immediate recognition – unvested past service cost (paragraphs 54 and 61)**

BC13 The discussion paper set out the Board's preliminary view that entities should recognise unvested past service cost in the period of a plan amendment, because the attribution of unvested benefits to past service results in a liability as defined by IAS 19. Most respondents to the discussion paper agreed with that view. The exposure draft confirms this preliminary view and proposes to implement it.

### **Disaggregation of changes in the net defined benefit liability (asset)**

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BC14 Many respondents said that disaggregated information about the components of defined benefit cost is useful to users of financial statements. Most agreed that the components of defined benefit cost have different predictive values. They stated that disaggregation is essential for a proper understanding of the reasons for changes in the defined benefit obligation and in plan assets during the period. They also cited an undesirable lack of comparability in how entities present components of defined benefit cost under IAS 19.

- BC15 Many respondents identified the following components of defined benefit cost:
- (a) service cost, which directly represents the cost of the services received. Such costs should be comparable to amounts paid in exchange for equivalent service in other forms, such as wages and salaries.
  - (b) interest cost, which represents the financing cost of deferring payment of service costs.
  - (c) remeasurements, which represent the period-to-period fluctuations in the long-term value of the defined benefit obligation and plan assets.
- BC16 In addition, many respondents believe that the growth in plan assets compensates for the growth in the defined benefit obligation over time. Thus they regard the part of the change in plan assets that arises from the passage of time as offsetting the interest cost that arises because the defined benefit obligation is one period closer to maturity.
- BC17 Both service cost and interest cost convey information that helps users to assess the likely amount and timing of future cash flows. In contrast, although information about remeasurements indicates the uncertainty of future cash flows, it conveys little information about their likely amount and timing.
- BC18 The Board agrees that it is useful to present separately items that have different predictive implications. Accordingly, the Board proposes that entities should disaggregate changes in defined benefit cost into:
- (a) service cost, comprising current and past service cost, but not gains and losses arising from changes in the assumptions used to measure the service cost (see paragraphs BC19–BC22);
  - (b) finance cost, comprising net interest on the net defined benefit liability (asset) (see paragraphs BC23–BC32); and
  - (c) remeasurements (see paragraphs BC33 and BC34).

### **The service cost component**

- BC19 The service cost component includes past and current service cost.
- BC20 The Board considered whether changes in the defined benefit obligation that result from changes in demographic assumptions should be presented in the service cost component.

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- BC21 The discussion paper stated that changes in demographic assumptions cause a re-estimate of service costs and, if not treated in the same way as service costs, might encourage mis-estimation of service costs to achieve an accounting result.
- BC22 However, in reviewing the comment letters, the Board was persuaded that the predictive value of service cost differs from the predictive value of changes in the estimate of service cost. Consequently, the service cost component would be more relevant for assessing an entity's ongoing operational costs if it did not also contain current period changes in past estimates of service cost.

### **The finance cost component**

- BC23 The discussion paper acknowledged the widespread view that an important economic effect of a funded plan is that part of the change in plan assets arises from the passage of time, and this part offsets the interest cost that arises from the defined benefit obligation. Those holding this view would divide the return on plan assets into an amount that arises from the effect of the time value of money and another amount that results from all other changes in fair value.
- BC24 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 other changes. Similarly, the interest cost on the defined benefit obligation arises from the passage of time. Therefore, the Board proposes that the finance cost component should include not only the interest cost on the defined benefit obligation but also the part of the return on plan assets representing changes arising from the passage of time.
- BC25 Furthermore, the amount arising from the passage of time does not have the same implications for predicting the amounts, timing and uncertainty of future cash flows as the amount that represents all other changes in the fair value of the plan assets. Therefore, to be consistent with the Board's proposal that components of defined benefit cost with different predictive implications should be presented separately (see paragraphs BC14–BC18), the Board proposes that the finance cost component should not include the part of the return on plan assets that does not arise from the passage of time.
- BC26 The Board found it difficult to find 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 currently required by IAS 19) because it could not be determined in an objective way (see paragraph BC41) and because it might include a return that is not simply due to the passage of time; and
- (b) dividends (but not capital gains) received on equity plan assets and interest earned on debt plan assets (using the current rate that market participants would require for an equivalent asset). In the Board's view, dividends are not a faithful representation of the time value of money.

- BC27 To calculate interest income on plan assets, the exposure draft proposes that entities should apply the rate used to discount the defined benefit obligation.
- BC28 This approach produces interest income that is equivalent to determining a net finance cost on the net defined benefit liability (asset). In the Board's view, a net finance cost provides more understandable information than finance income and expenses determined separately on the underlying assets and liabilities that combine to make a net defined benefit liability (asset).
- BC29 A net defined benefit liability is equivalent to a financing amount owed by the reporting entity to the plan or to the employees. The economic cost of that financing is interest cost, calculated using the rate specified in paragraph 78. Similarly, a net defined benefit asset is an amount owed by the plan to the reporting entity. The reporting entity accounts for the present value of economic benefits that it expects to receive from the plan in the form of reductions in future contributions or as refunds. The reporting entity discounts those economic benefits using the rate specified in paragraph 78.
- BC30 Thus a reporting entity recognises interest income when the plan has a surplus, and interest cost when the plan has a deficit.
- BC31 Some state that the existing model in IAS 19 cannot accommodate a net interest approach of the type described in paragraphs BC28–BC30. Although the basis of presentation in the statement of financial position under IAS 19 is that the entity has a net deficit or surplus, those holding this view believe that the surplus or deficit arises from the combination of two items that generally have different economic drivers, have different explicit or implicit discount rates and are measured on different bases.



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- BC32 The Board acknowledges the limitation of a net interest approach, ie 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. However, using the same rate as the rate used to discount the liability is a practical expedient that:
- (a) 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.
  - (b) 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. Therefore, the amounts recognised in profit or loss reflect the differences between funded and unfunded plans.

### **The remeasurement component**

- BC33 As a result of the Board's decisions on the service cost and finance cost components, the exposure draft defines 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);
  - (c) any changes in the effect of the limit described in paragraph 115B, excluding the amount included in net interest on the net defined benefit liability (asset).
- BC34 The proposed definition of remeasurements of a net defined benefit liability (asset) is consistent with the definition of remeasurements being developed in the Board's project on financial statement presentation.

### **Presentation of changes in the net defined benefit liability (asset) (paragraph 119A)**

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- BC35 The Board considered how entities should present the service cost, finance cost and remeasurement components.

- BC36 The discussion paper did not express a preliminary view on this topic, but described three possible approaches to the presentation of information about those components. One approach proposed that entities should present all gains and losses in profit or loss. The other approaches proposed that entities should present some gains and losses in other comprehensive income.
- BC37 Although responses to the discussion paper showed no clear consensus that any one of the approaches described in that paper would provide more useful information than the others, many expressed the view that the Board should consider retaining the presentation of some gains and losses in other comprehensive income. The reasons given were:
- (a) Presentation of all gains and losses in profit or loss would combine items of different predictive value.
  - (b) Some components of defined benefit cost are conceptually different from other items in profit or loss and should be clearly demarcated.
  - (c) This presentation helps to reflect risk clearly. The apparent increased risk that results from measuring plan assets and defined benefit liabilities at current value is not a faithful representation of the risk relative to other assets and liabilities. Thus, special consideration should be given to the presentation of the changes in those assets and liabilities.
  - (d) Reporting all changes in defined benefit cost in profit or loss would result in volatile swings in profit or loss that are not related to the entity's underlying operations. These swings in profit or loss do not have the same characteristics as income and expenses arising from transactions that are completed over the short term of a typical operating cycle.
- BC38 After discussing all aspects of the proposal, the Board concluded that entities should disaggregate changes in the defined benefit obligation and in plan assets into service cost, finance cost and remeasurement components. This is because these components have different characteristics and so they need to be distinguished. Furthermore, although the changes included in the remeasurement component may provide information that helps with an assessment of the *uncertainty* of future cash flows, many regard those changes as not providing useful information about the likely *amount and timing* of future cash flows. In the light of the Board's forthcoming exposure draft on the presentation of items of other comprehensive income, and to separate the

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remeasurement component from service cost and finance cost in an informative way, the exposure draft *Defined Benefit Plans* proposes that entities should present the remeasurement component as an item of other comprehensive income. This would remove from IAS 19 the option for entities to recognise in profit or loss all changes in defined benefit obligations and in the fair value of plan assets.

- BC39 The discussion paper discussed one approach that would have presented finance costs in other comprehensive income. However, respondents said that there was no basis to present finance costs for long-term employee benefits in one section of the statement of comprehensive income and finance costs for other liabilities in a different section of that statement. The Board agreed with this view and proposes that entities should present the finance cost component in the profit or loss section of the statement of comprehensive income.

### **Other approaches to presentation**

#### **The presentation options in IAS 19 consistent with immediate recognition**

- BC40 Many respondents to the discussion paper suggested that the Board should deal only with recognition in this project, retaining both presentation options currently in IAS 19 that are consistent with immediate recognition. This approach would permit entities to recognise actuarial gains and losses, as defined in IAS 19, either in profit or loss or in other comprehensive income.
- BC41 However, the presentation options in IAS 19 would require entities to recognise in profit or loss an expected return on assets. The difference between the actual and expected return on assets forms part of the actuarial gains and losses that entities currently recognise in profit or loss or in other comprehensive income. The Board believes that an entity's expectations about the return on plan assets are less relevant than the actual return on plan assets. In addition the Board sees a possible danger that the subjectivity inherent in determining the expected rate of return could provide entities with an opportunity to manage profit or loss. Accordingly, the Board concluded that entities should not divide the return on assets into an expected return and an actuarial gain or loss (see paragraph BC26(a)). Some of the presentation options in IAS 19 would not be consistent with this conclusion. Furthermore, perpetuating options in IAS 19 would not improve financial reporting.

### **Presentation of all components in profit or loss**

- BC42 The Board considered whether to distinguish components that have different predictive values or risk profiles within profit or loss, rather than use other comprehensive income for some items. Some argue that entities should present in other comprehensive income items that are different because of their long-term nature. However, the *Framework* and IAS 1 *Presentation of Financial Statements* do not describe a principle identifying the items to be recognised in other comprehensive income rather than in profit or loss. Currently, entities present some changes in the carrying amounts of such long-term items in profit or loss and some outside.
- BC43 It would be possible to disaggregate components of defined benefit cost without presenting remeasurements in other comprehensive income, for example, by using additional line items in profit or loss. Such a presentation would avoid the need to consider whether items presented initially in other comprehensive income should be ‘recycled’ at some future date from other comprehensive income to profit or loss. However, the Board concluded that in the light of the improved presentation of items of other comprehensive income proposed in its forthcoming exposure draft, the most informative way to disaggregate the components of defined benefit cost with different predictive values is to present the remeasurement component in other comprehensive income. Doing so is consistent with the view that although the remeasurement component provides useful information about the *uncertainty* of cash flows, it is less useful than the items presented in profit or loss for predicting their likely *amount and timing*.
- BC44 Although future projects on financial statement presentation could result in refinements to the display of items in other comprehensive income, the Board would not expect to revisit its conclusion that entities should present the remeasurement component in other comprehensive income.

### **Recycling of amounts presented in other comprehensive income to profit or loss (paragraph 119A(c))**

- BC45 The proposed approach presents some components of long-term employee benefit cost outside profit or loss. This prompts questions about whether entities should reclassify or ‘recycle’ any such amounts to profit or loss in later periods. IAS 19 does not permit recycling. In the Basis for Conclusions on IAS 19, the Board noted ‘there is not a consistent policy on

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recycling in IFRSs', that 'the question of recycling ... remains open in IFRSs' and that the Board 'does not believe that a general decision on the matter should be made in the context of [amendments to IAS 19]. The decision ... not to recycle ... is made because of the pragmatic inability to identify a suitable basis'. The Board remains convinced by this logic.

### **Settlements and curtailments (paragraphs 96A, 98A, 119A(a), 119D, 125C(c) and 125E)**

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- BC46 In the existing version of IAS 19, curtailments and settlements trigger the recognition of previously unrecognised gains and losses.
- BC47 The proposals in the exposure draft would eliminate the potential for gains and losses to remain unrecognised. Gains and losses arise on settlements because of a difference between the defined benefit obligation, as remeasured at the transaction date, and the settlement price. Thus, it is an experience adjustment arising in the period. Therefore, the exposure draft proposes that gains and losses on settlement are treated in the same way as actuarial gains and losses and presented in the remeasurement component.
- BC48 In addition, the exposure draft proposes that unvested past service cost should be recognised in the period of a plan amendment. This proposal means that gains and losses arising from curtailments are recognised in the same way as negative past service costs. This is consistent with the Board's view that a curtailment is similar to a plan amendment because it occurs when an entity takes an action that reduces the benefits provided by the plan to employees. Therefore, the exposure draft proposes that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss.
- BC49 IAS 19 currently requires separate disclosure about gains and losses that arise from curtailments and settlements. The Board proposes to retain similar disclosure for those gains and losses, in particular:
- (a) a narrative description of any plan amendments, curtailments and non-routine settlements (see paragraph 125C(c)), and
  - (b) the effect of such plan amendments, curtailments and non-routine settlements on the statement of comprehensive income (see paragraph 125E).

## Disclosures

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### Long-term defined benefit plans (paragraphs 125A–125K)

- BC50 In the discussion paper the Board stated its intention to review the disclosures required for defined benefit promises. Respondents generally agreed that such a review would be beneficial.
- BC51 In performing its review, the Board considered:
- (a) the comment letters on the discussion paper.
  - (b) publications from other bodies interested in financial reporting, in particular 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 US Financial Accounting Standards Board (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 Board's Analyst Research Group, Global Preparers' Forum 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 the disclosures proposed in the Board's exposure draft *Fair Value Measurement*.

### The Board's approach to disclosures about defined benefit plans

- BC52 The Board observed that:
- (a) in some cases, defined benefit plans are material to an entity's financial statements. For example, the plan assets or defined benefit obligation may be the same size as the operating assets and liabilities of the business. However, many entities have plans that are not material to their financial statements.

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- (b) many respondents said that the requirements of IAS 19 do not provide an adequate basis to 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.
- (c) many respondents also said that the volume of disclosures about defined benefit plans in many financial statements risks reducing understandability and usefulness by obscuring important information. This is particularly true for multinational entities that have many varied plans in many jurisdictions. Accordingly, these respondents are concerned about imposing additional requirements.

BC53 The Board sought an approach that:

- (a) provides sufficient disclosures about defined benefit plans when those plans are material to the operations of the entity.
- (b) provides users of financial statements with relevant information that is not obscured by excessive detail.

BC54 The Board considered whether to provide specific guidance on how to apply the general notion of materiality in this context. However, entities must comply with the general requirements in IAS 1, in particular:

- (a) paragraph 31: 'An entity need not provide a specific disclosure required by an IFRS if the information is not material'; and
- (b) paragraph 17(c): 'A fair presentation ... requires an entity ... to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.'

BC55 Accordingly, the Board proposes not to provide guidance in IAS 19 on materiality, nor to require disclosures that cover all possible circumstances of every entity with a defined benefit plan. Rather, the Board proposes to articulate objectives for disclosures about defined benefit plans. This approach gives entities the flexibility to decide on an appropriate level of disclosure that enables users to see the overall picture without combining information that has different characteristics.

**Selecting disclosure objectives (paragraph 125A)**

- BC56 In selecting the disclosure objectives, the Board considered the following:
- (a) Defined benefit obligations have characteristics similar to some long-term financial instruments and long-term insurance contracts. Both 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.
  - (b) Plan assets are not equivalent in every respect to assets held directly by the entity. Moreover, an entity may have limited information about them.
- BC57 The Board considered whether it should require the same disclosure objectives for defined benefit plans as for long-term financial instruments and insurance contracts. 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, disclosures about market risk and credit risk of plan assets are less relevant than when an entity holds those assets directly.
  - (b) liquidity risk arises from the timing and amount of contributions 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.
- BC58 Furthermore, defined benefit plans create greater exposure to some risks, for example demographic risks that are not dealt with in IFRS 7.
- BC59 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.



**Characteristics of the defined benefit plan and amounts in the financial statements (paragraphs 125C–125H)**

- BC60 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 the existing version of IAS 19. In addition, the Board considered the following issues raised by the comment letters on the discussion paper:
- (a) *Exposure to risk (paragraph 125C(b))*: The exposure draft proposes that entities should provide a narrative description of exposure to risk arising from their involvement with the plan. This responds to the requests in the comment letters that entities should provide more disclosures about the risks inherent in a defined benefit plan and the risks associated with plan assets held to fund the benefit.
  - (b) *Actuarial gains and losses arising from demographic and financial assumptions (paragraph 125E(c)(ii) and (iii))*: The exposure draft proposes that entities should disclose actuarial gains and losses that relate to a re-estimate of service cost separately from other actuarial gains and losses. Some respondents stated that it would be arbitrary to isolate the effects of changes in some actuarial assumptions because of the interrelationships between them. In particular, changes in one financial assumption, eg discount rate, would often be correlated with changes in other financial assumptions, eg inflation rates. However, the Board observed that, in general, demographic assumptions and financial assumptions are less entwined. Accordingly, in paragraph 125E(c)(ii) and (iii) the Board proposes that an entity should disclose separately the effect of changes in demographic assumptions and the effect of changes in financial assumptions.
  - (c) *Plan assets (paragraph 125F)*: Some hold the view that entities should disclose disaggregated information about how plan assets are invested. However, the Board concluded that extensive disaggregated information about plan assets was 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 disclosures about the fair value of plan assets, such as those proposed in 2009 in its exposure draft *Fair Value Measurement*, would not be relevant.
  - (d) *Specify actuarial assumptions for which disclosure is required*: The Board decided that it would not specify particular assumptions for which disclosure is required because particular disclosures may not be

needed to meet the underlying objectives in every case. Such disclosures may obscure important information in a mass of detail. Accordingly, the exposure draft proposes an approach in which entities will use their judgement to determine which actuarial assumptions require disclosure. In particular, the Board proposes not to require specific disclosures about mortality rates. Instead, entities will use judgment to determine whether assumptions about mortality rates require disclosure.

- (e) *Actuarial assumptions and the process used to determine them (paragraph 125G):* The Board proposes to retain the requirement in IAS 19 for entities to provide quantified disclosures about actuarial assumptions (paragraph 125G(a)). However, the Board acknowledges that such quantified disclosures could be difficult to interpret without extensive supplementary information that would be impracticable to provide. For example, disclosure of mortality rates without supporting information could be misleading and it is not practicable for entities to provide users with the detailed knowledge about the demographic profile of a plan that would be needed to make a meaningful assessment of the information provided by disclosures of mortality rates. Therefore, the exposure draft also proposes that in those circumstances, the entity should explain how it determined those actuarial assumptions (paragraph 125G(b)). For example, if an entity has developed mortality assumptions using a standard table, it could disclose the source of that table and when it was compiled. Similarly, the entity could disclose the current estimate of the expected mortality rates of plan members.
- (f) *Alternative measure of the long-term employee benefit liability (paragraph 125H):* The Board proposes that entities should disclose the defined benefit obligation, excluding projected growth in salaries (sometimes referred to as the accumulated benefit obligation). In some circumstances, this amount is similar to the amount of the entity's obligation if the plan were to be terminated, and some users believe that is relevant additional information. Moreover, this amount is relevant to some who believe that the measurement of these liabilities should exclude projected salary growth. The elimination of the requirement to present an expected rate of return on plan assets reduces the usefulness of this disclosure because there is less subjectivity inherent in determining the amounts in profit and loss. Therefore, the Board does not think this information would be costly to provide because it uses inputs that are needed to determine the defined benefit obligation.

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BC61 The Board also proposes to delete the requirement in paragraph 120A(p) of IAS 19 to disclose historical information about amounts in the statement of financial position and experience adjustments. The elimination of the requirement to present an expected rate of return on plan assets reduces the usefulness of this disclosure because there is less subjectivity inherent in determining the amounts in profit or loss. Therefore, the Board concluded that this requirement does not provide information about the defined benefit plan that is not already available in published financial statements.

### **Amount, timing and uncertainty of future cash flows (paragraphs 125I–125K)**

BC62 The Board responded to requests for improved information about the amount, timing and uncertainty of future cash flows to the plan as follows:

- (a) *Quantitative disclosures about actuarial risk (paragraph 125I)*: Actuarial risk is a significant risk for any entity with a defined benefit plan. To supplement the disclosure about exposure to risk proposed in paragraph 125C(b), the exposure draft proposes that entities should provide quantitative disclosures, including sensitivity analyses (see paragraphs BC63–BC66), about actuarial assumptions used to determine the defined benefit obligation.
- (b) *Asset-liability matching strategies (paragraph 125J)*: Respondents suggested that entities should disclose information about their investment strategies to match plan assets to plan liabilities. The Board considered broadening this requirement so that all entities with defined benefit plans would have been required to discuss their strategies for mitigating risks arising from defined benefit plans. However, because many entities would mitigate risks arising from defined benefit plans through their investment strategies, 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, the Board believes that information about an entity's use of asset-liability matching investment strategies or the use of techniques, such as annuities or longevity swaps, to manage longevity risk, would be informative. Accordingly, the exposure draft proposes a requirement to disclose information about these items.
- (c) *Factors that could cause contributions to differ from service cost (paragraph 125K)*: The comment letters suggested disclosure of information about an entity's best estimate of the contributions it

expects to pay to the plan during the next year, distinguishing between required contributions, discretionary contributions and non-cash contributions. However, the Board believes that information is useful if it highlights possible differences between current service cost and cash contributions in the near future. This might be the case if a surplus or deficit affects the level and timing of an entity's contributions. Therefore the exposure draft proposes disclosure of factors that could cause contributions over the next five years to differ from current service cost. The Board believes that this is more useful than merely disclosing expected payments in the next year because those payments depend partly on estimated service cost and also because mere disclosure of the amount would not indicate likely trends beyond the following year.

*Sensitivity analysis (paragraph 125I)*

- BC63 The exposure draft proposes that entities should disclose how the effect of reasonably possible changes to significant actuarial assumptions affect the defined benefit obligation and service cost. Users of financial statements have consistently emphasised the fundamental importance of sensitivity analyses to their understanding of the risks underlying amounts included in the financial statements.
- BC64 The Board considered whether to require entities to provide sensitivity analyses of the effect of changes in actuarial assumptions on the net defined benefit liability (asset). However, the Board concluded that this would be difficult to do because:
- (a) it is unclear how a change in market interest rates would apply to plan assets. If plan assets were invested in equities and in bonds, an analysis showing only direct effects of changes in market interest rates would show the effect on the bonds, but show no effects on the equities. This might not provide very meaningful information. On the other hand, a more complex sensitivity analysis showing the effect of changes in interest rates on equity investments would be difficult to perform because there may be no reasonable basis on which to estimate the interrelationships between interest rates, inflation rates and equity values.
  - (b) the net defined benefit liability (asset) includes the effect of the asset ceiling. It would be difficult to determine how changes in the assumptions change the effect of the asset ceiling.

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- BC65 Because these issues relate to the plan assets, which are measured at fair value, the exposure draft proposes to require sensitivity analyses only for the defined benefit obligation and not for the net defined benefit liability (asset).
- BC66 The Board intends that the sensitivity analyses for service cost should give an indication of the variability of the service cost recognised in the statement of comprehensive income. However, service cost is determined at the beginning of the period. Some might therefore argue that there is no effect from changes in assumptions at the end of the period. Consequently the exposure draft proposes that entities should perform the sensitivity analyses for service cost using changes in assumptions that were reasonably possible at the start of the reporting period.

#### **Multi-employer plans (paragraph 33A)**

- BC67 IAS 19 requires no additional disclosure for defined benefit multi-employer plans unless the entity uses the exemption in paragraph 30 to account for a defined benefit multi-employer plan as if it were a defined contribution plan.
- BC68 Some respondents to the discussion paper believe that 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. They stated that the disclosures in IAS 19 are insufficient to inform users of financial statements about an entity's participation in defined benefit multi-employer plans, in particular the risks associated with such participation and the potential effect on the amount, timing and uncertainty of future cash flows. Accordingly, the exposure draft proposes additional disclosures about participation in a multi-employer plan.
- BC69 In March 2010, the US Financial Accounting Standards Board (FASB) announced the addition of a new project to review disclosures about an employer's participation in a multi-employer plan and to develop disclosures requirements that would give better information about the risks an entity faces by participating in a multi-employer plan. The FASB staff expect that the FASB will publish a proposed Accounting Standards Update in the second quarter of 2010 and a final Update early in the fourth quarter of 2010. The IASB will consider the work of the FASB on disclosures about multi-employer plans when it reviews the responses to this exposure draft.

**State plans and defined benefit plans that share risks between various entities under common control (paragraphs 34B, 36 and 38)**

BC70 The Board has 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. This is to maintain consistency with the disclosures in paragraphs 125A-125K.

**Other amendments proposed in the exposure draft**

BC71 The scope of this project is limited. At this time, neither the Board nor respondents to the Board's proposals have the resources to consider issues that would be better dealt with in a comprehensive review of employee benefits accounting. However, some respondents asked the Board to address issues that were not discussed in the discussion paper. The Board proposes amendments to IAS 19 for those issues that:

- (a) can be addressed expeditiously.
- (b) do not require a fundamental review of defined benefit obligation measurement.
- (c) would lead to a worthwhile improvement in the reporting of defined benefit plans.

BC72 Accordingly, the Board decided to address the following issues:

- (a) the classification of employee benefits as long-term or short-term (see paragraphs 7 and BC79).
- (b) when tax and administration costs are included in the measurement of defined benefit obligations (see paragraphs 7, 73(b) and BC82-BC86).
- (c) the effect of expected future salary increases on the attribution of benefits (see paragraphs 71A and BC87-BC90).
- (d) the effect of current estimates of the expected mortality rates of plan members on the measurement of defined benefit obligations (see paragraphs 73(a)(i) and BC91).
- (e) how risk-sharing and conditional indexation features are included in the measurement of defined benefit obligations (see paragraphs 64A, 85(c) and BC92-BC96).

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- BC73 In addition, the Board proposes to incorporate relevant conclusions reached by the International Financial Reporting Interpretations Committee (IFRIC). The exposure draft proposes that IAS 19 should incorporate, without substantive change, the requirements of IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, as amended in November 2009 (see paragraphs 115A–115K). The exposure draft also includes clarifications to respond to the following questions received by the IFRIC:
- (a) IFRIC rejection November 2005 – Employee long-service leave (see proposed amendments to other IFRSs).
  - (b) IFRIC rejection March 2007 – Special wage tax (see paragraphs 73(b)(iv) and BC83).
  - (c) IFRIC rejection September 2007 – Post-employment benefits – Benefit allocation for defined benefit plans (see paragraphs 71A and BC87–BC90).
  - (d) IFRIC rejection November 2007 – Treatment of employee contributions (see paragraphs 64A and BC92–BC96).
  - (e) IFRIC rejection January 2008 – Pension promises based on performance hurdles (see paragraphs 85(c) and BC92–BC96).
  - (f) IFRIC rejection May 2008 – Settlements (see paragraph 73(a)(iv)).

### Issues not addressed

- BC74 The Board did not consider in detail matters raised by respondents that were outside the scope of this project (such as measurement of the defined benefit obligation) or that the Board could not address expeditiously.
- BC75 In selecting issues to address, the Board discussed the following issues, but proposes no action at this time.
- (a) *Contribution-based promises*. The discussion paper defined a new category of contribution-based promises to capture those promises for which the measurement requirements of IAS 19 are difficult to apply. Most respondents thought that the scope of the new category was too broad, and pointed out potential difficulties with the measurement proposed in the discussion paper. The Board will consider whether to develop further its proposals on contribution-based promises after it has completed the amendments proposed in the exposure draft. The Board may do this in due course as part of a comprehensive review of employee benefit accounting.

- (b) *Exemption for entities participating in defined benefit multi-employer plans.* The Board decided not to permit all entities participating in multi-employer plans to account for those plans as if they were defined contribution plans. IAS 19 requires that entities should account for a defined benefit multi-employer plan as a defined contribution plan if it 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. In the Board's view this would apply to many plans that meet the definition of a multi-employer plan. The Board concluded that extending that exemption would be unnecessary and 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. For example, the Board concluded that when an entity becomes a dominant participant in a multi-employer plan, perhaps because other participants leave the plan, it should not be exempt from accounting for the plan as a defined benefit plan.
- (c) *Discount rate for employee benefits.* IAS 19 requires that entities discount employee benefits using a government bond rate when there is no deep market in high quality corporate bonds. Some respondents said that this requirement reduced comparability between jurisdictions. As a result, in August 2009 the Board published an exposure draft *Discount Rate for Employee Benefits*. The exposure draft proposed to remove the requirement to use a government bond rate when there is no deep market in high quality corporate bonds. However, the responses to the exposure draft indicated that the proposed amendment raised more complex issues than had been expected. Therefore, in October 2009 the Board decided not to proceed with the amendment. The Board decided it would address other issues relating to the discount rate only in the context of a fundamental review.

BC76 The Board also considered the following questions received by the IFRIC but concluded that it would not amend IAS 19 at this time:

- (a) IFRIC rejection February 2002 – Employee benefits – Calculation of discount rates (see paragraph BC75(c)).
- (b) IFRIC rejection April 2002 – Employee benefits – Undiscounted vested employee benefits. IAS 19 is clear that the measurement of the liability for the vested benefits must reflect the expected date



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of employees leaving service, and that the liability is discounted to a present value.

- (c) IFRIC rejection August 2002 – Employee benefits – Classification of an insured plan. The scope of this question is too narrow to result in a significant improvement to the reporting of defined benefit plans.
- (d) IFRIC rejection April 2003 – Accounting for the transfer to the Japanese Government of the substitutional portion of employee pension fund liabilities. The scope of this question is too narrow to result in a significant improvement to the reporting of defined benefit plans.
- (e) IFRIC rejection June 2005 – Determining the appropriate rate to discount post-employment benefit obligations (see paragraph BC75(c)).
- (f) IFRIC rejection May 2007 – Curtailments and negative past service costs. The proposed changes to recognition and presentation reduce the significance of the question.
- (g) IFRIC rejection November 2007 – Changes to a plan caused by government. The proposed changes to recognition reduce the significance of the question.
- (h) IFRIC rejection January 2008 – Definition of plan assets. The scope of this question is too narrow to result in a significant improvement to the reporting of defined benefit plans.
- (i) IFRIC rejection January 2008 – Death-in-service benefits. Guidance would be best provided in the context of a fundamental review of defined benefit obligation measurement.

### **Changes in definitions (paragraph 7)**

#### **Long-term employee benefits**

- BC77 The Board's proposals would remove any difference between the accounting for post-employment benefits and the accounting for other long-term employee benefits. Accordingly, the Board proposes to combine post-employment benefits and other long-term employee benefits into a single category: long-term employee benefits. As a consequence, the disclosures proposed in paragraphs 125A–125K would also apply to benefits previously classified as 'other long-term employee benefits'.

### **Non-routine settlements**

- BC78 As discussed in paragraphs BC46–BC49, the Board proposes to retain the requirement in IAS 19 for entities to disclose information about settlements. At the same time, in response to a question received by the IFRIC, the Board proposes to use the term ‘non-routine settlements’ to emphasise that these settlements refer only to non-routine transactions, rather than benefit options envisaged by the terms of the plan.

### **Long-term and short-term employee benefits**

- BC79 The Board proposes to clarify that the distinction between short-term employee benefits and long-term employee benefits (other than those payable after completion of employment) depends on the period between the date when the employee renders the service that gives rise to the benefit and the date when the entity expects the benefit to become due to be settled. For example, suppose an employee becomes entitled to a vested benefit (such as long-service leave) during a reporting period, but is not expected to require settlement of that benefit (ie to take that leave) within twelve months of the reporting date. The entity expects the benefit to become due to be settled more than 12 months after the end of the reporting period in which the employee renders the related service and thus classifies the benefit as long-term. As a consequence, the disclosures proposed in paragraphs 125A–125K would also apply to benefits previously classified as ‘other long-term employee benefits.’

### **Minimum funding requirement**

- BC80 In May 2009 the Board published *Prepayments of a Minimum Funding Requirement*, an exposure draft of amendments to IFRIC 14. The responses to the exposure draft indicated varied practice in how entities interpreted the definition of ‘minimum funding requirement’ in IFRIC 14. The Board proposes to eliminate this diversity by clarifying that a minimum funding requirement is any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan.

### **Other changes in definition**

- BC81 The exposure draft also:
- (a) introduces new definitions for:
    - (i) ‘service cost’ as comprising current service cost and past service cost (see paragraphs BC19–BC22).

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- (ii) 'remeasurements' (see paragraphs BC33 and BC34).
  - (iii) 'curtailment' based on the definition previously in paragraph 111 of IAS 19.
  - (iv) 'deficit or surplus' in a defined benefit plan and 'net defined benefit liability (asset)' to improve clarity.
  - (v) 'net interest on the net defined benefit liability (asset)' (see paragraphs BC23-BC32).
- (b) deletes the definitions of 'interest cost' and 'vested employee benefits' because they are unnecessary.
  - (c) amends the definition of 'actuarial gains and losses' to include gains and losses on the defined benefit obligation, and not on plan assets.
  - (d) amends the definition of 'return on plan assets' (see paragraphs BC82-BC86).

### Other changes

#### Tax payable by the plan and costs of managing plan assets

- BC82 The exposure draft proposes to clarify the treatment of tax payable by the plan and administration costs of managing plan assets.
- BC83 Some have interpreted IAS 19 as excluding from the measurement of the defined benefit obligation taxes payable by a plan on contributions made by the entity. IAS 19 requires an entity to estimate the ultimate cost of providing long-term employee benefits. Thus, if the plan were required to pay taxes when it ultimately provides benefits, the taxes payable would be part of the ultimate cost. Similarly, if the ultimate cost is to meet the amount of any deficit in the plan, that amount would include a deduction for any taxes payable by the plan when the contribution is made. Accordingly, the Board proposes to amend IAS 19 to 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) if this is the case, those taxes should not be included as a reduction in the return on plan assets. Because service cost includes the present value of those taxes when employees render the related

service, it would be double-counting to recognise those taxes for a second time when they are subsequently incurred.

- BC84 The Board believes that the treatment of plan administrative costs should depend on the nature of those costs. In the Board's view, the only administration costs deducted in determining the return on plan assets should be costs of managing plan assets. Other administration costs, eg the cost of administering benefit payments, are unrelated to the plan assets. Thus funded and unfunded plans would measure the defined benefit obligation at the same amount. To the extent that future administration costs relate to the administration of benefits attributable to current or past service, the present value of the defined benefit obligation should include the present value of those costs.
- BC85 The Board concluded that:
- (a) when the ultimate cost of the benefit promise depends on the return on plan assets less asset management costs, the present value of those costs should be included in service cost and in the estimate of the defined benefit obligation when the employees render the related service.
  - (b) costs other than those included in the defined benefit obligation would be recognised in the period in which they are incurred and therefore could be deducted as period costs in determining the return on plan assets.
- BC86 Therefore, the Board proposes to remove the options in IAS 19 for entities to include plan administration costs either as a reduction in the return on plan assets or in the actuarial assumptions used to measure the defined benefit obligation. The return on plan assets should include plan administration costs only if those costs relate to the management of plan assets.

**Future salary increases and the attribution of benefits  
(paragraph 71A)**

- BC87 Paragraph 67 of IAS 19 requires an entity to attribute benefit 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. Some respondents stated that it is unclear how this requirement applies to future salary increases.

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- BC88 Some believe that expected future salary increases are not included in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years. Applying this view, in a current salary plan, an employee's service in later years does not lead to a higher level of benefit than in earlier years because in both cases the benefit is expressed as a constant proportion of current salary.
- BC89 However, if expected future salary increases are *not* included in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years, there would be different attribution requirements for career average salary benefits and current salary benefits. 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.
- BC90 Therefore, the exposure draft proposes 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.

#### **Current estimates of expected mortality rates (paragraph 73(a)(i))**

- BC91 The exposure draft proposes to make explicit in paragraph 73(a)(i) 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 estimates of mortality rates provide the best estimate of the amount that reflects the ultimate cost of settling the defined benefit obligation.

#### **Risk-sharing and conditional indexation (paragraphs 64A and 85(c))**

- BC92 Some defined benefit plans include features that share the benefits of a surplus or the cost of a deficit between the employer and plan participants. Similarly, some defined benefit plans provide benefits that are conditional to some extent on there being sufficient assets in the plan to fund them. Such features share risk between the entity and plan participants.
- BC93 The Board has been informed that practice varies on how the requirements of IAS 19 apply to arrangements with risk-sharing and conditional indexation features.

- BC94 Some have expressed the view that IAS 19 does not address plans with such features because IAS 19 makes no distinction between an employer that bears all the actuarial and investment risk in a plan, and an employer that reduces these risks by sharing them with other stakeholders. Both are classified as defined benefit plans. They also state that the Board should provide guidance on how entities should account for risk-sharing or conditional indexation features.
- BC95 IAS 19 defines any plan that exposes the entity to risk as a defined benefit plan. IAS 19 also requires that the defined benefit obligation is measured using the best estimate of the ultimate cost of providing that benefit. In the Board's view, assumptions about the effect of risk-sharing and conditional indexation features affect that cost.
- BC96 Accordingly, the exposure draft proposes to clarify that risk-sharing and conditional indexation features should be incorporated in the determination of the best estimate of the defined benefit obligation. The exposure draft also proposes to clarify the treatment of employee contributions based on the question rejected by the IFRIC in November 2007 – Treatment of employee contributions.

## **Transition and effective date (paragraph 162)**

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### **Transition**

- BC97 In the Board's view it would not be unduly burdensome for entities to apply the proposed changes to IAS 19 retrospectively. Although some of the proposed amendments will change the amounts recognised, entities will not have to recalculate amounts for dates earlier than the beginning of the first period presented in the financial statements. The amounts depend solely on conditions at that date, not on assessments made on previous dates.
- BC98 Accordingly, the Board proposes that entities should apply the proposed amendments to IAS 19 retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

### **First-time adopters**

- BC99 The Board proposes to delete paragraphs D10 and D11 from Appendix D of IFRS 1 *First-time Adoption of International Financial Reporting Standards* because the proposals in the exposure draft would make those two paragraphs redundant.

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- BC100 Paragraph D10 deals with the application of the corridor approach for first-time adopters of IFRSs. Paragraph D11 relates to the five-year disclosure requirements of paragraph 120A(p) of the existing version of IAS 19.
- BC101 In the Board's view, there is no need to amend the other requirements of IFRS 1 for employee benefits as a result of these proposals because the application of IAS 19 at the date of transition depends solely on conditions at that date, not on assessments made on previous dates.

### Effective date

- BC102 The Board plans to consider the effective dates for standards to be completed by 30 June 2011 collectively and will set the effective date for the proposals in the exposure draft when it approves the amendments to IAS 19. The Board accepts that users of IFRSs need time to plan and prepare for adoption of new requirements. Therefore, the Board intends to comply with the general policy published in the December 2009 edition of IASB *Update* that:
- (a) new requirements should become effective for annual periods *beginning* on or after a specified date (ie not for periods ending on a specified date);
  - (b) the dates specified should be limited to 1 January and 1 July; and
  - (c) the effective date for major projects completed in 2011 should generally not be earlier than 1 January 2013.

### Cost-benefit considerations

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- BC103 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 endeavours 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.

- BC104 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 result of improved financial reporting.
  - (e) the costs of transition for users, preparers and others.
- BC105 The objective of the proposed amendments 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 meetings with its Employee Benefits Working Group, a group of senior professionals with extensive practical experience in the operation, management, valuation, financial reporting, auditing and regulation of a variety of long-term employee benefit arrangements.
- BC106 The proposed amendments, if confirmed, should improve the ability of users to understand the financial reporting for long-term employee 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 presentation options that are currently 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.
- BC107 Costs would be involved in the adoption and continuing application of the proposed 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



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minimal because in order to apply the existing version of IAS 19 entities already need to obtain much of the information that the exposure draft proposes to require. Consequently, the Board believes that the benefits of the proposed amendments outweigh the costs.

### **Summary of changes from the discussion paper**

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BC108 The main changes from the discussion paper are:

- (a) The exposure draft proposes that entities should disaggregate changes in defined benefit cost into service cost, finance cost and remeasurement components and present:
  - (i) the service cost component in profit or loss.
  - (ii) the finance cost component as part of finance costs in profit or loss.
  - (iii) the remeasurement component in other comprehensive income.(paragraph 119A)
- (b) The exposure draft does not address contribution-based promises. The Board will consider whether to develop further its proposals on contribution-based promises after it has completed the amendments proposed in the exposure draft. The Board may do this after June 2011 as part of a comprehensive review of employee benefit accounting.
- (c) The exposure draft proposes improved disclosures about defined benefit plans (paragraphs 125A-125K).
- (d) In response to requests from respondents, the exposure draft contains proposals to address various practice issues (paragraph BC72).
- (e) The exposure draft also proposes to incorporate the requirements in IFRIC 14 (paragraphs 115A-115K), and include clarifications based on other decisions made by the IFRIC (paragraph BC73).

## Alternative view of Tatsumi Yamada

- AV1 Mr Yamada voted against the publication of the exposure draft *Defined Benefit Plans* for the reasons set out below.

### **Removal of option to recognise defined benefit cost in profit or loss**

- AV2 Mr Yamada agrees with the Board's view in paragraph BC12 that financial reporting will be significantly improved if entities recognise all changes in the fair values of plan assets and in the long-term employee benefit obligation in the period in which those changes occur. However, because he believes that all defined benefit cost should be recognised in profit or loss (as explained in paragraph AV4) he does not agree with the removal of the option in paragraph 93 to recognise all changes in defined benefit obligations and in the fair value of plan assets in profit or loss.

### **Disaggregation in the statement of comprehensive income**

- AV3 Mr Yamada does not believe that the proposed disaggregation of defined benefit cost into components (ie service cost, finance cost and remeasurements) in the statement of comprehensive income is consistent with the presentation of plan assets and the defined benefit obligation in the statement of financial position. He believes that 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) in the statement of comprehensive income should be a single net amount. He understands the usefulness of disaggregated information, but believes that an appropriate way of providing information regarding the components of defined benefit cost is to show them in the notes to the financial statements.
- AV4 Mr Yamada further believes that if the Board decides to provide disaggregated information about defined benefit cost in the statement of financial performance, all the components should be presented in the same category (ie operating income) rather than scattered into several categories such as operating income, finance costs and other comprehensive income. He does not agree with the Board's reasoning in paragraph BC38 that the remeasurement component should be presented in other comprehensive income because 'although the changes

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included in the remeasurement component may provide information that helps with an assessment of the *uncertainty* of future cash flows, many regard those changes as not providing useful information about the likely *amount and timing* of future cash flows'. He believes that all the components should be presented in profit or loss and that there is no clear basis to present this amount in other comprehensive income as explained in paragraphs AV6 and AV7. Therefore, he does not agree with paragraph 119A.

### **Definition and presentation of net interest on the net defined benefit liability (asset)**

- AV5 Mr Yamada sees no principle behind the disaggregation described in paragraph 119A (ie service cost, finance cost and remeasurements). In particular, he does not believe that the presentation in profit or loss of only net interest on the net defined benefit liability (asset) is an improvement in financial reporting.
- AV6 Mr Yamada does not believe that there are appropriate reasons for requiring that the component of the return on plan assets presented in profit or loss should always be determined using the discount rate applied to the defined benefit obligation. He does not agree that the Board should propose 'using the same rate [for plan assets] as the rate used to discount the liability [as] a practical expedient 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 BC32(a)). He notes that the definition of net interest on the net defined benefit liability (asset) results in the difference between the high quality corporate bond rate applied to plan assets and the actual return on plan assets being recognised in other comprehensive income. He does not believe the amount presented in other comprehensive income has a clearly defined characteristic that justifies its presentation in other comprehensive income. Paragraph BC33 explains the nature of the remeasurement component as being a residual after determining the service cost and finance cost components, and simply restates what is described in the definition of remeasurement in paragraph 7. He does not believe that this is a clear explanation about the nature of the amount recognised in other comprehensive income, nor why presentation in other comprehensive income is appropriate.
- AV7 Mr Yamada agrees that determining the 'expected return on plan assets' that is used by the current IAS 19 requires judgement by management, but this does not mean that the 'expected return on plan assets' is unreliable. He believes that estimating the 'expected return on plan

assets' requires the same degree of judgement as do other estimates. He agrees with the statement in paragraph BC32 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, he does not believe that it provides more useful information to use the return on high quality corporate bonds in place of the expected return on plan assets. To do so would eliminate from profit or loss the effects of differences between the actual return on plan assets and the rate applied to the defined benefit obligation. He believes that elimination of these differences introduces a type of smoothing mechanism. Thus, he does not believe that the proposal is an improvement on the current IAS 19.

### **Elimination of actuarial gains and losses on plan assets**

- AV8 Mr Yamada believes that defined benefit cost should be recognised in profit or loss when it occurs. However, if the Board decides to present part of defined benefit cost (ie remeasurements) in other comprehensive income, he is of the view that the Board should retain paragraphs 93A–93D, rather than introduce a new definition of 'remeasurement' in the context of plan assets (see (b) of the definition of remeasurement in paragraph 7). Paragraphs 93A–93D permit an entity to adopt a policy of recognising actuarial gains and losses in other comprehensive income in the period in which they occur. In the context of plan assets this means that the difference between the expected return on plan assets and the actual return on plan assets is recognised in other comprehensive income. The expected return on plan assets is recognised in profit or loss.
- AV9 An option in paragraph 93A permits an entity to adopt a policy of recognising actuarial gains and losses in other comprehensive income in the period in which they occur. He believes that this option would achieve a result similar to that achieved by the new notion of remeasurements. The notion of 'net interest on the net defined benefit liability (asset)' as it applies to plan assets, in effect, replaces the 'expected return on plan assets' with a return determined by applying the high quality corporate bond rate to plan assets. Thus, the difference between the high quality corporate bond rate applied to plan assets and the actual return on plan assets that would be presented as an item of other comprehensive income is very similar to the notion of 'actuarial gains and losses'. Therefore, he does not believe that it is necessary to remove the option currently in IAS 19 (paragraphs 93A–93D) and to introduce a similar but not clearly better new notion of 'remeasurements'.