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**International
Accounting Standards
Board**

Latest revision: April 2010

Post-employment benefits

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed at future IASB meetings. Decisions become final only after completion of a formal ballot to issue an International Financial Reporting Standard, Interpretation, or Exposure Draft.

Introduction

This project report is structured as follows:

- [Objective](#)
- [Next steps](#)
- [Background](#)
- [Due Process documents issued](#)
- [How will IAS 19 change?](#)
- [Tentative decisions to date](#)
- [Contact information](#)

Objective

1. The objective of the project is to issue, by mid-2011, a standard that would significantly improve pension accounting, pending a fundamental review of all aspects of post-employment benefit accounting.
2. This project forms part of the [Memorandum of Understanding](#) between the IASB and the FASB which sets out a Roadmap of Convergence between IFRSs and US GAAP.

Next Steps

3. The Board is working towards two separate exposure drafts as follows:
 - a. Recognition and presentation of changes in the defined benefit obligation and in plan assets, disclosures, and other issues raised in the comment letters that can be addressed expeditiously.
 - b. Contribution-based promises, potentially as part of a comprehensive review of pension accounting.

Post-employment benefits

4. The Board expects to publish an exposure draft on recognition, presentation, disclosures and other issues in April 2010.

Background

5. Analysts, preparers and other users of financial statements have voiced significant concerns about the IAS 19 accounting model over the years.
6. In July 2006, the IASB added a project on post-employment benefits to its agenda. The project would involve a fundamental review of all aspects of post-employment benefit accounting. However, the Board decided to start by working towards an interim standard that would significantly improve pension accounting by 2011. The Board is assisted by its Employee Benefits Working Group, which provides a variety of expert perspectives on accounting for post-employment benefits. The Working Group last met on 28 April 2009.
7. The FASB has also initiated a project to comprehensively reconsider employers' accounting for pensions and other postretirement benefits with the aim of improving the quality of the information provided to investors, creditors, employees, retirees, donors, and other users of the financial statements. That project is being conducted with an end goal of convergence. Further information on the FASB's project is available at www.fasb.org.

Due process documents issued

8. In March 2008, the Board published a discussion paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*. The comment period ended on 26 September 2008. The paper sets out the IASB's preliminary views on how the accounting for some post-employment benefits, including pensions, could be improved.
9. The discussion paper addresses the main concerns expressed by a wide range of interested parties that the accounting model set out in IAS 19 is inadequate and should be reviewed. Constituents have pointed out that:
 - a. the deferral of the recognition of gains and losses leads to misleading figures in the statement of financial position;
 - b. the multiple options for deferring recognition lead to poor comparability across companies;
 - c. the lack of clarity in the definitions of benefit promises lead to inconsistencies and poor comparability for those benefit promises that include a promised return on contributions linked to an asset or an index;
 - d. the required measurement method is inadequate for those benefit promises that include a promised return on contributions linked to an asset or an index.
10. The IASB's preliminary views on how to address those main issues are:
 - a. to remove the options for deferred recognition of gains and losses in defined benefit plans
 - b. to introduce a new classification of benefit promises into contribution-based promises and defined benefit promises, with a new measurement attribute for contribution-based promises

Post-employment benefits

11. The discussion paper is available from the IASB website.

How will IAS 19 change?

12. Pending the outcome of the IASB's consultation on the exposure draft, the main changes proposed to IAS 19 are as follows:

Section	Proposed changes
Objective	No substantive change
Scope	No substantive change
Definitions	<p>Amendments to definitions:</p> <ul style="list-style-type: none"> • short-term employee benefits • long-term employee benefits • return on plan assets <p>New definitions</p> <ul style="list-style-type: none"> • remeasurements • non-routine settlements • minimum funding requirements (from IFRIC 14)
Short-term employee benefits	No change
Post-employment benefits: Distinction between defined contribution plans and defined benefit plans	Amendment to disclosures for multi-employer plans
Post-employment benefits: Defined contribution plans	No change
Post-employment benefits: defined benefit plans:	
Recognition and measurement	<p>Defined benefit liability determined as the total of:</p> <p>(a) the present value of the defined benefit obligation at the end of the reporting period less</p> <p>(b) the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.</p> <p>Incorporation of IFRIC 14 in IAS 19</p> <p>Changes in defined benefit liability recognised in profit or loss</p>
Recognition and measurements: present	Expected future increase in salaries and effect of performance hurdles included in the

Post-employment benefits

value of defined benefit obligations and current service costs	<p>determination of whether an employee's service in later years will lead to a materially higher level of benefit than in earlier years</p> <p>Additional examples of actuarial assumptions</p> <p>Additional guidance that the measurement of the defined benefit liability reflects the best estimate of the effects of:</p> <p>(a) any performance target or criteria on benefits</p> <p>(b) the entity's ability to restrict benefits or require employees to make additional contributions</p> <p>Past service cost recognised in period of plan amendment</p>
Recognition and measurement: plan assets	Consequential amendments arising from decisions on recognition and presentation
Business combinations	Deleted consequent to decisions on recognition
Curtailments and settlements	Deleted and replaced with disclosures about plan amendments and non-routine settlements
Presentation	<p>Defined benefit liability disaggregated into service cost, interest cost and remeasurements.</p> <p>Remeasurements presented separately in income statement net of tax effects</p> <p>Interest cost presented in same way as other finance costs</p> <p>Disclosures of service cost and interest cost</p>
Disclosure	Extensive revisions to align with approach in IFRS 4 and IFRS 7
Other-long-term employee benefits	No distinction between accounting for post-employment benefits and other long-term employee benefits
Termination benefits	To be amended by separate Board project arising from June 2005 ED of proposed amendments to IAS 19.

This summary reflects the Board's tentative decisions, summarised below.

Post-employment benefits

Tentative decisions to date

13. The Board redeliberated issues raised in response to comments received on the discussion paper between November 2008 and February 2010. The Board's tentative decisions are summarised below:

On recognition

14. Entities shall recognise all changes in the value of plan assets and changes in the post-employment benefit obligation in the period in which they occur.
15. Entities shall recognise unvested past service cost in the period of the related plan amendment.

On presentation:

16. Entities shall disaggregate changes in the net defined benefit asset or liability into three components:
- a. service cost, including the gain or loss on curtailment.
 - b. interest cost on the defined benefit obligation.
 - c. remeasurements, comprising:
 - i. other changes in the defined benefit obligation and in plan assets
 - ii. the gain or loss on settlement
 - iii. the effect of the asset ceiling.
17. Entities shall present the remeasurements component in the other comprehensive income section of the statement of total comprehensive income.
18. Entities shall present the interest cost on the defined benefit obligation in the same way as other finance costs.
19. Entities shall disclose the service cost and interest cost on the defined benefit obligation either in the income statement or in the notes.

On other issues:

20. The Board would not to introduce a blanket exemption from defined benefit accounting for multi-employer plans.
21. Entities shall consider expected future increases in salaries when assessing whether benefits attribute higher benefits to later years.
22. Entities shall consider risk-sharing and or conditional indexation features when determining the best estimate of the defined benefit obligation.
23. The definitions of short-term employee benefits and other long-term employee benefits are based on the timing of when the entity expects the benefit to become due to be settled.
24. Entities shall include tax payable by the plan in the return on plan assets or in the measurement of the obligation depending on the nature of the tax.

Post-employment benefits

25. Entities shall include the costs of administering the plan in the defined benefit obligation unless they relate to the management of plan assets and the benefit promise does not depend on the return on those plan assets

On disclosures:

26. The Board would replace the defined benefit disclosures with a package of revised disclosures.
27. Entities shall provide additional disclosures if they participate in multi-employer plans.
28. The Board would not include in IAS 19 guidance on materiality for disclosures.

On curtailments and settlements:

29. The references to curtailments and settlements would be deleted. Other changes proposed in this project would remove the need to distinguish curtailments from negative past service cost and settlements from other remeasurements.
30. Entities shall disclose the effect of plan amendments with a narrative description of the amendments.
31. Entities shall disclose non-routine settlements, defined using wording similar to that used in *IFRIC Update* in May 2008 (events not covered by the actuarial assumptions).

On transition:

32. Entities should apply the proposed amendments to IAS 19 retrospectively. This is in accordance with the general requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 1 *First-time Adoption of International Financial Reporting Standards*.
33. The Board would not amend IFRS 1.

Contact information

34. Staff contacts
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