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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** 23 January 2007, London

**Project:** Business Combinations II

**Subject:** Employee Benefit Plans (Agenda paper 2C)

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### **INTRODUCTION**

1. In July 2002, the IASB first discussed the issue of whether the business combinations standard should allow an exception from fair value measurement for particular employee benefit obligations. At that meeting, the IASB decided that post-employment benefits, which under IAS 19 *Employee Benefits* includes *defined contribution plans* and *defined benefit plans (pensions)* and *other post-employment benefits*, should be measured in accordance with the measurement and recognition principles of IAS 19 rather than at fair value.
2. That decision implies that employee benefits other than post-employment benefits would be measured and recognised at fair value in a business combination rather than measured in accordance with IAS 19. Employee benefits other than post-employment benefits include (a) *other long-term employee benefits* (such as sabbatical leave or long-term disability payable after 12 months) (b) *termination*

*benefits* and (c) *short-term employee benefits* (such as, salaries and wages, short-term compensated absences, profit sharing and bonuses payable within 12 months).

3. Similarly, in July 2002, the FASB decided that benefit plan obligations in the scope of (a) FASB Statement No. 87, *Employers' Accounting for Pensions*; (b) FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*; and (c) FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*, would be measured in accordance with those Statements rather than at fair value. The employee benefits described in those standards are *post-employment benefits*. Thus, the FASB and the IASB would have had a similar scope exception.
4. At its May 2006 meeting, the IASB discussed the proposed exception and affirmed that assets and liabilities related to *post-employment benefits* would be measured in accordance with IAS 19 rather than at fair value.
5. Furthermore, the IASB observed that in applying IAS 19 in a business combination the acquirer would be required to measure any asset or liability related to the acquiree's post-employment benefit plans at the present value of the obligation less the fair value of any plan assets set out in paragraph 108 of IAS 19. The staff intends to clarify this implication in the wording of the final business combinations standard.
6. At its May 31, 2006 Board meeting, the FASB discussed the proposed scope exception for post-employment benefits. It decided to affirm that proposed exception, but to extend the exception to other employee benefits as well. The guidance for accounting for employee benefits is dispersed throughout U.S. GAAP and that guidance provides different and varying amounts of recognition and measurement guidance for employee benefits. Some long-term benefits are required to be discounted, others are not. For long-term benefits that are required to be recognized at undiscounted amounts, the FASB believed that it would be inappropriate to require them to be recognized at fair value on the acquisition date when on the next day a loss would be recognised to adjust those fair values to

undiscounted amounts. And for those long-term employee benefits that are required to be discounted, the FASB believed that a fair value measure would not differ significantly from fair value. Thus, the FASB decided to allow a broad exception to fair value measurement for all employee benefits.

7. The purpose of this agenda paper is to ask the IASB whether it wants to limit the measurement exception to assets and liabilities related to *post-employment benefits* or whether it wants to extend the measurement exception to all assets or liabilities arising from employee benefits within the scope of IAS 19.

#### **STAFF ANALYSIS**

8. IAS 19 applies to four types of employee benefits:
  - a. post-employment benefits (for which the IASB has already decided to provide an exception to fair value measurement);
  - b. short-term employee benefits;
  - c. other long-term employee benefits; and
  - d. termination benefits.

#### ***Short-term employee benefits***

9. Paragraph 7 of IAS 19 defines short-term employee benefits as ‘employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service’. Short-term employee benefits include wages, salaries, social security contributions, compensated absences, profit-sharing and bonuses payable in less than twelve months and non-monetary benefits for current employees.
10. According to paragraph 10 of IAS 19 short-term employee benefits are measured *at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service. [Remainder of paragraph omitted from observer note]*

11. *[Paragraph omitted from observer note]*
12. Furthermore, the staff acknowledges that the measurement of assets and liabilities arising from short-term employee benefits is generally not as complex as the measurement of post-employment benefits and has not been cited as a practice problem. However, we believe that it would be simpler to exempt short-term employee benefits from the fair value measurement principle. Providing an exception for short-term employee benefits avoids the need to consider two different accounting methods.

***Other long-term employee benefits***

13. Paragraph 7 of IAS 19 defines other long-term employee benefits as ‘employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service’. Other long-term employee benefits include long-term compensated absences, jubilee or other long-service benefits, long-term disability benefits, profit sharing and bonuses payable after more than twelve months and deferred compensation.
14. Paragraph 128 of IAS 19 states that other long-term employee benefits shall be measured as the net of (a) the present value of the defined benefit obligation and (b) minus the fair value of plan assets out of which the obligations are to be settled directly. Paragraph 128 refers to the measurement of the defined benefit obligation and the plan assets to the measurement guidance for post-employment benefits.
15. As mentioned above, the IASB has already decided to exempt post-employment benefits from the fair value measurement principle primarily because of the complexity of the measure and the day two consequences that would arise if the IASB required a fair value measure on day one and an IAS 19 measure on day two. Paragraph BC133 of the BC ED states:

The [IASB] Board concluded that if, at this time, it required employee benefit obligations assumed in a business combination to be

measured at their acquisition-date fair values it also would need either to reconsider comprehensively the relevant standards for those employee benefits or, at a minimum, to determine whether accommodations would be required for their subsequent measurement following the acquisition date, or both. At this time, the Board does not have an active project plan or the resources for such an undertaking. Thus, in view of the complexities in accounting for employee benefit obligations under IAS 19, the Board decided that those benefits should be measured in accordance with that standard.

16. The staff believes that the same argument applies to the measurement of other long-term employment benefits and, therefore, recommends that those employment benefits be exempt from the fair value measurement principle in business combinations.

#### ***Termination benefits***

17. Paragraph 7 of IAS 19 defines termination benefits as ‘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’. Termination benefits include lump sum payments, enhanced retirement benefits or other post-employment benefits and salary paid until the end of a specified period even though the employee renders no service that provides economic benefits to the entity in that period.

18. *[Paragraph omitted from observer note]*

19. The BC ED does not provide guidance on the subsequent accounting for termination benefits. Therefore, the measurement guidance in IAS 19 would apply to the subsequent measurement of termination benefits assumed in a business combination. The staff is concerned that the fair value measurement of termination benefits assumed in a business combination could cause day-two measurement effects due to a change in measurement attribute. Therefore, the staff recommends that termination benefits are exempted from the fair value measurement principle in a business combination and rather be measured in accordance with the measurement guidance in IAS 19.

***Staff Recommendation and question to the Board***

20. The staff recommends that all assets or liabilities related to employee benefits that are within the scope of IAS 19 should be exempted from the fair value measurement principle in business combinations, regardless of whether they represent short-term employee benefits, post-employment benefits, other long-term employee benefits or termination benefits.

***Does the Board agree that all assets or liabilities related to employee benefits that are within the scope of IAS 19 should be exempted from the fair value measurement principle in business combinations?***