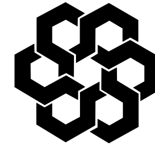

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International Accounting Standards Board

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: **19 July 2007, London**

Project: **Post-employment benefits**

Subject: **Vested benefits payable at the date when an employee leaves the entity (Agenda paper 7D)**

INTRODUCTION

1. At the Board's June meeting, a Board member raised the question of whether, for defined return promises, an additional liability should be recognised if:
   (a) vested benefits are payable at the date when an employee leaves the entity; and
   (b) the amount payable is greater than the amount that would otherwise be recognised in the balance sheet for those benefits.

2. For defined return benefits, this is likely to occur when the rate of return promised to the employee is less than the discount rate used to determine the present value of the contribution requirement.

3. This paper considers whether the Board should require the recognition of an additional liability to reflect the amount that an employer would have to pay when an employee leaves the entity before the expected period of service.

STAFF RECOMMENDATION

4. The staff recommends that the Board should not require the recognition of an additional liability to reflect the amount that an employer would have to pay an employee leaving service before retirement.

STAFF ANALYSIS

5. The Board has decided that a defined return promise has two components:

   (a) a contribution requirement; and

   (b) a promised return on those contributions.

6. Agenda paper 7E includes discussion of how those components are measured. The analysis in this paper does not depend on the outcome of those discussions.

7. If the Board decides to include the time value of money in the measurement of the contribution requirement, it is possible that the amount that an entity might be required to pay an employee that leaves service immediately after the balance sheet date might be more than the amount recognised as its liability at the balance sheet date.[1] This would occur if:

   (a) the benefits are vested and an employee leaving service is entitled to receive the benefits when he leaves and

   (b) the rate of return promised to the employee is less than the discount rate used to determine the present value of the contribution requirement.

8. It could be argued that the recognition of a lower amount than the entity would be required to pay if an employee left service at the balance sheet is inconsistent with the requirements of paragraph 49 of IAS 39, which states:

   "The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid."[2]

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[1] This is the case whichever of the methods discussed in Agenda Paper 7E is used.

[2] IAS 39, paragraph 49

9. Because the Board has decided to adopt a financial instruments model for the accounting for defined return promises, it can be argued that this model should also include a requirement similar to that of IAS 39.49.

10. However, the staff argues that the Board should not introduce such a requirement in phase 1 of this project because:

    (a) it would result in different accounting for benefits depending on whether those benefits are vested or unvested. Although some question the legitimacy of treated unvested benefits as a liability, the Board has decided that it would not examine the assumption that unvested benefits should be accounted for as a liability in phase 1. The staff argues the Board should preserve the same accounting for vested and unvested benefits in phase 1, until the accounting for unvested benefits is examined as a whole.

    (b) no additional liability is required for other post-employment benefit promises. Paragraphs 63-65 of the Basis for Conclusions to IAS 19 states that the IASC considered but rejected a requirement to recognise an additional minimum liability in these circumstances. The IASC concluded that "such additional measured of the liability are confusing and do not provide relevant information. They would also conflict with the *Framework's* going concern assumption and with its definition of a liability." [3]

    (c) a similar issue arises for insurance contracts in which a policyholder may surrender its policy and receive an amount that exceeds the amount that would otherwise be recognised in the balance sheet for that policy. In the discussion paper *Preliminary Views on Insurance Contracts*, the Board decided that a surrender value of an insurance contract does not establish a lower limit for the current exit value (which is the amount at which insurance contracts are measured).[4] Thus, the Board's conclusions in recent deliberations have not been consistent with IAS 39.

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[3] IAS 19, Basis for Conclusions, paragraph 65

[4] However, the current exit value cannot be negative (ie an asset), unless that asset is recoverable from future premiums that the policyholder must pay to retain guaranteed insurability. Thus, the surrender value has a 'floor' of nil.

11. The staff recommends that the Board does not introduce a requirement to recognise an additional liability to reflect the amount that an employer would have to pay an employee leaving service before retirement.

12. The staff notes that defined return promises are currently accounted for as defined benefit plans. Thus, the staff recommendation is consistent with current practice.