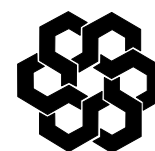


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**International
Accounting Standards
Board**

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

Note: These notes are based on the staff paper prepared for the Employee Benefits Working Group Meetings. Paragraph numbers correspond to paragraph numbers used in the Employee Benefits paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IASB Meeting: Employee Benefits Working Group
Paper: Agenda Paper 1A - Background about the IASB's post-employment benefits project

Purpose of this paper

1. This paper gives background information on the following matters:
 - a. reasons for this project;
 - b. the Board's approach to the project;
 - c. the context; and
 - d. the role of this group
2. If members of the Working Group have questions about this paper, we encourage you to raise these with the staff outside the meeting. To make the best use of the group's limited meeting time, we do not expect to allocate time to discuss this paper unless members believe that it would be beneficial to discuss specific matters in the full group.

Reasons for this project

3. Post-employment benefits are an important financial reporting and public policy issue. Anecdotal evidence and academic research suggests that many users of financial statements do not understand the information provided about post-employment benefit obligations. The existing accounting requirements for defined

benefit post-employment benefits have long been criticised by both users and preparers of financial statements. In its *Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2003 on Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers*, the SEC staff recommended that the Board and FASB jointly address defined benefit pension plan accounting. Similarly, in comments letters responding to the Board's previous projects to improve IAS 19, many constituents recommended that a comprehensive review of the accounting for post-employment benefits is necessary to improve the quality and transparency of financial statements, and to eliminate inconsistent accounting treatment for pensions and certain other obligations.

4. Accordingly, in July 2006, the Board decided to add a project on post-employment benefit accounting to its agenda.

The Board's approach to the project

5. The Board recognises a need to provide users of financial statements with better information about post-employment benefit obligations sooner rather than later. As a result, the Board began with a first phase of targeted improvements to IAS 19 *Employee Benefits*. A comprehensive review of post-employment benefit accounting will form the second phase, to begin after Phase 1 is complete. That comprehensive review will be conducted in conjunction with the FASB.
6. The Board considered whether it should begin its comprehensive project without first making limited improvements. However, the Board concluded post-employment benefits are a sufficiently important issue to address in the short term. By limiting the scope of Phase 1, the Board believes it can deliver worthwhile improvements before it could complete a comprehensive project. The Board accepts a scope limitation would require some compromises: the result may not be principles-based and may not always be consistent with the decisions in other projects. However, it will reduce complexity and subjectivity in post-employment benefit accounting and result in more decision-useful information.
7. To limit the scope of Phase 1, the Board decided the issues to be addressed should meet the following criteria:

- a. the issue causes current problems in post-employment benefit accounting, either for preparers in applying the existing standard IAS 19 *Employee Benefits* or for users in understanding the amounts reported in the financial statements.
 - b. there are alternative solutions to the problem that do not fundamentally change the techniques currently used to measure post-employment benefit obligations for the types of plans contemplated when IAS 19 was written. This allows the Board to address the problem quickly.
 - c. a change would improve the decision usefulness of financial reporting.
8. The Board decided consideration of the following aspects of IAS 19 would not meet the criteria in paragraph 7:
- a. measurement of plan assets at fair value;
 - b. accounting based on the plan's terms and benefit formula for vested and unvested benefits;
 - c. presentation of a net post-employment benefit asset/liability, rather than consolidation of post-employment benefit assets and liabilities in the sponsor's financial statements;
 - d. measurement of the post-employment benefit obligation incorporating future salary increases;
 - e. the use of the projected unit credit method for typical defined benefit plans; and
 - f. the discount rate currently required in IAS 19.

Thus, Phase 1 proposes no change to these areas.

9. Aspects of IAS 19 meeting the criteria in paragraph 7 that the Board decided to address are:
- a. the deferred recognition of some gains and losses in a defined benefit plan;
 - b. the treatment of settlement and curtailments in a defined benefit plan;
 - c. presentation of the components of defined benefit costs; and
 - d. disclosures related to the above issues.
10. The Board also decided to address the definitions of defined benefit and defined contribution plans and the accounting for cash balance plans. Cash balance plans

were not envisaged when IAS 19 was developed. Their emerging prevalence and the difficulties in applying the requirements of IAS 19 to them has persuaded the Board that it should consider the issues relating to the accounting for cash balance plans as a matter of urgency.

The context

11. This section describes the context of this project with respect to the FASB's project on postretirement benefits, the Board's financial statement presentation project and other Board projects.

The FASB project

12. In November 2005, the FASB started work on its two-phase project on postretirement benefits. In September 2006 the FASB published the outcome of its first phase, SFAS 158 *Employers' Accounting for Defined Benefit and Other Postretirement Plans*.
13. In developing SFAS 158, the FASB chose an approach that, in a simplified description:
 - a. recognises the full postretirement benefit obligation on the balance sheet;
 - b. continues to recognise the existing postretirement benefit cost in the income statement in accordance with existing SFAS 87 *Employers' Accounting for Pensions*, SFAS 88 *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and Termination Benefits* and SFAS 106 *Employers' Accounting for Postretirement Benefits Other Than Pensions* with the deferred recognition features in place; and
 - c. recognises, through other comprehensive income, amounts that arise during the period but are not recognised as components of net periodic benefit cost. These amounts are recycled when recognised in the income statement in accordance with the deferred recognition features of SFAS 87, SFAS 88 or SFAS 106.
14. In its second phase, the FASB envisages a comprehensive project conducted jointly with the IASB. By conducting a separate first phase, the Board's intention is not to move apart from the FASB on a major project. The IASB and FASB shared the same problem: a need for both short-term improvements in, and a comprehensive

consideration of, post-employment benefit accounting. However, the Board favoured a different approach to short-term improvements from the one adopted by the FASB. In particular, the Board:

- a. was reluctant to introduce recycling into a standard that currently does not require it, pending its work in the financial statement presentation project; and
 - b. had been urged by constituents in previous consultations to address issues relating to recognition and presentation sooner rather than later.
15. Consequently, the FASB and IASB projects should be viewed as parallel projects. Each Board monitors the other's work and learns from the other's experience. In particular, both Boards will benefit from comment letters received on the other's consultation documents. The IASB and FASB will review how to achieve a converged standard in the second phases of their projects after the IASB completes Phase 1. The second phase of the project is discussed in more detail in Paper X.

Financial statement presentation

16. In April 2004, the IASB and FASB decided to combine their projects on performance reporting. The objectives of the joint FASB/IASB project on financial statement presentation are to establish a common, high-quality standard on how to present the financial statements.
17. The project has two phases. Phase A addresses what constitutes a complete set of financial statements and requirements to present comparative information. Phase B addresses fundamental issues about presentation. Phase B topics include:
- a. developing principles for aggregating and disaggregating information in each financial statement;
 - b. defining the totals and subtotals to be reported in each financial statement (that might include categories such as business and financing);
 - c. deciding whether components of other comprehensive income/other recognised income and expense should be recycled to profit or loss and, if so, the characteristics of the transactions and events that should be recycled and when recycling should occur; and

- d. considering FASB Statement No. 95, *Statement of Cash Flows*, and IAS 7 *Cash Flow Statements*, including whether to require the use of the direct or indirect method.
18. The initial output for Phase B is a discussion document that is expected to be published in the second quarter of 2007. Accordingly, discussion documents on both the financial statement presentation project and this project will be open to comment at the same time.
19. Although the financial statement presentation project will eventually affect how post-employment benefit costs are presented, the Board decided its project on post-employment benefits should not be dependent on the financial statement presentation project. The Board noted arguments that the postretirement benefits discussion paper should not present proposals that rely on IAS 1 because IAS 1 may be superseded by the time the project is finalised. However, the Board decided this discussion paper should discuss post-employment benefits in the context of IAS 1 because:
- a. it could complete a limited scope project to improve financial reporting for post-employment benefits in a timely manner only if it did not tie its outcome to that of other projects.
 - b. the Board did not want to risk any delays to one project causing delays to another. Consequently, the Board decided it would be better to conduct each project independently so that a successful outcome would not rely on completion of the other project.
 - c. the Board did not want to imply its proposals in this project would be finalised only if its proposals to the financial statement presentation project were finalised. If the financial statement presentation project were delayed, then the proposals in this project would be presented in accordance with IAS 1.

Other projects

20. The Board notes that conclusions it develops in other projects, including fair value measurement, financial instruments, revisions to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and aspects of the conceptual framework project will be important to any discussion on the accounting for post-employment benefits.

The Board intends its work on both phases of its post-employment benefits project should proceed in parallel with these other projects and should not wait for their outcome. This work may generate useful inputs for those other projects and conclusions reached in other projects may inform the Board's work on accounting for post-employment benefits.

The role of this group

21. As noted in the Operating Procedures document in paper 1B (and previously circulated to working group members), the role of the Working Group will not be to develop proposals of its own, but to provide views and practical advice on the concepts, ideas and proposals developed by the IASB and its staff. In performing this role members of the Working Group will be able to offer information and practical insights from their perspectives.
22. The IASB staff expects to seek help from Working Group members as necessary in a variety of ways (for example, through emails, video conferences and meetings with the Group or sub-groups).
23. Because the project is intended to be a comprehensive review of the current accounting for employee benefits guidance, the IASB expects members of the Working Group to be willing to consider ideas beyond their existing practices in favour of working towards improved financial reporting. The IASB can learn from national or industry practice, but will also consider other options. The IASB's goal is a workable standard that is conceptually grounded and principle-based.