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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:** 21 March 2007, London

**Project:** Annual improvement process

**Topic:** Short-term employee benefits  
(Agenda Paper 6E)

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1. The staff of the Institute of Chartered Accountants in India (ICAI) have identified an issue that would be most appropriately resolved via the annual improvements process (as agreed by the Board in July 2006).

*Issue:* Should the term 'fall due' in the definition of short-term employee benefits be replaced to remove the perceived conflict with the term 'expected to occur' used in the description of compensated absences?

### **Staff recommendation**

2. The staff recommends that the Board:
  - should add this issue to the annual improvements project; and
  - should amend IAS 19 as proposed in paragraph 11 of this paper.

## Background

3. IAS 19 contains the following definitions in paragraph 7:

*Short-term employee benefits* are 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 (emphasis added).

*Other long-term employee benefits* are 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 (emphasis added).

4. Paragraph 8 of the Standard states:

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 absences are **expected to occur** within twelve months after the end of the period in which the employees render the related employee service;
- (c) profit-sharing and bonuses payable 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 (emphasis added).

5. The staff of the ICAI are concerned about the different meanings of the terms 'fall due' and 'expected to occur'. They point out that, in the case of annual leave, it will 'fall due' when the employee has provided the services that entitle him / her to the leave. However, in situations where leave vests, it may not be expected to occur until more than 12 months from the end of the period (especially in environments where it is not common practice to take the full entitlement of leave each year). In these circumstances, the leave would not meet the definition of an other long-term employee benefit as it is due as at the end of the period. However, it would not be within the list of items included in short-term employee benefits if it is not expected to occur within 12 months of the end of the period.

6. The staff has focussed on the term ‘fall due’ and believe that this term should be amended. ‘Fall due’ implies the inception of an obligation, not when that obligation is expected to be settled. The use of ‘expected to occur’ in the explanation of short-term compensated absences focuses on the timing of the settlement of the obligation.
7. The staff believe that short-term / long-term classification in IAS 19 is concerned with the accounting to be applied to the benefit. Short-term benefits are accounted for very differently from post-employment and other long-term benefits as there is no discounting. The focus is on the uncertainties surrounding the ultimate settlement of the obligation, which is what drives the different treatments in IAS 19.
8. Therefore, the staff believe that the focus for classification as short-term / long-term should be on the settlement of the obligation. The staff notes that this concept is not restricted to cash settlement.

### **Staff recommendation**

9. IAS 19 should be amended as proposed in paragraph 11.
10. **Does the Board agree?**

## Drafting

11. The staff recommend that IAS 19 should be amended as follows:

### Definitions

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- 7 The following terms are used in this Standard with the meanings specified:

...

***Short-term employee benefits* are employee benefits (other than termination benefits) which ~~fall due~~ are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service.**

...

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

...

### Basis for Conclusions on Proposed Amendments to IAS 19 *Employee Benefits*

*This Basis for Conclusions accompanies, but is not part of, the draft amendments.*

### Fall due

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- BC1 The Board has identified a potential conflict between paragraphs 7 and 8 of IAS 19. Compensated absences fall due when the employee has rendered the service. Short-term compensated absences are benefits ‘expected to occur’ within twelve months after the end of the period. Other long term employee benefits are employee benefits expected to ‘fall due’ more than twelve months from the end of the period. Therefore, a compensated absence which is due to the employee but is not expected to occur for more than twelve months is not an other long term employee benefit but neither does it qualify as short-term. In light of the perceived conflict, the Board proposes to amend the definition of short-term employee benefits and other long term employee benefits to replace the term ‘fall due’ with ‘expected to be settled’. The Board noted that the expected timing of settlement of the benefit should drive the classification.