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International
Accounting Standards
Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: November 2007, London

Project: Pension promises based on performance hurdles
(Agenda Paper 7A)

Background

1. The IFRIC received a request that concerned with the measurement of the defined benefit obligation in respect of pension promises based on a performance hurdle. Performance hurdles may take various forms ranging from straightforward bonuses to more complex arrangements relating to additional sponsor contributions or years of deemed service.

Issues

2. The issue is how such non salary compensation in defined benefit plans should be accounted for in accordance with IAS 19.

Staff analysis

3. The first issue is whether the performance conditions are variables of which paragraph 73 of IAS 19 requires an estimate to be made. Paragraph 73 of IAS 19 states that 'Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits'. It

lists a number of actuarial assumptions, including future salary and benefit levels. The staff argues that including estimates of amounts to be paid relating to performance conditions are variables that will determine the ultimate cost of providing the post-employment benefits. They should therefore be included in the determination of the obligation.

4. The sponsor would also have to consider how the total benefit, including assumptions about future performance conditions, should be attributed to periods of service. Under paragraph 67 of IAS 19, attribution is according to the benefit formula, unless an employee's service in later years will lead to a materially higher level of benefit than in earlier years. In that case the total benefit is attributed to periods of service on a straight-line basis. Therefore, if the inclusion of performance-related amounts is not expected to result in materially higher benefits being earned in later years, a benefit based on the contributions for the period would be recognised in each period.
5. The staff also note that the Board discussed the definition of benefit promises in the course of its project on Post-employment benefits Phase I (see September 2007 IASB Update). This project will not change the accounting for defined benefit plans. However, depending on the nature of the arrangement, a pension promise based on a performance hurdle may constitute a *defined return* promise in accordance with the new definitions in Phase I.

Staff recommendation

6. The staff believes that the requirements of IAS 19 are sufficiently clear on this issue and that it is unlikely that divergence will emerge in practice. Therefore, the staff recommends the IFRIC not to take this item onto its agenda.
7. **Question to the IFRIC: do you agree with the staff recommendation and the proposed wording set out in the appendix of this paper?**

Appendix: draft wording for not taking the item on to the agenda

[Appendix removed from observer notes].