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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: February 2008, London

Project: ED Annual Improvements Process

Subject: IAS 19 *Employee Benefits*
Comment Letter Analysis
Short term and long term benefits
(Paper 4H)

Introduction

1. In October 2007, the Board issued an Exposure Draft of Proposed Improvements to IFRSs. The ED included the Board's proposals to amend IAS 19 Employee Benefits to deal with five issues.
2. Four of the five proposed changes were largely supported by the respondents with either no or minor comments. The table in Paper 4D lists the proposals, comments made by respondents, and the staff's initial assessment.
3. However, there was significant disagreement with one issue. This paper discusses the comments made by respondents to that issue and sets out the staff recommendation.

Background

4. The Board proposed to amend the definition of short-term employee benefits and other long-term employee benefits to replace the term 'fall due' with the notion of employee entitlement.

5. In setting out its proposals, the Board noted that there is a potential conflict between paragraphs 7 and 8(b) of IAS 19. Paragraph 7 states that short-term employee benefits such as short-term compensated absences are benefits that 'fall due' when the employee has rendered the related service. Other long-term employee benefits are defined as employee benefits which do not 'fall due' wholly within twelve months after the end of the period.
6. However, paragraph 8(b) describes short-term compensated absences as compensation 'expected to occur' within twelve months after the end of the period in which the employee rendered the related service.
7. Therefore, there are some benefits that do not appear to fall into either category. For instance, consider a bonus payment to which the employee is entitled (falls due) after one year but which will not be paid for another 3 years. This benefit does not mean the definition of long-term benefits in paragraph 7 because it is already due to the employee. However, it also does not meet the description of a short-term benefit in paragraph 8(b) because it is expected to occur after 12 months.
8. In general, a compensated absence that is due to the employee but that is not expected to occur for more than twelve months is neither an 'other long-term employee benefit' as defined in paragraph 7 of IAS 19, nor a short-term compensated absence as described in paragraph 8(b) of IAS 19.
9. In view of this perceived conflict between whether it is the timing of the entitlement or the timing of the expected payment that distinguishes between short-term and long-term benefits, the Board decided that it is the timing of the employees' entitlement to the benefit rather than the expected timing of settlement that is the critical factor in classifying the benefit. Therefore, the Board proposed to replace the term 'fall due' in the definitions of short-term employee benefits and other long-term employee benefits. The proposed amendments are set out below.

Paragraph 7

Short-term employee benefits are employee benefits (other than termination benefits) to which the employee becomes entitled ~~fall due wholly~~ within twelve months after the end of the period in which the employee renders the related service.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) to which the employee does not become entitled ~~do not fall due wholly~~ within twelve months after the end of the period in which the employee renders the related service.

Paragraph 8

Short-term employee benefits include items such as:

...

(b) short-term compensated absences (such as paid annual leave and paid sick leave) where employees are entitled to be compensated for absences occurring ~~the absences are expected to occur~~ within twelve months after the end of the period in which the employees render the related employee service.

10. The majority of constituents agreed that there is a conflict that needs to be resolved. However, a significant minority disagreed with the Board's proposed solution.
11. The staff recommendation and comment analysis are set out in the following sections.

Staff recommendation

12. The staff s recommends that the Board amends the definitions to change the notion of 'entitlement' to 'expected to be settled in full' and proposes the following amendment to the definitions in the Exposure Draft:

Paragraph 7

Short-term employee benefits **are employee benefits (other than termination benefits) to which the employee becomes entitled that are expected to be settled in full within twelve months after the end of the period in which the employee renders the related service.**

'Other long-term employee benefits **are employee benefits (other than post-employment benefits and termination benefits) to which the employee does not become entitled that are not expected to be settled in full within twelve months after the end of the period in which the employee renders the related service.**

8(b) **short-term compensated absences (such as paid annual leave and paid sick leave) where employees are entitled expected to be compensated in full for absences occurring within twelve months after the end of the period in which the employees render the related employee service.**

Issues raised

13. The main reasons for disagreement with the Board's proposals were as follows:
- (a) If the distinction is to be decided on the basis of entitlement, this would appear to switch many benefits that are currently accounted for as other long-term benefits to being accounted for as short-term benefits. At the extreme, the proposed change could be interpreted to mean that all vested post-employment benefits would fall within the definition of short-term benefits. [CL 46]
 - (b) The term 'fall due wholly' is clear, precise and easily understandable whereas the new term could pose new questions depending on the applying jurisdiction. [CL 11]
 - (c) The reference to entitlement may be problematical, particularly when translated, because a legal entitlement often already exists at the balance sheet date once the related services have been rendered, whereas the entitlement to settlement may be for a future point in time [CL 10]

Possible solution

14. One respondent suggested that a better way to deal with the problem is to change the description in paragraph 7 to match that in paragraph 8(b). This would mean that the distinction between short-term and long-term benefits would be based on the expected settlement date rather than on the entitlement date.
15. The staff agrees with this suggestion. Distinguishing short-term from long-term benefits in IAS 19 matters because the measurement requirements for the two types of benefits are different. Short-term benefits are measured on an undiscounted basis without the use of actuarial assumptions. Long-term benefits are measured using actuarial assumptions and are discounted using a high quality corporate bond rate.
16. Therefore, the staff agrees with those respondents who maintain that the distinction between short-term and long-term benefits should focus on the timing of the settlement of the benefit promise not the timing of the entitlement to the promise.
17. Some respondents also disagreed with the removal of the term 'wholly' as it could mean that some (previously classified) long-term benefits could now be

partly short-term and partly long-term if the benefits do not all vest at the same time.

“As currently drafted, it could be argued that the portion of the total long service leave liability that is entitled to be taken within 12 months could satisfy the ‘short term employee benefit’ definition and be required to be measured on an undiscounted basis, even though there is no expectation for this liability to be settled within 12 months.

Previously, the use of the word “wholly” in the definition seemed to address this issue i.e. benefits that “do not fall due wholly within twelve months”. This was also consistent with paragraph 66 of IAS 19, which required that the whole of a post employment obligation be discounted, even if part of the obligation ‘falls due’ within twelve months of the reporting date.” [CL 2]

18. The staff agrees that the bifurcation of a single promise into short-term and long-term components, is undesirable. Therefore the staff supports the retention of the notion ‘wholly’ in the definition. This will maintain consistency with paragraph 66 of IAS 19, which requires the whole of a long-term benefit to be discounted even if part of the obligation falls due within 12 months of the balance sheet date.

19. Therefore, the staff proposes the following amendment to the Board’s proposals.

Paragraph 7

Short-term employee benefits are employee benefits (other than termination benefits) ~~to which the employee becomes entitled that are expected to be settled in full~~ within twelve months after the end of the period in which the employee renders the related service.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) ~~to which the employee does not become entitled that are not expected to be settled in full~~ within twelve months after the end of the period in which the employee renders the related service.

8(b) short-term compensated absences (such as paid annual leave and paid sick leave) where employees are entitled expected to be compensated in full for absences occurring within twelve months after the end of the period in which the employees render the related employee service.