



**30 Cannon Street, London EC4M 6XH, United Kingdom**  
**Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411**  
**E-mail: [iasb@iasb.org](mailto:iasb@iasb.org) Website: [www.iasb.org](http://www.iasb.org)**

**International  
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*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: January 2008, London**

**Project: Review of Tentative Agenda Decisions published in November IFRIC Update – IAS 19 Employee Benefits – Pension promises based on performance hurdles (Agenda Paper 4A)**

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The IFRIC received a request to clarify the measurement of the defined benefit obligation when pension promises are based on achieving specific performance targets. Performance targets may relate to various forms of pension promises ranging from additional pensionable earnings from performance bonuses to more complex arrangements relating to additional sponsor contributions or years of deemed service. The issue is how defined benefit plans with such features should be accounted for in accordance with IAS 19.

The IFRIC noted that 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.' Performance targets are variables that will affect the ultimate cost of providing the post-employment benefits. They should therefore be included in the determination of the benefit.

The IFRIC also noted that paragraph 67 of IAS 19 requires benefits to be attributed to periods of service 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. When benefits are affected by performance hurdles, the effect on the attribution of benefits must also be considered.

Given the requirements in IAS 19, the IFRIC did not expect divergence in practice and [decided] not to take this item to its agenda.