

**International
Accounting Standards
Board**

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This document is provided as a convenience to observers at the Global Preparers Forum meeting, to assist them in following the discussions. 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 papers prepared for the GPF meeting. Paragraph numbers correspond to paragraph numbers used in the GPF agenda paper.

INFORMATION FOR OBSERVERS

Global Preparers Forum Meeting: July 2008, London

Project: Post-employment benefits

(Agenda Paper 7)



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Global Preparers Forum

Post-employment benefits

*The views expressed in this presentation are those of the presenter,
not necessarily those of the IASB.*



The Project

- **Why are we doing it?**
 - **Inconsistency with the *Framework***
 - **Multiple options reduce comparability**
 - **Lack of clarity leading to diverse interpretations in practice**
 - **Measurement does not always give a faithful representation of the liability**
 - **Many other specific issues**

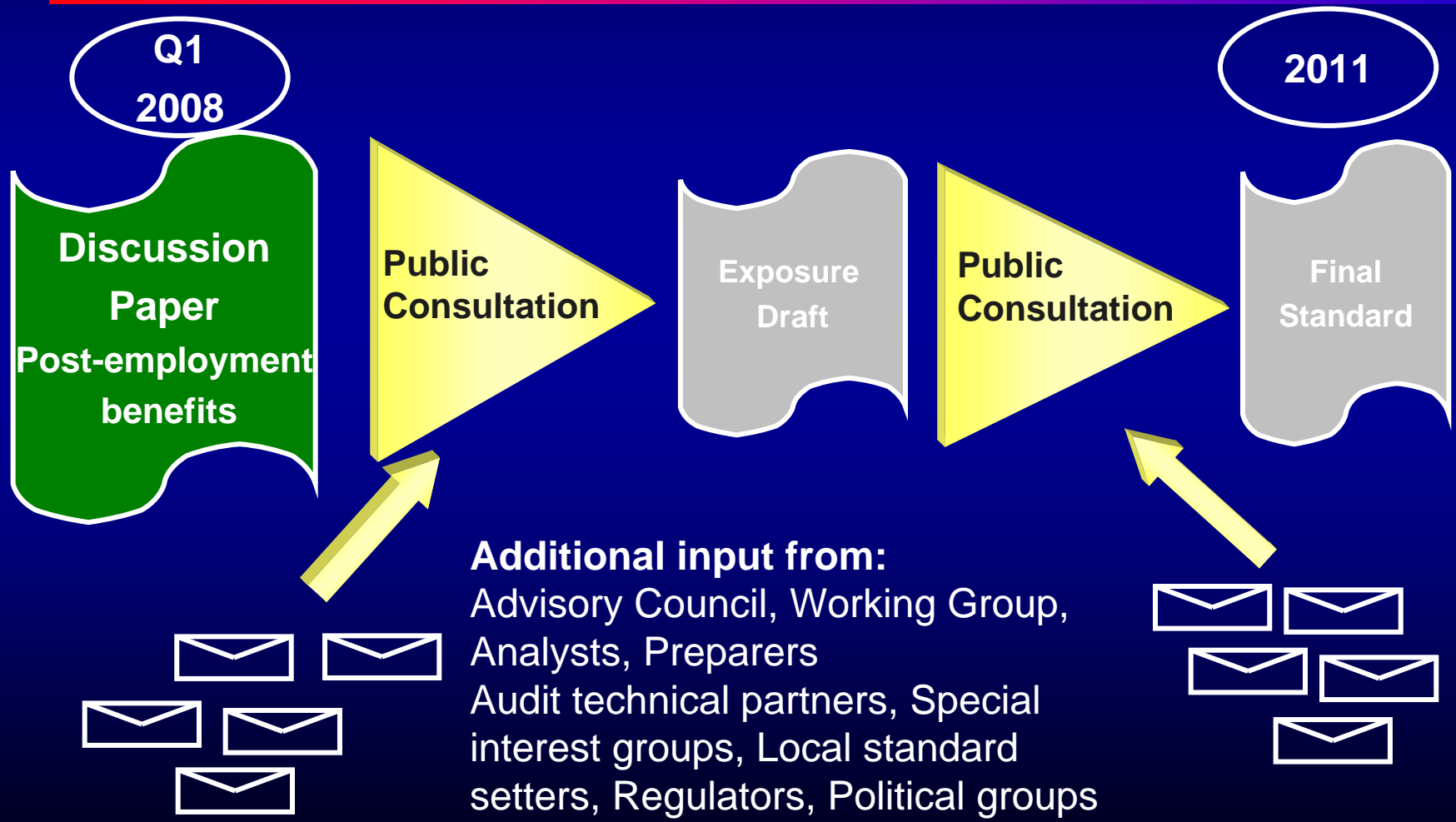


Project Scope

1. Deferred recognition – the corridor method
2. Presentation for DB plans – expected asset return and actuarial gains and losses
3. Definitions of benefit promises
4. Measurement of the liability for cash balance and similar plans
5. Presentation for cash balance and similar plans



Where are we in the Due Process?





(1) Deferred recognition

Current requirements

- Option to defer actuarial gains and losses and to use the corridor method



Consequences

- Deficits = Assets?
- Surpluses = Liabilities?
- Lack of comparability
- Complex accounting
- Important information relegated to the notes



Proposed solution

- Immediate recognition of all gains and losses
- Removal of corridor



Consequences

- Deficits = Liabilities
- Surpluses = Assets
- Better comparability
- Simpler accounting
- Important information in primary financial statement



(2) Presentation

- How should pension gains and losses be presented?
- Board has not reached a preliminary view

Three approaches put forward

- i. All gains and losses presented in profit or loss
- ii. Costs of Service in P/L, everything else in OCI
- iii. Costs of service, interest cost and interest on plan assets in P/L, other items (remeasurements) in OCI



(3) Definitions of benefit promises

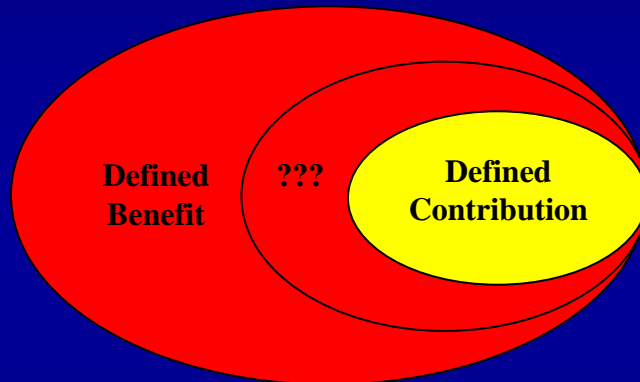
Current requirements

- In IAS 19, plans are:
 - **Defined Contribution (DC) or;**
 - **Defined Benefit (DB)**
- All promises fall into one or the other category

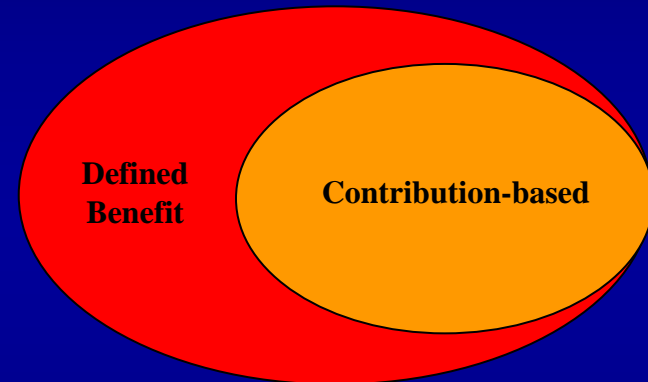


New Classification

■ Current requirements



Preliminary view:



- New category of contribution-based promises
- All DC plans classified as contribution-based
 - No significant impact
- Some plans that were formerly DB would now be contribution-based, such as cash balance plans

(4) Measurement of contribution-based promises



Current requirements

- Projected Unit Credit method as most are currently DB
- Project forward and discount back

Problems

- Application to promises linked to equity returns is problematic
- Application to promises with a higher of option also problematic



Possible solution

New measurement attribute: fair value
assuming the terms of the benefit promise
do not change

- Principles, not detailed guidance
- Current estimates
- Use observable market inputs, where they exist
- Time value of money
- Adjustment for risk

(5) Presentation of contribution-based promises



- How should the new category of promises be presented in the financial statements?
- Change in the value of the liability for a contribution-based promise disaggregated into:
 - a service cost and
 - other value changes
- All changes in liability and plan assets presented in profit or loss



Help us find the best solution

- Improving reliability – immediate recognition
- Improving comparability – fewer options/improved presentation
- Reducing subjectivity – interest income/expected returns
- Improving clarity – new classification of benefit promises
- Improving measurement - for contribution-based promises



Comment on the Discussion Paper

We want to hear
your views