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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at Employee Benefits Working Group 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.

Note: These notes are based on the staff paper prepared for the Employee Benefits Working Group Meetings. Paragraph numbers correspond to paragraph numbers used in the Employee Benefits paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Meeting date: 27 June 2008, London

Meeting: Employee Benefits Working Group

Paper: Extract of the Invitation to Comment from the Discussion Paper Preliminary Views on Amendments to IAS 19 *Employee Benefits* (Appendix to Cover note)

Invitation to comment

ITC1 The Board invites comments on all matters in this paper, particularly on the questions set out below. Comments are most helpful if they:

- comment on the questions as stated.
- indicate the specific paragraph or paragraphs to which the comments relate.
- contain a clear rationale.
- describe any alternatives the Board should consider.

ITC2 Respondents need not comment on all of the questions. The Board is not seeking comment on any additional issues at this time.

ITC3 The Board will consider all comments received in writing by **26 September 2008**.

Scope of the project

ITC4 The project targets specific issues. Chapter 1 describes how the scope of the project was determined and notes further issues that might be considered in a more comprehensive review. The European Financial Reporting Advisory

Group has recently published a discussion paper *The Financial Reporting of Pensions*¹ that considers some of these further issues.

Question 1

Given the objective of the IASB project to address specific issues in a limited time frame, are there additional issues which you think should be addressed by the Board as part of this project? If so, why do you regard these issues as a matter of priority?

Recognition and presentation of defined benefit promises

ITC5 Chapter 2 describes the Board's deliberations on the recognition of defined benefit promises. The Board's preliminary views are summarised in paragraphs PV2–PV4.

Question 2

Are there factors that the Board has not considered in arriving at its preliminary views? If so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

ITC6 Chapter 3 sets out alternative approaches for the presentation of components of the defined benefit cost and analyses the relative merits of each approach. These approaches are summarised in paragraph PV5.

Question 3

- (a) Which approach to the presentation of changes in defined benefit costs provides the most useful information to users of financial statements? Why?
- (b) In assessing the usefulness of information to users, what importance do you attach to each of the following factors, and why:
 - (i) presentation of some components of defined benefit cost in other comprehensive income; and
 - (ii) disaggregation of information about fair value?
- (c) What would be the difficulties in applying each of the presentation approaches?

Question 4

- (a) How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?
- (b) Please explain any alternative approach to presentation that provides more useful information to users of financial statements. In what way does your approach provide more useful information to users of financial statements?

¹ When releasing a document for public consultation, the IASB's policy is to alert readers to alternative proposals. The IASB has not discussed these alternative proposals and thus reference does not signal the IASB's endorsement. Rather, the reference is meant to facilitate consideration of the alternatives by interested parties.

Definition of contribution-based promises

ITC7 This discussion paper introduces a new category of post-employment benefit promises—‘contribution-based’ promises (Chapter 5). The Board’s preliminary view is that contribution-based promises should be accounted for as described in Chapters 6–9.

ITC8 The Board’s intention in defining contribution-based promises is to capture those promises for which the measurement requirements of IAS 19 are difficult to apply. However, in trying to find an appropriate and conceptual way to distinguish these promises, the Board has included in the scope of the project some promises for which the measurement requirements of IAS 19 are not particularly difficult to apply. In particular, the scope includes promises in which the benefit includes a fixed return on contributions.

Question 5

Do you agree that the Board has identified the appropriate promises to be addressed in the scope of this project? If not, which promises should be included or excluded from the scope of the project, and why?

Question 6

Would many promises be reclassified from defined benefit to contribution-based under the Board’s proposals? What are the practical difficulties, if any, facing entities affected by these proposals?

ITC9 Contribution-based promises, as defined in this paper, include promises that IAS 19 classifies as defined contribution plans. The Board does not intend this proposal to lead to significant changes in the accounting for most promises that meet the definition of defined contribution plans in IAS 19.

Question 7

Do the proposals achieve that goal? If not, why not?

Recognition issues related to contribution-based promises

ITC10 Chapter 6 discusses recognition issues related to contribution-based promises. The Board’s preliminary views are summarised in paragraphs PV9–PV11.

Question 8

Do you have any comments on those preliminary views? If so, what are they?

Measurement of contribution-based promises

ITC11 Chapter 7 describes the Board’s deliberations on the measurement of contribution-based promises. The Board’s preliminary view is that entities should measure the liability for a contribution-based promise at fair value assuming the terms of the benefit promise do not change. The Board reasons

that fair value assuming the terms of the benefit promise do not change meets the measurement objectives described in this paper, ie it is based on:

- (a) explicit, unbiased, market-consistent, probability-weighted and current estimates of the cash flows;
- (b) current market discount rates that adjust the estimated future cash flows for the time value of money; and
- (c) the effect of risk, other than the risk that the terms of the benefit change.

Question 9

- (a) Are there alternative measurement approaches that better meet the measurement objectives described in this paper? Please describe the approaches and explain how they better meet the measurement objectives.
- (b) To what extent should the effect of risk be included as a component of the measurement approach at this stage of the Board's post-employment benefit promises project? How should this be done?

ITC12 The definitions of contribution-based and defined benefit promises rely on the nature of the benefit promise during the accumulation phase. The Board's preliminary view is that the liability for benefits in the payment and deferment phases should be measured in the same way as they are in the accumulation phase, even though this could result in the same liability being measured in different ways depending on the way it was accumulated. The Board's reasons are set out in Chapter 8.

Question 10

- (a) Do you agree that the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase? If not, why?
- (b) What are the practical difficulties, if any, of measuring the liability for a contribution-based promise during the payout phase at fair value assuming the terms of the benefit promise do not change?

Disaggregation, presentation and disclosure of contribution-based promises

ITC13 The Board's preliminary view is that an entity should disaggregate changes in the value of the liability for a contribution-based promise into only a service cost and other value changes. The Board thinks that further disaggregation of changes in the fair value of the liability for a contribution-based promise would be difficult to achieve in an objective way.

ITC14 The Board’s preliminary view is that all changes in the value of the liability for a contribution-based promise and all changes in any plan assets should be presented in profit or loss.

Question 11

- (a) What level of disaggregation of information about changes in the liability for contribution-based promises is useful to users of financial statements? Why?
- (b) Do you agree that it is difficult to disaggregate changes in the contribution-based promise liability into components similar to those required for defined benefit promises? If not, why not?

Question 12

Should changes in the liability for contribution-based promises:

- (a) be presented in profit or loss, along with all changes in the value of any plan assets; or
- (b) mirror the presentation of changes in the liability for defined benefit promises (see Chapter 3)?

Why?

Benefit promises with a ‘higher of’ option

ITC15 The Board’s preliminary views on benefit promises in which the benefit is the higher of a defined benefit promise and a contribution-based promise are summarised in paragraphs PV16–PV18.

Question 13

- (a) What are the practical difficulties, if any, in identifying and measuring the ‘higher of’ option that an entity recognises separately from a host defined benefit promise?
- (b) Do you have any other comments on the proposals for benefit promises with a ‘higher of’ option? If so, what are they?

Other matters

ITC16 The Board intends to review the disclosures required about post-employment benefit promises in a later stage of this project. As part of that review, the Board intends to consider best practice disclosures in various jurisdictions. For example, explicit requirements to disclose information about the mortality rates used to measure post-employment benefit liabilities could be introduced to allow users to understand the inherent uncertainties affecting the measurement of those liabilities.

Question 14

What disclosures should the Board consider as part of that review?

Question 15

Do you have any other comments on this paper? If so, what are they?