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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**February 2009, London**
Project:	**IFRS for Non-publicly Accountable Entities (formerly Private Entities, formerly SMEs)**
Subject:	**Simplifying the approach for measuring an NPAE's cost and obligation under a defined benefit plan (Agenda Paper 8):** **Attachment 1: E-mail sent to Employee Benefits Working Group members in December 2008**

To Members of the IASB Employee Benefits Working Group (WG),

I work with Paul Pacter on the IASB's Private Entities project (formerly small and medium-sized entities, or SMEs). At the Board's request, we are currently trying to simplify the approach for measuring a private entity's cost and obligation under a defined benefit plan, and we need expert help.

In the Exposure Draft (ED) of a *Proposed IFRS for SMEs* the requirements for defined benefit plans are similar to, but condensed from, those in IAS 19 *Employee Benefits*. I attach a copy of Section 27 *Employee Benefits* from the ED. The only significant difference between Section 27 and IAS 19 for defined benefit plans is that Section 27 requires immediate recognition of actuarial gains and losses and all past service cost in profit or loss. (In its redeliberations of the proposals in the ED, the Board has decided to also allow immediate recognition of actuarial gains and losses outside profit or loss, in other comprehensive income).

Most respondents to the ED encouraged the Board to simplify the calculation of defined benefit obligations, arguing that smaller entities do not have the capability to do the calculation themselves or the resources to hire experts. Because, many countries have laws that mandate long-service benefits for all or most employees that are similar to defined benefit plans, this issue affects millions of small companies. During field testing of the ED, most field test entities with defined benefit plans said they would need to use outside actuaries to comply with the requirements, and many of these said this would be very costly.

Many respondents argued for treating all of these as defined contribution plans or following a disclosure only approach. Those approaches do not have support among Board members, nor of Paul and me, and are not being considered.

We are seeking a way to simplify the measurement approach for private entities, while still providing meaningful information for users of private entity financial statements.

In November 2008, we presented a proposal to the Board to require an entity to measure the defined benefit obligation of a defined benefit plan at a current termination amount if either sufficient information is not available without undue cost or effort for an entity to determine the present value of its defined benefit obligation using the projected unit credit method or if using the projected unit method would not give meaningful information (e.g., this may be the case if a plan only has a very small number of employees).

We defined the current termination amount as the vested benefit obligation at the balance sheet date assuming all employees were to terminate their employment as of that date, i.e. the plan continues and benefits are settled as they fall due.

The Board did not support this proposal. Board members felt that the obligation should also include unvested obligations. In addition some Board members disliked having an undue cost or effort exemption as they felt it would be an invitation to not account for the costs at all. The Board asked us to bring back an approach at a future meeting that is more in line with IAS 19, but would be something that entities would generally be capable of applying themselves without needing to use external specialists. The approach should include consideration of unvested benefits, but not future salaries. The Board suggested that we should consider whether the concept of the accumulated benefit obligation in US Standard FAS 87 *Employers' Accounting for Pensions* might be suitable.

The approach outlined in FAS 87 would still seem to require a private entity to use an outside actuary. We would prefer to propose to the Board something that a small company can prepare ‘in-house’. We are therefore writing to you, as experts in this area, for suggestions on a simplified approach that meets the following criteria:

1. Recognises pension cost during the employees’ periods of service

2. Recognises an obligation for both vested and unvested benefits

3. Simplifies the calculation from that in IAS 19

4. Ideally for small entities (say entities with under 50 employees) does not require an outside specialist to do the calculation

As we hope to present our recommendation to the Board at the January meeting, we would be grateful if you could send any comments or suggestions to me at the email address below by Wednesday 31st December 2008.

Warm Regards

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