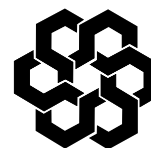

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International Accounting Standards Board

This document is provided as a convenience to observers at Employee Benefits Working Group meetings, to assist them in following the Working Group'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 Meeting. 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: **26 January 2009, London**

Meeting: **Employee Benefits Working Group**

Paper: **Issues to be addressed in exposure draft (Agenda paper 3)**

Introduction

1. The purpose of this paper is to discuss the additional issues raised by respondents to *Preliminary Views on Amendments to IAS 19*.

2. We cannot address all the issues that were proposed in the comment letters in our short-term project. We used the following criteria to identify the issues we think that the Board should address in this project:

   a. Is the issue widespread? Addressing issues that affect only a narrow category of promises is not an efficient use of resources at this time.

   b. Do we believe the Board can reach a consensus in the short term (i.e. within around two meetings)? While we think that there is merit in addressing some issues that have a straightforward solution and can be dealt with the Board quickly, we do not have the resources to engage in contentious issues that would be better dealt with in a comprehensive review of pensions accounting.

   c. Does the issue involve a fundamental review of defined benefit obligation measurement? If it does, it is clearly outside the scope of this project.

   d. Would resolving the issue lead to a worthwhile improvement in the reporting of post employment benefits?

e. What other work would be required if the Board does not include the issue in the scope? Many of these issues have been causing problems in practice for many years and in some cases cause IAS 19 to be regarded as a poor standard. Some of these issues have already been raised with the staff and, if not addressed in this project, would be considered by IFRIC or by the Board in the Annual Improvements project. We note that the same project team would work on these issues regardless of which project they are assigned too. We think that resolving these issues in this project would make IAS 19 significantly easier for preparers to use and result in better information.

3. We also considered the work done by IFRIC on similar issues, where applicable.

4. Based on these criteria, we have identified the following issues we think merit further consideration by the Board. More information about these issues is set out in Parts A-F of this paper.

   a. Additional guidance on the discount rate (Part A)
   b. Multi-employer exemption (Part B)
   c. Attribution to periods of service when benefits are back end loaded (Part C)
   d. Accounting for plans with risk sharing or conditional indexation features (Part D)
   e. Definition of short and long term employee benefits (Part E)
   f. Tax relating to pension costs (Part F)

   In each case, the issue is described, possible solutions suggested and an evaluation against the criteria for including the issue in the scope of the project provided. We note that the possible solutions described would be subject to further development.

5. Some comment letters also asked us to address issues that we do not think should be included in the scope of this project. That includes, for example issues that would require a fundamental reconsideration of the measurement of a defined benefit obligation. We have summarised these issues in Part G of this paper.

6. At the January meeting, we expect the Board to make a preliminary decision as to the issues that it will consider as part of this project. We will provide an oral update to the EBWG.

Discussion question
Do you have any comments on the issues that we propose are included in the scope of this project?

Part A: Additional guidance on the discount rate

The issue

7. Paragraph 78 of IAS 19 requires the post-employment benefit obligation to be discounted using a rate that is

> "determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations."

8. Paragraph 81 of IAS 19 further states:

> "In some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds."

9. Many respondents have noted the effect of the credit crisis on the measurement of defined benefit obligations. They observe the following:

   a. The requirement to use a high quality corporate bond rate has previously been interpreted to mean the rate on a AA corporate bond index. Arguably, not all bonds currently rated as AA are high quality as the rating agencies seem to be lagging behind market perceptions of default risk. The higher rates applied to corporate bonds have caused substantial reductions in reported liabilities.[1] In some cases, entities have moved from a deficit to a surplus, in spite of falling asset values due to the effect of the discount rate on the pension liability.

   b. Trading volumes in previously deep bond markets have reduced dramatically, while trading in less developed markets has dried up altogether. Some argue that the high quality corporate bond market for long maturities can no longer be considered as deep.

   c. IAS 19 also permits the discount rate to be determined by extrapolating market rates based on market references for high quality shorter maturity corporate bonds. However,

[1] One newspaper estimated that pension liabilities of the UK's 350 biggest companies may be understated by as much as £160bn as a result.

the dispersion of the market references for short maturity bonds has increased to a situation where any attempt to extrapolate a yield curve cannot be regarded as reliable.

d. The difference between corporate and government bond rates can have a material effect under the current circumstances. In some cases, equal obligations are valued at very much higher values in some counties than in other countries next door, depending on whether there is considered to be a deep market in high quality corporate bonds in that country. Differences of 50-60% [2] can be found. Respondents think this is an unacceptably wide difference in valuation without any real justification.

10. This has led to the comment letters raising the following issues:

a. How should an entity assess whether there is a deep market in high quality corporate bonds?

b. Does IAS 19 allow the use of a rate that is not a directly observable rate? Or does it require defaulting to government bonds instead?

c. If IAS 19 allows the use of rates that are not directly observable, what could be an appropriate methodology to determine a suitable discount rate?

d. What are high quality corporate bonds in the current economic climate?

Possible Solutions

11. Paragraph 1.11 of the discussion paper noted that the discount rate would be one of the factors to be considered in a comprehensive review of measurement. However some respondents stated that the board should nonetheless consider addressing this issue now.

12. Some respondents have suggested the following solutions in order to address the issues:

a. Change the required rate to something similar to the rate in the proposals for contribution based promises (i.e. a discount rate implicit in fair value)

b. Permit entities to make a reasonable estimate of what credit spreads might be in jurisdictions where the corporate bond market is not in practice considered “deep”.

c. Amend the paragraph to apply a descriptive rather than a prescriptive approach.

d. Change the required rate to a long term average rate.

Staff analysis

13. We note that changing the discount rate from high quality corporate bonds or government bonds is a fundamental change to the measurement of the defined benefit obligation. Thus, the Board could explore the possible solutions proposed by the comment letters listed in paragraph 12 only in the context of a fundamental review of measurement of defined benefit obligations as a whole. We have previously stated we will not address this within the scope of this project.

[2] for example credit spread 2.25%, mean term 20 years gives a difference of 56%

14. We also note that some of the issues that we have been asked to address (eg paragraph 10.a and 10.c) are issues that require the reporting entity to apply its own judgements. Further clarification would also fall within the remit of the fair value measurement project. Accordingly, the Board is unlikely to address those issues in this project.

15. However, we think that it would be useful to develop additional guidance on when rates should be used for the same duration as the expected maturity of the liability, when extrapolation over the yield curve is allowed and when the rate on government bonds should be used. Although IAS 19 does not require that there is a deep market in government bonds, we could also provide guidance on what to do when the market in government bonds is thinly traded.

16. In terms of meeting the criteria for inclusion in scope, the staff makes the following observations:

Is the issue widespread?	Similar issues apply to all entities with defined benefit promises. Therefore the issue is widespread.
Do we believe the Board can reach a consensus in the short term?	We propose only the addition of application guidance. No new requirements need to be developed. Therefore we do not think there will be difficulty in obtaining consensus in the short term.
Does the issue involve a fundamental review of defined benefit obligation measurement?	If the issue is restricted to providing application guidance on interpretation of paragraphs 78 and 81, then there is no need for a fundamental review of defined benefit obligation measurement.
Would resolving the issue lead to a worthwhile improvement in the reporting of post employment benefits?	Possibly. The credit crisis has highlighted the need to review this issue. Providing increased application guidance may address an issue that is causing difficulties in practice and might help eliminate emerging diversity in practice.
Other work needed if the Board does not include issue in scope	None

Discussion question

Do you think guidance on choosing a discount rate, such as when rates should be used for the same duration as the expected maturity of the liability, when extrapolation over the yield curve is allowed and when the rate on government bonds should be used would be useful?

Part B: Multi-employer exemption

The issue

17. For a multi-employer defined benefit plan, IAS 19 requires an entity to account for its proportionate share of the defined benefit obligation, plan assets, and costs associated with the plan in the same way as for a single-employer defined benefit plan.

18. However, IAS 19.30 states that when sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity should account for the plan as if it were a defined contribution plan and give some additional disclosures.

19. Some respondents have questioned whether it is ever practicable for entities to apply defined benefit accounting to a multi-employer plan. Many preparers use the exemption available, but argue that the requirement to justify why sufficient information is not available is onerous and does not provide useful information to users of financial statements. Some argue that the ability to use the exemption for multi employer plans depends on the interpretation of "no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan." That results in diverse interpretations. For example:

    "In some countries industry wide employer plans are treated as defined contribution by definition or by nature. Sometimes this treatment is based on a consensus between parties involved (reporting entities, accountants, enforcement authorities). In other countries the plans are considered as defined benefit plans, but companies make use of IAS 19.32a because they are not provided, despite their requests, with the necessary information to make the IAS 19 calculations. And in other cases or countries, companies make use of IAS 19.32b (no consistent or reliable basis for allocation) or receive letters from the board of the MEPs in which this argument is used. In other MEPs the allocation of the plan is effected according to IAS 19.29. There is even an example in which in the allocation is only done for one participating company based on a specific agreement between this company and the MEP. The other companies in the plan make use of the IAS 19.32a exemption."[3]

20. The discussion paper identified this issue as a potential area for review in a future project. However, some respondents believe that accounting for multi-employer plans should be addressed in the short-term project.

[3] IFRIC submission received in November 2008

Possible solutions

21. If the Board decided to address this issue in this project, the staff thinks that it could explore providing a blanket exemption so that all multi-employer plans would be accounted for as defined contribution plans. This would be consistent with US GAAP. The multi-employer disclosures would still be required and the Board could also consider whether additional disclosures should be required. These might include expected future contributions and relevant terms of the plan funding agreement.

Staff analysis

22. This issue meets the criteria for inclusion in scope as follows:

Is the issue widespread?	The issue affects a large number of constituents in jurisdictions where multi-employer plans are prevalent.
Do we believe the Board can reach a consensus in the short term?	If the Board decides to explore the staff's proposal to introduce an exemption for all multi-employer plans, we think the Board should be able to reach a consensus in the short term.
Does the issue involve a fundamental review of defined benefit obligation measurement?	No
Would resolving the issue lead to a worthwhile improvement in the reporting of post employment benefits?	We considered the argument that relaxing existing requirements for multi-employer plans would reduce the information provided about post-employment benefits. However, the staff are not aware of any preparers that apply defined benefit account to multi-employer plans. Removing the need to assess whether the exemption is justified on a case by case basis will reduce the cost of applying IAS 19 for these plans without reducing the information provided to users of financial statements.
Other work needed if the Board does not include issue in scope	The interpretation of the multi-employer exemption in IAS 19 has been raised as an IFRIC issue, so if the Board does not address this issue in this project, the IFRIC will have to

	consider doing further work. The staff thinks that a more elegant solution could be found if the Board were to address the project, rather than the IFRIC.

Discussion question

Do you think that a blanket exemption for multi-employer plans will significantly reduce the amount of information provided about such plans in practice?

Would the benefit to preparers of the reduced cost of accounting for multi-employer plans outweigh the disadvantage to users of financial statements created by reduced information?

Part C: Attribution where benefits are back end loaded

The issue

23. IAS 19 requires that the benefit in defined benefit plans is attributed to periods of service in accordance with the benefit formula, unless the benefit formula would result in a materially higher level of benefit allocated to future years. In that case the benefit is allocated on a straight line basis (paragraph 67 of IAS 19).

24. The issue is whether expected increases in salary should be taken into account in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years.

Background

25. This issue has been raised with the IFRIC a number of times over recent years, in conjunction with different issues. In the deliberations that led to D9 *Employee Benefits with a Promised Return on Contributions or Notional Contributions,* the IFRIC concluded that future salaries should be included in the assessment of whether the benefits are higher in later years of service. It reflected its conclusion in paragraph IE4 of the illustrative examples to D9. However, D9 was never finalised because the Board project started to consider contribution-based promises. In addition, there was considerable opposition to this aspect of D9 in the comment letters. Respondents stated that the IFRIC's implicit conclusion that expected future salary increases lead to non-level benefits is a significant change in practice and one with implications beyond the cash balance plans discussed in D9.

26. The Discussion Paper considered the allocation of benefits in relation to contribution based promises only. The Board tentatively decided that an entity should always allocate the contribution component of a contribution based promise to periods of service in line with the benefit formula, even when the benefit formula specifies a materially higher level of contributions in later years (see paragraphs 6.8 to 6.9 of the discussion paper). Therefore, the question of whether expected increases in salary should be taken into account in such an assessment also falls away.

27. However, the issue applies more broadly than just contribution-based promises. And it will be some time before any proposals on contribution-based promises are finalised.

28. Many comment letters on the Discussion Paper raised the issue as something that the Board should address quickly. Those letters indicate that there continue to be differing views in practice. While the Board's deliberations on contribution based promises in the future might include addressing the issue for these promises, respondents have again reiterated their belief

that the issue applies more broadly and have requested the Board to consider this issue within the scope of a short term project.

Possible solutions

29. The possible solution is to amend IAS 19 so that it is clear whether or not expected future salary increases should be included in the assessment of whether the benefit formula attributes a materially higher level of benefits to later years of service. The staff view is that to be consistent with other aspects of IAS 19, expected future salary increases should be included in the assessment. The staff thinks this view is also held by most, if not all, of the large accounting firms.

Staff analysis

30. This issue meets the criteria for inclusion in scope as follows:

Is the issue widespread?	The issue was raised as an issue by many respondents to the discussion paper, with conflicting interpretations of what the answer should be.
Do we believe the Board can reach a consensus in the short term?	The issue is relatively straight-forward, requiring a yes or no decision. The staff has already prepared papers on the matter during the development of D9, arguing that expected future salaries must be included in the assessment of whether a benefit is back-end loaded. This is the position also taken by many, if not all, the large accounting firms. We think the Board should be able to reach a decision on the matter in the short-term.
Does the issue involve a fundamental review of defined benefit obligation measurement?	We note arguments that attribution is part of the measurement model and that the Board should not review parts of the measurement model in isolation. However, we think that this issue could be addressed without a fundamental re-consideration of measurement. We also noted arguments that it may be difficult to come to a conclusion while the Board is re-deliberating its preliminary view on contribution

	based promises. However, we think that any proposals the Board might develop for contribution-based promises are not likely to address all the promises for which this is a big issue. It is also unclear how long it might take the Board to develop such proposals
Would resolving the issue lead to a worthwhile improvement in the reporting of post employment benefits?	It will address an issue that is causing difficulties in practice and might help eliminate emerging diversity in practice. Thus, clarifying existing requirements has the potential to improve the reporting of post-employment benefits.
Other work needed if the Board does not include issue in scope	None

Discussion question

Should expected increases in salary be taken into account in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years?

Do you think clarifying existing requirements as described above will improve the reporting of post-employment benefits?

Part D: Accounting for plans with risk sharing or conditional indexation features

The issue

31. Some post-employment benefit plans include features where the risks are shared between the parties involved, i.e. employer, employees, former employees and retirees. These plans allow the benefits of a surplus or the costs of a deficit to be allocated between the various parties. For example, the deficit may partly be allocated to the employer through additional required contributions, and partly allocated to members through a reduction in benefits. These features are referred to as "risk-sharing".

32. Some post-employment plans include promises that are conditionally indexed to salary increases. This paper regards such conditional indexation features as similar to risk-sharing features because both result in the allocation of the effects of risk to more than one party.

33. The issues identified by the comment letters are:

    a. IAS 19 makes no distinction between an employer that bears all the actuarial and investment risk in a plan, and an employer that shares these risks with other stakeholders.

    b. there is no guidance as to how these conditional terms should be applied in the measurement of the defined benefit obligation.

34. According, comment letters suggest that this project should review the accounting for defined benefit plans that include risk sharing or conditional indexation.

Possible solutions

35. If the Board decided to include this issue in the scope of its project, it could explore the following proposals made by respondents:

    a. account for plans that meet certain conditions as defined contribution plans. The conditions could include the allocation of the surplus or benefit among the stakeholders of the plan, conditional indexation based on availability of funds and mutual funding. This would however be supplemented with additional disclosures that would enable the user to evaluate the extent of risks arising from such plans.

    b. provide further guidance to clarify how risk sharing arrangement should be taken into account when measuring the liability.

Staff analysis

36. This issue meets the criteria for inclusion in scope as follows:

Is the issue widespread?	The issue affects a large number of constituents in certain jurisdictions where these types of plans are common.
Do we believe the Board can reach a consensus in the short term?	From initial discussions, the staff thinks it would be possible to clarify that the measurement of the defined benefit obligation should include the effect of any conditions attached to the benefits. IAS 19 is already clear on this point to the extent that surpluses are required to be shared between the employer and employees. It is less clear to the extent that deficits are required to be shared, or benefits are conditional to some extent on there being sufficient plan assets to fund them. The staff thinks this would not be an amendment of existing requirements, and hence not part of a review of the measurement of defined obligations. Rather it would clarify the existing requirements. The staff thinks the Board should be able to reach a decision in a short time.
Does the issue involve a fundamental review of defined benefit obligation measurement?	No
Would resolving the issue lead to a worthwhile improvement in the reporting of post employment benefits?	We considered arguments that the Board should not address these issues because the IFRIC has already considered and rejected similar issues on the grounds that it did not expect divergence in practice. These related to: (a) pension promises based on performance targets, and (b) employee contributions and how to account for a pension plan in which the cost of providing the benefits is shared between the

	employees and the employer. However, the comment letters indicate that there is confusion in practice. We think that clarifying existing requirements would have the potential to limit diversity in practice and improve the reporting of post-employment benefits. That benefit would exceed the limited amount of effort we would need to expend to do so.
Other work needed if the Board does not include issue in scope	None

Discussion question
Do you think that clarifying that the measurement of the defined benefit obligation should include the effect of any conditions attached to the benefits would resolve the issue?

Part E: Definition of short and long term employee benefits

The issue

37. IAS 19.7 states:

"*Short-term employee benefits* **are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service."**

"Other long-term employee benefits **are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service."**

38. In the 2007 Annual Improvements to IFRSs, the Board amended the definition of short-term and long-term employee benefits to bring consistency between the definition of short-term employee benefits in IAS 19.7 and the examples of short-term benefits given in IAS 19.8, especially regarding compensated absences (paid annual leave or paid sick leave).

39. The issue is a difference of interpretation that arises from an inconsistency between the definitions of short-term and other long-term employee benefits in paragraph 7 of IAS 19 and the related paragraphs BC4A-BC4C in the Basis for Conclusions. Those paragraphs state:

"BC4A The IASB identified a perceived inconsistency in the definitions when a compensated absence that is due to the employee but is not expected to occur for more than twelve months is neither an 'other long-term employee benefit' nor a 'short-term compensated absence' as previously defined in paragraphs 7 and 8(b). The IASB decided to amend those definitions and replace the term 'fall due' to remove this potential gap as part of the *Improvements to IFRSs* issued in May 2008.

BC4B Noting respondents' comments on the exposure draft of Improvements to IFRSs published in 2007, the IASB concluded that the critical factor in distinguishing between long-term and short-term benefits is the timing of the expected settlement. Therefore, the IASB clarified that other long-term benefits are those that are not due to be settled within twelve months after the end of the period in which the employees rendered the service.

BC4C The IASB noted that this distinction between short-term and long-term benefits is consistent with the current/non-current liability distinction in IAS 1 *Presentation of Financial Statements*. However, the fact that for presentation purposes a long-term benefit may be split into current and non-current portions does not change how the entire long-term benefit would be measured."

40. The two interpretations are:

View 1: Proponents of view 1 underline the consistency achieved by the 2007 Annual Improvements between IAS 19 and IAS 1 on the current/non-current classification issue using the same wording in both standards: "due to be settled". They assume that the Board aimed at focusing on the due date rather than on the expected settlement date.

View 2: Others believe that the wording in BC4B of IAS 19 conveys the idea that the Board did not intend to change current practice through the amendment as this paragraph states that "the critical factor in distinguishing between long-term and short-term benefits is the timing of expected settlement".

Possible Solution

41. The issue was discussed at the September 2007 Board meeting where "The Board tentatively agreed to amend the proposed improvement to focus on the timing of the employee's entitlement to the benefit rather than the expected timing of the employee's use of the benefit" (see September 2007 IASB update). This would be achieved by amending the basis to remove from paragraph BC4B to remove the reference to expected settlement.

Staff Analysis

42. This issue meets the criteria for inclusion in scope as follows:

Is the issue widespread?	As stated in paragraph 8 above, the issue has practical relevance in that both presentation and measurement of short-term and other long-term employee benefits are at stake. The issue also has widespread relevance as short-term and other long-term employee benefits are common employee benefits features. The two proposed views in the submission show that interpretations diverge and that it affects the comparability of financial statements. Resolving the issue will eliminate divergence in practice and improve reporting of employee benefits.
Do we believe the Board can reach a consensus in the short term?	The Board has already discussed the issue and concluded that it wished to amend the proposed improvement to focus on the timing of the employee's entitlement to the benefit rather than the expected timing of the employee's use of the benefit".

Does the issue involve a fundamental review of defined benefit obligation measurement?	No
Would resolving the issue lead to a worthwhile improvement in the reporting of post employment benefits?	This issue is both a presentation and measurement issue. The classification of benefits as short-term or long-term benefits drives the measurement method: undiscounted cost as set out in IAS 19.10 for short-term benefits and the present value of the defined benefit obligation (less the fair value of plans assets, if any) as required in IAS 19.128. Removing the inconsistency will reduce divergence in practice.
Other work needed if the Board does not include issue in scope	The Board agreed to make this amendment in September 2007. If this issue is not included in the scope of this project, we think that it should be included in the 2009 Annual Improvements Project. We note that it would be quicker to address the issue in this project than waiting for the annual improvement cycle.

Discussion question

Do you have any comments on the proposed resolution of this issue?

Part F: Tax relating to pension costs

The issue

43. Paragraph 7 of IAS 19 defines the return on plan assets as "interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself."

44. Two issues arise:

Issue 1

45. In May 2008, the Board amended the definition of return on plan assets in IAS 19 as follows:

"The *return on plan assets* is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself."

46. It also added the following to paragraph BC75 of the Basis for Conclusions to IAS 19:

"The IASB concluded that if the actuarial assumptions used to measure the defined benefit obligation include an allowance for plan administration costs, the deduction of such costs in calculating the return on plan assets would result in double-counting them. Therefore, as part of *Improvements to IFRSs* issued in May 2008, the IASB amended the definition of the return on plan assets to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation."

47. The issue that arises is whether any tax payable by the plan itself could be reflected in the measurement of the defined benefit obligation.

Issue 2

48. Whether taxes related to defined benefits, for example taxes payable on contributions to a defined benefit plan or taxes payable on some other measure of the defined benefit, should be treated as part of the defined benefit obligation in accordance with IAS 19 *Employee Benefits*.

49. We do not recommend that this issue is added to the scope of this project and we discuss it in Part G of this paper (see item 10)

Possible solutions

50. Issue 1 could be resolved by amending the definition of return on plan assets to clarify that tax payable by the plan itself could be deducted from the return on plan assets or included in the actuarial assumptions used to measure the defined benefit obligation.

Staff analysis

51. Issue 1 meets the criteria for inclusion in scope as follows:

Is the issue widespread?	The issue also has widespread relevance as taxes on post-employment benefits are quite common in many jurisdictions.
Do we believe the Board can reach a consensus in the short term?	Yes. We think that the issue arises as a result of misdrafting during the annual improvements project. We are unaware of any reason for Board members to object to the proposed solution.
Does the issue involve a fundamental review of defined benefit obligation measurement?	No
Would resolving the issue lead to a worthwhile improvement in the reporting of post employment benefits?	Resolving the issue would remove confusion that was created by the amendments in IAS 19 in May 2008. This would improve the information reported.
Other work needed if the Board does not include issue in scope	If this issue is not included in the scope of this project, we think that it should be included in the 2009 Annual Improvements Project. We note that it would be quicker to address the issue in this project than waiting for the annual improvement cycle.

Discussion question

Do you have any comments on the proposed resolution to this issue?

Part G: Issues the staff does not think should be included in the scope of this project

Issue number	Description	Justification
1	Some respondents raised fundamental measurement issues. Some believe that a comprehensive review of measurement is required. This includes suggestions that measurement is changed to: - ABO, rather than PBO - Base measurement on contractual obligations and firm commitments only. - Respondent's suggested measurement bases. Some also suggest that the Board develop single measurement approach for all benefits.	While we acknowledge that there are issues relating to the measurement of defined benefit obligation, the Board has already indicated that such issues are beyond the scope of a short term project.
2	IAS 19 relies on the benefit formula to determine the obligation that an entity recognises for post-employment benefit promises. This means that the entity recognises unvested benefits as a liability. This is inconsistent with the recognition of liabilities in other IFRSs. A review of this topic would include consideration of recognising unvested benefits as a liability and how to recognise the liability when the benefit formula attributes benefits unevenly over the	This project does not include re-examining the accounting for defined benefit plans based on a benefit formula. Recognition of unvested benefits is inextricably linked with the measurement approach. If the Board retains the attribution of benefit in accordance with the benefit formula, then unvested past service cost is a liability in accordance with IAS 19.

Issue number	Description	Justification
	service life of the employee.	
3	IAS 19 assumes that the sponsoring entity does not control the fund and requires entities to recognise the net pension deficit or surplus. Some respondents suggested the presentation of a net obligation, rather than consolidation of gross pension assets and gross liabilities in the sponsor's financial statements is an important issue. Some users have suggested that the assets and liabilities of the fund should be consolidated as the net presentation conceals the risk exposure of the fund balance sheet and is not consistent with IAS 32 etc.	A review of this issue would need to consider the application of the Board's project on consolidations to post-employment benefit arrangements.
4	Issues measuring promises that include a combination of benefits such as a pension plus invalidity insurance and the effect on measurement and recognition based on different benefit events. The IFRIC received a request for guidance on a similar issue, death in service benefits, and how an entity should attribute these benefits to periods of service.	The staff thinks that the main issue underlying these questions is the recognition of liabilities for benefits that are not determined by length of service. The issue is related to that of the recognition of unvested benefits, and the staff does not think that it can be addressed in the timescale envisaged for this project.

Issue number	Description	Justification
5	Measurement should reflect differences in risk between different jurisdictions and structures (such as legally separate pension funds with own buffers and prudential rules). Consider whether accounting should reflect committed cash obligations rather than assets/liabilities not owned or controlled. The comment letters suggested we should consider the funding relationship between sponsor and independently managed scheme and reflect credit and market risks of fully separate plans and residual financial risk of sponsor.	These issues can be addressed only as part of a fundamental review of IAS 19.
6	Guidance for the treatment of unrecognised gains and losses in the case of curtailments and settlements.	The current direction of the project is to require immediate recognition, therefore the issue will fall away. If the direction changes we may need to reconsider this issue.
7	Allocation to periods of service of voluntary purchases of CBP-style promises. The IFRIC had previously received a similar request to clarify how employee contributions should be accounted for in accordance with IAS 19.	At its November 2007 meeting, the IFRIC noted that paragraph 7 of IAS 19 defines current service cost and that paragraph 120A of IAS 19 implies that contributions by employees to the ongoing cost of the plan reduce the current service cost to the entity. The IFRIC also noted that in accordance with paragraph

Issue number	Description	Justification
		91 of IAS 19, employee contributions payable when benefits are paid, such as contributions to a post-employment healthcare plan, are to be taken into account in determining the defined benefit obligation. For these reasons, and because the IFRIC did not expect divergence in practice, the IFRIC decided not to take this item on to the agenda.
8	Whether netting fund operating expenses against expected and actual return is the best method.	Under IAS 19, administrative costs can either be included in the defined benefit obligation or recognised as a reduction in the return on plan assets. The staff does not think this approach causes widespread problems.
9	Health care spending accounts	These are included under IAS19. This issue was raised due to the FASB having separate standards for different benefits while IAS19 includes all.
10	Whether taxes related to defined benefits, for example taxes payable on contributions to a defined benefit plan or taxes payable on some other measure of the defined benefit, should be	"This issue was considered and rejected by the IFRIC in March 2007. The IFRIC noted the following: (a) taxes paid by a defined benefit plan are included in the

Issue number	Description	Justification
	treated as part of the defined benefit obligation in accordance with IAS 19 *Employee Benefits*.	definition in IAS 19 of the return on plan assets (b) income taxes paid by the entity are accounted for in accordance with IAS 12 (c) the scope of IAS 19 is not restricted to benefits paid to employees. It includes some costs of employee benefits that are not paid to employees and a wide variety of taxes on pension costs could exist world-wide, each specific to its own jurisdiction, and it is a matter of judgment whether they are income taxes within the scope of IAS 12, costs of employee benefits within the scope of IAS 19, or other costs within the scope of IAS 37. Given the variety of tax arrangements, the IFRIC believed that guidance beyond the above observations could not be developed in a reasonable period of time. The IFRIC therefore decided not to take the issue on to its agenda." We agree with the conclusions reached by the IFRIC and accordingly do not recommend that the issue is included in the scope of this project.

Issue number	Description	Justification
11	Assets provided to a plan by group entities The definition of plan assets in IAS 19 excludes unpaid contributions due from the reporting entity to the fund, any non-transferable financial instruments issued by the entity and held by the fund and non-qualifying insurance policies. If assets held by the plan are not plan assets, then how should they be accounted for?	In 2007, the IFRIC rejected a similar request for guidance on the accounting for investment or insurance policies that are issued by an entity to a pension plan covering its own employees because the issue was considered to be too narrow

Discussion question

Do you have any comments on the issues that we do not propose to address in this project?