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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: Update on project and next steps (Agenda paper 1)

Update on project

1. The comment period for *Preliminary Views on Amendments to IAS 19* ended on 26 September 2008. The Board discussed an overview of comments to its discussion paper in November 2008. The comment letter analysis presented to the Board was included in the observer notes for the meeting and is available at <http://go.iasb.org/PEB-CL-analysis>. No decisions were made.
2. At the January Board meeting (on 23 January 2009), the staff intend to discuss with the Board:
 - a. the issues that the Board could consider addressing in developing an exposure draft, and
 - b. how the Board might best develop these issues for an exposure draft given its resource restraints.
3. We will present an oral update of the Board discussions at the working group meeting.

Next steps

4. In determining how to develop the proposals in the Discussion Paper, the staff and Board considered the following:
 - a. Resource constraints
 - b. Work needed to develop a workable standard
5. These considerations led us to proposing that the Board divides the project into three exposure drafts.

Resource constraints

6. The Board aims to publish improvements in the accounting for pensions by 2011. Accordingly, the Board has a limited amount of time in which to reconsider the proposals in the discussion paper in the light of the comment letters. To meet its commitment, we think that the Board will need to publish an exposure draft by the fourth quarter of 2010. This is because we need to allow for a four month exposure period (at least) and subsequent comment letter analysis and redeliberation. Accordingly, we think that we will need to complete all deliberations for the exposure draft by September 2009 to allow time for drafting and balloting. This is illustrated in the possible timetable set out in the appendix.
7. But this would mean that the Board has 8 meetings in which to complete its redeliberations on 5 major issues. We do not think this is possible.

Work needed to develop a workable standard

Recognition and presentation

8. We think that some proposals could be determined relatively quickly by the Board. In particular, the arguments around immediate recognition in the statement of financial position are longstanding, well-rehearsed and well-defined. The Board is in agreement and a substantial majority of the comment letters, including all the user responses, support the preliminary view in the Discussion Paper. We think therefore that this issue could be addressed within a very short timescale.
9. In the staff's view, eliminating deferred recognition of the defined benefit obligation and plan assets is a central objective of this project. However, many

think that this can only be achieved if there is an appropriate approach to presentation in comprehensive income.

10. At the January Board meeting, the staff has recommended that the Board:
 - a. Require that entities disaggregate information about pension cost into employment, financing and remeasurement components.
 - b. Require all changes in the post-employment benefit obligation and in plan assets to be recognised in profit or loss.
 - c. Does not require mandatory disaggregation of information on the face of the performance statements.
11. We will report on the Board's decisions at this meeting. We are aware that the question of presentation may be difficult and that there is a strong possibility that the Board will not be able to reach agreement in the short term. In that case, the staff will propose a fall back position to the Board in which the two options in IAS 19 that accommodate immediate recognition of the defined benefit obligation and plan assets in the statement of financial position are retained. This will ensure that we make some progress in this project, even if it is not as much as we might have originally hoped.
12. Agenda paper 2A invites working group members to think about the implications of the Board's discussion paper of *Preliminary Views on Financial Statement Presentation* on the presentation of post-employment benefit cost.

Contribution-based promises

13. Some respondents state that the Board should abandon altogether its proposals to address the accounting for troublesome plans. Others think that the Board should defer developing proposals until it can do so comprehensively for all post-employment benefit promises. They argue that this is necessary to avoid the difficulties associated with dividing a continuum of economic features into two or more categories and assigning different accounting to them.
14. However, most agree that it is necessary for the Board to address at least some of the troublesome promises in this project.
15. If the Board decided to include the accounting for contribution-based promises in the scope of an exposure draft, we believe that we would need to consider the following:

- a. whether the Board should abandon its proposals until we can do a comprehensive review of pension accounting.
 - b. whether the Board could restrict its amendments to a very narrow class of promise. However, we note that the definition of contribution-based promises was discussed by the Board on several occasions in developing the discussion paper. The Board was aware that the proposals captured more promises than originally envisaged. However, it decided that it could not define the troublesome promises more narrowly and still have a conceptual justification for the differences between defined benefit and contribution-based promises. We question whether the Board would have any more success if we tried again.
 - c. whether the problems that the Board is trying to solve could be addressed by guidance on how to apply the existing requirements of IAS 19, rather than creating a new category of promises with a fundamentally different measurement basis.
 - d. whether to set an arbitrary rules-based distinction, even if this did not address all the promises that have been identified as being troublesome. In this way, at least some troublesome promises would be addressed.
 - e. what guidance would need to be provided on how to determine the risk adjustments needed to calculate fair value assuming the benefit promise does not change
16. Once the scope has been decided, the Board would need to discuss the measurement of the affected promises. The Board might consider using the attribute proposed in the discussion paper (*fair value assuming the benefit promise does not change*). However, we note that many comment letters raised issues about that attribute that would need to be explored in developing an exposure draft. In particular, the Board would need to consider whether credit risk should be included in the measure of a post-employment benefit liability. The Board could also consider developing a new measurement approach.
17. We have not yet performed further analysis on these issues and it is unclear at this point how much time it would take to develop proposals for the accounting for contribution based promises. At best, it would be challenging to develop a workable model for contribution-based promises within 8 meetings, even

assuming there were no other parts of the project that needed staff time and attention. Thus, if we waited until the Board completes deliberations on contribution-based promises, we may not be able to publish an exposure draft that would allow us to meet our 2011 commitment.

Disclosures

18. The Board's work on disclosures could encompass:
 - a. The disclosures related to the changes proposed for recognition and presentation.
 - b. The disclosures related to the accounting for contribution-based promises. This might include addressing the concern about the abrupt change in the level of disclosures required for a defined benefit promise compared to a contribution-based promise.
 - c. A review of best practice disclosures, in particular:
 - i. UK ASB Reporting Statement *Retirement Benefits: Disclosures*,
 - ii. the US SFAS 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* and SFAS 132 (R) *Disclosures about Plan Assets* and
 - iii. the disclosures developed in the PAAinE's discussion paper *The Financial Reporting of Pensions*.
 - d. Consideration of specific disclosures in IAS 19. We are told that the disclosures in IAS 19 are not always applied properly. For example, some criticise IAS 19 for not being clear enough regarding the requirement for mortality disclosures. We could provide clarification.
 - e. Specific requests for disclosures made by comment letters, to the extent not addressed in (a)-(c).
19. We intend to treat the disclosures associated with recognition, presentation and contribution-based promises as an integral part of the work on those areas.
20. With respect to a comprehensive review, and other specific requests for disclosures, we note:
 - a. In the discussion paper, the Board stated its intention to review the disclosures required for post-employment benefit promises at a later stage

of this project. The comment letters generally agreed that there would be benefit in such a review.

- b. A significant amount of work has been done on disclosures by other standard setters in recent years. We should be able to benefit from this.
- c. The staff does not think that a review of disclosures would be difficult to achieve or be contentious among constituents.

Other issues

21. Question 1 of the discussion paper asked whether there were any additional issues which should be addressed by the Board as part of this project. Most respondents believed that the scope of the project is already too wide for a short-term project and suggested the scope should be narrowed. However, some respondents suggested additional issues that they believe require attention and can be addressed within the scope of a short-term project. Those issues that we think could be within the scope of this project are discussed in Agenda Paper 3.

Three exposure drafts

22. At the January meeting, the staff proposed that the Board divide the project by developing three exposure drafts as follows:
- a. A first exposure draft on recognition and presentation of changes in defined benefit obligations and plan assets.
 - b. A second exposure draft on disclosures and other issues.
 - c. A third exposure draft on the accounting for contribution-based promises.
23. This first exposure draft could be published by the end of the first quarter of 2009 and could lead to publication of a final Standard on recognition and presentation significantly earlier than previously envisaged.
24. We would expect that we could work on the issues in the second and third exposure drafts concurrently. We would expect issue proposals on these matters in exposure drafts during 2009 and 2010 but would not expect to finalise standards before 2011

25. Our reasons were as follows:
- a. We note that these issues are discrete issues with little interrelationship. As noted in paragraph 9, we think that eliminating deferred recognition of the defined benefit obligation and plan assets in the statement of financial position is, by itself, a sufficiently important improvement in financial reporting to be worthwhile issuing an exposure draft. Accordingly, we propose that the Board first issue an exposure draft dealing with recognition and presentation of defined benefit promises.
 - b. We think that a comprehensive review of disclosures, and work that on a small number of other issues could be addressed more quickly than contribution-based promises. These areas do not require new conceptual thinking and have a narrower scope than the work needed on contribution-based promises. However, we do not think that they should delay the progress on recognition and presentation. Accordingly we think that disclosures and any other issues raised in the comment letters that we decide to address could form a second exposure draft.
 - c. We note that there have been longstanding issues with the application of IAS 19 to some contribution-based promises. Accordingly we think that the Board should develop proposals for at least some types of contribution-based promise.
 - d. We do not think that proposals developed for contribution-based promises should be grouped with disclosures or the ‘other issues’ discussed in paper 3. Proposals for contribution-based promises would likely include new requirements on recognition and measurement and as such it is more difficult to predict progress on those proposals compared to disclosures or the other issues discussed in this paper. We would expect that disclosures and the other issues could be addressed more quickly than contribution-based promises.
 - e. We also do not think that the work on contribution-based promises should delay any other part of the project. Therefore, we think that contribution-based promises could form a third exposure draft.

26. The advantages of this approach are:
- a. It will ensure the improvement that will be delivered by immediate recognition of defined benefit assets and liabilities in the statement of financial position would be delivered as quickly as possible.
 - b. We would be able to work on the second and third exposure drafts during the exposure period of the first exposure draft, thus using the time available for debating issues more efficiently.
 - c. It does not tie the fate of unrelated issues to each other.
27. The disadvantages are:
- a. Constituents may object to multiple changes in quick succession. However, this could be addressed by delaying the effective dates of the second two standards but permitting early adoption. We would envisage only the first standard to become effective by 2011.
 - b. There will inevitably be some duplication of administrative efforts. However, we do not think this will be significant compared to the time gained in which we can discuss issues with the Board.

Discussion questions

1. Do you have any views on this approach to developing the proposals in the Discussion Paper?

Appendix – Possible timetable

Date	First ED, if more than one ED	One ED covering all issues in DP
<i>2009</i>		
26 January	Working group meeting	Working group meeting
January	Priorities and scope of project Recognition and presentation	Priorities and scope of project Recognition and presentation
February	Drafting and balloting Publish ED	Board discusses remaining issues
March	ED comment period	
April		
May		
June		
July		
August	No Board meeting	
September	Board discusses comment letter analysis	Last Board discussion
October	Board redeliberates issues raised in comment letter analysis	Drafting and balloting
November	Drafting and balloting	
December		
<i>2010</i>		
January	Publish final standard	Publish ED
February - April		Exposure Draft exposure period
May - December		Comment letter analysis and redeliberations
<i>2011</i>		
January – February		Redeliberations continue
March – June		Drafting and balloting
June		Publish final standard
<i>2013</i>		
1 January 2013	Effective date (or sooner if preferred)	Effective date