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**International
Accounting Standards
Board**

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: **January 2009, London**

Project: **Pensions**

Subject: **Preliminary Views on Amendments to IAS 19 *Employee Benefits*: Priorities in developing the proposals in the Discussion Paper (Agenda paper 16A)**

Purpose of this paper

1. The purpose of this paper is to discuss possible ways in which the Board can develop the proposals in the Discussion Paper *Preliminary Views on Amendments to IAS 19* into an exposure draft.
2. The discussion paper dealt with the following topics:
 - a. recognition of defined benefit promises
 - b. presentation of changes in the liability for defined benefit promises.
 - c. the accounting for contribution-based promises
3. In addition, the discussion paper noted that the Board would review disclosures comprehensively and asked if there were further issues that the Board should consider.
4. Given the restrictions on staff and Board time, we need to be realistic in assessing the Board and staff's ability to deal with many complex and contentious issues in the time allowed. This paper:

- a. discusses the issues that the Board could consider addressing in developing an exposure draft, and
- b. considers how the Board might best develop these issues for an exposure draft given its resource restraints.

Staff recommendations

5. The staff recommends that:

- a. the Board split the project into three parts and prioritises the recognition and presentation section (paragraphs 11 - 19).
- b. the Board includes recognition and presentation in the scope of its deliberations to develop an exposure draft and assign it the highest priority in this project (paragraphs 20-22).
- c. the accounting for some types of contribution-based promise should be within the scope of this project but that it should not delay the progress on recognition and presentation (paragraphs 23-30).
- d. the proposals for contribution-based promises form a second exposure draft to be worked on after the recognition and presentation exposure draft (paragraphs 23-30).
- e. disclosures associated with recognition, presentation and contribution-based promises should be treated as an integral part of the work on those areas (paragraph 32).
- f. the Board includes a comprehensive review of disclosures in the scope of this project, to cover the items in paragraph 31.c-31.e (paragraphs 31- 35).
- g. this comprehensive review of disclosures forms part of a third exposure draft to be worked on after the recognition and presentation exposure draft is completed (paragraphs 31- 35).
- h. the issues listed in paragraph 40 are included in the scope of this project as part of a third exposure draft to be worked on when the recognition and presentation exposure draft is completed (paragraphs 36-43).
- i. the issues listed in part G of agenda paper 16B should not be included in the scope of this project (paragraphs 44 and 45).

Questions to the Board

6. Does the Board agree with the staff recommendations summarised in paragraph 5?

Relationship to technical plan

7. This meeting sees the first of the redeliberations arising from *Preliminary Views on Amendments to IAS 19 Employee Benefits*. The October technical plan envisaged that we would have agreed the scope of the project with the Board in the December 2008 meeting. The project team required additional time to develop its thinking before the Board debated the scope and thus this discussion is one month late. We do not envisage that this will significantly delay progress.
8. In this paper, the staff recommends that the Board first issue an exposure draft dealing with recognition and presentation of defined benefit promises. The Board would then publish further exposure drafts as future deliberations progress. If the Board accepts that recommendation, the staff thinks the first exposure draft could be published by the end of the first quarter of 2009. This could lead to publication of a final Standard on recognition and presentation significantly earlier than previously envisaged. A possible timetable is provided in the appendix.

What happens if the Board does not agree with staff recommendation

9. If the Board decides to include in the scope of the exposure drafts more issues that this paper recommends, or if the Board decides to address all issues before issuing an initial exposure draft, then deliberations will take longer. To publish a final standard by 2011, we think 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.
10. We note that some issues, particularly with contribution-based promises, have not yet been discussed in detail by the Board. Thus, there is a significant risk that we would not be able to complete deliberations on contribution-based promises by September 2009.

Approach to project

11. As detailed in the rest of this paper, we think that proposals could be developed for inclusion in an exposure draft that deal with the following areas:
 - a. recognition and presentation of all changes in the defined benefit obligation and in plan assets (discussed in paragraphs 20-22).
 - b. the accounting for some types of contribution-based promises (discussed in paragraphs 23-30).
 - c. disclosures (discussed in paragraphs 31-35).
 - d. those issues raised in the comment letters that the staff think merits inclusion in the scope of this project (discussed in paragraphs 36-45).
12. 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.
13. We think that some proposals could be determined relatively quickly by the Board. For example, 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 support the preliminary view in the Discussion Paper. We think therefore that this issue could be addressed within a very short timescale. Similarly, a comprehensive review of disclosures would be relatively straightforward and could be achieved in two or three meetings.
14. However, as discussed below, 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.
15. We note that the issues listed in paragraph 11 are discrete issues with little interrelationship. We also think that the elimination of 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. However, we are aware that the question of presentation in comprehensive income may be difficult and that there is a strong

possibility that the Board will not be able to reach agreement in the short term. We discuss presentation in comprehensive income in Agenda paper 16C. If this meeting indicates that the Board will not be able to reach agreement on presentation in the short term, we will bring to the February meeting a paper setting out our fallback position of retaining the two options in IAS 19 that accommodate immediate recognition of the defined benefit obligation and plan assets in the statement of financial position. This will ensure that we make some progress in this project, even if it is not as much as we might have originally hoped. We will also continue to review this situation and assess whether we need to re-evaluate our priorities as Board discussions progress.

16. Accordingly we propose that we work towards three separate exposure drafts as follows:

- a. In the first instance, the staff would concentrate on an exposure draft dealing with recognition and presentation of defined benefit promises. These proposals should be finalised well in advance of the 2011 deadline.
- b. After that exposure draft is published, we would begin work on exposure drafts dealing with:
 - i. Disclosures and any other issues raised in the comment letters that we decide to address; and
 - ii. The accounting for contribution-based promises.

We would expect issue proposals on these matters in exposure drafts during 2009 and 2010 but would not expect to finalise standards before 2011

17. 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. Depending on staffing levels we might be able to work on the second two exposure drafts at the same time (we are expecting another project manager to join the team in January). We would be able to work on these 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.

18. 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.
19. **The staff recommends that the Board split the project into three parts and prioritises the recognition and presentation section.**

The issues

Recognition and presentation

20. A significant majority of comment letters, including all the user responses, supported the Board's proposal to eliminate deferred recognition of the defined benefit obligation and plan assets. For example:
- “Completeness requires the financial statement recognition and measurement of economic events that can affect investors' wealth, including changes in fair value as they occur. Thus, no accounting standard should permit assets or liabilities, and changes in them that can affect shareowners' wealth, to escape recognition at the time they occur in the financial statements.”¹*
21. In the staff's view, eliminating deferred recognition of the defined benefit obligation and plan assets is a central objective of this project. Many think that this can only be achieved if there is an appropriate approach to presentation.²
22. **Accordingly, we recommend that the Board includes recognition and presentation in the scope of its deliberations to develop an exposure draft and assign it the highest priority in this project.**

¹ CL96, CFA Institute

² We discuss presentation in agenda paper 16C. We do not discuss recognition of changes in the net pension asset/liability at this meeting because we think it would be useful for Board members to discuss how the components of pension cost would be presented before asking them to make their final decisions on recognition.

Contribution-based promises

23. The discussion paper defined a new category of contribution-based promises to capture those promises for which the measurement requirements of IAS 19 are difficult to apply. An overview of responses was provided in the initial comment letter analysis considered by the Board at the November meeting.
24. 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.
25. However, most agree that it is necessary for the Board to address at least some of the troublesome promises in this project.
26. 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
27. 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.
28. We have not yet performed further analysis on these issues. The purpose of this paper is to ask the Board to prioritise this issue in relation to the others.
29. We note that there have been longstanding issues with the application of IAS 19 to some plans. **Accordingly, we recommend that:**
- a. **the accounting for some types of contribution-based promise should be within the scope of this project but that it should not delay the progress on recognition and presentation.**
 - b. **these proposals form a separate exposure draft to be worked on after the recognition and presentation exposure draft.**
30. We also think that proposals developed for contribution-based promises should not be grouped with disclosures or the other issues discussed in this paper. 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.

Disclosures

31. 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).

32. We recommend that disclosures associated with recognition, presentation and contribution-based promises should be treated as an integral part of the work on those areas.

33. 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.

34. While we think that a comprehensive review should not delay the progress on recognition and presentation, we think it could be addressed more quickly than contribution-based promises.
35. **Accordingly, we recommend:**
- a. **that the Board include a comprehensive review of disclosures in the scope of this project, to cover the items in paragraph 31.c-31.e.**
 - b. **that this comprehensive review of disclosures forms part of a third exposure draft to be worked on after the recognition and presentation exposure draft is completed.**

Other issues

36. 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.
37. 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.
38. We have analysed these issues and identified those that we think merit further consideration by the Board in this project. In performing this analysis, we assessed whether an issue should be included in the scope of this project using the following criteria:
- 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.
39. We also considered the work done by IFRIC on similar issues, where applicable.
40. Based on these criteria, we have identified the following issues we think merit further consideration by the Board:
- a. Additional guidance on the discount rate
 - b. Multi-employer exemption
 - c. Attribution to periods of service when benefits are back end loaded
 - d. Accounting for plans with risk sharing or conditional indexation features
 - e. Definition of short and long term employee benefits
 - f. Tax relating to pension costs
41. More information about these issues is set out in Agenda paper 16B. Agenda paper 16B also set out solutions that have been suggested by constituents. We have provided those possible solutions in order to assist the Board in deciding whether an issue should be included within the scope of the project, but note that they would be subject to further development.
42. As with disclosures, we think that these issues should not delay the progress on recognition and presentation, but could be addressed more quickly than contribution-based promises.
- 43. Accordingly, we recommend that the issues listed in paragraph 40 are included in the scope of this project as part of a third exposure draft to be worked on when the recognition and presentation exposure draft is completed.**
44. In part G of agenda paper 16B, we also list, with reasons, the issues raised in the comment letters that we do not think should be addressed in this project. That includes, for example issues that would require a fundamental reconsideration of the measurement of a defined benefit obligation.

- 45. We recommend that the issues listed in part G of agenda paper 16B should not be included in the scope of this project.**

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 ³ 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

³ Such an exposure draft would be short and largely a matter of deletion from the existing IS 19. Thus, relatively little time needs to be spent on drafting and balloting.