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International  
Accounting Standards  
Board

*This document is provided as a convenience to observers at IASB 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.*

*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:** March 2009, London

**Project:** Post-employment Benefits

**Subject:** Additional Issues Raised in Comment Letters - Definition of short and long term employee benefits (Agenda paper 8H)

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#### ***The issue***

1. 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.

2. These paragraphs reflect amendments made in the 2007 Annual Improvements to IFRSs. In that project, the Board amended these definitions 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).
3. The issue is a difference of interpretation that arises from a perceived 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.”

4. 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”.

### ***Staff Analysis and Recommendation***

5. 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. The issue is what the Board meant by ‘due to be settled’.
6. If ‘due to be settled’ is interpreted to refer to the timing of the employee’s entitlement to the benefit, then most, if not all, vested benefits would be considered to be short-term benefits. The staff does not believe this was the Board’s intention.
7. The timing of when the obligation is ‘due to be settled’ can be affected by multiple factors, some within the control of the entity and some outside of its control. The staff believes that the classification was intended to be based on the timing of when the entity expects the obligation to be due to be settled. For example, if an entity has an accrued leave obligation, then whether the leave obligation is a short or long term benefit will depend on when the entity expects the employee to take the leave, resign or be terminated.
8. The confusion in practice seems to arise from the reference to IAS 1 in BC4C. IAS 1 states:
9. Paragraph 69 of IAS 1 requires an entity to classify a liability as current when:
  - (a) it expects to settle the liability in its normal operating cycle;
  - (b) it holds the liability primarily for the purpose of trading;
  - (c) the liability is due to be settled within twelve months after the reporting period; or
  - (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.
10. View 1 takes the view that the reference to IAS 1 in BC4 means that ‘due to be settled’ refers to the employee’s entitlement, not to when the entity expects the employee to exercise its entitlement. As noted above, the staff does not think

that is what the Board intended. In fact, paragraph BC4C states that the classification of a benefit as long term or short term for the purposes of IAS 19 does not determine whether it is current or non-current under IAS 1.

- 11. Based on the above, the staff recommends paragraph BC4C be amended to delete the reference to the consistency with IAS 1 which is causing the confusion and adds a sentence to BC4B to explain that ‘due to be settled’ means when the entity expects the benefit to become due to be settled.**