Project: **Post-employment benefits**

Topic: **Summary of tentative decisions to date**

Objective

1. This paper provides a summary of tentative decisions to date and a comparison of the tentative decisions to date with the proposals in the exposure draft *Defined Benefit Plans* (the ED). This paper is for information only.

2. The comment period for the ED ended in September 2010. Since that date, the Board has discussed the all of the proposals in the ED except for the following remaining decisions:

    (a) risk sharing (discussed in Agenda Paper 5A)

    (b) transitional provisions (to be discussed at a future meeting)

3. The Board requested the staff to seek input from the Employee Benefits Working Group and further explore the following tentative decisions:

    (a) disclosure, including:

        (i) risk exposure

        (ii) disaggregating the DBO

        (iii) information about the maturity profile of the DBO (duration and analysis)

    (b) accounting for administration costs, including whether to expense all administration costs as part of service cost or whether the administration costs should be split between costs of managing plan assets and other costs.

4. The staff will report back to the Board on input received on the items in paragraph 3 at a future date.

Tentative decisions to date compared to proposals in the ED

Proposal in the ED	Tentative decision
Recognition	
• An entity should recognise all changes in the net defined benefit liability (asset) when they occur. • An entity should recognise unvested past service cost when the related plan amendment occurs. (IAS 19 already requires a similar treatment for vested past service cost.)	Proposals confirmed (October 2010) [but see below for plan amendments that arise as part of a restructuring or are linked to termination benefits]
• An entity should recognise the service cost, finance cost and remeasurements components in the statement of comprehensive income, unless another standard requires or permits their inclusion in the cost of an asset.	Proposal confirmed (November 2010).
Disaggregation and presentation	
• An entity should disaggregate changes in the net defined benefit liability (asset) into service cost, finance cost and remeasurement components, and to present: o service cost in profit or loss o finance cost in profit or loss together with other finance costs o the remeasurement component as an item of other comprehensive income. Those remeasurements shall be transferred immediately to retained earnings. They shall not be reclassified to profit or loss in a subsequent period.	Proposal confirmed (October, November and December 2010), however, the Board tentatively decided: • **not to specify** where in profit or loss an entity should present the service cost and finance cost components (November 2010), • that, although remeasurements should be presented in other comprehensive income, there were circumstances for which it would be appropriate for an entity to elect to present remeasurements in profit or loss (primarily to address accounting mismatches) for a given plan. Accordingly, entities should be

<table>
<tr><th>Proposal in the ED</th><th>Tentative decision</th></tr>
<tr><td>The service cost component should include current and past service cost and exclude gains and losses arising from changes in the assumptions used to measure the service cost.
The finance cost component should comprise net interest on the net defined benefit liability (asset), determined by applying the rate used to measure the defined benefit obligation to the net defined benefit liability (asset).
The remeasurements component should comprise actuarial gains and losses on the defined benefit obligation, the return on plan assets and any changes in the effect of the asset ceiling, but exclude the amount included in finance cost..</td><td>permitted to elect to present remeasurements in profit or loss. Any such election would need to be irrevocable and that amounts previously recognised in other comprehensive income were not reclassified to profit or loss. Note that the staff was asked to assess whether any restrictions should be placed on such an election). An entity would be required to disclose why the remeasurements are presented in profit or loss. (January 2011).
to permit, but not require, an entity to transfer within equity the cumulative amounts recognised in other comprehensive income (November 2010).
The Board also tentatively decided not to make any additional amendments regarding interim reporting however the Board will clarify the drafting of the requirements to ensure that full remeasurement of plan assets and defined benefit obligation is not required in each interim period (December 2010).</td></tr>
<tr><td>Disclosure</td><td></td></tr>
<tr><td>The standard should articulate objectives for disclosures about defined benefit plans focused on the matters most relevant to users of the employer's financial statements, ie information that:
explains the characteristics of the defined benefit plans.
identifies and explains the amounts in the financial statements arising from the defined benefit plans.
describes how involvement in defined benefit plans affects the amount, timing and uncertainty of the entity's future cash flows.</td><td>Proposed disclosure objectives and requirements confirmed, except as noted below (November and December 2010),</td></tr>
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Proposal in the ED	**Tentative decision**
• An entity should disclose the following, in addition disclosures to IAS 19 currently requires:	
• actuarial gains and losses that relate to a re-estimate of service cost, separately from other actuarial gains and losses.	Proposal confirmed
• a narrative description of exposure to risk arising from the entity's involvement with the plan.	Confirmed but **amended to focus the narrative description** of the risks to which the plan exposes the entity **on risks that are specific to the entity or unusual**, without requiring excessive detail about generic risks. **The Board directed the staff to seek feedback on this decision from the Employee Benefits Working Group.**
• the defined benefit obligation, excluding projected growth in salaries (sometimes referred to as the accumulated benefit obligation).	**Replaced** with a requirement to disaggregate the defined benefit obligation. **The Board directed the staff to seek feedback on this decision from the Employee Benefits Working Group.**
• quantitative disclosures, including sensitivity analyses, about actuarial assumptions used to determine the defined benefit obligation and service cost.	Proposal confirmed
• information about asset-liability matching strategies.	Proposal confirmed
• how the effect of a change to each significant actuarial assumption that was reasonably possible at the beginning of the reporting period would have affected current service cost.	Proposal withdrawn
• a brief description of the process used to determine demographic actuarial assumptions.	Proposal withdrawn
• factors that could cause contributions over the next five years to differ significantly from current service cost over that period.	Proposal withdrawn and replaced by requirements to disclose: • a narrative description of any funding arrangements and funding policy. • the amount of expected contributions in the next year. • information about the maturity profile

Proposal in the ED	**Tentative decision**
	of the benefit obligation. **The Board directed the staff to seek feedback on this decision from the Employee Benefits Working Group.**
• minimum categories for the disaggregation of plan assets would be required.	Replaced with example categories for the disaggregation of plan assets that could be disclosed to meet the principle of the disclosure (ie to distinguish based on liquidity and risk characteristics).
• an entity should use its judgement to determine which actuarial assumptions require disclosure.	Proposal confirmed
Curtailments and settlements	
That gains and losses for a curtailment should be recognised: • when the entity significantly reduces the number of employees covered by a plan or amends the terms of a defined benefit plan so that future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits; or • if the curtailment is linked with a restructuring, then at the same time as for the related restructuring.	Proposal confirmed (December 2010 and January 2011), however the Board tentatively decided: • **to amend** the definition of curtailment **to limit it** to a significant reduction in the number of employees covered by a plan. **The definition** of a curtailment **would no longer include** a reduction in benefits for future service. However, in some cases, past service cost arises if a change in benefits for future service results in a change in benefits attributed to past service. • **that if a curtailment or plan amendment arises as part of a restructuring plan or is linked to termination benefits,** the gain or loss should be recognised **at the earlier of**: o when the related restructuring costs or termination benefits are recognised; and o when the curtailment or plan amendment occurs. **Otherwise**, the gain or loss should be recognised when the curtailment or plan amendment occurs.
• Gains and losses for a settlement should be recognised when the entity	Proposal confirmed (December 2010 and January 2011), however the Board

Proposal in the ED	Tentative decision
enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan. • Use the term 'non-routine settlements' for disclosure purposes to distinguish these settlements from routine settlements.	tentatively decided: • **to amend** the definition of settlements **to exclude plan amendments** that result in past service cost **and curtailments;** and • **to amend** the definition of non-routine settlements **to exclude benefit payments** in accordance with the terms of the plan.
• Retain similar disclosure to what IAS 19 currently requires about gains and losses that arise from curtailments, in particular: o a narrative description of any plan amendments, curtailments and non-routine settlements, and o the effect of such plan amendments, curtailments and non-routine settlements on the statement of comprehensive income	Proposal confirmed (December 2010), however the Board tentatively decided: • **to not require distinguishing** between these items if they occur together and are presented in the same component.
• Gains and losses on settlement are treated in the same way as actuarial gains and losses and presented in the remeasurement component. • Curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss.	Proposal confirmed (December 2010), however the Board tentatively decided: • to require gains and losses on **non-routine settlements** to be presented in the **service cost component**; and • to require gains and losses on **routine settlements** to be presented in the **remeasurements component**.
Termination benefits	**Staff will provide a summary at the next Board meeting.** **For background information, please refer to Agenda Paper 9C (paragraphs 4 – 14) of the January meeting.**

Proposal in the ED	**Tentative decision**
Multi-employer plans	
• Retain the requirement in IAS 19 that an entity should account for its participation in a defined benefit multi-employer plan in the same way as for any other defined benefit plan unless insufficient information is available, in which case an entity should account for the plan as if it were a defined contribution plan.	Proposal confirmed (December 2010).
If an entity participates in a defined benefit multi-employer plan, it shall disclose: • a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements. • the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan. • if the entity accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in accordance with paragraph 29A, all the information required by paragraphs 125A-125K for that proportionate share	Proposal confirmed (December 2010)
• details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan.	(December 2010) Proposal amended **to limit** the disclosure of the withdrawal liability to **qualitative information** and to specify that an entity should **recognise and measure any withdrawal liability** in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
• the total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available.	(December 2010) Proposal amended **to replace** the disclosure of the proportion of total members **with** a requirement to disclose an indication of an entity's level of participation in a plan. Such a requirement could be met by disclosing

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<tr><td></td><td>the proportion of total members or the proportion of total contributions.</td></tr>
<tr><td>if the entity accounts for the plan as if it were a defined contribution plan in accordance with paragraph 30:
the fact that the plan is a defined benefit plan.
the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.
information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.</td><td>Proposal confirmed (December 2010)</td></tr>
<tr><td>the expected contributions to the plan for the next five annual reporting periods, and a description of the contractual agreement or other basis used to determine the expected contributions.</td><td>(December 2010) Proposal amended to reduce the period for the required disclosure of future contributions from 5 years to 1 year.</td></tr>
<tr><td>Scope</td><td></td></tr>
<tr><td>Combine post-employment benefits and other long-term employee benefits into a single category: long-term employee benefits. As a consequence, the recognition, presentation and disclosure requirements proposed in the ED for defined benefit plans would apply to benefits previously classified as ‘other long-term employee benefits’.</td><td>Proposal withdrawn (November 2010).</td></tr>
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Proposal in the ED	**Tentative decision**
Other issues	
Definitions	
• Clarify that the distinction between short-term employee benefits and long-term employee benefits (other than those payable after completion of employment) depends on the period between the date when the employee renders the service that gives rise to the benefit and the date when the entity expects the benefit to become due to be settled.	(November 2010) • Clarify that the classification of employee benefits as short-term employee benefits should depend on when the **whole amounts** resulting from **that type of benefit** are **expected to be settled**. • to clarify that an entity should **revisit** the classification of a short-term employee benefit if the benefit **no longer meets the definition of a short-term employee benefit**.
Admin costs	
• Remove the options in IAS 19 for entities to include plan administration costs either as a reduction in the return on plan assets or in the actuarial assumptions used to measure the defined benefit obligation. The return on plan assets should include plan administration costs only if those costs relate to the management of plan assets, other costs would be included in the defined benefit obligation.	(December 2010) Plan administration costs should be expensed as incurred. **The Board directed the staff to seek feedback on this decision from the Employee Benefits Working Group.**
Taxes	
• Clarify that: o the estimate of the defined benefit obligation includes the present value of taxes payable by the plan if they relate to service before the reporting date or are imposed on benefits resulting from that service, and o if this is the case, those taxes should not be included as a reduction in the return on plan assets. Because service cost	Proposal confirmed (December 2010).

Proposal in the ED	Tentative decision
includes the present value of those taxes when employees render the related service, it would be double-counting to recognise those taxes for a second time when they are subsequently incurred.	
Risk sharing	
• Clarify that risk-sharing and conditional indexation features should be incorporated in the determination of the best estimate of the defined benefit obligation. • Clarify the treatment of employee contributions based on the question rejected by the IFRIC in November 2007 – Treatment of employee contributions.	To be discussed by the Board at this meeting.
Mortality assumptions	
• The standard would make explicit in paragraph 73(a)(i) that the mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment.	Proposal confirmed (December 2010).
Attribution	
• Expected future salary increases should be included in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years.	Proposal withdrawn (December 2010).
IFRIC 14	
• Incorporate, without substantive change, the requirements of IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, as amended in November 2009	Proposal withdrawn (December 2010).

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<tr><td>Clarify that a minimum funding requirement is any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan.</td><td></td></tr>
<tr><td>Group and State plans</td><td></td></tr>
<tr><td>Without reconsideration, update the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control. This is to maintain consistency with the disclosures in paragraphs 125A–125K.</td><td>Proposal confirmed (December 2010), however the Board tentatively decided:
for group plans to allow the information to be included by cross-reference to disclosures in the parent’s financial statements if:
those financial statements separately identify and disclose the information required for the group plan, and
the parent’s financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time</td></tr>
<tr><td>Transition</td><td></td></tr>
<tr><td>Entities should apply the proposed amendments to IAS 19 retrospectively, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</td><td>To be discussed by the Board in February 2010.</td></tr>
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