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**To** David Sidwell, Chairman - Due Process Oversight Committee

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**Subject** **Amendments to IAS 19 *Employee Benefits***

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**Date** 22 March 2011

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In April the Board is planning to issue amendments to IAS 19 *Employee Benefits* ('the amendments'). The changes to the reporting of post-employment benefits will be mandatory for annual report periods beginning on or after 1 January 2013. Early adoption will be permitted.

I am writing to you to summarise the steps the Board has taken to ensure that the amendments have been developed in full compliance with the Board's due process requirements. I have also identified the steps the Board and staff have taken to address concerns raised during the development of the amendments.

### **Overview of the improvements**

The amendments remove the previous option to defer recognition of gains and losses in defined benefit plans (the 'corridor'). The amendments also improve the presentation of changes in, and disclosure of, defined benefit plans as well as other small improvements and clarifications to address issues that have arisen in practice over time.

#### *Areas likely to be controversial*

During consideration of the comment letters we were made aware of particular concerns related to some Dutch pension schemes. The staff and Board members spent considerable time assessing these concerns, involving several meetings with representative of the Dutch Government and pensions industry. We believe that we have substantially addressed those concerns.

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### *Due Process Concerns*

I am not aware of any matters that the Due Process Oversight Committee should be concerned about in relation to the forthcoming amendments to IAS 19.

### **Due process**

The IASB Due Process Handbook includes mandatory and non-mandatory steps that need to be considered before an exposure draft is published or a new IFRS or amendments to existing IFRSs are issued. The Board is required to explain why it has not undertaken any of the non-mandatory steps (ie the 'comply or explain' approach).

### ***Mandatory steps***

#### *Publishing an exposure draft, with a basis for conclusions and alternative views if relevant*

The Board published the exposure draft *Defined Benefit Plans* (the ED) in April 2010. The ED had a comment period ending on 6 September 2010.

Fourteen Board members approved the ED. One Board member (Tatsumi Yamada) voted against its publication. His alternative views were published in the ED.

#### *Reviewing comments made within a reasonable period on documents published for comment*

227 comment letters were received on the ED. A comment letter summary was presented to the Board at the October 2010 Board meeting. The Board also analysed comments received in further detail between October 2010 and February 2011.

#### *Consulting the Advisory Council on major projects*

The post-employment benefits project was discussed regularly by the Advisory Council throughout the project life.

#### *Including a basis for conclusions in the IFRS*

The amendments include a basis for conclusions. No Board members have indicated that they will dissent to the publication of the amendments.

### ***Non-mandatory steps***

#### *Publishing a discussion document (e.g. a discussion paper)*

The Board published the discussion paper *Preliminary Views on Amendments to IAS 19* (the DP) in March 2008 with a six-month comment period ending 26 September 2008. 150 comment letters were received on the DP.

### *Establishing working groups or other types of specialist advisory groups*

The Board established an *Employee Benefits Working Group* to assist the Board in the development of proposals and the review of feedback received on those proposals. The group consists of senior professionals with extensive practical experience in the operation, management, valuation, financial reporting, auditing or regulation of a variety of post-employment benefit arrangements.

The working group has held 5 formal meetings. The last working group meeting was held in September 2010. In addition to the formal meetings, the Board sought informal input from working group members on a number of issues. Members of the group also assisted the Board in reviewing early drafts of the amendments, the ED and the DP.

### *Holding public hearings and undertaking field tests (both in developed countries and in emerging markets)*

Because of the limited scope of this project, the Board has not considered it necessary to undertake public hearings and to undertake field tests. The Board thinks that it is not necessary to undertake these non-mandatory steps because sufficient input has been received through the following channels:

- (a) Formal feedback through the comment letters on the DP and the ED.
- (b) Extensive outreach activities during the exposure period. Activities included live webcasts, Q&A sessions, meetings, talks, conference presentations, conference calls, articles and email correspondence with a wide range of preparers, users, actuaries, auditors and other pensions professionals from a wide variety of geographic backgrounds.
- (c) The formal and informal input received from the working group.

### ***Additional steps taken***

In addition to the activities outlined in the due process handbook, the staff and board members undertook additional outreach.

Extensive outreach was undertaken throughout the deliberations of IAS 19. As explained earlier, staff liaised with preparers from a variety of industries and geographic locations in order to gather their concerns and analyse how the proposals would apply to real life transactions. As a result of this outreach, the proposals in the ED were improved and constituents gained a better understanding of the proposals.

Staff also met with user groups and national standards setters. These groups provided valuable feedback for the Board as they deliberated various issues.

Drafts of the IFRSs were sent for a fatal flaw review to a selected group of external reviewers, including the Employee Benefit Working Group members. Again, these

reviewers were from a variety of industries and geographic locations. National standard-setters were also given access to the drafts.

These topics were regularly on the agenda of the Analysts Representative Group and Global Preparers Forum. Staff and Board members also discussed the topics at conferences hosted by the IASB and other organisations.

A project summary and feedback statement (incorporating an effect analysis) will also be provided as public documents to accompany the publication of the amendments. These documents will explain in simple language the improvements made and the effects these changes will have for preparers, auditors and users.

### ***Re-exposure***

The IASB Due Process Handbook states that the Board must consider whether a proposal should be re-exposed by:

- Identifying substantial issues that emerged during the comment period on the exposure draft that it had not previously considered;
- assessing the evidence that it has considered;
- evaluating whether it has sufficiently understood the issues and actively sought the views of constituents; and
- considering whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions on the exposure draft.

The Board has considered the changes made from the ED and decided that it was not necessary to re-expose any aspects of the proposals. The main changes from the ED are the withdrawal or relaxing of some of the disclosure proposals and further clarification of the proposals addressing some of the other issues.

### **Summary**

The Board considered all of these matters at its meeting during the week commencing 14 February 2011 and decided to ask the staff to prepare the IFRS for balloting. The staff are in the process of preparing those ballot drafts and our plan is to issue the documents in mid-April.