

STAFF PAPER

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Accounting Standards Advisory Forum

Project	Research Project: Post-employment benefits		
Paper topic	Cover note—Project Update and questions to ASAF members		
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This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. When IAS 19 *Employee Benefits* was developed, it was mainly designed to cover traditional defined benefit (DB) plans (eg final salary plans) and simple defined contribution (DC) plans.
2. The use of hybrid plans that fall within the definition of DB plans in IAS 19 but under which employers and employees share risk is increasing in many jurisdictions. Such plans were not envisaged when IAS 19 was first developed.
3. As explained at [the September 2014 IASB meeting](#), the current IAS 19 does not always provide relevant information when the risks do not fall solely on an entity or solely on employees (eg when the benefits depend on the actual return on plan assets but the entity also guarantees a minimum return). This is because the present value of the defined benefit obligation (DBO) does not fully reflect the effect of the risks, whereas plan assets are measured at their fair values, which fully reflect the effect of the risks. Accordingly, the amounts presented in financial statements sometimes become less meaningful, because the fair value of plan assets is deducted from the amount of the mismatched DBO to determine the net defined benefit liability (asset) presented in the statement of financial position.

4. We think that this mismatch may mislead users of financial statements, because many users do not realise that this problem in measurement exists. This problem has also resulted in diversity in practice, as the Interpretations Committee observed.
5. As explained at the September 2014 IASB meeting, the purpose of this research is, given the changing nature of pension promises:
 - (a) to identify a conceptually sound and robust model for accounting for post-employment benefits; and
 - (b) to gather information about the trends in pension plans.
6. As planned at the September 2014 IASB meeting, we have continued our internal analysis and informal discussions as well as information-gathering from our stakeholders, including pension specialists. The specialists included international actuaries (eg members of the International Actuarial Association) and specialists at accounting firms. We also discussed this research project at [the December 2014 ASAF meeting](#). The feedback at the ASAF meeting was shared with IASB members and we considered the feedback when we prepared our analysis in staff papers.
7. The papers to be used at the November 2015 IASB meeting are similar to the papers to be used at this ASAF meeting. At the November 2015 IASB meeting, we will provide a project update and will not ask the IASB to make any decisions.

Purpose of this session and structure of the papers

8. The purpose of this session is to provide a project update about the research project on post-employment benefits and to ask for your comments about possible models and our initial analysis.
9. The purpose of the papers is to provide:
 - (a) information about global trends in pensions (Agenda Paper 4A);
 - (b) an indication of potential models that might address the issue of hybrid plans (Agenda Paper 4B); and

- (c) information about the potential impact of the ongoing Agenda Consultation and other IASB projects (eg the *Conceptual Framework* project and the Insurance project) (Agenda Paper 4C).
10. We think that we need to consider the results of the ongoing Agenda Consultation and other IASB projects before we make recommendations to the IASB on what the IASB should do next, if anything.
11. We will continue our internal analysis and information-gathering and will consider the future results of the ongoing Agenda Consultation and discussions in other IASB projects. Your comments will help our further analysis.

Questions for the ASAF members

1. Do you have any questions or comments about the research on post-employment benefits?
2. Do you have any comments on possible models and the staff's preliminary analysis? In particular, we acknowledge that any practical solution may have boundary effects and/or result in new rule-based guidance. Do you support any specific 'practical' solution (probably as a short-term solution), or support conceptually sound approaches that would cover broader plans and problems?