

## STAFF PAPER

March 2015

## IFRS Interpretations Committee Meeting

Project	IAS 19— <i>Employee Benefits</i>
Paper topic	Should longevity swaps held under a defined benefit plan be measured at fair value as part of plan assets or on another basis as a qualifying insurance policy?

CONTACT(S)	Akemi Miura	<a href="mailto:amiura@ifrs.org">amiura@ifrs.org</a>	+44 (0)20 7246 6930
------------	-------------	--	---------------------

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

1. In August 2014, the IFRS Interpretations Committee (the ‘Interpretations Committee’) received a request to clarify the accounting for longevity swaps held under a defined benefit plan.
2. At its November 2014 meeting, the Interpretations Committee discussed this issue and tentatively decided not to add this issue to its agenda.
3. The objective of this Agenda Paper is to provide an analysis of the comment letter received on the tentative agenda decision and to ask whether the Interpretations Committee agrees with the staff recommendation that it should finalise the agenda decision.
4. This Agenda Paper is structured as follows:
  - (a) discussions at the November 2014 Interpretations Committee meeting;
  - (b) comment letter analysis;
  - (c) staff recommendation;
  - (d) questions for the Interpretations Committee;
  - (e) Appendix A—proposed wording for the final agenda decision; and

- (f) Appendix B—comment letter.

## Discussions at the November 2014 Interpretations Committee meeting

5. The submitter raised a question about whether an entity should:
  - (a) account for a longevity swap as a single instrument and measure its fair value as part of plan assets in accordance with paragraphs 8 and 113 of IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*, with changes in fair value being recorded in other comprehensive income; or
  - (b) split a longevity swap into two components and use another basis of measurement for a qualifying insurance policy for one of the components, applying paragraph 115 of IAS 19.
6. The submitter also raised questions about presentation if the measurement in paragraph 5(b) were to be used.
7. The outreach did not provide evidence that the use of longevity swaps is widespread. The Interpretations Committee understands that when such transactions take place, the predominant practice is to account for a longevity swap as a single instrument, and measure it at fair value as part of plan assets, applying paragraphs 8 and 113 of IAS 19, as well as IFRS 13 (paragraph 8 of IAS 19 refers to IFRS 13).
8. On the basis of this analysis, the Interpretations Committee concluded that it did not expect diversity in the application of IAS 19 to develop and it therefore tentatively decided not to add this issue to its agenda.

## Comment received on the tentative agenda decision

9. We received one comment letter on the tentative agenda decision.
10. One respondent ((Deloitte Touche Tohmatsu Limited (DTTL)) agreed with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

11. However, it recommended that the tentative agenda decision should add that the requirements of paragraph 115 of IAS 19 only apply to a plan asset that meets the definition of a qualifying insurance policy.
12. It also stated that they had observed the use of such instruments emerging in additional jurisdictions, so in time this issue may assume wider significance.

## Staff analysis

13. With regard to the point described in paragraph 11 of this paper, we agree that such an additional clarification could be useful for some entities. More precisely, we note that paragraph 115 of IAS 19 should be applied to qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, if plan assets include those insurance policies, because paragraph 115 of IAS 19 states:

Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

14. Paragraph 8 of IAS 19 explains the definition of a qualifying insurance policy, stating that:

A qualifying insurance policy is an insurance policy<sup>1</sup> issued by an insurer that is not a related party (as defined in IAS 24 *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:

- (a) can be used only to pay or fund employee benefits under a defined benefit plan; and

---

<sup>1</sup> A qualifying insurance policy is not necessarily an insurance contract, as defined in IFRS 4 *Insurance Contracts*.

(b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:

(i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or

(ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

15. With regard to the point described in paragraph 12 of this paper, we think that the Interpretations Committee had noted the future possibility of an increase in the use of longevity swaps.<sup>2</sup>
16. We think that the Interpretations Committee concluded that the result of outreach did not provide evidence that the use of longevity swaps is widespread, although it is not very rare in one particular jurisdiction and may increase in future. We do not think that we need to change the conclusion, because the information is not new.

## Staff recommendation

17. On the basis of the comments received on the tentative agenda decision and our analysis of them, we recommend that the Interpretations Committee should finalise the agenda decision.
18. We recommend that the Interpretations Committee should clarify in the wording of the final agenda decision that paragraph 115 of IAS 19 should be applied to qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan,. This is because we think that such a clarification could be useful for some entities.
19. The proposed wording of the final agenda decision is presented in **Appendix A** of this Agenda Paper.

---

<sup>2</sup> For example, it was implied by paragraphs 36 and 42 of [Agenda Paper 17](#), which was used at the November 2014 meeting.

## Questions for the Interpretations Committee

### Questions

1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision?
2. If the answer to Question 1 is 'Yes', does the Interpretations Committee agree with the wording of the final agenda decision in **Appendix A** of this Agenda Paper?

## Appendix A—Proposed wording for the final agenda decision

**IAS 19 *Employee Benefits*—Should longevity swaps held under a defined benefit plan be measured at fair value as part of plan assets or on another basis as a qualifying insurance policy?**

The Interpretations Committee received a request to clarify the measurement of longevity swaps held under an entity's defined benefit pension plan.

The submitter raised a question about whether an entity should:

- (a) account for a longevity swap as a single instrument and measure its fair value as part of plan assets in accordance with paragraphs 8 and 113 of IAS 19 and IFRS 13 *Fair Value Measurement*, with changes in fair value being recorded in other comprehensive income; or
- (b) split a longevity swap into two components and use another basis of measurement for a qualifying insurance policy for one of the components, applying paragraph 115 of IAS 19.

The submitter also raised questions about presentation if the measurement in paragraph (b) were to be used.

The outreach did not provide evidence that the use of longevity swaps is widespread. The Interpretations Committee understands that when such transactions take place, the predominant practice is to account for a longevity swap as a single instrument, and measure it at fair value as part of plan assets, applying paragraphs 8 and 113 of IAS 19 and IFRS 13.

The Interpretations Committee noted that the use of the present value of the related obligation as the deemed fair value of plan assets in accordance with paragraph 115 of IAS 19 should be applied only to qualifying insurance policies that are included in plan assets and that exactly match the amount and timing of some or all of the benefits payable under the plan. It also noted that paragraph 8 of IAS 19 explains the definition of 'qualifying insurance policies'.

On the basis of this analysis, the Interpretations Committee concluded that it did not expect diversity in the application of IAS 19 to develop and it therefore {decided} not to add this issue to its agenda.

## **Appendix B—Comment letter**

Wayne Upton  
Chairman  
IFRS Interpretations Committee  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

20 January 2015

Dear Mr Upton

**Tentative agenda decision - IAS 19 *Employee Benefits*: Should longevity swaps held under a defined benefit plan be measured at fair value as part of plan assets or on another basis as a qualifying insurance policy?**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on the measurement of a longevity swap held under an entity's defined benefit plan.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision. However, we recommend that the tentative agenda decision also state that the requirements of paragraph 115 of IAS 19 only apply to a plan asset that meets the definition of a qualifying insurance policy.

In respect of the comment included in the tentative agenda decision on the use of longevity swaps, we have observed the use of such instruments emerging in additional jurisdictions so in time this issue may assume wider significance.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole  
Global IFRS Leader

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4a, 3TR, United Kingdom.