IFRS

STAFF PAPER

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IASB® Meeting

Project	**Second Comprehensive Review of the *IFRS for SMEs®* Standard**
Paper topic	Towards an Exposure Draft—IAS 19 *Employee Benefits* (2011)

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Introduction

1. This paper discusses whether and how to propose amendments to the *IFRS for SMEs* Standard to align with the 2011 amendments to IAS 19 *Employee Benefits*.

2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

Purpose of the paper

3. The purpose of this paper is to ask the International Accounting Standards Board (Board) to:

    (a) consider feedback on the Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard*, published in January 2020;

    (b) consider the recommendations of the SME Implementation Group (SMEIG) on:

        (i) aligning the *IFRS for SMEs* Standard with the 2011 amendments to IAS 19; and

        (ii) whether to retain the option to present actuarial gains and losses either in profit or loss or in other comprehensive income; and

(c) decide whether to propose amendments to the *IFRS for SMEs* Standard to align with the 2011 amendments to IAS 19.

Summary of staff recommendations

4. The staff recommend the Board propose an amendment to the *IFRS for SMEs* Standard to:

   (a) align with the 2011 amendments to IAS 19 in respective of the recognition requirement for termination benefits; and

   (b) eliminate the accounting policy option in paragraph 28.24 of the *IFRS for SMEs* Standard and require actuarial gains and losses to be presented in other comprehensive income.

Structure of the paper

5. This paper is structured as follows:

   (a) background (paragraphs 6–8);

   (b) question in the Request for Information (paragraph 9);

   (c) feedback and SMEIG recommendations (paragraphs 10–18);

   (d) staff analysis applying the alignment principles—aligning Section 28 with the recognition requirements for termination benefits (paragraphs 19–27);

   (e) staff analysis—the accounting policy option in paragraph 28.24 of the *IFRS for SMEs* Standard (paragraphs 28–39); and

   (f) questions for the Board.

Background

6. Section 28 of the *IFRS for SMEs* Standard and IAS 19 prescribe the accounting and disclosure requirements for employee benefits. Employee benefits include:
   (a) short-term employee benefits;
   (b) post-employment benefits, which may be classified as:
      (i) defined contribution plans; or
      (ii) defined benefit plans;
   (c) other long-term employee benefits; and
   (d) termination benefits.

7. The main changes introduced by the 2011 amendments to IAS 19 were:
   (a) elimination of the option to defer recognition of changes in the defined benefit obligation. This option is not available to SMEs and is therefore not part of the Second Comprehensive Review;
   (b) elimination of the option to present actuarial gains and losses either in profit or loss or in other comprehensive income; and
   (c) clarification that termination benefits should be recognised at the earlier of when the entity can no longer withdraw the offer of those benefits and when any related restructuring costs are recognised.

8. Other amendments issued in November 2013 *Defined Benefit Plans: Employee Contributions* and February 2018 *Plan Amendment, Curtailment or Settlement* introduced changes in other areas of IAS 19. The Board, at its July 2019 meeting, decided that the Request for Information should not seek views on aligning the *IFRS for SMEs* Standard with those amendments because there are no specific requirements in the *IFRS for SMEs* Standard that are related to the areas in these amendments. The Board will discuss the feedback on these amendments at a future meeting.

Question in the Request for Information

9. Question S8 in the Request for Information asked for views on aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits, that is:
   (a) aligning Section 28 with the recognition requirements for termination benefits as introduced by the 2011 amendments to IAS 19; and
   (b) leaving Section 28 unchanged and therefore not proposing amendments for other changes introduced by the 2011 amendments to IAS 19.

Feedback and SMEIG recommendations

Methods for obtaining feedback

10. Stakeholders provided feedback on question S8 of the Request for Information in several ways, including:
    (a) comment letters; and
    (b) an online survey.
11. The SMEIG met on 9 September 2021 to discuss the feedback from stakeholders on the Request for Information and develop recommendations to enable the Board to decide on whether and how to align Section 28 of the *IFRS for SMEs* Standard with IAS 19 (2011).

Overall feedback

12. Overall feedback on the Request for Information support aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits.

13. Although the Board did not request views on eliminating the option to present actuarial gains and losses either in profit or loss or in other comprehensive income, a few respondents said they support eliminating the option. Some SMEIG members also supported eliminating the option.

Feedback from comment letters

14. Most respondents support aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits. The reasons provided supporting this view include:

    (a) alignment will contribute to comparability of financial statements among SMEs; and

    (b) alignment will improve faithful representation.

15. A small number of respondents do not support alignment of Section 28 with the 2011 amendments to IAS 19 because the 2011 amendments to IAS 19 are not relevant to SMEs given that most SMEs only have simple employee benefits.

Feedback from online survey

16. Most respondents to the online survey support aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits.

SMEIG recommendations[1]

17. SMEIG members generally support aligning Section 28 with the 2011 amendments to IAS 19 in respect of the recognition requirements for termination benefits.

[1] The Report on the SMEIG meeting, held via remote participation, on 9 September 2021 can be accessed here.

18. Furthermore, some SMEIG members said they also support eliminating the accounting policy option to present actuarial gains and losses either in profit or loss or in other comprehensive income.[2] One of the SMEIG members said actuarial gains and losses should be presented in other comprehensive income because actual gains and losses arise from changes in assumptions that are usually beyond the control of an SME.

Staff analysis applying the alignment principles—aligning Section 28 with the recognition requirements for termination benefits

Background

19. The 2011 amendments to IAS 19 changed the timing of the recognition of termination benefits to the earlier of the following dates:

    (a) when the entity can no longer withdraw the offer of the benefits; and

    (b) when the entity recognises costs for a restructuring within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.

20. Paragraph 28.34 of the *IFRS for SMEs* Standard states that an entity shall recognise termination benefits when the entity is demonstrably committed to either:

    (a) terminate the employment of an employee or a group of employees before the normal retirement date; or

    (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

21. The requirements in Section 28 are aligned with IAS 19 as it stood prior to the 2011 amendments—which required an entity to recognise termination benefits when the entity was demonstrably committed to providing those benefits.

[2] The accounting policy option is in paragraph 28.24 of the *IFRS for SMEs* Standard.

Relevance to SMEs

22. When finalising the 2011 amendments, the Board concluded that an entity's inability to withdraw the offer of benefits is the deciding factor for the timing of recognition, because as long as the entity has the discretion to withdraw the offer, a liability does not exist.[3] The Board also decided it would be appropriate to align the recognition requirements for termination benefits and any related restructuring costs since they often occur together.

23. The staff notes that paragraph 28.35 of the *IFRS for SMEs* Standard states an entity is demonstrably committed to a termination only when the entity has a detailed formal plan for the termination and without realistic possibility of withdrawal of the plan. Therefore, aligning the wording in Section 28 with the 2011 amendments to IAS 19 is a clarification of current requirements.

24. A small number of respondents, as summarised in paragraph 15 of this agenda paper, said they did not consider the topic was relevant to SMEs because SMEs have simple employee benefits. Whilst the staff agree with this statement, termination benefits often arise from contracts of employment or statutory legislation that aim to protect employees. Consequently, the staff agree with those respondents that supported alignment.

Simplicity

25. The staff does not recommend any simplifications to the recognition requirements for termination benefits.

26. The Request for Information did not seek views on aligning the measurement requirements for termination benefits between IAS 19 and Section 28 of the *IFRS for SMEs* Standard. The *IFRS for SMEs* Standard requires termination benefits to be measured at the entity's best estimate of the expenditure that would be required to settle the obligation at the reporting date. These measurement requirements are simplified from IAS 19.

[3] Paragraph BC259 of the Basis for Conclusion on IAS 19 *Employee Benefits.*

Faithful representation

27. The staff's view is that aligning the *IFRS for SMEs* Standard with IAS 19 in respective of the recognition requirement for termination benefits would enable an entity to provide information that faithfully represents its liabilities by ensuring it recognises a liability for termination benefits only when the entity has an obligation it has no practical ability to avoid.

Staff analysis—the accounting policy option in paragraph 28.24 of *IFRS for SMEs* Standard

Background

28. The 2011 amendments to IAS 19 introduced a new method of disaggregating defined benefit cost under which the change in the net defined benefit liability or asset is disaggregated into following components:

    (a) service cost—the additional liability that arises from employees providing service during the period.

    (b) net interest—the interest expense on the net defined benefit liability or interest income on the net defined benefit asset.

    (c) remeasurements—other changes in the value of the defined benefit obligation, such as changes in estimates, and other changes in the value of plan assets.

    IAS 19 requires an entity to present the gains and losses arising from the remeasurements, including actuarial gains and losses, in other comprehensive income, which shall not be reclassified to profit or loss in a subsequent period.[4]

29. At its September 2019 meeting, the staff proposed the Board seek views in the Request for Information on aligning Section 28 with IAS 19 to:

[4] Paragraphs 120 to 122 of IAS 19 *Employee Benefits.*

(a) require SMEs to present remeasurements of defined benefit plans in other comprehensive income; and

(b) define remeasurements in a manner consistent with IAS 19.

However, the Board rejected the proposal and asked a question in the Request for Information to seek views on aligning Section 28 only in respect of the recognition requirements for termination benefits.

Feedback from comment letters

30. The Board did not ask specific question on whether to retain the option for actuarial gains and losses in the Request for Information. However, a few respondents to the Request for Information stated support for aligning with IAS 19 by eliminating the option. For example, one reason stated was:

> We believe that removing the option would result in greater consistency and comparability amongst entities applying the *IFRS for SMEs* Standard. It would also reduce the number of options available in the *IFRS for SMEs* Standard, making it easier for entities to apply.

31. Another respondent to the Request for Information supported elimination of the option by requiring SMEs to present actuarial gains and losses in profit or loss because:

> …
>
> the conceptual need and justification for 'other comprehensive income' has still not been adequately articulated, especially for SMEs.

SMEIG recommendations

32. At the September 2021 SMEIG meeting, some SMEIG members were supportive of eliminating the option and requiring SMEs to present actuarial gains and losses in other comprehensive income. One SMEIG member said he supported elimination because usually actuarial gains and losses arise from changes in assumptions that are beyond the control of an SME.

33. In September 2021, SMEIG members were also asked about the prevalence of defined benefit plans among SMEs. Most SMEIG members said defined contribution plans are more popular than defined benefit plans for SMEs in their jurisdiction. Furthermore, some SMEIG members noticed a trend for SMEs to move from defined benefit plans to defined contribution plans.

Staff's analysis

34. In agenda paper 30B for the September 2019 Board meeting, the staff applied the Board's alignment principles and proposed to include a question in the Request for Information on aligning Section 28 with IAS 19 as noted in paragraph 29 of this paper. [5] However, the Board rejected the staff's proposal. To address the feedback on the Request for Information the staff have not represented the September 2019 analysis but have sought to identify alternative approaches the Board could take.

35. When considering whether and how to align Section 28 with the 2011 amendments that eliminated the option of where to present actuarial gains and losses, the staff considered three approaches including:

    (a) full alignment—introduction of the new method of disaggregating defined benefit cost (the net interest approach) and elimination of the option to present actuarial gains and losses either in profit or loss or in other comprehensive income.

    (b) partial alignment—elimination of the option to present actuarial gains and losses either in profit or loss or in other comprehensive income without introducing the net interest approach.

    (c) no alignment—retaining the option and not introducing the net interest approach.

36. The alternatives above do not consider eliminating the option by requiring SMEs to present actuarial gains and losses in profit or loss because this approach would widen the gap between the *IFRS for SMEs* Standard and full IFRSs Standards, which is

[5] The staff's analysis can be found in paragraph 16–29 of Agenda Paper 30B of the September 2019 Board meeting.

contradictory to the alignment principle—the alignment with full IFRS Standards was treated as the starting point when development the Request for Information.

37. The staff are supportive of the partial alignment approach because:

(a) partial alignment would effectively eliminate the option which would meet the simplicity principle as elimination of the option would simplify application of the *IFRS for SMEs* Standard and result in greater comparability of the resulting financial information among SMEs;

(b) paragraph BC90 of the Basis for Conclusion to IAS 19 states:

> …the Board concluded that the most informative way to disaggregate the components of defined benefit cost with different predictive values is to recognise the remeasurements component in other comprehensive income.

The staff think requiring actuarial gains and losses to be presented in other comprehensive income improves faithful representation.

(c) requiring SMEs to present actuarial gains and losses in other comprehensive income would be consistent with the alignment approach—bringing the requirement in the *IFRS for SMEs* Standard closer to the requirement in full IFRS Standards; and

(d) not aligning with the net interest approach would avoid introducing additional complexity to the SMEs and imposing significant implementation costs.

38. Introducing the net interest approach to the *IFRS for SMEs* Standard by following the full alignment approach would add complexity to the Standard and is contradictory with the simplicity principle. The staff think the cost for SMEs to apply the net interest approach does not justify the benefits for the users. Therefore the staff are not supportive of the full alignment approach.

39. The staff are not supportive of no alignment approach (retaining the option) because of the stated benefits of the partial alignment approach as set out in paragraph 37 of this agenda paper. Furthermore, the partial alignment approach responds to feedback on the Request for Information.

Questions for the Board

Question
Does the Board agree with the staff's recommendations that the Board propose an amendment to the *IFRS for SMEs* Standard to: (a) align with the 2011 amendments to IAS 19 in respective of the recognition requirement for termination benefits; and (b) eliminate the accounting policy option in paragraph 28.24 of the *IFRS for SMEs* Standard and require actuarial gains and losses to be presented in other comprehensive income.