

Technical Briefing Paper

Preliminary Views on Amendments to IAS 19 Employee Benefits

April 2008

The International Accounting Standards Board (IASB) has recently released for public comment a discussion paper (DP) on IAS19 *Employee Benefits*. The paper sets out the IASB's preliminary views on how the accounting for some post-employment benefits, including pensions, could be improved.

Background

This latest discussion paper is the first milestone part of the short term phase of the IASB project on reviewing all aspects of post-employment employee benefits. The aim of this phase is to issue an amended interim standard by 2011. The long term objective of the second phase is to work with the Financial Accounting Standards Board (FASB) to comprehensively review all aspects of accounting for post-employment benefits and to ultimately develop a converged standard

The current DP has been developed in consultation with the IASB's Employee Benefits Working Group, and addresses the main concerns expressed by a wide range of interested parties that the accounting model set out in IAS 19 is inadequate and should be reviewed. Answering some of the concerns of constituents the DP sets out preliminary views on:

- the abolition of smoothing mechanisms currently permissible under IAS19 (the 'corridor' approach)
- the presentation of defined benefit plans and
- the definition of different types of benefit promises
- the accounting for contribution-based promises

Recognition of defined benefit promises

IAS19 currently permits certain changes in the value of plan assets and defined benefit obligations to be recognised in periods subsequent to when they arise. Many have felt that the option to recognise actuarial gains and losses over the estimated average remaining service life of employees (if they exceeded a 'corridor' threshold) leads to misleading figures in the statement of financial position.

The DP proposes that all actuarial gains and losses should be recognised immediately in the period they occur. Similarly, past service costs should be recognised immediately in the period of the plan amendment.

Presentation of defined benefit plans

The DP sets three possible approaches for presenting changes in the value of plan assets and defined benefit obligations:

1. All changes in the obligation and the value of the assets would be presented in profit and loss (in the period they occur).
2. An entity should identify (and separate) the changes in value of plan assets and defined benefit obligations resulting from the cost of service. The service costs, including adjustments made as a result of changes in assumptions relating to service costs (other than arising from changes in discount rates) would be presented in profit and loss. All other costs and income would be reported in other comprehensive income.
3. The changes that arise from remeasurement of financial assumptions would then be reported in other comprehensive income. All other changes such as costs of service, interest cost and interest income, would be recognised in profit or loss.

The existing option under IAS19 to allow recognition of all actuarial gains and losses directly in equity would also be no longer permissible.

Different types of benefit promises

One of the overall approaches of the DP is to move the unit of account from being based on a plan to being based on a promise. The DP therefore proposes to replace the concept of a defined contribution (DC) plan with that of a 'contribution-based promise'. Defined benefits plan would similarly be renamed 'defined benefit promises'.

Thus, a contribution-based promise would be based on actual contributions plus an asset-based return. They would include

- Existing defined contribution plans
- Plans with a guaranteed fixed return on contributions (cash balance plans)
- Plans that are expressed as a fixed lump-sum at retirement that is not dependent on service.

It is noteworthy that some 'promises' which are currently classified as defined benefit such as cash balance plans, would now be classified as contribution-based. Defined benefits would be the residual category, for all promises that were not deemed contribution-based.

Accounting for contribution-based promises

The DP recognises that some benefit promises are subject to vesting conditions (such as length of service etc.) and that IAS19 does not currently discuss how these conditions can affect defined contribution plans. As such the DP proposed that both vested and unvested contribution-based promises should be treated as a liability, consistent with the existing requirements for defined benefit schemes under IAS19.

The liability arising from unpaid contributions would be measured at fair value and reflect the credit risk of the entity. The changes in the fair value would be recognised in profit and loss with the portion related to service costs being disaggregated from other value changes.

There is no requirement to recognise an additional liability to reflect any higher amount that an employer may have to pay an employee if they leave service immediately after the balance-sheet date.

The IASB invites comments on the discussion paper by 26 September 2008. The discussion paper is available on the [IASB's website](#).

For more details on the project, see the project website on www.iasb.org

ACCA also welcomes members' comments on the paper. Please submit these via e-mail condocomments@accaglobal.com by Friday 5 September 2008.

This briefing paper contains information in a summary form and is of a general nature. It is not intended to address all of the issues of a specific entity and is not a substitute for detailed research or the exercise of professional judgement.

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