June 2011

Project Summary and Feedback Statement

Amendments to IAS 19 *Employee Benefits*

IFRS™

At a glance

The International Accounting Standards Board (IASB) issued amendments to IAS 19 *Employee Benefits* in June 2011. The amendments to the recognition, presentation and disclosure requirements will ensure that the financial statements provide investors and other users with a clear picture of an entity's commitments resulting from defined benefit plans.

The amendments focus on three key areas in most need of improvement:

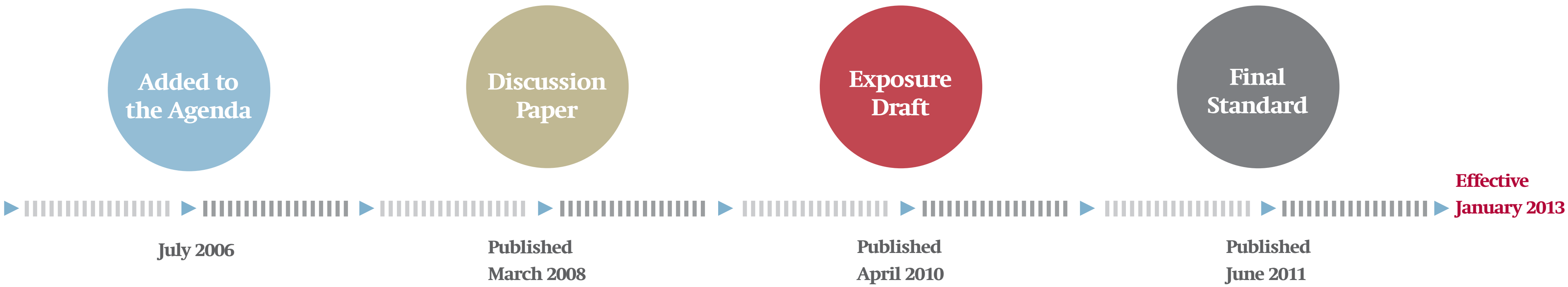
- Recognition — the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (the corridor approach).
- presentation — the elimination of options for the presentation of gains and losses relating to those plans.
- disclosures — the improvement of disclosure requirements that will better show the characteristics of defined benefit plans and the risks arising from those plans.

The amendments also incorporate changes to the accounting for termination benefits that were exposed for public comment in 2005.

The IASB is aware that many would like to see a comprehensive project addressing all aspects of the accounting for post-employment benefits. Whether or not the IASB will add a comprehensive project to its work plan will depend on the outcome of its public consultation on the future strategic direction and overall balance of the work plan.

This project was part of the Memorandum of Understanding (MoU) between the IASB and the US national standard-setter, the Financial Accounting Standards Board (FASB). The elimination of the option to defer recognition of gains and losses further aligns International Financial Reporting Standards (IFRSs) and US generally accepted accounting standards (GAAP).

Project time line



Why we undertook this project

Defined benefit plans give rise to large and uncertain costs for many companies and estimating these costs can be complex.

Given the potential impact of defined benefit plans on a company's financial position and performance, the financial statements need to provide investors, analysts and others with a clear picture of the company's commitments resulting from those plans and the potential impact of the performance of those plans.

The IASB inherited IAS 19 from its predecessor organisation, the IASC, when it took over in 2001. However, IAS 19 did not form part of the IASB's initial work plan to achieve a stable platform in time for the adoption of IFRSs in Europe in 2005.

Acknowledging the need for improvement, and in response to users and others that urged the IASB to provide more transparency and to simplify the accounting for employee benefits, the project was added to the work plan in 2006.

The amendments address the key areas in need of urgent improvement. They enhance the recognition, presentation and disclosure of defined benefit plans.

Recognition

One of the key issues in the accounting for defined benefit plans relates to deferred recognition. Before these amendments, companies did not immediately have to account for gains and losses arising from defined benefit plans. This deferred recognition of gains and losses may have resulted in an asset or liability in the balance sheet that did not reflect the surplus or deficit in the plan. This option made it difficult to gain a complete picture of the effect of defined benefit plans on a company's performance.

Presentation

Before these amendments, companies could choose different options for presenting gains and losses. This made it difficult to compare the effects of defined benefit plans on different companies.

Disclosure

Under the previous version of IAS 19, disclosures were voluminous but did not highlight risks arising from the defined benefit plan.

Diverse application

Areas of diverse application of IAS 19 have developed over the years, including the accounting for risk sharing features and the classification of benefits.

US GAAP

The IASB's improvements to the recognition requirements will align IFRSs with the requirement in US GAAP to recognise a surplus or deficit in a defined benefit plan on a company's statement of financial position.

The IASB, together with the FASB, also recently introduced amendments to how items in other comprehensive income (OCI) are presented, enabling users to identify differences in the accounting for period-to-period changes across financial statements prepared under IFRSs and US GAAP.

How this project improves IAS 19

The amendments improve the following areas of IAS 19:

- Removing the ‘corridor approach’
- Remeasurements in other comprehensive income
- Disclosure
- Areas of diverse application

Removing the ‘corridor approach’

The amendment removes from IAS 19 the option that allows a company to defer some gains and losses that arise from defined benefit plans.

The revised IAS 19 will require companies to report these changes as they occur. This will result in companies including any deficit or surplus in a plan on their statement of financial position.

Consistent presentation of remeasurements

Alongside the requirement to report changes as they occur, the amendment eliminates options for presenting gains and losses. It requires companies to include service and finance cost in profit or loss and remeasurements in OCI.

Disclosure

The disclosures required by the revised IAS 19 will make it easier for users to assess matters such as:

- the characteristics of a company's defined benefit plans.
- the amounts recognised in the financial statements.
- risks arising from defined benefit plans.
- participation in multi-employer plans.

Diverse application

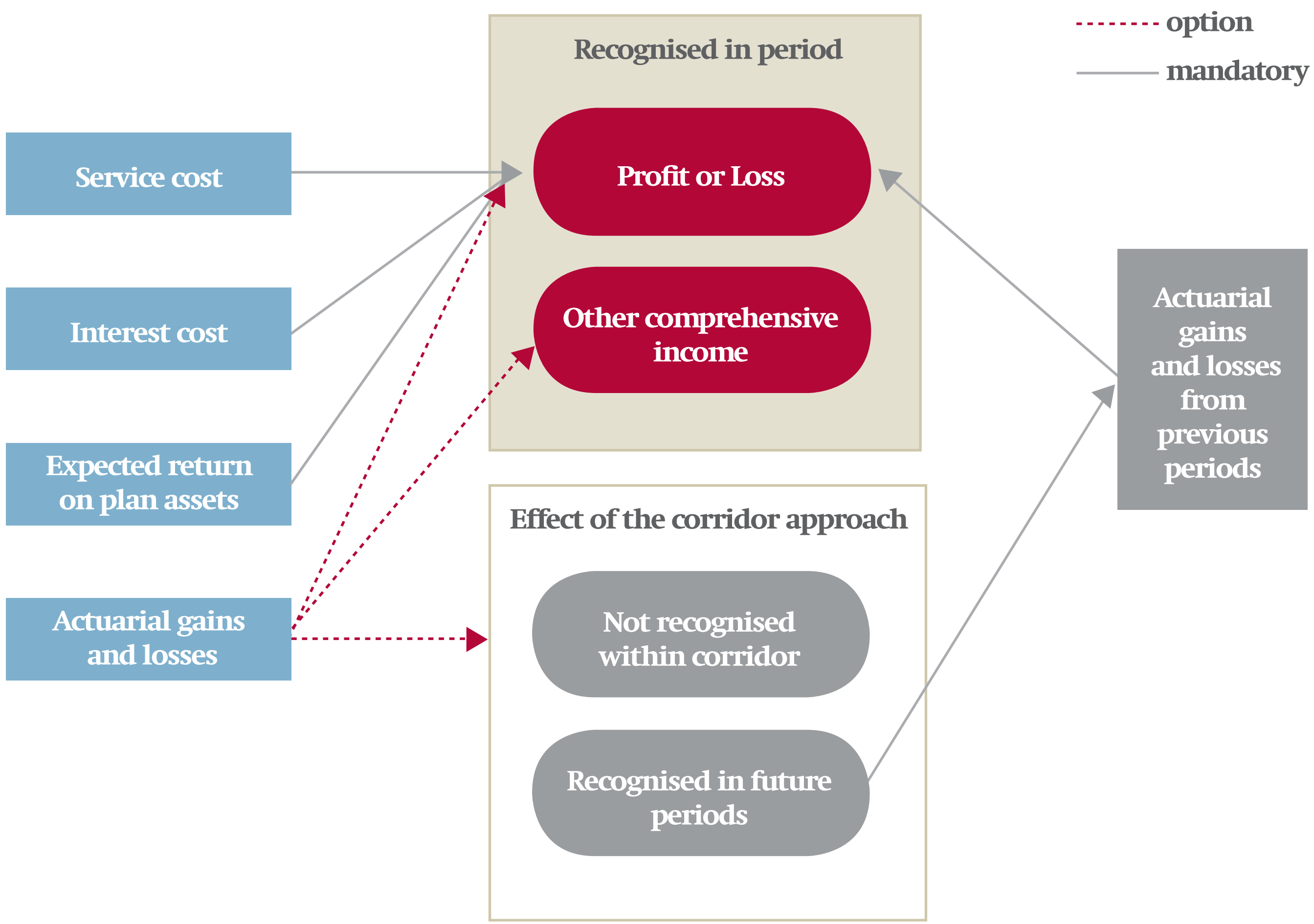
The amendments clarify some areas of diverse application of IAS 19, including the accounting for risk sharing features and the classification of benefits.

Key issues in IAS 19

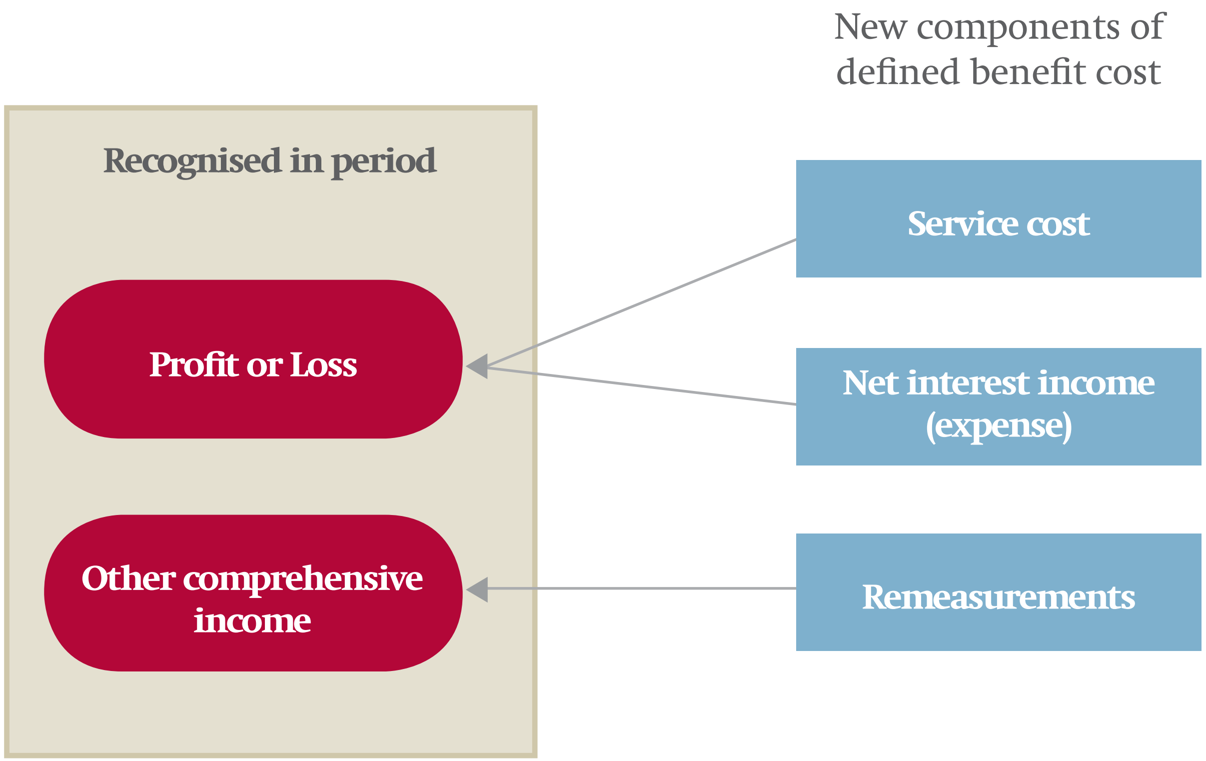
The main issues in IAS 19 were caused by a range of options that meant:

- gains and losses could be recognised either in profit or loss or OCI.
- gains and losses were sometimes recognised in the period when they occured and sometimes not.
- a deficit could be recognised as an asset and a surplus could be recognised as a liability.

As a result it was difficult to compare companies with similar obligations. The option to defer recognition of some changes could prevent users from gaining a clear picture of the gains and losses that arose in the current period.



The revised IAS 19



The amendments require a new approach to the recognition of gains and losses. This will improve the comparability and understandibility of changes arising from defined benefit plans by removing options and requiring entities to recognise changes immediately.

Specifically, the amendments will require companies to recognise:

- service and finance cost in profit or loss and remeasurements in OCI; and
- a surplus as a net defined benefit asset and a deficit as a net defined benefit liability.

The amendments accompany more general improvements that the IASB made in its amendment to IAS 1 for the presentation of items of OCI.

The new components of defined benefit cost

The revised IAS 19 simplifies the reporting of changes in defined benefit plans by introducing a new method of disaggregating defined benefit cost: the net interest approach.

Under the new requirements, the change in the net defined benefit liability or asset is disaggregated into the following components:

- Service cost — the additional liability that arises from employees providing service during the period.
- Net interest — the interest expense on the net defined benefit liability or interest income on the net defined benefit asset.
- 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.

This approach is similar to the previous disaggregation required by IAS 19, but replaces the expected return on assets and interest costs on the defined benefit obligation with a single net interest component.

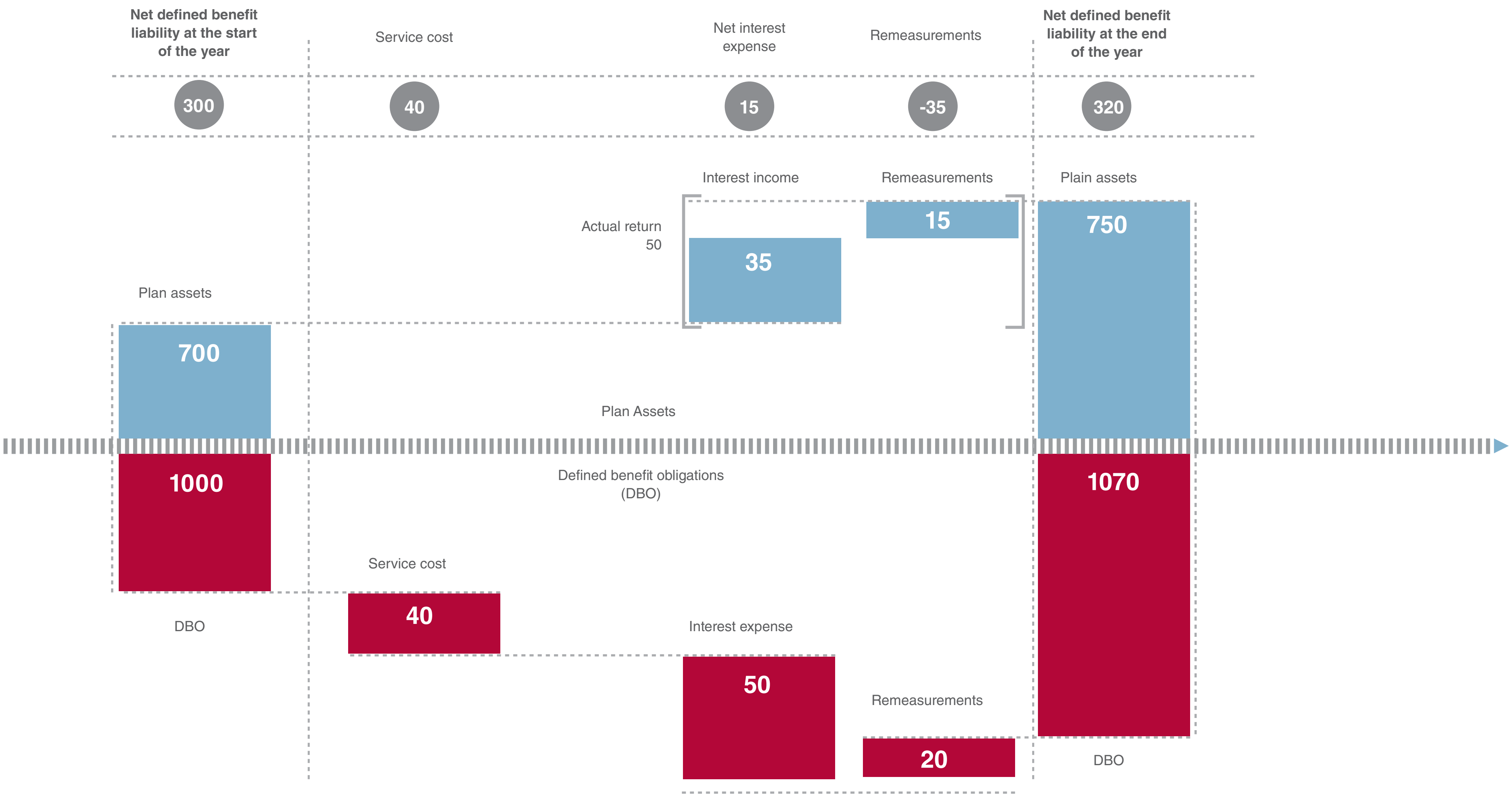
The basis of this approach is that the net defined benefit liability or asset is equivalent to an amount owed to or from the plan (similar to a receivable or payable).

The IASB decided on this approach because:

- a deficit will result in interest expense and a surplus will result in interest income, reflecting the financing effect of the amount owed to or from the plan. Under the previous approach, a deficit could result in net finance income if the expected return on plan assets exceeded the interest cost on the defined benefit obligation.
- both the benefits and costs of risk are reported in OCI. Under the previous approach, the benefits of plan assets with higher risk were reflected in profit or loss with a higher expected return while the costs of taking that risk were reflected in OCI.

In the IASB's view this approach is simpler, more understandable and better represents the underlying economics of the change attributable to the passage of time.

Illustration of the new components



Summary of the main changes from the exposure draft

Presentation

The exposure draft proposed that companies should present the finance cost component as part of finance costs in profit or loss. The amendments withdraw this proposal with the result that the service cost and finance cost components are presented in accordance with the requirements of IAS 1 *Presentation of Financial Statements*, like other similar items.

The amendments require gains and losses on settlements to be presented as part of the service cost component. The exposure draft proposed that gains and losses on settlements should be included as part of remeasurements.

Disclosure

The amendments do not require the following disclosures that were proposed in the 2010 ED:

- the defined benefit obligation, modified to exclude projected salary growth;
- the process used to determine demographic actuarial assumptions;
- sensitivity of the current service cost to changes in actuarial assumptions; and
- factors that could cause contributions to differ from the service cost.

Other

In the light of comments by respondents, the amendments do not:

- combine the post-employment and other long-term employee benefit categories as proposed in the exposure draft.
- clarify whether expected future salary increases should be included in determining whether a benefit formula allocates a materially higher level of benefit to later years as proposed in the exposure draft.
- incorporate IFRIC 14 as proposed in the exposure draft. IFRIC 14 remains as a separate interpretation of IAS 19.

Consultation and due process

The project was added to the IASB's work plan in 2006.

The IASB published a discussion paper in March 2008, followed by an exposure draft in April 2010.

In addition to the formal public consultation provided by the exposure draft and discussion paper, the IASB:

- established an Employee Benefits Working Group; and
- performed additional outreach

Discussion paper

In March 2008 the IASB published a discussion paper *Preliminary Views on Amendments to IAS 19* with a comment deadline of 26 September 2008, and received 150 comment letters in response.

Exposure draft

In April 2010 the IASB published an exposure draft *Defined Benefit Plans* with a comment deadline of 6 September 2010, and received 227 comment letters in response.

Employee Benefits Working Group

The IASB established an Employee Benefits Working Group in 2007 shortly after the project was added to the IASB's work plan to assist the IASB in the development of proposals and the review of responses received on those proposals. The group consisted 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.

During the course of the project the working group held five formal meetings. The last working group meeting was held in September 2010. In addition to the formal meetings, the IASB sought informal input from working group members on a number of issues during the process.

Outreach

The IASB and staff performed additional outreach during the exposure period including 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.

The project was regularly on the agenda of the Analysts Representative Group and Global Preparers Forum. The IASB also consulted the Advisory Council on the project progress through regular updates of the work plan.

Feedback statement

The IASB developed the amendments to IAS 19 after considering the input received on the 2010 exposure draft *Defined Benefit Plans*.

The IASB received broad support for the overall objectives of improving transparency, comparability and understandability by eliminating the options for recognition and presentation of changes in defined benefit plans and improving disclosures about those plans.

Most respondents agreed with the IASB's proposals for immediate recognition of changes in defined benefit plans.

Views of respondents differed on which options for the presentation of changes in defined benefit plans should be eliminated. There were also diverse views on the proposal for entities to calculate a net finance component using the discount rate used for the defined benefit obligation.

While most respondents agreed that the disclosures in IAS 19 required improvement, there were concerns that the proposals in the exposure draft would increase the volume of disclosures and the cost for preparers.

Some did not support the limited scope of the project and suggested that effort would be better spent on proceeding directly to a comprehensive review.

Recognition — Elimination of the corridor approach

The exposure draft proposed to remove the option that allowed a company to defer the recognition of some gains and losses on defined benefit plans (the 'corridor approach'). The exposure draft proposed that companies should recognise these items immediately.

If companies do not recognise gains and losses in the period when they arise, the amounts reported may be confusing or misleading:

- a company might recognise an asset, even when a plan is in deficit.
- gains or losses might be recognised in the current period even though they arise from economic events that occurred in past periods.
- two companies might have identical defined benefit obligations but report different amounts because gains and losses have arisen in different sequences.

Respondents' comments

Many supported the IASB's proposal to remove the deferred recognition option, noting the arbitrary effect on profit or loss and on the statement of financial position.

However, some questioned whether this change would be best left to a fundamental review, including a review of measurement.

Some expressed concerns about the relevance of period-to-period fluctuations of a long-term liability.

Our response

The IASB confirmed the proposal in the exposure draft and addressed concerns about period-to-period changes.

In its view the elimination of the corridor approach will greatly improve the comparability and understandibility of amounts reported by companies and is a worthwhile short-term improvement to the reporting of amounts related to defined benefit plans.

The IASB addressed concerns about the reporting of period-to-period fluctuations by requiring these to be included in OCI.

The net interest approach

The exposure draft proposed that net interest is determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation

The proposals in the exposure draft were consistent with the view that the net defined benefit liability (asset) is the amount owed to or from the plan by the company. Taking this view, the assets of the plan are not the assets of the entity; instead, the entity accounts for the amount owing to or from the plan. If this amount is a deficit the company reports a financing expense. If this amount is a surplus then the company reports a financing income. Other changes in the obligation to employees and plan assets are reported as a remeasurement of the amount owing to or from the plan.

Respondents' comments

Views were split:

- Supporters of the net interest approach noted that it was consistent with the presentation of the net defined benefit asset or liability in the company's balance sheet and reflected the effect of the passage of time on the surplus or deficit.
- Supporters of the expected return approach noted that it was more consistent with the measurement of plan assets and better reflected the economics of the underlying plan assets.

Our response

Considering the various arguments, the IASB confirmed the proposal in the exposure draft.

While the expected return approach is consistent with the measurement of the plan assets, in its view the net interest approach better represents the economics of the net defined benefit asset or liability.

In its view a net defined benefit liability is equivalent to an amount owed by the company to the plan. The net interest approach results in interest income when the plan has a surplus, and interest cost when the plan has a deficit.

Disclosure

In the exposure draft, the IASB included a disclosure objective and proposed several specific disclosure requirements. The exposure draft proposed the following new disclosure requirements to meet the disclosure objectives:

- the defined benefit obligation modified to exclude the effect of projected salary growth.
- information about the process used to determine demographic actuarial assumptions.
- information about risk, including sensitivity analysis.
- information about asset-liability matching strategies.
- information about factors that could cause contributions to differ from service cost.

Respondents' comments

Users generally supported the proposed disclosure requirements. Many other respondents, however, expressed concerns that the disclosures:

- were too prescriptive;
- would be costly and time-consuming for preparers to implement; and
- were too voluminous and that important information would be difficult for users to identify.

Many respondents suggested that to provide users with information about the maturity profile of the obligation, the average duration of the liability should be disclosed.

Our response

The IASB amended and eliminated some disclosure requirements in the final amendment to address the concerns raised.

The IASB added the requirement to disclose the average duration of the defined benefit obligation. In addition, it withdrew the following disclosures that the IASB proposed in the exposure draft:

- the defined benefit obligation modified to exclude projected salary growth;
- the process used to determine demographic actuarial assumptions;
- sensitivity of the current service cost to changes in actuarial assumptions; and
- factors that could cause contributions to differ from the service cost.

Other matters

Other changes for defined benefit obligations

The exposure draft proposed that:

- amounts related to plan amendments and curtailments should be included in profit or los; and
- amounts related to settlements should be included in OCI.

Many respondents supported these proposals but many argued that companies should recognise the effects of plan amendments, curtailments and settlements in profit or loss.

In response to the comments received the IASB amended the proposed requirements for settlements. Companies will recognise gains and losses on settlement in profit or loss. The IASB confirmed the other proposals.

Other comprehensive income (OCI)

The exposure draft proposed to present some gains and losses arising from defined benefit plans in OCI without reclassification to profit or loss in subsequent years.

Many respondents supported this proposal, however they expressed concern that the IASB has yet to consider the role of OCI and the principles for recycling in general.

The IASB confirmed the proposal in the exposure draft. This will eliminate from IAS 19 the previous option to present all gains and losses in profit or loss. The IASB has issued amendments to IAS 1 that improve the presentation of items in OCI.

Risk sharing

The exposure draft proposed a number of clarifications on the accounting for risk sharing features such as employee contributions, conditional indexation and variable benefits.

Respondents supported the proposals but requested further clarifications.

The IASB confirmed the proposals with some amendments. While the IASB appreciates the growing complexity and variety of such features, it thinks that companies should refer to the overall principles and objectives when applying the requirements to various benefit designs.

Multi-employer plan disclosures

In addition to the review of the disclosures for defined benefit plans, the IASB also reviewed the disclosures for multi-employer plans. The exposure draft proposed that an entity should disclose details of any withdrawal liability or amount payable on wind-up of the plan.

Respondents were concerned about the cost of the requirement to disclose a withdrawal liability and the uncertainty surrounding a figure that is usually determined through negotiation.

The new IAS 19 requires an entity to provide a description of any withdrawal or wind-up agreement and to indicate the level of its participation in a multi-employer plan.

Taxes and administration costs

The exposure draft proposed to require taxes and administration costs relating to current and prior period of service to be included in the defined benefit obligation, and taxes and administration costs relating to managing plan assets to be deducted from the return on plan assets.

Many respondents expressed concerns about identifying administration costs attributable to current and prior periods of service.

Respondents were supportive of the other proposals.

For practical reasons, the IASB decided that administration costs should be recognised when the administration service is provided. The IASB confirmed the other proposals.

Termination benefits

The amendments to IAS 19 finalise changes to the requirements for termination benefits that were part of the exposure draft *Proposed Amendments to IAS 37* and *IAS 19* published in 2005. The IASB decided to finalise the amendments to IAS 19 from that exposure draft together with the amendments from the exposure draft *Defined Benefit Plans* to eliminate any difference in timing of amendments to the same standard.

The amendments require an entity to recognise termination benefits when it can no longer withdraw that offer (such as, when the employee accepts the offer).

Investor feedback

The IASB initiated this project in response to the requests of users to address the accounting for post-employment benefits. The IASB consulted investors throughout the process that resulted in the amendments to IAS 19.

The project was regularly on the agenda of the IASB's Analysts Representative Group. The IASB also discussed the proposals in the exposure draft with user representative groups and individual users.

IASB members and staff discussed the recognition and disclosure requirements in particular but also consulted users regarding various aspects of the proposals in the exposure draft.

The IASB considered investors' feedback in those areas during the course of its deliberations and thinks that it has responded to the requests from investors for improvements in the comparability and understandibility of amounts resulting from defined benefit plans and improvements in the disclosure of risks arising from such plans.

Recognition and disaggregation

Users were generally supportive of the proposals in the exposure draft and expressed views that the proposals would result in an improvement in the comparability and understandability of amounts resulting from defined benefit plans.

The IASB took those views into account when finalising the recognition requirements.

Disclosure

Throughout the project, investors have requested improvements in the disclosure of risks arising from a company's defined benefit plan. The IASB improved the disclosure requirements relating to those risks in response to those requests.

Effect analysis: costs and benefits

The IASB thinks that the amendments to IAS 19 will significantly improve the comparability, understandibility and transparency of reporting for defined benefit plans.

The IASB thinks financial reporting will be improved because:

- entities will report changes in the carrying amounts of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.
- the amendments eliminate a number of accounting options currently allowed by IAS 19, thus improving comparability.
- the amendments clarify requirements that have resulted in diverse practices.
- companies will provide improved information about the risks arising from their involvement in defined benefit plans.

Costs will be involved in the adoption and continuing of application of the amendments.

Those costs will depend on the complexity of an entity's defined benefit arrangements and the options in IAS 19 that the entity currently elects to apply.

Many of those costs should be minimal because in order to apply the existing version of IAS 19 entities already need to obtain much of the information that the amendments require.

Entities may also incur additional costs in applying the amendments that reduce diverse practices. Those costs will depend on the extent to which an entity will have to adjust its current practices, such as improving its accounting for risk-sharing features.

Next steps

Contribution-based promises

The discussion paper *Preliminary Views on Amendments to IAS 19* also contained proposals on the accounting for contribution-based promises, a type of defined benefit promise that does not fit well with the accounting approach required by IAS 19. Responses to that discussion paper indicated there were significant unresolved issues relating to the scope of, and measurement proposals for, contribution-based promises.

These unresolved issues require in-depth work. Given the objective of achieving significant improvements within a relatively short time, the IASB did not address this area as part of this amendment.

Whether the IASB will address contribution-based promises in a separate project will also depend on the responses the IASB receives to its forthcoming consultation on the future work plan.

Fundamental review

Many respondents have urged the IASB to review comprehensively the accounting for employee benefit promises.

The IASB agrees that there is a need for a comprehensive review of the accounting for employee benefits.

However, whether the IASB will consider adding a comprehensive project to its work plan will also depend on the outcome of its agenda consultation.

The consultation is aimed at understanding the views of the IASB's global stakeholders on its future strategic direction and balance of its agenda.

In the meantime, the IASB thinks that the targeted improvements it has made to the recognition of defined benefit plans will yield significant improvements to the transparency and comparability of pension obligations.

Furthermore, the IASB expects to retain the fundamental conclusion that a company must account for its obligation to provide benefits as a result of services already rendered by employees.

The IASB also noted that many respondents to these and other proposals have urged us to clarify the role of other OCI and establish principles for reclassifying from OCI to profit or loss in IFRSs.

Important information

International Accounting Standards Board (IASB)
The IASB is the independent standard-setting body of the IFRS Foundation

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