

## STAFF PAPER

November 2015

## IASB Meeting

<b>Project</b>	<b>Research Project: Post-employment benefits</b>		
<b>Paper topic</b>	Potential impact of the Agenda Consultation and other IASB projects		
<b>CONTACT(S)</b>	Akemi Miura	amiura@ifrs.org	+44 (0)20 7246 6930

This paper has been prepared for discussion at a public meeting of the IASB 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*.

**Purpose and structure of this paper**

1. The purpose of this paper is to explain the potential impact of other IASB projects on the way forward for post-employment benefit research project.
2. The rest of the paper is structured as follows.
  - (a) potential impact of the Agenda Consultation
  - (b) potential impact of the *Conceptual Framework* project;
  - (c) potential impact of the Insurance contracts project; and
  - (d) interaction with other research projects.

**Potential impact of the Agenda Consultation**

3. Following the Agenda Consultation 2011-2012, the IASB identified this project as a longer-term project because of its complexity.
4. Our informal interviews with specialists and the feedback from the December 2014 ASAF meeting implies that there are mixed views about the priority that should be given to this project because of differences in pension plan design across jurisdictions. We note that:

- (a) stakeholders in some European jurisdictions might think that this issue is urgent and important, because the impact on financial statements is significant as problematic plans (eg defined contribution (DC) plans with guarantees of returns on assets) are predominant;
- (b) stakeholders in other jurisdictions might feel comfortable with the current model, particular if most entities use pure DC plans or traditional DB plans; and
- (c) stakeholders' views might be mixed in the jurisdictions in which cash-balance plans are common (eg the US), probably because the current model does not always work well for cash-balance plans, but the impact on financial statements might be relatively limited.

5. We note that the issue has traditionally been observed in European jurisdictions but is now also observed in other areas (eg Canada, South Africa). We note that EFRAG is starting its research on pension accounting and the scope of this new EFRAG research may include issues about collective defined contribution plans in the Netherlands, Swiss pension plans and cash-balance plans, as explained in Agenda Paper 15A.

6. Consequently, we think that some stakeholders might provide comments on our pension research during the current Agenda Consultation. Paragraph A12 of the [Request for Views: 2015 Agenda Consultation](#) states that:

Previous work has established that existing requirements in IAS 19 *Employee Benefits* do not work well for some schemes that have some features of defined contribution schemes and some features of defined benefit schemes. This project is assessing whether a solution can be developed for these hybrid schemes without reconsidering the current accounting for defined benefit and defined contribution schemes. If not, a more fundamental reconsideration may be needed. The work on this project is at an early stage.

7. We will need to consider the responses to the 2015 Agenda Consultation before deciding what recommendations to make about the future of this project.

### **Potential impact of the *Conceptual Framework* project**

8. As described in paragraphs 34-36 of [the staff paper used at the September 2014 IASB meeting](#), there are many potential conceptual issues in pension accounting. The issues include:
- (a) what measurement base should be used for pension accounting;
  - (b) whether future salary increases or other unvested benefits should be reflected in the amount of obligations;
  - (c) the net presentation of plan assets and defined benefit obligations (this could be related to a concept of control of an asset, to the unit of account or to offsetting); and
  - (d) the presentation of performance (use of other comprehensive income and recycling).
9. If the research project leads us to conclude at some point that we need a fundamental amendment to IAS 19, these conceptual issues may need to be considered.
10. We do not think that the revised *Conceptual Framework* will give us direct answers to these potential fundamental issues. However, we expect that the revised *Conceptual Framework* will provide our starting-point for conceptual discussions. For example, we think that ‘a fulfilment value’ might be appropriate for pension accounting, taking into consideration the discussions about measurement bases in the Exposure Draft of the revised *Conceptual Framework*.

11. The revised definition of a liability (present obligation) and discussion of presentation of performance (use of other comprehensive income and recycling) might also affect our future discussion on pension accounting.<sup>1</sup>
12. Hence, depending on the scope of any future work, it might be desirable to wait for the current revision of the *Conceptual Framework* to be completed before carrying out further work in this research project.

### **Potential impact of the Insurance contracts project**

13. As described in Agenda Paper 15B, a fulfilment value model, which would be similar to the model to be used in the new Insurance Contracts Standard, is one of the conceptually sound models that could address the issues related to measurement in pension accounting.
14. Insurance contracts and pensions have similar natures (eg long durations, high uncertainties, sensitivity to assumptions, varied risks). We noted that pension promises have similarities with insurance contracts, for example:
  - (a) Participating insurance contracts and typical contribution-based promises have common features—the cash flows depend on asset returns.
  - (b) Obligations for both should be sensitive to assumptions (in particular, to discount rates) because of their long duration and uncertainties.
  - (c) Both involve a contract or promise for large populations (plan participants or policyholders) as a pool.
  - (d) Both usually have related assets and future contribution or premiums, which are used to meet obligations, together with investment returns.

---

<sup>1</sup> Issues related to the presentation of performance were covered by the 2011 IAS 19 amendments, and might be considered in a future Post-implementation Review (PIR) of the 2011 amendments. However, if this research project covers presentation, it may be that a Request for Views in this research project might be more efficient and effective than a PIR.

- (e) An asset-liability management or a specific investment policy is often used, to control related risks.
  - (f) Both are often under regulation from the viewpoint of solvency (eg the regulations may require funding to cover a shortfall).
  - (g) Both usually involve actuaries for complex measurement.
15. However, we do not think that we can simply use the measurement for insurance contracts, because we noted that there are differences between pension promises and insurance contracts. For example, we have noted the following possible differences between pension promises and insurance contracts.
- (a) Insurance contracts have observable prices but pension promises usually do not.
  - (b) Insurers usually employ in-house actuaries, because insurance contracts are related to the main businesses for them. Actuaries are often involved when an entity measures pension obligations, but not always.
  - (c) Employers often cover more varied risks (eg early retirement, salary increases) than insurers do.
  - (d) Obligations under insurance contracts are usually clear and obligations are legal. Pension promises are sometimes less clear and obligations are sometimes constructive, not legal.
  - (e) Different regulations are applied. For example, in Europe, Solvency II would be applied to most insurers but it would not be directly applied to most pension funds.
16. We acknowledge that a fulfillment value model may sound complex for many entities, but we think that concerns about complexity may be less significant allayed after the implementation of the new Insurance Contracts Standard, particularly if actuaries provide valuations for pension accounting.

## Potential interaction with other research projects

17. Our discount rate research implies that some stakeholders think that there are various potential issues concerning the discount rates under IAS 19. If we conclude that this pension research project should cover broader issues than contribution-based promises in the future, the issues concerning the discount rates might affect our future discussion.
18. Other research projects related to *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and *IFRS 2 Share-based Payment* might affect, or might be affected by, our future discussions in this pension research project, because they also deal with measurement of liabilities and, in the case of IFRS 2, the recognition and measurement of expenses for employee services received. For example, the research on IAS 37 might cover issues about risk adjustments, non-performance risk and costs to be included in a provision.
19. These research projects are now in their assessment stages.<sup>2</sup> In particular, regarding the IAS 37 research project, the IASB is likely to wait until it is close to finalising revisions to the *Conceptual Framework* before making any decisions on whether to start an active project to amend aspects of IAS 37. (In the meantime, the staff will continue to gather evidence about matters that could be addressed within the scope of such a project for IAS 37.)

---

<sup>2</sup> For further details for each research project, visit our website for our Work plan:

<http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx>