STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**IAS 19 Employee Benefits**
Paper topic	Employee benefit plans with a guaranteed return on contributions or notional contributions -- Sunset

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Introduction

1. At the last Interpretations Committee meeting we (Wayne and Michael) promised to provide the Interpretations Committee with a short paper on whether it should discontinue work on contribution-based promises. This is that paper.

2. There is no question that the questions involved in this topic are important. Traditional defined-benefit plans are disappearing or being closed to new members, even though the obligations from those plans continue to represent a significant fraction of total liabilities for many companies. New plan designs incorporate features of traditional defined-contribution plans but are pushed into defined benefit classification because they include employer guarantees or similar features. Constituents have observed that the new family of plans does not fit well with the accounting model for traditional defined-benefit plans.

3. We agree with that observation. The question is not whether the issues should be addressed. They should. The question is whether the Interpretations Committee can address those issues or whether they should wait for a broader consideration of accounting for employee benefits.

A short and more or less chronological history

4. In May 2003, the FASB's Emerging Issues Task Force (EITF) reached a series of consensuses on Issue 03-04, "Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan" (Codification paragraphs 715-30-35-71 and 72). The FASB staff emphasizes that the scope of Issue 03-04 is very limited, including only plans with "A defined, non-contingent interest-crediting rate that entitles participants to future interest credits at a stated, fixed rate until retirement." The EITF intended to pursue other plans, but set aside its work when the FASB added a project on pension accounting to its agenda.

5. The FASB ultimately set aside hybrid plans and other issues in favour of a more limited approach that resulted in 2006 with FASB Statement No. 158, **Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans** (Codification section 715). The FASB staff reports that the FASB is considering agenda-decision research on a project that would revisit Statement 158. They plan to bring a paper on measurement to an upcoming FASB education meeting.

6. In July 2004, the Interpretations Committee issued Exposure Draft D9, ***Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions***. It set aside work on D9 when the IASB added a project on employee benefits to its agenda.

7. In July 2006, the IASB added a project to its agenda on accounting for employee benefits. The agenda paper for that meeting (co-authored by Wayne) recommended that the project include cash-balance plans and the Board accepted that recommendation.

8. In March 2008, the IASB issued a discussion paper titled ***Preliminary Views on Amendments to IAS 19, Employee Benefits.*** The discussion paper included a fair-value approach to contribution-based promises. The Board ultimately decided to take a narrower approach that resulted in the 2011 amendments to IAS 19.

9. In short, the Interpretations Committee and the EITF have both grappled with the issues in question and stepped aside when the IASB and FASB added projects to

their respective agendas. Both the IASB and FASB have stepped away from the issues. Do we think that the Interpretations Committee can succeed when it and others have had limited, at best, success?

The problem as we see it

10. The attempts to deal with these issues have been frustrated by attempts to craft a scope and a measurement approach. The two are closely connected.

11. IAS 19, like FAS 87 on which it was based, uses an allocation (or attribution) approach based on a collection of current estimates and assumptions. As such, it lacks a clear measurement attribute like historical cost or fair value (direct measurements). The current generation of plans seem to call for a direct measurement of the obligation or a revision of the allocation approach – the measurement issue.

12. The obvious problem with adding a different or revised measurement approach is defining the plans to which it would apply – the scope issue. Any definition of scope should also be sufficiently robust to capture plans with similar characteristics that have yet to be designed. Efforts by both the IASB and FASB foundered on the scope issue.

13. The Interpretations Committee has held several discussions on the topic over the last few months. At our last meeting, some suggested that the Interpretations Committee limit itself to a very limited scope, much as the EITF did in Issue 03-04. In their view, that would at least address part of the population.

Question for the Interpretations Committee

14. Having considered all of the matters described above we ask the following:

Question for the Interpretations Committee
Does the Interpretations Committee think it is worthwhile for it and the staff continuing to work towards developing an Interpretation on this issue or does it think that it should stop now and remove the project from its agenda?