International Accounting Standard IAS 19

Employee Benefits

January 2012

(incorporating amendments from IFRSs issued up to 31 December 2011, including those with an effective date after 1 January 2012)

BASIS FOR CONCLUSIONS

CONTENTS

Basis for Conclusions on IAS 19 *Employee Benefits*

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on IAS 19 *Employee Benefits*. Individual Board members gave greater weight to some factors than to others.

BC2 The Board's predecessor, the International Accounting Standards Committee (IASC), approved IAS 19 *Employee Benefits* in 1998, replacing a previous version of the standard. IASC developed the revision of IAS 19 in 1998 following its consideration of the responses to its exposure draft E54 *Employee Benefits* published in 1996. Since that date, IASC and the Board have made the following amendments that are still relevant:

(a) In October 2000 IASC extended the definition of plan assets (see paragraphs BC178–BC190) and introduced recognition and measurement requirements for reimbursements (see paragraphs BC195–BC199).

(b) In December 2004 the Board amended the accounting for multi-employer plans and group plans (see paragraphs BC35–BC38 and BC40–BC50).

(c) In June 2011 the Board eliminated previous options for deferred recognition of changes in the net defined benefit liability (asset), amended where those changes should be recognised, amended the disclosure requirements for defined benefit plans and multi-employer plans, and made a number of other amendments (see paragraphs BC3–BC13).

Amendments made in 2011

BC3 Accounting for post-employment benefit promises is an important financial reporting issue. Anecdotal evidence and academic research suggested that many users of financial statements did not fully understand the information that entities provided about post-employment benefits under the requirements of IAS 19 before the amendments made in 2011. Both users and preparers of financial statements criticised those accounting requirements for failing to provide high quality, transparent information about post-employment benefits. For example, delays in the recognition of gains and losses give rise to misleading amounts in the statement of financial position and the existence of various options for recognising gains and losses and a lack of clarity in the definitions lead to poor comparability.

BC4 In July 2006 the Board added to its agenda a project on the accounting for post-employment benefit promises in response to calls for a comprehensive review of the accounting for post-employment benefit promises to improve the quality and transparency of financial statements. However, a comprehensive project to address all areas of post-employment benefit accounting could take many years to complete. Nevertheless, the Board recognised a short-term need to provide users of financial statements with better information about post-employment benefit promises.

BC5 Accordingly, the Board undertook a limited scope project, and in March 2008 the Board published a discussion paper *Preliminary Views on Amendments to IAS 19* Employee Benefits that included the Board's preliminary views on the following areas of IAS 19:

(a) the deferred recognition of some gains and losses arising from defined benefit plans.

(b) presentation of the changes in the net defined benefit liability or asset.

(c) accounting for employee benefits that are based on contributions and a promised return and employee benefits with a 'higher of' option (contribution-based promises).

BC6 The discussion paper also asked respondents to identify:

(a) any additional issues that should be addressed in this project given that its objective was to address specific issues in a limited time frame.

(b) what disclosures the Board should consider as part of its review of disclosures.

BC7 The IASB received 150 comment letters in response to that discussion paper. In the light of those responses, the Board deferred its review of contribution-based promises to a possible future project. The Board considered the additional issues raised in those responses and extended the scope of the project to include:

(a) a review of the disclosures for defined benefit plans and multi-employer plans; and

(b) additional issues raised in the responses to the discussion paper and matters that had been submitted to the International Financial Reporting Interpretations Committee (IFRIC) for interpretation that the Board considered could be addressed expeditiously, would not require a fundamental review of defined benefit obligation measurement and would lead to an improvement in the reporting of defined benefit plans.

BC8 In April 2010 the Board published an exposure draft *Defined Benefit Plans* (the 2010 ED). The Board received 227 comment letters in response. In addition to the formal consultation provided by the 2010 ED, the Board undertook an extensive programme of outreach activities during the exposure period with a wide range of users and preparers of financial statements, regulators and others interested in the financial reporting of employee benefits from a wide variety of geographical areas.

BC9 Some respondents to the 2010 ED and the discussion paper requested a comprehensive review of the accounting for employee benefits, preferably as a joint project with the US national standard-setter, the Financial Accounting Standards Board (FASB), and questioned why the Board was addressing employee benefits in a limited scope project, expressing concern that successive changes could be disruptive. The Board reiterated its previous concern that a comprehensive review of the accounting for employee benefits would take many years to complete and that there was an urgent need to improve the financial reporting of employee benefits in the short term, so that users of financial statements receive more useful and understandable information.

BC10 In June 2011 the Board issued amendments to IAS 19 that targeted improvements in the following areas:

(a) recognition of changes in the net defined benefit liability (asset) (see paragraphs BC65–BC100), including:

(i) immediate recognition of defined benefit cost (see paragraphs BC70–BC72).

(ii) disaggregation of defined benefit cost into components (see paragraphs BC73–BC87).

(iii) recognition of remeasurements in other comprehensive income (see paragraphs BC88–BC100).

(b) plan amendments, curtailments and settlements (see paragraphs BC152–BC173).

(c) disclosures about defined benefit plans (see paragraphs BC203–BC252).

(d) accounting for termination benefits (see paragraphs BC11 and BC254–BC268).

(e) miscellaneous issues, including:

(i) the classification of employee benefits (see paragraphs BC16–BC24).

(ii) current estimates of mortality rates (see paragraph BC142).

(iii) tax and administration costs (see paragraphs BC121–BC128).

(iv) risk-sharing and conditional indexation features (see paragraphs BC143–BC150).

(f) some matters that had been submitted to the IFRIC for interpretation, including:

(i) IFRIC rejection March 2007—Special wage tax (see paragraphs BC121–BC124).

(ii) IFRIC rejection November 2007—Treatment of employee contributions (see paragraphs BC143–BC150).

(iii) IFRIC rejection January 2008—Pension promises based on performance hurdles (see paragraphs BC143–BC150).

(iv) IFRIC rejection May 2008—Settlements (see paragraph BC163).

BC11 The Board issued the amendments resulting from the 2010 ED together with amendments relating to termination benefits resulting from the exposure draft *Proposed Amendments to IAS 37* Provisions, Contingent Liabilities and Contingent Assets *and IAS 19* Employee Benefits (the 2005 ED), published in June 2005. The Board concluded that it would be better to issue both sets of amendments together rather than delay the completion of the amendments for termination benefits until it completed its work on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Matters not addressed as part of the limited scope project

BC12 Respondents to the 2010 ED and the discussion paper raised matters that were outside the scope of this project (such as measurement of the defined benefit obligation). The Board did not consider these matters in detail. Any project addressing issues beyond the scope of the targeted improvements would be subject to the Board's agenda-setting process.

BC13 In selecting issues to address, the Board discussed the following issues, but took no action in the amendments made in 2011.

(a) *Contribution-based promises*—The discussion paper included proposals on contribution-based promises. The Board will consider whether to develop those proposals further if it undertakes a comprehensive review of employee benefit accounting.

(b) *Discount rate for employee benefits*—The Board did not proceed with the proposals in its exposure draft *Discount Rate for Employee Benefits*, published in August 2009. The Board decided it would address issues relating to the discount rate only in the context of a fundamental review (see paragraphs BC138 and BC139).

(c) *The effect of expected future salary increases on the attribution of benefits*—The 2010 ED proposed that expected future salary increases should be included in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit to later years. The Board did not proceed with that proposal because it is closely related to a fundamental review of the accounting for contribution-based promises (see paragraphs BC117–BC120).

(d) *Exemption for entities participating in multi-employer defined benefit plans*—The Board rejected a proposal to permit all entities participating in a multi-employer defined benefit plan to account for these plans as defined contribution plans. The Board concluded that extending that exemption would be contrary to its general approach of limiting exceptions. The Board also believes that such an exemption would not be appropriate for all multi-employer plans, such as when an entity becomes a dominant participant in a multi-employer plan, perhaps because other participants leave the plan (see paragraph BC39).

(e) *IFRIC-related matters*—The Board did not incorporate into IAS 19 the requirements of IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. Incorporating IFRIC 14 would require changes to the drafting, which could have unintended consequences. The Board also considered other questions received by the IFRIC but concluded that it would not amend IAS 19 at this time.

Employee Benefits Working Group

BC14 The Board established an Employee Benefits Working Group in 2007 to help by providing a variety of expert perspectives, including those of auditors, preparers and users of financial statements, actuaries and regulators. 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.

BC15 Members of the group assisted the Board by reviewing early drafts of the amendments made in 2011, and the preceding discussion paper and exposure draft. The Board greatly appreciates the time and energy that group members have devoted to this process and the quality of their contributions.

Classification of benefits

Short-term employee benefits: amendments issued in 2011

BC16 The amendments made in 2011 clarify that the classification of benefits as short-term employee benefits depends on the period between the end of the annual reporting period in which the employee renders the service that gives rise to the benefit and the date when the benefit is expected to be settled.

BC17 The Board's objective in defining the scope of the short-term employee benefits classification was to identify the set of employee benefits for which a simplified measurement approach would not result in measuring those benefits at an amount different from the general measurement requirements of IAS 19.

BC18 The Board concluded that the classification of a short-term employee benefit on the basis of the timing of expected settlement would best meet this objective and would be most consistent with the measurement basis in IAS 19.

BC19 Other alternatives that the Board considered for the basis for classification of short-term employee benefits included:

(a) *The earliest possible settlement date (ie entitlement)*—The Board rejected this alternative because it would have the result that a benefit classified as a short-term employee benefit could be measured at an amount materially different from its present value. For example, this could occur if an employee is entitled to a benefit within twelve months, but the benefit is not expected to be settled until many years later.

(b) *The latest possible settlement date*—The Board rejected this alternative because, although the latest possible settlement date would be consistent with the Board's objective of minimising differences between the measurement of short-term employee benefits and the measurement of the same benefits using the model for post-employment benefits, this would result in the smallest set of benefits that would meet the definition.

BC20 However, classifying short-term employee benefits on the basis of expected settlement raises the following additional concerns:

(a) *Unit of account*—the expected settlement date is determined on the basis of a combination of the characteristics of the benefits and the characteristics of the employees, and would reflect the actuarial assumptions for a particular year rather than the characteristics of the benefits promised. The Board concluded that the classification of the benefits should reflect the characteristics of the benefits, rather than the demographic or financial assumptions at a point in time.

(b) *Splitting benefits into components*—some benefits are expected to be settled over a period of time. The Board concluded that an entity should classify a benefit as a short-term employee benefit if the whole of the benefit is expected to be settled before twelve months after the end of the annual reporting period in which the related service was provided. This will ensure that the benefit is measured on the same basis throughout its life and is consistent with the measurement requirements of paragraph 69.

(c) *Reclassification*—if the expected settlement date of a benefit classified initially as a short-term employee benefit changes subsequently to a date more than twelve months after the end of the reporting period, then the undiscounted amount of that benefit could differ materially from its present value. The Board concluded that the classification of a short-term employee benefit should be revisited if it no longer meets the definition. This maintains the objective that the benefits should not be measured at an amount that would differ materially from their present value. However, the Board concluded that a temporary change in expectation should not trigger reclassification because such a change would not be indicative of a change in the underlying characteristics of the benefit. The Board noted that reclassification of a benefit from other long-term employee benefits to short-term employee benefits is less of a concern because in that case measuring the benefit at its undiscounted amount should not differ materially from measuring the benefit at its present value.

BC21 Other approaches that the Board considered for addressing the concerns above included:

(a) *Unit of account*—by requiring an entity to classify benefits on an employee-by-employee basis. The Board concluded that this would not be practical and would not meet the objectives of the classification.

(b) *Reclassification*—prohibiting the entity from revising the classification of a short-term employee benefit after initial classification. This approach would maintain continuity of measurement throughout the life of the benefit, but the Board rejected it because measuring the benefit at the undiscounted amount could result in an amount that differs from its present value if the entity no longer expects to settle the benefit before twelve months after the end of the annual reporting period.

Long-term employee benefits: exposure draft published in 2010

BC22 The Board considered combining post-employment benefits and other long-term employee benefits into a single category. The main differences between accounting for other long-term benefits and accounting for post-employment benefits were:

(a) the previous option to defer recognition of actuarial gains and losses ('the corridor'); and

(b) the previous requirement to recognise unvested past service cost over the vesting period.

BC23 As proposed in the 2010 ED, the Board removed these differences in 2011. In the light of that proposal, the 2010 ED also proposed the removal of the distinction between post-employment benefits and other long-term employee benefits. However, many respondents to the 2010 ED did not support this removal of that distinction. They did not think that the recognition and disclosure requirements for post-employment benefits were appropriate for other long-term employee benefits, because in their view:

(a) the costs of applying the recognition and disclosure requirements for post-employment benefits to other long-term employee benefits outweigh the benefits.

(b) accounting for other long-term employee benefits was not originally within the scope of the project. Accounting for other long-term employee benefits was not an area they viewed as requiring improvement.

BC24 After reviewing the responses to the 2010 ED, the Board decided not to combine post-employment and other long-term employee benefits into a single category for the reasons expressed by respondents.

Short-term employee benefits

Paid absences

BC25 Some argue that an employee's entitlement to future paid absences does not create an obligation if that entitlement is conditional on future events other than future service. However, IASC concluded in 1998 that an obligation arises as an employee renders service that increases the employee's entitlement (conditional or unconditional) to future paid absences; for example, accumulating paid sick leave creates an obligation because any unused entitlement increases the employee's entitlement to sick leave in future periods. The probability that the employee will be sick in those future periods affects the measurement of that obligation, but does not determine whether that obligation exists.

BC26 IASC considered three alternative approaches to measuring the obligation that results from unused entitlement to accumulating paid absences:

(a) recognise the entire unused entitlement as a liability, on the basis that any future payments are made first out of unused entitlement and only subsequently out of entitlement that will accumulate in future periods (a FIFO approach);

(b) recognise a liability to the extent that future payments for the employee group as a whole are expected to exceed the future payments that would have been expected in the absence of the accumulation feature (a group LIFO approach); or

(c) recognise a liability to the extent that future payments for individual employees are expected to exceed the future payments that would have been expected in the absence of the accumulation feature (an individual LIFO approach).

These methods are illustrated by the following example.

BC Example 1
An entity has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one year. Such leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis).
At 31 December 20X1 the average unused entitlement is two days per employee. The entity expects, on the basis of past experience that is expected to continue, that 92 employees will take no more than four days of paid sick leave in 20X2 and that the remaining 8 employees will take an average of six and a half days each.
Method (a): *The entity recognises a liability equal to the undiscounted amount of 200 days of sick pay (two days each, for 100 employees). It is assumed that the first 200 days of paid sick leave result from the unused entitlement.*
Method (b): *The entity recognises no liability because paid sick leave for the employee group as a whole is not expected to exceed the entitlement of five days each in 20X2.*
Method (c): *The entity recognises a liability equal to the undiscounted amount of 12 days of sick pay (one and a half days each, for 8 employees).*

BC27 IASC selected method (c), the individual LIFO approach, because that method measures the obligation at the present value of the additional future payments that are expected to arise solely from the accumulation feature. IAS 19 notes that, in many cases, the resulting liability will not be material.

Post-employment benefits

Distinction between defined contribution plans and defined benefit plans

Defined contribution plans

BC28 IAS 19 before its revision in 1998 defined:

(a) **defined contribution plans** as retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to contributions to a fund together with investment earnings thereon; and

(b) **defined benefit plans** as retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

BC29 IASC considered these definitions unsatisfactory because they focused on the benefit receivable by the employee, rather than on the cost to the entity. The definitions introduced in 1998 focused on the downside risk that the cost to the entity may increase. The definition of defined contribution plans does not exclude the upside potential that the cost to the entity may be less than expected.

Defined benefit plans: amendments issued in 2011

BC30 The amendments made in 2011 clarify that the existence of a benefit formula does not, by itself, create a defined benefit plan, but rather that there needs to be a link between the benefit formula and contributions that creates a legal or constructive obligation to contribute further amounts to meet the benefits specified by the benefit formula. This amendment to paragraph 29 addressed a concern that can arise when a plan has a benefit formula determining the benefits to be paid if there are sufficient plan assets, but not requiring the employer to pay additional contributions if there are insufficient plan assets to pay those benefits. In effect, the benefit payments are based on the lower of the benefit formula and the plan assets available. The amendments clarify that such a plan is a defined contribution plan.

Multi-employer plans and state plans

BC31 An entity may not always be able to obtain sufficient information from multi-employer plans to use defined benefit accounting. IASC considered three approaches to this problem:

(a) use defined contribution accounting for some and defined benefit accounting for others;

(b) use defined contribution accounting for all multi-employer plans, with additional disclosure where the multi-employer plan is a defined benefit plan; or

(c) use defined benefit accounting for those multi-employer plans that are defined benefit plans. However, where sufficient information is not available to use defined benefit accounting, an entity should disclose that fact and use defined contribution accounting.

BC32 IASC believed that there was no conceptually sound, workable and objective way to draw a distinction so that an entity could use defined contribution accounting for some multi-employer defined benefit plans and defined benefit accounting for others. In addition, IASC believed that it was misleading to use defined contribution accounting for multi-employer plans that are defined benefit plans. This is illustrated by the case of French banks that used defined contribution accounting for defined benefit pension plans operated under industry-wide collective agreements on a pay-as-you-go basis. Demographic trends made these plans unsustainable and a major reform in 1993 replaced them by defined contribution arrangements for future service. At that point, the banks were compelled to quantify their obligations. Those obligations had previously existed, but had not been recognised as liabilities.

BC33 IASC concluded that an entity should use defined benefit accounting for those multi-employer plans that are defined benefit plans. However, where sufficient information is not available to use defined benefit accounting, an entity should disclose that fact and use defined contribution accounting. IASC applied the same principle to state plans, observing that most state plans are defined contribution plans.

BC34 In response to comments on E54, IASC considered a proposal to exempt wholly-owned subsidiaries (and their parents) participating in group defined benefit plans from the recognition and measurement requirements in their individual non-consolidated financial statements, on cost-benefit grounds. IASC concluded that such an exemption would not be appropriate.

Multi-employer plans: amendments issued in 2004

BC35 In April 2004 the IFRIC published a draft Interpretation, D6 *Multi-employer Plans*, which proposed the following guidance on how multi-employer plans should apply defined benefit accounting, if possible:

(a) The plan should be measured in accordance with IAS 19 using assumptions appropriate for the plan as a whole.

(b) The plan should be allocated to plan participants so that they recognise an asset or liability that reflects the impact of the surplus or deficit on the future contributions from the participant.

BC36 The concerns raised by respondents to D6 about the availability of the information about the plan as a whole, the difficulties in making an allocation as proposed and the resulting lack of usefulness of the information provided by defined benefit accounting were such that the IFRIC decided not to proceed with the proposals.

BC37 When discussing group plans (see paragraphs BC40–BC50) in 2004 the Board noted that, if there were a contractual agreement between a multi-employer plan and its participants on how a surplus would be distributed or a deficit funded, the same principle that applied to group plans should apply to multi-employer plans, ie the participants should recognise an asset or liability. In relation to the funding of a deficit, the Board regarded this principle as consistent with the recognition of a provision in accordance with IAS 37.

BC38 The Board therefore clarified that a participant in a multi-employer defined benefit plan must recognise the asset or liability arising from that contractual agreement if the participant:

(a) accounts for that participation on a defined contribution basis in accordance with paragraph 34 because it has insufficient information to apply defined benefit accounting, but

(b) has a contractual agreement that determines how a surplus would be distributed or a deficit funded.

Multi-employer plans: exposure draft published in 2010

BC39 The Board considered and rejected a proposal to permit all entities participating in multi-employer defined benefit plans to account for those plans as defined contribution plans. The Board concluded that extending that exemption would be contrary to its general approach of limiting exceptions. In the Board's view such an exemption would not be appropriate for all multi-employer plans, such as when an entity becomes a dominant participant in a multi-employer plan, perhaps because other participants leave the plan.

Group plans: amendments issued in 2004

BC40 Some constituents asked the Board to consider whether entities participating in a group defined benefit plan should, in their separate or individual financial statements, either have an unqualified exemption from defined benefit accounting or be able to treat the plan as a multi-employer plan.

BC41 In developing the exposure draft *Actuarial Gains and Losses, Group Plans and Disclosures* published in April 2004 (the 2004 ED), the Board did not agree that an unqualified exemption from defined benefit accounting for group defined benefit plans in the separate or individual financial statements of group entities was appropriate. In principle, the requirements of International Financial Reporting Standards (IFRSs) should apply to separate or individual financial statements in the same way as they apply to any other financial statements. Following that principle would mean amending IAS 19 to allow group entities that participate in a plan that meets the definition of a multi-employer plan, except that the participants are under common control, to be treated as participants in a multi-employer plan in their separate or individual financial statements.

BC42 However, in the 2004 ED the Board concluded that entities within a group should always be presumed to be able to obtain the necessary information about the plan as a whole. This implies that, in accordance with the requirements for multi-employer plans, defined benefit accounting should be applied if there is a consistent and reliable basis for allocating the assets and obligations of the plan.

BC43 In the 2004 ED the Board acknowledged that entities within a group might not be able to identify a consistent and reliable basis for allocating the plan that results in the entity recognising an asset or liability that reflects the extent to which a surplus or deficit in the plan would affect its future contributions. This is because there may be uncertainty in the terms of the plan about how surpluses will be used or deficits funded across the consolidated group. However, the Board concluded that entities within a group should always be able to make at least a consistent and *reasonable* allocation, for example on the basis of a percentage of pensionable pay.

BC44 The Board then considered whether, for some group entities, the benefits of defined benefit accounting using a consistent and reasonable basis of allocation were worth the costs involved in obtaining the information. The Board decided that this was not the case for entities that meet criteria similar to those in IAS 27 *Consolidated and Separate Financial Statements*[1] for the exemption from preparing consolidated financial statements.

BC45 The 2004 ED therefore proposed the following for entities that participate in a plan that would meet the definition of a multi-employer plan except that the participants are under common control:

(a) If the entities meet the criteria as proposed in the 2004 ED, they should be treated as if they were participants in a multi-employer plan. This means that if there is no consistent and reliable basis for allocating the assets and liabilities of the plan, the entity should use defined contribution accounting and provide additional disclosures.

(b) In all other cases, the entities should be required to apply defined benefit accounting by making a consistent and reasonable allocation of the assets and liabilities of the plan.

BC46 Respondents to the 2004 ED generally supported the proposal to extend the requirements on multi-employer plans to group entities. However, many disagreed with the criteria proposed in the 2004 ED, for the following reasons:

(a) The proposed amendments and the interaction with D6 (see paragraphs BC35–BC38) were unclear.

(b) The provisions for multi-employer accounting should be extended to a listed parent company.

(c) The provisions for multi-employer accounting should be extended to group entities with listed debt.

(d) The provisions for multi-employer plan accounting should be extended to all group entities, including partly-owned subsidiaries.

(e) There should be a blanket exemption from defined benefit accounting for all group entities.

BC47 The Board agreed that the proposed requirements for group plans were unnecessarily complex. The Board also concluded that it would be better to treat group plans separately from multi-employer plans because of the difference in information available to the participants: in a group plan, information about the plan as a whole should generally be available. The Board further noted that, if the parent wishes to comply with IFRSs in its separate financial statements or wishes its subsidiaries to comply with IFRSs in their individual financial statements, then it must obtain and provide the necessary information at least for the purposes of disclosure.

BC48 The Board noted that, if there were a contractual agreement or stated policy on charging the net defined benefit cost to group entities, that agreement or policy would determine the cost for each entity. If there is no such contractual agreement or stated policy, the entity that is the sponsoring employer bears the risk relating to the plan by default. The Board therefore concluded that a group

1 The consolidation requirements in IAS 27 were superseded by IFRS 10 *Consolidated Financial Statements* issued in May 2011. The criteria for the exemption from preparing consolidated financial statements were not changed.

plan should be allocated to the individual entities within a group in accordance with any contractual agreement or stated policy. If there is no such agreement or policy, the net defined benefit cost is allocated to the sponsoring employer. The other group entities recognise a cost equal to any contribution collected by the sponsoring employer.

BC49 This approach has the advantages of (a) all group entities recognising the cost they have to bear for the defined benefit promise and (b) being simple to apply.

BC50 The Board also noted that participation in a group plan is a related party transaction. As such, disclosures are required to comply with IAS 24 *Related Party Disclosures*. IAS 24 requires an entity to disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. The Board noted that information about each of (a) the policy on charging the defined benefit cost, (b) the policy on charging current contributions and (c) the status of the plan as a whole was required to give an understanding of the potential effect of the participation in the group plan on the entity's separate or individual financial statements.

State plan and group plan disclosures: amendments issued in 2011

BC51 The amendments made in 2011 updated, without reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control, to be consistent with the disclosure requirements for multi-employer plans and defined benefit plans. However, those amendments permit an entity to include those disclosures by cross-reference to the required disclosures in another group entity's financial statements, if specified conditions are met.

Defined benefit plans: recognition and measurement

BC52 Although IAS 19 before its revision in 1998 did not deal explicitly with the recognition of retirement benefit obligations as a liability, it is likely that most entities recognised a liability for retirement benefit obligations at the same time under the requirements in IAS 19 before and after its revision in 1998. However, the requirements in IAS 19 before and after its revision in 1998 differed in the measurement of the resulting liability.

BC53 Paragraph 63 of IAS 19 is based on the definition of, and recognition criteria for, a liability in IASC's *Framework for the Preparation and Presentation of Financial Statements*.[2] The *Framework* defined a liability as 'a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'. The *Framework* stated that an item which meets the definition of a liability should be recognised if:

(a) it is probable that any future economic benefit associated with the item will flow from the entity; and

(b) the item has a cost or value that can be measured with reliability.

2 In September 2010 the Board replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.

BC54 IASC believed that:

(a) an entity has an obligation under a defined benefit plan when an employee has rendered service in return for the benefits promised under the plan. Paragraphs 70–74 deal with the attribution of benefit to individual periods of service in order to determine whether an obligation exists.

(b) an entity should use actuarial assumptions to determine whether the entity will pay those benefits in future reporting periods (see paragraphs 75–98).

(c) actuarial techniques allow an entity to measure the obligation with sufficient reliability to justify recognition of a liability.

BC55 IASC believed that an obligation exists even if a benefit is not vested, in other words if the employee's right to receive the benefit is conditional on future employment. For example, consider an entity that provides a benefit of CU100[3] to employees who remain in service for two years. At the end of the first year, the employee and the entity are not in the same position as at the beginning of the first year, because the employee will need to work for only one more year, instead of two, before becoming entitled to the benefit. Although there is a possibility that the benefit may not vest, that difference is an obligation and, in IASC's view, should result in the recognition of a liability at the end of the first year. The measurement of that obligation at its present value reflects the entity's best estimate of the probability that the benefit may not vest.

Measurement date

BC56 Some national standards permit entities to measure the present value of defined benefit obligations at a date up to three months before the end of the reporting period. However, IASC decided that entities should measure the present value of defined benefit obligations, and the fair value of any plan assets, at the end of the reporting period. Consequently, if an entity carries out a detailed valuation of the obligation at an earlier date, the results of that valuation should be updated to take account of any significant transactions and other significant changes in circumstances up to the balance sheet date (end of the reporting period).

BC57 In response to comments on E54, IASC clarified that full actuarial valuation was not required at the end of the reporting period, provided that an entity determined the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements did not differ materially from the amounts that would be determined at the balance sheet date.

Interim reporting: effects of the amendments issued in 2011

BC58 The 2010 ED did not propose any substantial amendments to the requirements in IAS 34 *Interim Financial Reporting*. Respondents to the 2010 ED were concerned that the requirements for the immediate recognition of changes in the net defined benefit liability (asset) would imply that entities should remeasure the net defined benefit liability (asset) at each interim reporting date.

3 In this Basis for Conclusions monetary amounts are denominated in 'currency units (CU)'.

BC59 The Board noted that an entity is not always required to remeasure a net defined benefit liability (asset) for interim reporting purposes under IAS 19 and IAS 34. Both indicate that the entity needs to exercise judgement in determining whether it needs to remeasure the net defined benefit liability (asset) at the end of the (interim or annual) reporting period.

BC60 The amendments made in 2011 require an entity to recognise remeasurements in the period in which they arise. Thus, remeasurements are now more likely to have a material effect on the amount recognised in the financial statements than would have been the case before those amendments if an entity elected to defer recognition of actuarial gains and losses. It follows that entities previously deferring recognition of some gains and losses are now more likely to judge that remeasurement is required for interim reporting.

BC61 The Board considered setting out explicitly whether an entity should remeasure a net defined benefit liability (asset) at interim dates. However, in the Board's view, such a change would be an exemption from the general requirements of IAS 34 and consequently it decided against such an amendment. The Board is not aware of concerns with the application of these interim reporting requirements for entities that applied the immediate recognition option under the previous version of IAS 19.

BC62 Some respondents to the 2010 ED asked the Board to clarify whether the assumptions used to determine defined benefit cost for subsequent interim periods should reflect the assumptions used at the end of the prior financial year or for the most recent measurement of the defined benefit obligation (for example, in an earlier interim period or in determining the effect of a plan amendment or settlement).

BC63 The Board noted that if assumptions for each interim reporting period were updated to the most recent interim date, the measurement of the entity's annual amounts would be affected by how frequently the entity reports, ie whether the entity reports quarterly, half-yearly or with no interim period. In the Board's view this would not be consistent with the requirements of paragraphs 28 and 29 of IAS 34.

BC64 Similarly, in the Board's view, there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in determining current service cost and net interest, ie determining how much service the employee has rendered to date and the effect of the time value of money to date. The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement. In accordance with paragraph B9 of IAS 34 the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year.

Recognition: amendments issued in 2011

BC65 The amendments made in 2011 require entities to recognise all changes in the net defined benefit liability (asset) in the period in which those changes occur, and to disaggregate and recognise defined benefit cost as follows:

(a) service cost, relating to the cost of the services received, in profit or loss.

(b) net interest on the net defined benefit liability (asset), representing the financing effect of paying for the benefits in advance or in arrears, in profit or loss.

(c) remeasurements, representing the period-to-period fluctuations in the amounts of defined benefit obligations and plan assets, in other comprehensive income.

BC66 Before those amendments, IAS 19 permitted three options for the recognition of actuarial gains and losses:

(a) leaving actuarial gains and losses unrecognised if they were within a 'corridor' and deferred recognition of actuarial gains and losses outside the corridor in profit or loss;

(b) immediate recognition in profit or loss; or

(c) immediate recognition in other comprehensive income. Actuarial gains and losses recognised in other comprehensive income are transferred directly to retained earnings.

BC67 The amendments in 2011 made the following changes to the recognition requirements:

(a) immediate recognition—elimination of the corridor (paragraphs BC70–BC72).

(b) redefining the components of defined benefit cost (paragraphs BC73–BC87).

(c) recognition of the remeasurements component in other comprehensive income (paragraphs BC88–BC100).

BC68 Many respondents to the 2010 ED agreed that the Board should address within the project the disaggregation of defined benefit cost and where the components of defined benefit cost should be recognised. However, some respondents said that the determination of an appropriate disaggregation method was intrinsically linked to the accounting model and should not be considered until there is a fundamental review of IAS 19. The Board considered the components of defined benefit cost in the context of the accounting model of IAS 19. In the Board's view, the disaggregation requirements are consistent with that model and provide useful information.

BC69 Others said that the Board should not address those matters until it completes its project on financial statement presentation, including the conceptual basis for deciding whether items should ultimately be reclassified to profit or loss from other comprehensive income. However, the Board concluded that improving the understandability and comparability of the changes in the net defined benefit liability or asset would be necessary if changes are to be recognised immediately, and that improving the understandability of those changes should not be delayed until it completes its project on financial statement presentation.

Immediate recognition: elimination of the corridor

BC70 In the Board's view, immediate recognition provides information that is more relevant to users of financial statements than the information provided by deferred recognition. It also provides a more faithful representation of the financial effect of defined benefit plans on the entity and is easier for users to understand. In contrast, deferred recognition can produce misleading information: for example,

(a) an asset may be recognised in the statement of financial position, even when a plan is in deficit; or

(b) the statement of comprehensive income may include gains and losses that arise from economic events that occurred in past periods.

BC71 In addition, eliminating accounting options makes it easier for users to compare entities.

BC72 Most respondents supported the proposal to recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. However, some respondents expressed concerns about immediate recognition:

(a) *Measurement model requires further work*—some respondents expressed the view that the measurement model needs a comprehensive review and that it would be disruptive to move to immediate recognition of changes arising from the measurement model in IAS 19. However, in the Board's view, deferred recognition makes accounting for defined benefit plans obscure and difficult for users to understand. Consequently, the Board decided not to delay the introduction of the requirement for immediate recognition.

(b) *Relevance of information*—some respondents expressed the view that some changes to the net defined benefit liability (asset) occurring in a period are not relevant to the measurement of a long-term liability. This is because past gains or losses may be offset by future losses or gains. However, in the Board's view it is not inevitable that future gains or losses will occur and offset past losses or gains.

(c) *Volatility*—many respondents were concerned that volatility might result if an entity reported all changes in the net defined benefit liability (asset) in each period and that this volatility would impede year-on-year comparability, and would obscure the profitability of the entity's core business. However, the Board believes that a measure should be volatile if it faithfully represents transactions and other events that are themselves volatile, and that financial statements should not omit such information. In the Board's view, that information should be presented in a way that is most useful to users of financial statements. Therefore, the Board introduced a presentation that allows users of financial statements to isolate remeasurements of the entity's net defined benefit liability (asset) (see paragraphs BC88–BC100).

(d) *Behavioural and social consequences*—some respondents expressed concerns that immediate recognition might have adverse behavioural and social consequences. For example, they were concerned that entities might try to eliminate short-term volatility by making long-term economically inefficient decisions about the allocation of plan assets, or by making socially undesirable amendments to plan terms. However, in the Board's view, it is not the responsibility of accounting standard-setters to encourage or discourage particular behaviour. Their responsibility is to set standards that result in the provision of relevant information that faithfully represents an entity's financial position, financial performance and cash flows so that users of that information can make well-informed decisions.

(e) *Potential effect on debt covenants*—some respondents were concerned that immediate recognition could lead to difficulties with debt covenants based on earnings or net assets, and impair entities' ability to pay dividends because of legal restrictions based on amounts in financial statements. In the Board's view, it is up to the entity and the holder of a covenant to determine whether to insulate a debt covenant from the effects of a new or amended accounting standard or to determine how they might renegotiate any existing covenant.

Components of defined benefit cost: service cost

BC73 The service cost component includes current service cost, past service cost and any gain or loss on settlement, but excludes changes in the defined benefit obligation that result from changes in demographic assumptions that are included in the remeasurements component together with other actuarial gains and losses. In the Board's view, including the effect of changes in demographic assumptions in the service cost component would combine amounts with different predictive values and, consequently, the service cost component is more relevant for assessing an entity's continuous operational costs if it does not include changes in past estimates of service cost. Most respondents agreed with the proposals in the 2010 ED that service cost should exclude changes in demographic assumptions.

Components of defined benefit cost: net interest

BC74 The amendments made in 2011 require an entity to calculate net interest on the net defined benefit liability (asset) using the same discount rate used to measure the defined benefit obligation (the net interest approach).

BC75 The amendments are consistent with the view that a net defined benefit liability is equivalent to a financing amount owed by the entity to the plan or to the employees. The economic cost of that financing is interest cost, calculated using the rate specified in paragraph 83. Similarly, a net defined benefit asset is an amount owed by the plan or by the employees to the entity. The entity accounts for the present value of economic benefits that it expects to receive from the plan or from the employees in the form of reductions in future contributions or as refunds. The entity discounts those economic benefits using the rate specified in paragraph 83.

BC76 In the Board's view, a net interest approach provides more understandable information than would be the case if finance income and expenses were to be determined separately on the plan assets and defined benefit obligation that combine to make a net defined benefit liability (asset). The net interest approach results in an entity recognising interest income when the plan has a surplus, and interest cost when the plan has a deficit.

BC77 The Board concluded that, in principle, the change in value of any asset can be divided into an amount that arises from the passage of time and amounts that arise from other changes. The interest cost on the defined benefit obligation arises from the passage of time. Consequently, the 2010 ED proposed that the net interest component of defined benefit cost should include not only the interest cost on the defined benefit obligation, but also the part of the return on plan assets that arises from the passage of time. In addition, the Board concluded that, to be consistent with the principle of separating components of defined benefit cost with different predictive implications, the net interest component should not include the part of the return on plan assets that does not arise from the passage of time.

BC78 The Board found it difficult to identify a practical method for identifying the change in the fair value of plan assets that arises from the passage of time, particularly for assets that do not bear explicit interest. The Board rejected approximations to this amount using:

(a) the expected return on plan assets (as required by IAS 19 before the amendments made in 2011) because it could not be determined in an objective way, and because it might include a return that is not simply attributable to the passage of time; and

(b) dividends (but not capital gains) received on equity plan assets and interest earned on debt plan assets. In the Board's view, dividends are not a faithful representation of the time value of money.

BC79 Consequently, the 2010 ED proposed that entities should calculate interest income on plan assets using the rate used to discount the defined benefit obligation. This approach produces interest income that is equivalent to determining a net interest on the net defined benefit liability (asset). The difference between the actual return on assets and the interest income on plan assets is included in the remeasurements component (see paragraph BC86).

BC80 Respondents generally agreed with the principle that the net interest component should include changes both in the defined benefit obligation and in plan assets that arise from the passage of time. However, some supported the approach proposed in the 2010 ED and others supported the expected return approach used in IAS 19 before the amendments made in 2011 (ie based on the expected return on plan assets).

BC81 The Board agreed with the views of respondents who reasoned that the net interest approach is a simple and pragmatic solution that is consistent with the presentation in the statement of financial position and, by reflecting the underlying economics of the net defined benefit liability (asset), provides more relevant and understandable information than the expected return approach. The net interest approach represents the economics of the entity's decision on how to finance the plan by reporting net interest income when the plan is in surplus and net interest expense when the plan is in deficit.

BC82 Respondents to the 2010 ED expressed concerns that:

(a) plan assets may be made up of many different types of investments. The return on high quality corporate bonds would be arbitrary and would not be a faithful representation of the return that investors require or expect from each type of asset. However, in the Board's view, using the same rate as the rate used to discount the liability is a practical approach that:

(i) would not require an entity to make a subjective judgement on how to divide the return on plan assets into an interest component and a remeasurement.

(ii) results in amounts recognised in profit or loss that reflect the effect of the time value of money on both the defined benefit obligation and on plan assets. Consequently, the amounts recognised in profit or loss reflect the differences between funded and unfunded plans.

(b) the requirements in paragraph 83 for determining the discount rate can result in economically similar defined benefit obligations being reported at different amounts, depending on whether there is a deep market in high quality corporate bonds. As noted in paragraph BC13, the Board considered improving the discount rate requirements of IAS 19, but decided to defer consideration of the discount rate until it decides whether to review measurement of the defined benefit obligation as a whole.

BC83 The Board considered the expected return approach, but noted that:

(a) although the expected return approach is consistent with the discount rate used in the measurement of the plan assets at fair value, the net interest approach better represents the economics of the net defined benefit liability (asset) and consequently provides more comparable information on the changes in that net amount presented in the statement of financial position.

(b) although the expected return approach is not theoretically more subjective than the net interest approach, in practice it is more likely that observable information will not be available to determine the expected return than is the case for the discount rate used for the net interest approach.

(c) the expected return approach results in the reporting of the expected performance of the plan assets, regardless of their actual performance during the period. For a high risk investment, this has the effect of recognising the anticipated higher return in profit or loss, and the effect of higher risk in other comprehensive income. In contrast, the net interest approach recognises in other comprehensive income both the higher return and the effects of higher risk.

BC84 Supporters of both the net interest approach and the expected return approach reasoned that their favoured approach produces more relevant, comparable and understandable information. These contrasting views may reflect how different respondents consider the net defined benefit liability (asset) recognised in the statement of financial position as either comprising two components (the plan assets and the defined benefit obligation), which are measured separately but presented together (the gross view), or representing a single amount owed to, or from, the plan (the net view). These differences in views may also reflect differences in plan design, such as the degree of an entity's control over the plan assets. The expected return approach is more consistent with the gross view and the net interest approach is more consistent with the net view. The Board concluded that the net view is more consistent with the presentation of the net defined benefit liability (asset) in the statement of financial position, and therefore the disaggregation of the defined benefit cost in the statement of comprehensive income should also be based on the net view.

BC85 Supporters of both the net interest approach and the expected return approach reasoned that their approach does not provide an uneconomic incentive to invest assets in a particular way. In coming to its conclusion, the Board did not aim to encourage or discourage any particular behaviour, but considered which approach would provide the most relevant information that faithfully represents the changes in the plan assets and defined benefit obligation.

Components of defined benefit cost: remeasurements

BC86 As a result of the Board's decisions on the service cost and net interest components, the amendments made in 2011 define the remeasurement component as comprising:

(a) actuarial gains and losses on the defined benefit obligation;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any changes in the effect of the asset ceiling, excluding the amount included in net interest on the net defined benefit liability (asset).

BC87 The definition of remeasurements differs from the definition of actuarial gains and losses in IAS 19 before the amendments made in 2011 because the introduction of the net interest approach changed the disaggregation of the return on plan assets and the effect of the asset ceiling.

Components of defined benefit cost: recognition of the remeasurements component

BC88 As described in paragraphs BC70–BC72, the amendments made in 2011 eliminated deferred recognition. To distinguish the remeasurement component from service cost and net interest in an informative way, the 2010 ED proposed that entities should recognise the remeasurements component as an item of other comprehensive income, thus removing the previous option to recognise in profit or loss all changes in the net defined benefit liability (asset). The Board noted that although changes included in the remeasurements component may provide more information about the uncertainty and risk of future cash flows, they provide less information about the likely amount and timing of those cash flows.

BC89 Most respondents agreed with the proposal in the 2010 ED to recognise remeasurements in other comprehensive income. But some respondents expressed the following concerns:

(a) *Remeasurements in profit or loss*—some respondents did not support the proposal in the 2010 ED because, in their view:

(i) there is no conceptual basis for recognising amounts in other comprehensive income, thus recognition in profit or loss would be more appropriate.

(ii) the fact that the remeasurements component's predictive value is different from that of other components should not lead to the conclusion that this component should be recognised in other comprehensive income, but instead should indicate that there is a need to present this component as a separate line item in profit or loss.

(iii) if changes in assumptions are not recognised in profit or loss in the same way as service costs, this might encourage mis-estimation of service costs to achieve an accounting result.

(b) *Remeasurements option*—some respondents expressed the view that the Board should maintain the option to recognise remeasurements in profit or loss:

(i) because the Board should not eliminate this option until it develops a principle for determining which items should be recognised in profit or loss and which items should be recognised in other comprehensive income;

(ii) because recognising remeasurements in profit or loss is the conceptually best method;

(iii) to keep the accounting simple for entities with small plans; and

(iv) because recognising remeasurements in other comprehensive income may lead to an accounting mismatch (eg for an unfunded plan, if the entity holds assets to fund the obligation, and gains and losses on the assets are recognised in profit or loss).

(c) *Reclassification to profit or loss*—some respondents were concerned that amounts recognised in other comprehensive income are not reclassified to profit or loss in subsequent periods because:

(i) the amounts in other comprehensive income would never be recognised in profit or loss.

(ii) this change diverges from US generally accepted accounting principles (GAAP), because amounts in other comprehensive income under US GAAP are subsequently reclassified to profit or loss.

BC90 In finalising the amendments made in 2011, the Board confirmed the proposal made in the 2010 ED that an entity should recognise remeasurements in other comprehensive income. The Board acknowledged that the *Conceptual Framework* and IAS 1 do not describe a principle that would identify the items an entity should recognise in other comprehensive income rather than in profit or loss. However, 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.

BC91 The Board considered and rejected alternative approaches that would address some of the concerns expressed in paragraph BC89(a) and (b) for the reasons discussed in paragraphs BC92–BC98. Subsequent reclassification of amounts recognised in other comprehensive income to profit or loss is discussed in paragraph BC99.

Components of defined benefit cost: other approaches to recognising remeasurements

BC92 The Board considered the following alternatives for recognising the remeasurements component:

(a) previous options in IAS 19 for immediate recognition (paragraph BC93).

(b) recognition of all components in profit or loss (paragraphs BC94–BC96).

(c) a hybrid approach requiring recognition of the remeasurements component in other comprehensive income or profit or loss in different circumstances (paragraphs BC97 and BC98).

BC93 Before its amendment in 2011, IAS 19 permitted two methods for recognising actuarial gains and losses immediately: in profit or loss or in other comprehensive income. Many respondents to the 2010 ED suggested that the Board should permit an entity to recognise remeasurements either in profit or loss or in other comprehensive income. Retaining those options would have allowed entities with small plans to keep the accounting simple and would have allowed entities to eliminate the accounting mismatches noted in paragraph BC89(b). However, the Board concluded that eliminating options would improve financial reporting.

BC94 Some respondents to the 2010 ED expressed the view that entities should recognise all components of defined benefit cost within profit or loss, rather than using other comprehensive income for some items. They offered the following reasons for their position:

(a) Some indicated that the *Framework* and IAS 1 do not describe a principle that would identify the items an entity should recognise in other comprehensive income rather than in profit or loss.

(b) Some believe that an entity should show amounts relating to defined benefit plans in aggregate, as a single net amount arising from personnel or employment expense, in conformity with the presentation of a single net amount in the statement of financial position.

BC95 However, most respondents to the 2010 ED expressed the view that it would be inappropriate to recognise in profit or loss short-term fluctuations in an item that is long-term in nature. The Board concluded that in the light of the improved presentation of items of other comprehensive income in its amendment to IAS 1 issued in June 2011, the most informative way to disaggregate the components of defined benefit cost with different predictive values is to recognise the remeasurement component in other comprehensive income.

BC96 Many respondents urged the Board to carry out a project to identify what items of income and expense an entity should recognise in other comprehensive income, and whether an entity should subsequently reclassify items recognised in other comprehensive income to profit or loss. If the Board carries out such a project, the Board may need in due course to revisit its decisions on the recognition of the remeasurements component.

BC97 The Board noted that an accounting mismatch could arise for entities that hold assets to fund the obligation that do not qualify as plan assets because an entity would recognise changes in the defined benefit obligation in other comprehensive income, but changes in the carrying amount of those assets in profit or loss. The Board considered whether to permit (or perhaps require) entities to recognise the remeasurement component in profit or loss if that would reduce or eliminate an accounting mismatch from profit or loss.

BC98 However, the Board did not pursue such a hybrid approach because doing so would have required the Board to add significant complexity to the requirements in IAS 19 to address matters such as the following:

(a) introducing criteria to identify an accounting mismatch.

(b) determining whether to make such an election irrevocable, and whether an entity could revisit its election if there are changes in facts (such as in the case of a plan amendment, merger or plans switching between funded and unfunded status).

Components of defined benefit cost: reclassification to profit or loss

BC99 Both before and after the amendments made in 2011, IAS 19 prohibits subsequent reclassification of remeasurements from other comprehensive income to profit or loss. The Board prohibited such reclassification because:

(a) there is no consistent policy on reclassification to profit or loss in IFRSs, and it would have been premature to address this matter in the context of the amendments made to IAS 19 in 2011.

(b) it is difficult to identify a suitable basis to determine the timing and amount of such reclassifications.

Components of defined benefit cost: cumulative remeasurements

BC100 The 2010 ED proposed to carry forward the requirement that an entity should transfer amounts recognised in other comprehensive income directly to retained earnings. However, IFRSs do not define the phrase 'retained earnings' and the Board has not discussed what it should mean. Moreover, there exist jurisdiction-specific restrictions on components of equity. The amendments made in 2011 permit an entity to transfer the cumulative remeasurements within equity, and do not impose specific requirements on that transfer.

The asset ceiling

BC101 In some cases, paragraph 63 of IAS 19 requires an entity to recognise an asset. E54 proposed that the amount of the asset recognised should not exceed the aggregate of the present values of:

(a) any refunds expected from the plan; and

(b) any expected reduction in future contributions arising from the surplus.

In approving E54, IASC took the view that an entity should not recognise an asset at an amount that exceeds the present value of the future benefits that are expected to flow to the entity from that asset. This view was consistent with IASC's proposal in its exposure draft E55 *Impairment of Assets* that assets should not be carried at more than their recoverable amount. IAS 19 before its revision in 1998 contained no such restriction.

BC102 Some commentators argued that the limit in E54 was not operable because it would require an entity to make extremely subjective forecasts of expected refunds or reductions in contributions. In response to those comments, IASC agreed that the limit should reflect the available refunds or reductions in contributions.

An additional minimum liability

BC103 IASC considered whether it should require an entity to recognise an additional minimum liability where:

(a) an entity's immediate obligation if it discontinued a plan at the balance sheet date would be greater than the present value of the liability that would otherwise be recognised on the statement of financial position.

(b) vested post-employment benefits are payable at the date when an employee leaves the entity. Consequently, because of the effect of discounting, the present value of the vested benefit would be greater if an employee left immediately after the balance sheet date than if the employee completed the expected period of service.

(c) the present value of vested benefits exceeds the amount of the liability that would otherwise be recognised in the balance sheet. Before the amendments made to IAS 19 in 2011 this could have occurred where a large proportion of the benefits were fully vested and an entity had not recognised actuarial losses or past service cost.

BC104 One example of a requirement for an entity to recognise an additional minimum liability was in the US standard SFAS 87 *Employers' Accounting for Pensions*: the minimum liability was based on current salaries and excluded the effect of deferring some past service cost and actuarial gains and losses. If the minimum liability exceeded the obligation measured on the normal projected salary basis (with deferred recognition of some types of income and expense), the excess was recognised as an intangible asset (not exceeding the amount of any unamortised past service cost, with any further excess deducted directly from equity) and as an additional minimum liability.

BC105 IASC believed that such additional measures of the liability were potentially confusing and did not provide relevant information. They would also conflict with the *Framework*'s assumption that the entity is a going concern and with its definition of a liability. IAS 19 does not require the recognition of an additional minimum liability. Some of the circumstances discussed in the preceding two paragraphs might have given rise to contingent liabilities requiring disclosure under IAS 37.

Recognition of defined benefit cost as part of an asset: amendments issued in 2011

BC106 IAS 19 requires an entity to recognise defined benefit costs as income or expense unless another IFRS requires or permits their inclusion in the cost of an asset. Some respondents to the 2010 ED asked the Board to clarify whether remeasurements recognised in other comprehensive income result in income or expense that is eligible for inclusion in the cost of an asset. Some respondents said that recognising remeasurements as part of an asset and then recognising that asset as an expense in profit or loss would be inconsistent with the Board's conclusion that reclassification from other comprehensive income to profit or loss should be prohibited.

BC107 In relation to determining the cost of an asset, IFRSs include no principle distinguishing between income and expense presented in profit or loss and income and expense recognised in other comprehensive income. In the Board's view, whether an item is included in the cost of an asset depends on its nature and whether it meets the definition of cost in the relevant IFRS for that asset. Furthermore, in the Board's view this would be consistent with its conclusions on the reclassification of amounts recognised in other comprehensive income because amounts recognised as part of an asset would not be recognised in other comprehensive income first. Accordingly, the Board added no further guidance on this matter.

Actuarial valuation method

BC108 IAS 19 before its revision in 1998 permitted both accrued benefit valuation methods (benchmark treatment) and projected benefit valuation methods (allowed alternative treatment). The two groups of methods were based on fundamentally different, and incompatible, views of the objectives of accounting for employee benefits:

(a) **accrued benefit methods** (sometimes known as 'benefit', 'unit credit' or 'single premium' methods) determine the present value of employee benefits attributable to service to date; but

(b) **projected benefit methods** (sometimes described as 'cost', 'level contribution' or 'level premium' methods) project the estimated total obligation at retirement and then calculate a level funding cost, taking into account investment earnings, that will provide the total benefit at retirement.

BC109 The two methods may have similar effects on the income statement, but only by chance or if the number and age distribution of participating employees remain relatively stable over time. There can be significant differences in the measurement of liabilities under the two groups of methods. For these reasons, IASC believed that a requirement to use a single group of methods would significantly enhance comparability.

BC110 IASC considered whether it should continue to permit projected benefit methods as an allowed alternative treatment while introducing a new requirement to disclose information equivalent to the use of an accrued benefit method. However, IASC believed that disclosure cannot rectify inappropriate accounting in the balance sheet and income statement. IASC concluded that projected benefit methods were not appropriate, and should be eliminated, because such methods:

(a) focus on future events (future service) as well as past events, whereas accrued benefit methods focus only on past events;

(b) generate a liability that does not represent a measure of any real amount and can be described only as the result of cost allocations; and

(c) do not attempt to measure fair value and cannot, therefore, be used in a business combination, as required by IAS 22 *Business Combinations*.[4] If an entity used an accrued benefit method in a business combination, it would not be feasible for the entity to use a projected benefit method to account for the same obligation in subsequent periods.

BC111 IAS 19 before its revision in 1998 did not specify which forms of accrued benefit valuation method should be permitted under the benchmark treatment. IAS 19 as revised in 1998 required a single accrued benefit method: the most widely used accrued benefit method, which is known as the projected unit credit method (sometimes known as the 'accrued benefit method pro-rated on service' or as the 'benefit/years of service method').

BC112 IASC acknowledged that the elimination of projected benefit methods, and of accrued benefit methods other than the projected unit credit method, had cost implications. However, with modern computing power, it would be only marginally more expensive to run a valuation on two different bases and the advantages of improved comparability would outweigh the additional cost.

4 IAS 22 was withdrawn in 2004 and replaced by IFRS 3 *Business Combinations*.

BC113 An actuary may sometimes recommend, for example in the case of a closed fund, a method other than the projected unit credit method for funding purposes. Nevertheless, IASC agreed to require the use of the projected unit credit method in all cases because that method was more consistent with the accounting objectives laid down in IAS 19 as revised in 1998.

Attributing benefit to periods of service

BC114 As explained in paragraph BC54, IASC believed that an entity has an obligation under a defined benefit plan when an employee has rendered service in return for the benefits promised under the plan. IASC considered three alternative methods of accounting for a defined benefit plan that attributes different amounts of benefit to different periods:

(a) apportion the entire benefit on a straight-line basis over the entire period to the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

(b) apportion benefit under the plan's benefit formula. However, a straight-line basis should be used if the plan's benefit formula attributes a materially higher benefit to later years.

(c) apportion the benefit that vests at each interim date on a straight-line basis over the period between that date and the previous interim vesting date.

The three methods are illustrated by the following two examples.

BC Example 2

A plan provides a benefit of CU400 if an employee retires after more than ten and less than twenty years of service and a further benefit of CU100 (CU500 in total) if an employee retires after twenty or more years of service.

The amounts attributed to each year are as follows:

	Years 1–10	*Years 11–20*
Method (a)	*25*	*25*
Method (b)	*40*	*10*
Method (c)	*40*	*10*

BC Example 3

A plan provides a benefit of CU100 if an employee retires after more than ten and less than twenty years of service and a further benefit of CU400 (CU500 in total) if an employee retires after twenty or more years of service.

The amounts attributed to each year are as follows:

	Years 1–10	*Years 11–20*
Method (a)	*25*	*25*
Method (b)	*25*	*25*
Method (c)	*10*	*40*

Note: this plan attributes a higher benefit to later years, whereas the plan in BC Example 2 attributes a higher benefit to earlier years.

BC115 In approving E54, IASC adopted method (a) on the grounds that this method was the most straightforward and that there were no compelling reasons to attribute different amounts of benefit to different years, as would occur under either of the other methods.

BC116 A significant minority of commentators on E54 favoured following the benefit formula (or alternatively, if the standard were to retain straight-line attribution, the recognition of a minimum liability based on the benefit formula). IASC agreed with these comments and decided to require the method described in paragraph BC114(b).

Attributing benefit to periods of service: exposure draft published in 2010

BC117 Paragraph 70 requires an entity to attribute benefits on a straight-line basis if an employee's service in later years will lead to a materially higher level of benefit than in earlier years. If a benefit formula is expressed as a constant proportion of current salary, some believe that expected future salary increases are not included in determining whether the benefit formula allocates a higher level of benefit in later years.

BC118 However, if that view is taken, the attribution for career average salary benefits (benefits described as a percentage of the average salary multiplied by the number of years of service) would differ from the attribution for current salary benefits (benefits described as a percentage of current salary), even though such benefits could be the same economically. In the Board's view, benefits that are economically the same should be measured similarly regardless of how the benefit formula describes them. Consequently, the 2010 ED proposed that expected future salary increases should be included in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years.

BC119 Some respondents to the 2010 ED disagreed with that proposal for the reason that:

(a) service in previous or subsequent periods does not change the benefit increment earned in a particular year; and

(b) the fact that the entity remunerates later periods of service at higher levels is an intrinsic part of the plans and there is no reason for smoothing costs over all periods of service—they are not intended to remunerate for overall services on a straight-line basis.

BC120 The Board concluded that it should not address this issue at this stage because the issue is closely related to a fundamental review of the accounting for contribution-based promises that the Board decided was beyond the scope of the project (see paragraph BC13).

Actuarial assumptions—tax payable by the plan: amendments issued in 2011

BC121 The amendments made in 2011 clarify that:

(a) the estimate of the defined benefit obligation includes the present value of taxes payable by the plan if they relate to service before the reporting date or are imposed on benefits resulting from that service, and

(b) other taxes should be included as a reduction to the return on plan assets.

BC122 The Board noted that IAS 19 requires an entity to estimate the ultimate cost of providing long-term employee benefits. Thus, if the plan is required to pay taxes when it ultimately provides benefits, the taxes payable will be part of the ultimate cost. Similarly, the ultimate cost would include any taxes payable by the plan when the contribution relates to service before the period (such as in the case of contributions to reduce a deficit).

BC123 Some respondents to the 2010 ED asked the Board to address:

(a) country-specific tax regimes;

(b) taxes paid by the employer; and

(c) taxes on the return on plan assets.

BC124 However, the Board noted that a wide variety of taxes on pension costs exists worldwide and it is a matter of judgement whether they are income taxes within the scope of IAS 12 *Income Taxes*, costs of liabilities within the scope of IAS 37, or costs of employee benefits within the scope of IAS 19. Given the variety of tax arrangements, the Board decided that it could not address issues beyond those relating to taxes payable by the plan itself in a reasonable period of time and therefore did not address them in the amendment made in 2011.

Actuarial assumptions—administration costs: amendments issued in 2011

BC125 The amendments made in 2011 require administration costs to be recognised when the administration services are provided, with costs relating to the management of plan assets deducted from the return on plan assets. Before those amendments, IAS 19 required that costs of administering the plan, other than those included in the actuarial assumptions used to measure the defined benefit obligation, should be deducted from the return on plan assets. But IAS 19 did not specify which costs should be included in those actuarial assumptions.

BC126 In the Board's view, the treatment of plan administration costs should depend on the nature of those costs. Therefore, the 2010 ED proposed that:

(a) costs of managing plan assets should be the only administration costs that are deducted in determining the return on plan assets (that is part of the remeasurements component). Other administration costs, eg the cost of administering benefit payments, are unrelated to the plan assets.

(b) the present value of the defined benefit obligation should include the present value of costs relating to the administration of benefits attributable to current or past service. This is consistent with the measurement objective that the defined benefit obligation should be determined on the basis of the ultimate cost of the benefits.

BC127 Respondents to the 2010 ED raised practical concerns, including how entities should identify and estimate costs of managing plan assets and other administration services, and how the other administration services costs should be allocated to current, past and future service. In response to those concerns, the Board decided that an entity should recognise administration costs when the administration services are provided. This practical expedient avoids the need to attribute costs between current and past service and future service.

BC128 In some cases, a total fee is charged for both managing plan assets and other administration services, but in the Board's view the cost of managing plan assets would not be excessively costly or difficult to estimate under these circumstances. An entity could estimate such costs by estimating the administration costs if there were no plan assets, or by observing the prices for such services in the market.

Actuarial assumptions—discount rate

BC129 One of the most important issues in measuring defined benefit obligations is the selection of the criteria used to determine the discount rate. According to IAS 19 before its revision in 1998, the discount rate that was assumed in determining the actuarial present value of promised retirement benefits reflected the long-term rates, or an approximation thereto, at which such obligations were expected to be settled. IASC rejected the use of such a rate because it was not relevant for an entity that does not contemplate settlement and it was an artificial construct, because there may be no market for settlement of such obligations.

BC130 Some believe that, for funded benefits, the discount rate should be the expected rate of return on the plan assets actually held by a plan, because the return on plan assets represents faithfully the expected ultimate cash outflow (ie future contributions). IASC rejected this approach because the fact that a fund has chosen to invest in particular kinds of asset does not affect the nature or amount of the obligation. In particular, assets with a higher expected return carry more risk and an entity should not recognise a smaller liability merely because the plan has chosen to invest in riskier assets with a higher expected return. Consequently, the measurement of the obligation should be independent of the measurement of any plan assets actually held by a plan.

BC131 The most significant decision was whether the discount rate should be a risk-adjusted rate (one that attempts to capture the risks associated with the obligation). Some expressed the view that the most appropriate risk-adjusted rate is given by the expected return on an appropriate portfolio of plan assets that would, over the long term, provide an effective hedge against such an obligation. An appropriate portfolio might include:

(a) fixed interest securities for obligations to former employees to the extent that the obligations are not linked, in form or in substance, to inflation;

(b) index-linked securities for index-linked obligations to former employees; and

(c) equity securities for benefit obligations towards current employees that are linked to final pay. This is based on the view that the long-term performance of equity securities is correlated with general salary progression in the economy as a whole and hence with the final-pay element of a benefit obligation.

It is important to note that the portfolio actually held need not necessarily be an appropriate portfolio in this sense. Indeed, in some countries, regulatory constraints may prevent plans from holding an appropriate portfolio. For example, in some countries, plans are required to hold a specified proportion of their assets in the form of fixed interest securities. Furthermore, if an appropriate portfolio is a valid reference point, it is equally valid for both funded and unfunded plans.

BC132 Those who support using the interest rate on an appropriate portfolio as a risk-adjusted discount rate argue that:

(a) portfolio theory suggests that the expected return on an asset (or the interest rate inherent in a liability) is related to the undiversifiable risk associated with that asset (or liability). Undiversifiable risk reflects not the variability of the returns (payments) in absolute terms but the correlation of the returns (or payments) with the returns on other assets. If cash inflows from a portfolio of assets react to changing economic conditions over the long term in the same way as the cash outflows of a defined benefit obligation, the undiversifiable risk of the obligation (and hence the appropriate discount rate) must be the same as that of the portfolio of assets.

(b) an important aspect of the economic reality underlying final salary plans is the correlation between final salary and equity returns that arises because they both reflect the same long-term economic forces. Although the correlation is not perfect, it is sufficiently strong that ignoring it will lead to systematic overstatement of the liability. In addition, ignoring this correlation will result in misleading volatility due to short-term fluctuations between the rate used to discount the obligation and the discount rate that is implicit in the fair value of the plan assets. These factors will deter entities from operating defined benefit plans and lead to switches from equities to fixed-interest investments. Where defined benefit plans are largely funded by equities, this could have a serious impact on share prices. This switch will also increase the cost of pensions. There will be pressure on companies to remove the apparent (but non-existent) shortfall.

(c) if an entity settled its obligation by purchasing an annuity, the insurance company would determine the annuity rates by looking to a portfolio of assets that provides cash inflows that substantially offset all the cash flows from the benefit obligation as those cash flows fall due. Consequently, the expected return on an appropriate portfolio measures the obligation at an amount that is close to its market value. In practice, it is not possible to settle a final pay obligation by buying annuities because no insurance company would insure a final pay decision that remained at the discretion of the person insured. However, evidence can be derived from the purchase or sale of businesses that include a final salary pension scheme. In this situation the vendor and purchaser would negotiate a price for the pension obligation by reference to its present value, discounted at the rate of return on an appropriate portfolio.

(d) although investment risk is present even in a well-diversified portfolio of equity securities, any general decline in securities would, in the long term, be reflected in declining salaries. Because employees accepted that risk by agreeing to a final salary plan, the exclusion of that risk from the measurement of the obligation would introduce a systematic bias into the measurement.

(e) time-honoured funding practices in some countries use the expected return on an appropriate portfolio as the discount rate. Although funding considerations are distinct from accounting issues, the long history of this approach calls for careful scrutiny of any other proposed approach.

BC133 Those who oppose a risk-adjusted rate argue that:

(a) it is incorrect to look at returns on assets in determining the discount rate for liabilities.

(b) if a sufficiently strong correlation between asset returns and final pay actually existed, a market for final salary obligations would develop, yet this has not happened. Furthermore, where any such apparent correlation does exist, it is not clear whether the correlation results from shared characteristics of the portfolio and the obligations or from changes in the contractual pension promise.

(c) the return on equity securities does not correlate with other risks associated with defined benefit plans, such as variability in mortality, timing of retirement, disability and adverse selection.

(d) in order to evaluate a liability with uncertain cash flows, an entity would normally use a discount rate lower than the risk-free rate, but the expected return on an appropriate portfolio is higher than the risk-free rate.

(e) the assertion that final salary is strongly correlated with asset returns implies that final salary will tend to decrease if asset prices fall, yet experience shows that salaries tend not to decline.

(f) the notion that equities are not risky in the long term, and the associated notion of long-term value, are based on the fallacious view that the market always bounces back after a crash. Shareholders do not get credit in the market for any additional long-term value if they sell their shares today.

Even if some correlation exists over long periods, benefits must be paid as they become due. An entity that funds its obligations with equity securities runs the risk that equity prices may be down when benefits must be paid. In addition, the hypothesis that the real return on equities is uncorrelated with inflation does not mean that equities offer a risk-free return, even in the long term.

(g) the expected long-term rate of return on an appropriate portfolio cannot be determined sufficiently objectively in practice to provide an adequate basis for an accounting standard. The practical difficulties include specifying the characteristics of the appropriate portfolio, selecting the time horizon for estimating returns on the portfolio and estimating those returns.

BC134 IASC had not identified clear evidence that the expected return on an appropriate portfolio of assets provides a relevant and reliable indication of the risks associated with a defined benefit obligation, or that such a rate can be determined with reasonable objectivity. Consequently, IASC decided that the discount rate should reflect the time value of money, but should not attempt to capture those risks. Furthermore, the discount rate should not reflect the entity's own credit rating, because otherwise an entity with a lower credit rating would recognise a smaller liability. IASC decided that the rate that best achieves these objectives is the yield on high quality corporate bonds. In countries where there is no deep market in such bonds, the yield on government bonds should be used.

BC135 Another issue was whether the discount rate should be the long-term average rate, based on past experience over a number of years, or the current market yield at the balance sheet date for an obligation of the appropriate term. Those who supported a long-term average rate expressed the view that:

(a) a long-term approach is consistent with the transaction-based historical cost approach that was either required or permitted by other International Accounting Standards.

(b) point in time estimates aim at a level of precision that is not attainable in practice and lead to volatility in reported profit that may not be a faithful representation of changes in the obligation, but may simply reflect an unavoidable inability to predict accurately the future events that are anticipated in making period-to-period measurements.

(c) for an obligation based on final salary, neither market annuity prices nor simulation by discounting expected future cash flows can determine an unambiguous annuity price.

(d) over the long term, a suitable portfolio of plan assets may provide a reasonably effective hedge against an employee benefit obligation that increases in line with salary growth. However, there is much less assurance that, at a given measurement date, market interest rates will match the salary growth built into the obligation.

BC136 IASC decided that the discount rate should be determined by reference to market yields at the balance sheet date, because:

(a) there is no rational basis for expecting efficient market prices to drift towards any assumed long-term average, because prices in a market of sufficient liquidity and depth incorporate all publicly available information and are more relevant and reliable than an estimate of long-term trends by any individual market participant.

(b) the cost of benefits attributed to service during the current period should reflect prices of that period.

(c) if expected future benefits are defined in terms of projected future salaries that reflect current estimates of future inflation rates, the discount rate should be based on current market interest rates (in nominal terms), because these also reflect current market expectations of inflation rates.

(d) if plan assets are measured at a current value (ie fair value), the related obligation should be discounted at a current discount rate in order to avoid introducing irrelevant volatility through a difference in the measurement basis.

BC137 The reference to market yields at the balance sheet date did not mean that short-term discount rates should be used to discount long-term obligations. IAS 19 requires that the discount rate should reflect market yields (at the balance sheet date) on bonds with an expected term that is consistent with the expected term of the obligations.

Actuarial assumptions—discount rate: exposure draft published in 2009

BC138 The discount rate requirements in IAS 19 may result in an entity reporting a significantly higher defined benefit obligation in a jurisdiction that does not have a deep market in high quality corporate bonds than it would in a similar jurisdiction that does have a deep market in such bonds, even when the underlying obligations are very similar.

BC139 To address this issue, in August 2009 the Board published an exposure draft *Discount Rate for Employee Benefits*, that proposed eliminating the requirement to use a government bond rate if there is no deep market in high quality corporate bonds. However, responses to that exposure draft indicated that the proposed amendment raised more complex issues than had been expected. After considering those responses, the Board decided not to proceed with the proposals but to address issues relating to the discount rate only in the context of a fundamental review (see paragraph BC13(b)).

Actuarial assumptions—salaries, benefits and medical costs

BC140 Some argue that estimates of future increases in salaries, benefits and medical costs should not affect the measurement of assets and liabilities until they are granted, on the grounds that:

(a) future increases are future events; and

(b) such estimates are too subjective.

BC141 IASC believed that the assumptions were used not to determine whether an obligation exists, but to measure an existing obligation on a basis that provides the most relevant measure of the estimated outflow of resources. If no increase was assumed, this was an implicit assumption that no change will occur and it would be misleading to assume no change if an entity did expect a change. IAS 19 maintains the requirement in IAS 19 before its revision in 1998 that measurement should take account of estimated future salary increases. IASC also believed that increases in future medical costs can be estimated with sufficient reliability to justify incorporation of those estimated increases in the measurement of the obligation.

Actuarial assumptions—mortality: amendments issued in 2011

BC142 The amendments made in 2011 make explicit that the mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. In the Board's view, current mortality tables might need to be adjusted for expected changes in mortality (such as expected mortality improvement) to provide the best estimate of the amount that reflects the ultimate cost of settling the defined benefit obligation.

Actuarial assumptions—risk-sharing: amendments issued in 2011

BC143 The amendments made in 2011 clarify that:

(a) the effect of employee and third-party contributions should be considered in determining the defined benefit cost, the present value of the defined benefit obligation and the measurement of any reimbursement rights.

(b) the benefit to be attributed to periods of service in accordance with paragraph 70 of IAS 19 is net of the effect of any employee contributions in respect of service.

(c) any conditional indexation should be reflected in the measurement of the defined benefit obligation, whether the indexation or changes in benefits are automatic or are subject to a decision by the employer, the employee or a third party, such as trustees or administrators of the plan.

(d) if any limits exist on the legal and constructive obligation to pay additional contributions, the present value of the defined benefit obligation should reflect those limits.

BC144 Some defined benefit plans include features that share the benefits of a surplus or the cost of a deficit between the employer and the plan participants. Similarly, some defined benefit plans provide benefits that are conditional to some extent on whether there are sufficient assets in the plan to fund them. Such features share risk between the entity and the plan participants and affect the ultimate cost of the benefits. Hence, the 2010 ED proposed to clarify that the present value of the defined benefit obligation should reflect the best estimate of the effect of risk-sharing and conditional indexation features. Many respondents agreed with that proposal.

BC145 However, some respondents expressed doubts about whether the proposals could adequately address risk-sharing features because of the existing defined benefit and defined contribution distinction and because of the existing measurement model for defined benefit plans. They suggested that the Board should not address risk-sharing features until it conducted a fundamental review of classification and measurement in order to address the whole spectrum of plans from defined contribution to defined benefit (including contribution-based promises). However, the Board observed that the current model is based on the ultimate cost of the benefit, and thus should be able to take into account risk-sharing features that reduce the ultimate cost of the benefit to the entity.

BC146 Many respondents requested further clarification on:

(a) conditional indexation (paragraphs BC147–BC149); and

(b) other points (paragraph BC150).

Conditional indexation

BC147 Some defined benefit plans provide conditional indexation (such as additional benefits contingent on returns on plan assets). In general, according to paragraph 88, the measurement of the benefit obligation must reflect the best estimate of any future effect of such conditional indexation. However, some respondents noted that the strict separation of the measurement of plan assets and liabilities under IAS 19 results in a mismatch: the conditional indexation is included in the present value of the defined benefit obligation, but not in the measurement of the plan assets. Some argue that the effect of conditional indexation should not be included in the measurement of the liability until the underlying returns are included in the measurement of the plan assets.

BC148 In the Board's view, projecting the benefit on the basis of current assumptions of future investment performance (or other criteria to which the benefits are indexed) is consistent with estimating the ultimate cost of the benefit, which is the objective of the measurement of the defined benefit obligation, as stated in paragraph 76. The Board also considered other changes to the measurement approach, such as using option pricing techniques to capture the effect of the conditional indexation in a manner consistent with the fair value of the plan assets. However, the Board rejected those alternatives because they would require changing the fundamental measurement of the defined benefit obligation. The Board noted that concerns regarding measurement of benefits with conditional indexation are similar to concerns regarding the measurement of contribution-based promises discussed in its 2008 discussion paper. Addressing these concerns was beyond the scope of the amendments made in 2011.

BC149 Some respondents interpreted the 2010 ED as proposing that in determining the effect of conditional indexation, an entity would be required to project the future funding position (on the basis used to set contribution rates) and then establish the effect that the funding level might have on future benefits and contribution requirements. These respondents believe that projecting the funding position would involve a significant amount of additional work and that in most regions it would be very difficult to establish a suitable adjustment to the liabilities to reflect the effect of conditional indexation based on the funding position. In the Board's view, an entity should estimate the likely conditional indexation of benefits based on the current funding status of the plan, consistently with how financial assumptions are determined in accordance with paragraph 80. Paragraph 80 requires financial assumptions to be based on market expectations at the end of the reporting period for the period over which the obligations are to be settled.

Other clarifications

BC150 The Board clarified the following points in the light of responses to the 2010 ED:

(a) Contributions from employees in respect of service should be attributed to periods of service in accordance with paragraph 70 using the benefit formula, or on a straight-line basis (ie the back-end loading test and attribution in paragraph 70 should be based on the net benefit). This reflects the Board's view that contributions from employees can be viewed as a negative benefit. In addition, the Board noted that a portion of future employee contributions may be connected with salary increases included in the defined benefit obligation. Applying the same method of attribution to that portion of the contribution and the salary increases avoids an inconsistency.

(b) An entity would apply judgement in determining whether a change in an input is a change in the terms of the benefit (resulting in past service cost) or a change in an assumption (resulting in an actuarial gain or loss). This clarification is consistent with guidance that existed in IAS 19 before 2011, describing how to address employee contributions for medical costs.

(c) The best estimate of the ultimate cost of the benefits reflects the best estimate of the effect of terms of the plan that require or allow a change to the level of benefit, or that provide other benefit options, regardless of whether the benefits are adjustable by the entity, by the managers of the plan, or by the employees.

(d) The measurement of the defined benefit obligation takes account of the effect of any limit on contributions by the employer (see paragraph 91). In the Board's view, this is consistent with the objective of determining the ultimate cost of the benefits. The Board concluded that the effect of such a limit should be determined over the shorter of the expected life of the plan and the expected life of the entity. Determining the limit over a period longer than the current period is necessary to identify whether the effect of the limit is temporary or permanent. For example, the service cost may be higher than the maximum contribution amount in the current period, but if in subsequent years the service cost is lower than the contribution amount, then the effect of the limit is more of a deferral of current period contributions than a limit on the total contributions required.

(e) The amendments relating to risk-sharing are not intended to be limited to particular relationships. Some respondents noted that some plans' risks are shared not only with employees, but also with other parties (such as the government). In the Board's view, an entity should consider such arrangements in determining the defined benefit obligation. Nevertheless, entities need to consider whether those contributions are reimbursements as described in paragraphs 116–119 (and therefore must be recognised as reimbursement rights) or reductions in the defined benefit obligation.

Curtailments and settlements

BC151 Under IAS 19 before its revision in 1998, curtailment and settlement gains were recognised when the curtailment or settlement occurred, but losses were recognised when it was probable that the curtailment or settlement would occur. IASC concluded that management's intention to curtail or settle a defined benefit plan was not a sufficient basis to recognise a loss. IAS 19 revised in 1998 required that curtailment and settlement losses, as well as gains, should be recognised when the curtailment or settlement occurs. The guidance on the recognition of curtailments and settlements conformed to the proposals in E59 *Provisions, Contingent Liabilities and Contingent Assets*.

Plan amendments, curtailments and settlements: amendments issued in 2011

BC152 The amendments made in 2011:

(a) require immediate recognition of all past service cost (paragraphs BC154–BC159); and

(b) amend the definitions of past service cost, curtailments and settlements (paragraphs BC160–BC163).

BC153 The Board also considered other approaches to account for plan amendments and settlements (paragraphs BC164–BC173).

Immediate recognition—past service cost

BC154 The amendments made in 2011 require an entity to recognise both vested and unvested past service cost in the period of the plan amendment that gives rise to the past service cost. Before that amendment, IAS 19 required immediate recognition for *vested* past service cost and recognition over the vesting period for *unvested* past service cost.

BC155 Many respondents to the 2010 ED supported the proposal for immediate recognition of unvested past service cost. Other respondents objected to the proposal for the reasons set out below:

(a) Most plan amendments are initiated with the intention of benefiting the entity in future periods. Moreover, the principle in IAS 19 is that employee benefit expense is recognised in the period when the employee must provide the service needed to qualify for the benefit. It would be more consistent with that principle to require recognition of unvested past service cost over the remaining service periods until vesting.

(b) Recognising unvested past service cost over the vesting period would be consistent with what the Board thought were the best conceptual answers that it adopted in IFRS 2 *Share-based Payment*.

(c) The proposal may provide potential for arbitrage. If unvested past service cost were recognised immediately, an entity could change how much of the total expense is recognised by changing the past service period without changing the amount and timing of benefits.

BC156 For the following reasons, the Board confirmed the requirement to recognise both vested and unvested past service cost immediately:

(a) IAS 19 requires an entity to attribute benefits to periods of service in accordance with the benefit formula, even if the benefits are conditional on future employment. Therefore, recognising unvested past service cost immediately is consistent with the recognition of unvested current service cost that IAS 19 treats as an obligation in paragraph 72. The Board noted that recognising unvested past service cost immediately would not be consistent with IFRS 2. However, in the Board's view, internal consistency within IAS 19 is more desirable than consistency with IFRS 2.

(b) The Board acknowledged that recognising unvested past service cost immediately may introduce an opportunity for accounting arbitrage by selection of the benefit formula, but recognising unvested past service cost over the vesting period may also be open to accounting arbitrage. If an entity recognised unvested past service cost over the vesting period, an entity could change how much of the total expense is recognised by changing the amount subject to vesting conditions and the vesting period. Any approach to attributing unvested benefits to periods of service is arbitrary. However, recognising unvested past service cost immediately is more consistent with paragraph 72 and the recognition of unvested current service cost.

BC157 Before the amendments made in 2011, an entity recognised curtailments resulting from a significant reduction in the number of employees covered by the plan when the entity was demonstrably committed to making the reduction. The amendments made in 2011 require an entity to recognise a plan amendment and a curtailment when they occur.

BC158 Some respondents to the 2010 ED asked the Board to clarify whether, in the context of a plan amendment or curtailment, 'occurs' means when the change is announced, when it is executed or when the change is effective. If a plan amendment or curtailment occurs in isolation (ie it is not triggered by a settlement, termination benefit or restructuring), determining when the plan amendment occurs requires the exercise of judgement. The timing of recognition would depend on the individual facts and circumstances and how they interact with the constructive obligation requirements in paragraphs 61 and 62. The Board concluded that providing further guidance on when a plan amendment 'occurs' is beyond the scope of the amendments made in 2011.

BC159 The amendments made in 2011 also:

(a) remove the 'demonstrably committed' recognition criterion for termination benefits (paragraphs BC258–BC260); and

(b) align the recognition of related plan amendments, curtailments, termination benefits and restructuring costs (paragraphs BC262–BC268).

Definitions of past service cost, curtailments and settlements

BC160 The Board noted that recognising unvested past service cost immediately results in the same accounting for past service cost and curtailments. As a result, the amendments made in 2011 revised the definitions of plan amendments and curtailments. Before those amendments, IAS 19 defined the curtailment of a plan as follows:

> A curtailment occurs when an entity either:
>
> (a) is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or
>
> (b) amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

BC161 The distinction between past service cost and curtailments was necessary in IAS 19 before the amendments made in 2011 because curtailments were recognised immediately, but unvested past service cost was recognised over the vesting period. However, because the amendments made in 2011 require immediate recognition of unvested past service costs, there is no longer any reason for the distinction between past service cost and the second part of the definition of curtailments. Accordingly, the Board removed the second part of that definition. Consequently, past service cost will include amounts attributed to past service resulting from any plan amendment and would be recognised immediately.

BC162 The Board retained the first part of the definition of curtailments. This distinguishes the closure of a plan to a significant number of employees (which is closer to a plan amendment) and an increase in estimated employee turnover (which is closer to a change in actuarial assumption). Thus, if a reduction in the number of employees is judged significant, then an entity accounts for it in the same way as for a plan amendment, and if not significant an entity will have to determine whether it is a change in actuarial assumption or a plan amendment. Because IAS 19 now treats plan amendments and curtailments in the same way, it now treats gains or losses on a curtailment as one form of past service cost.

BC163 The amendment made in 2011 clarifies that a settlement is a payment of benefits that is not set out in the terms of the plan. The payment of benefits that are set out in the terms of the plan, including terms that provide members with options on the nature of benefit payment such as an option to take a lump sum instead of an annuity, would be included in the actuarial assumptions. Therefore, any difference between an estimated benefit payment and the actual benefit payment is an actuarial gain or loss.

Other alternatives considered for accounting for plan amendments and settlements

BC164 The Board considered two other alternatives:

(a) *Confirming the proposals in the 2010 ED*—the 2010 ED proposed that past service cost and a gain or loss on curtailment should be included in the service cost component and a gain or loss on settlement should be included in the remeasurements component (see paragraphs BC165–BC170).

(b) *Remeasurements approach*—requiring past service cost and a gain or loss on curtailment or settlement to be included in the remeasurements component (see paragraphs BC171–BC173).

Other alternatives considered: confirming the proposals in the 2010 ED

BC165 The Board's view in developing the 2010 ED was that gains and losses arise on settlements because of a difference between the defined benefit obligation, as remeasured at the transaction date, and the settlement amount. Therefore, the 2010 ED proposed that:

(a) gains and losses on settlements should be treated in the same way as actuarial gains and losses, by being included in the remeasurements component; and

(b) the effect of plan amendments and curtailments should be included in the service cost component.

BC166 Many respondents to the 2010 ED supported the proposals for the recognition of past service cost and gains and losses on curtailments in profit or loss and the recognition of gains and losses on routine settlements in other comprehensive income. But many respondents disagreed with the proposal to recognise the effects of settlements in other comprehensive income, for the following reasons:

(a) There is overlap between the definitions of settlements, curtailments and plan amendments and the transactions usually happen at the same time, so it can be difficult to allocate the gains and losses between them. Requiring different accounting treatments for settlements, curtailments and plan amendments would introduce practical difficulties, diversity in practice and structuring opportunities.

(b) Settlements with third parties typically involve additional cost (such as a profit margin for the third party) and the effect of management's decision to incur this additional cost should be reflected in profit or loss when that transaction occurs.

(c) Recognising a gain or loss on derecognition of a liability in other comprehensive income seems inconsistent with other IFRSs that require a gain or loss on derecognition of a liability to be recognised in profit or loss.

(d) If settlements are the result of an event accounted for separately in profit or loss, then the gain or loss on settlement should be recognised in the same place as that event.

(e) A settlement can be interpreted as an 'action' of the plan sponsor, so the argument that past service cost should be recognised in profit or loss 'because [the plan amendment] occurs [when] an entity takes an action that reduces the benefits provided by the plan to employees' (Basis for Conclusions on 2010 ED, paragraph BC48) is applicable for the treatment of settlements as well.

BC167 Some interpret the definition of settlements as overlapping with the definitions of plan amendments, curtailments and changes in actuarial assumptions. If a transaction closes a plan and eliminates all further legal or constructive obligations, the transaction may have elements of plan amendments, curtailments and changes in actuarial assumptions because the definitions are not mutually exclusive. For example, if an entity negotiates a lump sum to be paid in connection with the closure of a defined benefit plan, one view is that the entire change in the defined benefit obligation is a settlement, because the lump sum eliminates all further legal and constructive obligations. The other view is that the effect of eliminating future pay growth, earlier payment than expected and the conversion of the benefits to a lump sum is a plan amendment and curtailment, with the settlement occurring when the payment is made.

BC168 In the Board's view, it is not clear whether the definitions overlap (because the definitions are not mutually exclusive) or whether it is merely difficult to distinguish the effects of a plan amendment, curtailment and settlement when they occur together. However, entities would need to distinguish these items if entities were required to include the amount relating to each in a different component of defined benefit cost.

BC169 The Board decided to treat past service cost and gains and losses arising from settlements (defined as non-routine settlements in the 2010 ED) as part of the service cost component. This does not require entities to make a distinction between those items if they occur at the same time. It is also consistent with the requirements in IAS 19 before the amendments made in 2011, and with the recognition in profit or loss of amounts from other related transactions, such as termination benefits and restructuring costs.

BC170 Such an approach requires a distinction between routine benefit payments and settlements (ie routine and non-routine settlements as defined in the 2010 ED), because a gain or loss on a settlement is included in the service cost component, and a gain or loss on a routine benefit payment is included in remeasurements. However, respondents appeared less concerned about making this distinction than about making one between plan amendments and settlements.

Other alternatives considered: remeasurements approach

BC171 Some respondents suggested that the effect of past service cost and gains or losses on settlement should be included in the remeasurements component. Such an approach would not require a distinction between past service cost, gains and losses on settlements and actuarial gains and losses. The gains and losses arising from all of these transactions would be included in the remeasurements component.

BC172 These respondents justified including the effects of plan amendments in the remeasurements component on the basis that past service cost provides less information about the amount and timing of future cash flows than does current service cost. Respondents noted that this would have the effect of limiting the service cost component to current service cost, and would maintain the Board's conclusion that amounts with different predictive value should be presented separately. Furthermore, such an approach would eliminate the requirement to distinguish between past service cost, the effects of settlements, and actuarial gains and losses for the purpose of presentation.

BC173 However, the Board concluded that past service cost and gains and losses on settlements arise as a result of a new transaction, as opposed to the remeasurement of a prior period transaction, and therefore should be differentiated from remeasurements of the defined benefit obligation. In addition, a plan amendment or settlement might occur as part of a related restructuring or termination benefit, for which the resulting gain or loss is recognised in profit or loss.

Plan assets

BC174 IAS 19 requires explicitly that the defined benefit liability or asset should be recognised as the defined benefit obligation after deducting plan assets (if any) out of which the obligations are to be settled directly (see paragraph 8). IASC noted that this was already widespread, and probably universal, practice. IASC believed that plan assets reduce (but do not extinguish) an entity's own obligation and result in a single, net liability. Although the presentation of that net liability as a single amount in the balance sheet differs conceptually from the offsetting of separate assets and liabilities, IASC decided that the definition of plan assets should be consistent with the offsetting criteria in IAS 32 *Financial Instruments: Disclosure and Presentation*.[5] IAS 32 states that a financial asset and a financial liability should be offset and the net amount reported in the balance sheet when an entity:

(a) has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

BC175 IAS 19 as revised in 1998 defined plan assets as assets (other than non-transferable financial instruments issued by the reporting entity) held by an entity (a fund) that satisfies all of the following conditions:

(a) The entity is legally separate from the reporting entity.

(b) The assets of the fund are to be used only to settle the employee benefit obligations, are not available to the entity's own creditors and cannot be returned to the entity (or can be returned to the entity only if the remaining assets of the fund are sufficient to meet the plan's obligations).

(c) To the extent that sufficient assets are in the fund, the entity will have no legal or constructive obligation to pay the related employee benefits directly.

BC176 In issuing IAS 19 in 1998, IASC considered whether the definition of plan assets should include a fourth condition: that the entity does not control the fund. IASC concluded that control is not relevant in determining whether the assets in a fund reduce an entity's own obligation.

BC177 In response to comments on E54, IASC modified the definition of plan assets to exclude non-transferable financial instruments issued by the reporting entity. If this had not been done, an entity could reduce its liabilities, and increase its equity, by issuing non-transferable equity instruments to a defined benefit plan.

5 In 2005 the IASB amended IAS 32 as *Financial Instruments: Presentation*.

Plan assets: amendments issued in 2000

BC178 In 1999 IASC began a limited scope project to consider the accounting for assets held by a fund that satisfies parts (a) and (b) of the definition set out in paragraph BC175, but does not satisfy condition (c) because the entity retains a legal or constructive obligation to pay the benefits directly. IAS 19 before the amendments made in 2000 did not address assets held by such funds.

BC179 IASC considered two main approaches to such funds:

(a) a **net** approach—the entity recognises its entire obligation as a liability after deducting the fair value of the assets held by the fund; and

(b) a **gross** approach—the entity recognises its entire obligation as a liability and recognises its rights to a refund from the fund as a separate asset.

BC180 Supporters of a net approach made one or more of the following arguments:

(a) A gross presentation would be misleading, because:

(i) where conditions (a) and (b) of the definition in paragraph BC175 are met, the entity does not control the assets held by the fund; and

(ii) even if the entity retains a legal obligation to pay the entire amount of the benefits directly, this legal obligation is a matter of form rather than substance.

(b) A gross presentation would be an unnecessary change from current practice, which generally permits a net presentation. It would introduce excessive complexity into the standard, for limited benefit to users, given that paragraph 140(a) already requires disclosure of the gross amounts.

(c) A gross approach may lead to measurement difficulties because of the interaction with the 10 per cent corridor that existed for the obligation before the amendments made to IAS 19 in 2011.

(d) A net approach might be viewed as analogous to the treatment of joint and several liabilities under paragraph 29 of IAS 37. An entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable. The part of the obligation that is expected to be met by other parties is treated as a contingent liability.

BC181 Supporters of a gross approach advocated that approach for one or more of the following reasons:

(a) Paragraph BC174 gives a justification for presenting defined benefit obligations net of plan assets. The explanation focuses on whether offsetting is appropriate. Part (c) of the 1998 definition focuses on offsetting. This suggests that assets that satisfy parts (a) and (b) of the definition, but fail part (c), should be treated in the same way as plan assets for recognition and measurement purposes, but should be shown gross in the balance sheet without offsetting.

(b) If offsetting is allowed when condition (c) is not met, this would seem to be equivalent to permitting a net presentation for 'in-substance defeasance' and other analogous cases where IAS 32 indicates explicitly that offsetting is inappropriate. IASC rejected 'in-substance defeasance' for financial instruments (see IAS 39 *Financial Instruments: Recognition and Measurement* paragraph AG59)[6] and there was no obvious reason to permit it in accounting for defined benefit plans. In these cases the entity retains an obligation that should be recognised as a liability and the entity's right to reimbursement from the plan is a source of economic benefits that should be recognised as an asset. Offsetting would be permitted if the conditions in paragraph 42 of IAS 32 are satisfied.

(c) IASC decided in IAS 37 to require a gross presentation for reimbursements related to provisions, even though this was not previously general practice. There is no conceptual reason to require a different treatment for employee benefits.

(d) Although some consider that a gross approach requires an entity to recognise assets that it does not control, others believe that this view is incorrect. A gross approach requires the entity to recognise an asset representing its right to receive reimbursement from the fund that holds those assets. It does not require the entity to recognise the underlying assets of the fund.

(e) In a plan with plan assets that meet the definition adopted in 1998, the employees' first claim is against the fund—they have no claim against the entity if sufficient assets are in the fund. In the view of some, the fact that employees must first claim against the fund is more than just a difference in form—it changes the substance of the obligation.

(f) Defined benefit plans might be regarded under SIC-12 *Consolidation—Special Purpose Entities*[7] as special purpose entities that the entity controls—and that it should consolidate. Because the offsetting criterion in IAS 19 was consistent with offsetting criteria in other International Accounting Standards, it was relatively unimportant whether the pension plan is consolidated in cases where the obligation and the plan assets qualify for offset. If the assets are presented as a deduction from the related benefit obligations in cases where condition (c) is not met, it could become important to assess whether the entity should consolidate the plan.

BC182 Some argued that a net approach should be permitted when an entity retains an obligation to pay the entire amount of the benefits directly, but the obligation was considered unlikely to have any substantive effect in practice. IASC concluded that it would not be practicable to establish guidance of this kind that could be applied in a consistent manner.

BC183 IASC also considered the possibility of adopting a 'linked presentation' that UK Financial Reporting Standard FRS 5 *Reporting the Substance of Transactions* required for non-recourse finance. Under FRS 5, the balance sheet presents both the gross amount of the asset and, as a direct deduction, the related non-recourse debt.

6 In November 2009 and October 2010 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all items within the scope of IAS 39. The requirements in paragraph AG59 of IAS 39 were relocated to paragraph AG3.3.3 of IFRS 9.

7 SIC-12 *Consolidation—Special Purpose Entities* was withdrawn and superseded by IFRS 10 *Consolidated Financial Statements* issued in May 2011. There is no longer specific accounting guidance for special purpose entities because IFRS 10 applies to all types of entities.

Supporters of this approach argued that it portrays the close link between related assets and liabilities without compromising general offsetting requirements. Opponents of the linked presentation argued that it creates a form of balance sheet presentation that IASC had not previously used and might cause confusion. IASC decided not to adopt the linked presentation.

BC184 IASC concluded that a net presentation is justified where there are restrictions (including restrictions that apply on bankruptcy of the reporting entity) on the use of the assets so that the assets can be used only to pay or fund employee benefits. Accordingly, it modified the definition of plan assets set out in paragraph BC175 by:

(a) emphasising that the creditors of the entity should not have access to the assets held by the fund, even on bankruptcy of the reporting entity; and

(b) deleting condition (c), so that the existence of a legal or constructive obligation to pay the employee benefits directly does not preclude a net presentation, and modifying condition (b) to explicitly permit the fund to reimburse the entity for paying the long-term employee benefits.

BC185 When an entity retains a direct obligation to the employees, IASC acknowledged that the net presentation was inconsistent with the derecognition requirements for financial instruments in IAS 39[8] and with the offsetting requirements in IAS 32. However, in IASC's view, the restrictions on the use of the assets created a sufficiently strong link with the employee benefit obligations that a net presentation was more relevant than a gross presentation, even if the entity retained a direct obligation to the employees.

BC186 IASC believed that such restrictions were unique to employee benefit plans and did not intend to permit this net presentation for other liabilities if the conditions then in IAS 32 and IAS 39 were not met. Accordingly, condition (a) in the new definition refers to the reason for the existence of the fund. IASC believed that an arbitrary restriction of this kind was the only practical way to permit a pragmatic exception to IASC's general offsetting criteria without permitting an unacceptable extension of this exception to other cases.

BC187 In some plans in some countries, an entity is entitled to receive a reimbursement of employee benefits from a separate fund, but the entity has discretion to delay receipt of the reimbursement or to claim less than the full reimbursement. Some argue that this element of discretion weakens the link between the benefits and the reimbursement so much that a net presentation is not justifiable. They believe that the definition of plan assets should exclude assets held by such funds and that a gross approach should be used in such cases. IASC concluded that the link between the benefits and the reimbursement was strong enough in such cases that a net approach was still appropriate.

BC188 IASC's proposal for extending the definition of plan assets was set out in exposure draft E67 *Pension Plan Assets*, published in July 2000. The vast majority of the 39 respondents to E67 supported the proposal.

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8 In November 2009 and October 2010 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all items within the scope of IAS 39. This paragraph refers to matters relevant when IAS 19 was issued.

BC189 A number of respondents to E67 proposed a further extension of the definition to include particular insurance policies that have similar economic effects to funds whose assets qualify as plan assets under the revised definition proposed in E67. Accordingly, IASC extended the definition of plan assets to include some insurance policies (described in IAS 19 as qualifying insurance policies) that satisfy the same conditions as other plan assets. These decisions were implemented in amendments to IAS 19 approved by IASC in October 2000.

BC190 A qualifying insurance policy is not necessarily an insurance contract as defined in IFRS 4 *Insurance Contracts*.

Plan assets—measurement

BC191 IAS 19 before its revision in 1998 stated that plan assets are valued at fair value, but did not define fair value. However, other International Accounting Standards defined fair value as 'the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction'.[9] This might be taken to imply that no deduction is made for the estimated costs that would be necessary to sell the asset (in other words, it is a mid-market value, with no adjustment for transaction costs). However, some argue that a plan will eventually have to dispose of its assets in order to pay benefits. Consequently, IASC concluded in E54 that plan assets should be measured at market value. Market value was defined, as in IAS 25 *Accounting for Investments*,[10] as the amount obtainable from the sale of an asset, in an active market.

BC192 Some commentators on E54 felt that the proposal to measure plan assets at market value would not be consistent with IAS 22 *Business Combinations*[11] and with the measurement of financial assets as proposed in the discussion paper *Accounting for Financial Assets and Financial Liabilities* published by IASC's Financial Instruments Steering Committee in March 1997. Consequently, IASC decided that plan assets should be measured at fair value.

BC193 Some argue that concerns about volatility in reported profit should be countered by permitting or requiring entities to measure plan assets at a market-related value that reflects changes in fair value over an arbitrary period, such as five years. IASC believed that the use of market-related values would add excessive and unnecessary complexity and that the combination of the 'corridor' approach to actuarial gains and losses with deferred recognition outside the 'corridor' was sufficient to deal with concerns about volatility.[12]

9 IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value, describes the effect transaction costs have on a fair value measurement and addresses the application of bid and ask prices when measuring fair value.

10 Superseded by IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 40 *Investment Property*. In November 2009 and October 2010 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all items within the scope of IAS 39. This paragraph refers to matters relevant when IAS 19 was issued.

11 IAS 22 was withdrawn in 2004 and replaced by IFRS 3 *Business Combinations*.

12 The amendments made in 2011 eliminated the 10 per cent corridor from IAS 19.

BC194 IASC decided that there should not be a different basis for measuring investments that have a fixed redemption value and those that match the obligations of the plan, or specific parts thereof. IAS 26 *Accounting and Reporting* by Retirement Benefit Plans permits such investments to be measured on an amortised cost basis.

Reimbursements: amendments issued in 2000

BC195 Paragraph 48 states that an entity recognises its rights under an insurance policy as an asset if the policy is held by the entity itself. IAS 19 before the amendments made in 2000 did not address the measurement of these insurance policies. The entity's rights under the insurance policy might be regarded as a financial asset. However, rights and obligations arising under insurance contracts are excluded from the scope of IAS 39.[13] In addition, IAS 39 does not apply to 'employers' rights and obligations under employee benefit plans, to which IAS 19 *Employee Benefits* applies'. Paragraphs 46–49 discuss insured benefits in distinguishing defined contribution plans and defined benefit plans, but this discussion does not deal with measurement.

BC196 In reviewing the definition of plan assets (see paragraphs BC178–BC190), IASC reviewed the treatment of insurance policies that an entity holds in order to fund employee benefits. Even under the revised definition adopted in 2000, the entity's rights under an insurance policy that is not a qualifying insurance policy (as defined in the 2000 revision of IAS 19) are not plan assets.

BC197 In 2000 IASC introduced recognition and measurement requirements for reimbursements under such insurance policies (see paragraphs 116–119). IASC based those requirements on the treatment of reimbursements under paragraphs 53–58 of IAS 37. In particular, IAS 19 requires an entity to recognise a right to reimbursement of post-employment benefits as a separate asset, rather than as a deduction from the related obligations. In all other respects (for example, the treatment of actuarial gains and losses), the standard requires an entity to treat such reimbursement rights in the same way as plan assets. This requirement reflects the close link between the reimbursement right and the related obligation.

BC198 Paragraph 115 states that where plan assets include insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the plan's rights under those insurance policies are measured at the same amount as the related obligations. Paragraph 119 extends that conclusion to insurance policies that are assets of the entity itself.

BC199 IAS 37 states that the amount recognised for the reimbursement should not exceed the amount of the provision. Paragraph 116 contains no similar restriction, because the limit in paragraph 64 already applies to prevent the recognition of a net defined benefit asset that exceeds the asset ceiling.

13 In November 2009 and October 2010 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all items within the scope of IAS 39. This paragraph refers to matters relevant when IAS 19 was issued.

Defined benefit plans—presentation of assets and liabilities

BC200 IASC decided not to specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits, because such a distinction may sometimes be arbitrary.

Defined benefit plans—presentation of defined benefit cost: amendments issued in 2011

BC201 The amendments made in 2011 do not specify how an entity should present the service cost and net interest components in profit or loss. Instead, an entity is required to present them in accordance with the requirements of IAS 1 *Presentation of Financial Statements*, consistently with IAS 19 before the amendments made in 2011.

BC202 The Board also considered:

(a) requiring the net interest component to be included in the finance cost line item of IAS 1, as proposed in the 2010 ED. However, if the Board had adopted this approach, it would have needed to consider whether the requirement would apply when the net interest component represents income because IAS 1 requires only finance cost and not finance income to be presented separately. The Board would also have needed to consider in due course whether it should apply similar treatment to amounts related to the passage of time in other projects, such as revenue recognition, insurance contracts and leases. The Board concluded that this would be beyond the scope of the project and that it should consider this aspect of presentation in the statement of profit or loss and other comprehensive income more broadly as part of the financial statement presentation project.

(b) amending IAS 1 to require a separate line item for the net interest component or to require presentation of a line item that would combine service cost and net interest. The Board concluded that although these amounts would be material to many entities, there is no reason to single out post-employment benefits for special treatment in the statement of profit or loss and other comprehensive income. If an entity thinks that information about pensions is sufficiently important to the users of its financial statements, IAS 1 already permits that entity to provide disaggregated information in the performance statements. The Board would also have had to consider the implications of adding mandatory line items to IAS 1 if the entity presented its expenses by function. The Board concluded that this was beyond the scope of the project.

Defined benefit plans—disclosures: amendments issued in 2011

BC203 The amendments made in 2011 updated the disclosure requirements, because of concerns:

(a) that the disclosures required by the previous version of IAS 19 did not enable users of financial statements to understand the financial effect of liabilities and assets arising from defined benefit plans on the financial statements as a whole.

(b) that the volume of disclosures about defined benefit plans in many financial statements risked reducing understandability and usefulness by obscuring important information. This concern was particularly pronounced for multinational entities that have many varied plans in many jurisdictions.

BC204 The disclosure amendments made in 2011 related to:

(a) disclosure objectives (paragraphs BC212–BC214).

(b) the characteristics of the defined benefit plan and amounts in the financial statements (paragraphs BC215–BC228).

(c) the amount, timing and uncertainty of the entity's future cash flows (paragraphs BC229–BC243).

(d) multi-employer defined benefit plans (paragraphs BC245–BC252).

BC205 Paragraph BC244 discusses disclosures considered but rejected by the Board.

BC206 In reviewing the disclosure requirements, the Board considered:

(a) the comment letters on the discussion paper and the 2010 ED.

(b) publications from other bodies interested in financial reporting, including the Pro-active Accounting Activities in Europe (PAAinE) discussion paper *The Financial Reporting of Pensions*; the UK Accounting Standards Board (ASB) Reporting Statement *Retirement Benefits – Disclosures*; and FASB Staff Position No.132(R) *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)–1).

(c) proposals from the Investors Technical Advisory Committee (ITAC) of the FASB for a 'principle-based' disclosure framework, and a draft discussion paper on the disclosure of information in financial statements, prepared by the staff of the Canadian Accounting Standards Board (AcSB).

(d) advice received from the Global Preparers' Forum and the Board's Analyst Representative Group and Employee Benefits Working Group.

(e) the need to update the disclosure requirements in IAS 19 to reflect developments in IFRSs on disclosures, in particular IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*.

The Board's approach to disclosures about defined benefit plans

BC207 The Board sought an approach that:

(a) provides sufficient disclosures about defined benefit plans when those plans are material to the entity's operations.

(b) provides users of financial statements with relevant information that is not obscured by excessive detail.

BC208 Accordingly, the amendments made in 2011 introduced explicit objectives for disclosures about defined benefit plans.

BC209 In developing the proposals in the 2010 ED, the Board noted that entities must comply with the general materiality requirements in paragraphs 17(c) and 31 of IAS 1, including the requirement to disclose additional information if necessary, and that the financial statements need not contain disclosures that are not material.

BC210 However, some respondents were concerned that entities might have difficulty in exercising judgement when assessing the materiality of disclosures because:

(a) there is no universal quantitative criterion for defined benefit plans for separating material disclosure items from immaterial ones; and

(b) the notion of materiality seems best suited to a binary decision (whether to provide or omit a particular disclosure) and is not well suited to determining the extent of disclosure required to meet a disclosure requirement or to determining the overall balance with other disclosure requirements.

BC211 Although many respondents supported the inclusion of disclosure objectives, they believed that supplementing the objectives with an extensive list of disclosure requirements would not achieve the result that the Board intended. Many supported a principle-based approach to disclosure that would put more emphasis on meeting the disclosure objectives. Some suggested that it would be better if the Board supported the disclosure objectives through the use of 'encouraged but not required' disclosures or by including examples illustrating the application of the disclosure objectives in different circumstances. In response to these concerns the Board included a requirement that an entity should consider the level of disclosure necessary to satisfy the disclosure objectives and how much emphasis to place on each requirement.

Selecting disclosure objectives

BC212 The Board considered whether it should require the same disclosure objectives for defined benefit plans as for long-term financial instruments and insurance contracts. All three expose the entity to similar risks, including risks that the ultimate cost of settling the liability may vary from the amount estimated and risks arising from the complexity of measuring the liability. Many respondents stated that the disclosures in IAS 19 do not provide users of financial statements with the information about risk that is provided for other assets and liabilities. However, the Board concluded that much of the information required by IFRS 7 and IFRS 4 *Insurance Contracts* for assets would be unnecessary in depicting an entity's involvement with a defined benefit plan because:

(a) the entity may not manage plan assets directly and may not have an unrestricted ability to access the economic benefits from those assets. Thus, plan assets differ from assets held directly by the entity. Consequently, disclosures about market risk and credit risk of plan assets are less relevant than for assets an entity holds directly. Moreover, an entity may have limited information about them.

(b) liquidity risk arises from the timing and amount of contributions that the entity is required to make to the plan and not from the need to meet directly the payments required by the defined benefit obligation.

BC213 Accordingly, the Board focused the disclosure objectives in IAS 19 on the matters most relevant to users of the employer's financial statements, ie information that:

(a) explains the characteristics of the defined benefit plans.

(b) identifies and explains the amounts in the financial statements arising from the defined benefit plans.

(c) describes how involvement in defined benefit plans affects the amount, timing and uncertainty of the entity's future cash flows.

BC214 In response to suggestions by respondents, the Board included a requirement for entities to disclose additional information if required to meet the disclosure objectives.

Characteristics of the defined benefit plan and amounts in the financial statements

BC215 The disclosures about the characteristics of defined benefit plans and the amounts in the financial statements arising from defined benefit plans are based on those in IAS 19 before the amendments made in 2011 with the following changes:

(a) additional information about exposure to risk (paragraphs BC216–BC218);

(b) distinguishing between actuarial gains and losses arising from demographic and financial assumptions (paragraph BC219);

(c) not requiring an entity to distinguish between plan amendments, curtailments and settlements if they occur together (paragraph BC220);

(d) stating a principle for the disaggregation of plan assets rather than listing the categories required (paragraphs BC221–BC226); and

(e) stating a principle for the disclosure of significant actuarial assumptions rather than listing the assumptions required to be disclosed (paragraphs BC227 and BC228).

Exposure to risk

BC216 The amendments in 2011 require entities to provide a narrative description of exposure to risk arising from their involvement with the plan. The 2010 ED proposal for additional disclosure regarding risk was in response to requests from users.

BC217 Some respondents to the 2010 ED suggested limiting the narrative disclosure about risk to any risks that are specific to the entity, or that are unusual, so that it does not result in boilerplate disclosure regarding generic risks to which all entities with defined benefit plans are exposed.

BC218 The Board agreed with respondents that requiring disclosure of all material risks would result in extensive generic disclosures that would not be particularly useful. However, in the Board's view it would not be practical to limit the disclosure to risks that are specific or unusual without providing a clear definition of those terms. Instead, the amendments in 2011 require an entity to focus the disclosure on risks that the entity judges to be significant or unusual.

Actuarial gains and losses arising from demographic and financial assumptions

BC219 The amendments made to IAS 19 in 2011 require entities to disclose the effect of changes in demographic assumptions separately from the effect of changes in financial assumptions. Some respondents to the 2010 ED stated that this separation would be arbitrary because of the interrelationships between some actuarial assumptions, particularly between financial assumptions. For example, discount rates may be correlated with inflation rates. However, the Board observed that, in general, financial assumptions are less intertwined with demographic assumptions than with other financial assumptions. Thus, the Board concluded that it would not be unduly difficult to distinguish the effects of changes in financial assumptions from the effects of changes in demographic assumptions.

Plan amendments, curtailments and settlements

BC220 The amendments made in 2011 retain similar disclosure for plan amendments, curtailments and settlements. However, the Board agreed with the views of respondents to the 2010 ED that when plan amendments, curtailments and settlements occur together, requiring entities to distinguish them for disclosure would be excessive. Therefore, the amendments do not require an entity to distinguish them when they occur together.

Plan assets

BC221 The amendments made in 2011 replace the minimum list of categories for the disaggregation of plan assets with a requirement to disaggregate the fair value of the plan assets:

(a) into assets that have a quoted price in an active market and assets that do not; and

(b) into classes that distinguish the risk and liquidity characteristics of those assets.

BC222 In addition to stating the principle for the disaggregation, the 2010 ED proposals would have required an entity to distinguish, at a minimum, debt instruments and equity instruments that have a quoted market price in an active market from those that do not. The proposals also specified a list of minimum categories into which an entity should disaggregate plan assets (based on the categories in IAS 19 at that time).

BC223 Respondents to the 2010 ED agreed with the principle of the disaggregation, but noted that the proposed minimum categories may not always meet that principle. The Board agreed with respondents that entities should focus on the principle of the disclosure: to disaggregate plan assets into classes that distinguish the risk and liquidity characteristics of those assets. In support of that principle, the amendments provide a list of example categories that would allow entities to adapt their disclosures to the nature and risks of the assets in their plans.

BC224 Some respondents also had concerns about the requirement to distinguish assets that have a quoted market price from those that do not. They indicated that disaggregating debt and equity instruments into those that have a quoted market price and those that do not would result in extensive disclosures that would be unlikely to add much to the understandability of the financial statements. However, users have requested information about the level of measurement uncertainty in items measured at fair value, such as the fair value hierarchy in IFRS 13. Therefore, the Board retained the proposal to disaggregate debt and equity instruments into those that have a quoted market price and those that do not.

BC225 In coming to this conclusion, the Board noted that this disaggregation requirement would be less onerous than the requirement in IFRS 13 to disaggregate on the basis of a three-level hierarchy.

BC226 Some hold the view that entities should disclose disaggregated information about how they invest plan assets. However, the Board concluded that extensive disaggregated information about plan assets is not necessary for users of the employer entity's financial statements because the entity does not hold those assets directly. Similarly, the Board concluded that for plan assets the disclosures about fair value required by IFRS 13 would not be relevant.

Actuarial assumptions

BC227 The amendments made in 2011 replace the previous mandatory list of actuarial assumptions with a requirement to disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation.

BC228 The Board did not specify particular assumptions for which disclosure is required, because particular disclosures may not be needed in every case to meet the disclosure objectives. Indeed, such disclosures may obscure important information with excessive detail. Accordingly, the 2010 ED proposed an approach in which entities would use judgement to determine which actuarial assumptions require disclosure. Respondents to the 2010 ED generally supported this proposal.

Amount, timing and uncertainty of future cash flows

BC229 The amendments made in 2011 improve the required disclosures about the amount, timing and uncertainty of future cash flows in the following respects:

(a) information about asset-liability matching strategies (paragraphs BC230–BC234);

(b) sensitivity analysis (paragraphs BC235–BC239); and

(c) information about the funding and duration of the liability (paragraphs BC240–BC243).

Asset-liability matching strategies

BC230 The amendments made in 2011 require an entity to disclose information about its asset-liability matching strategy.

BC231 In developing the proposals in the 2010 ED, the Board considered requiring entities to discuss their strategies for mitigating risks arising from defined benefit plans. However, the Board concluded that such a requirement would result in generic disclosure that would not provide enough specific information to be useful to users of financial statements. Nonetheless, in the Board's view, information about an entity's use of asset-liability matching strategies, or about the use of techniques such as annuities or longevity swaps to manage longevity risk, would provide additional information on how the entity manages the risk inherent in its defined benefit plan. Accordingly, the 2010 ED proposed a requirement to disclose information about these items.

BC232 Respondents' views on the proposals regarding asset-liability matching strategies were mixed. Some respondents to the 2010 ED supported the disclosure, whereas others expressed the view that it should be part of a broader disclosure regarding risk management and investment strategy or that it should be removed altogether. Those who believed that it should be part of a broader discussion about risks suggested linking the disclosure with the requirement to describe the nature of risks to which the plan exposes the entity, by requiring the entity to describe how it manages those risks. Respondents also noted that the disclosure could be better integrated with the disclosures on plan assets. Respondents that did not support the asset-liability matching disclosure were concerned that:

(a) any disclosure of strategy would be generic and boilerplate;

(b) a user would be able to perform a better assessment using the disclosures on plan assets and on defined benefit obligations (ie the results of such a strategy are more relevant than a narrative discussion); and

(c) the requirement might be interpreted as implying that all entities should be performing asset-liability matching.

BC233 In the Board's view, disclosure about the asset-liability matching strategy may be more useful than disclosure about the general investment strategy because an asset-liability matching strategy aims to match the amount and timing of cash inflow from plan assets with those of cash outflow from the defined benefit obligation.

BC234 The amendments require the entity to disclose details of asset-liability matching strategies used by the plan or the entity, if any, and do not intend to imply that all plans or entities should be performing asset-liability matching.

Sensitivity analysis

BC235 The amendments made in 2011 require an entity to disclose how the effect of reasonably possible changes to significant actuarial assumptions affect the defined benefit obligation.

BC236 Users of financial statements have consistently emphasised the fundamental importance of sensitivity analyses to their understanding of the risks underlying the amounts recognised in the financial statements.

BC237 In the Board's view, a sensitivity analysis on the net defined benefit liability (asset) would be more useful than a sensitivity analysis on the defined benefit obligation only. However, the Board concluded that a sensitivity analysis on the net defined benefit liability (asset) should not be required because, for example, showing how the fair value of equities would respond to changes in the assumptions used to measure the present value of the defined benefit obligation would be complex and difficult to perform.

BC238 The Board proposed in the 2010 ED a sensitivity analysis for service cost showing how the service cost would have varied in response to changes in assumptions that were reasonably possible at the beginning of the period. Many respondents did not see the relevance of disclosing how the effect of a change to an assumption at the beginning of the reporting period would have affected current service cost. The Board agreed with this view and consequently withdrew that proposal.

BC239 Respondents expressed the following concerns about the sensitivity analysis on the defined benefit obligation:

(a) The sensitivity disclosure would not take into account the correlations between various actuarial assumptions. Some respondents suggested that a scenario analysis would be more useful. The Board concluded that, although a scenario analysis could provide more useful information, the complexity and cost of producing the information would outweigh the benefits.

(b) Some respondents were concerned that carrying out a series of sensitivity analyses on several actuarial assumptions would be onerous. Some requested that the sensitivity analysis should be limited to the assumptions that have a significant effect on the financial statements, such as the discount rate. The Board agreed with these respondents that in many cases the discount rate would be one of the most significant assumptions. However, depending on the plan and other facts and circumstances, other assumptions might be significant. The 2010 ED proposed that the sensitivity analysis should apply only to 'significant actuarial assumptions'. Consequently, the Board confirmed that proposal.

(c) Some respondents raised a concern that a 'reasonably possible' change is open to subjectivity and suggested that IAS 19 should specify a quantitative range. However, although setting the range to a particular percentage might improve comparability, the Board was concerned that a quantitative range might not reflect the reasonably possible ranges in different circumstances. The Board noted that requiring sensitivity on the basis of changes in the relevant actuarial assumption that were 'reasonably possible' at that date is consistent with the sensitivity disclosure requirements of other standards, such as IFRS 7.

Information about the funding and duration of the liability

BC240 The amendments made in 2011 require an entity to disclose:

(a) a narrative description of any funding arrangement and funding policy;

(b) the amount of expected contribution in the next year (carried forward from the previous version of IAS 19); and

(c) information about the maturity profile of the obligation, including the weighted average duration.

BC241 To provide users with information about the effect of a defined benefit plan on an entity's future cash flow, the 2010 ED proposed that an entity should discuss the factors that may cause contributions to differ from service cost. However, many respondents suggested that a disclosure about the effect of a defined benefit plan on an entity's future cash flows should instead focus on:

(a) the funding arrangement and funding policy; and

(b) the amount and timing of expected contributions and benefit payments.

BC242 In the Board's view, the disclosures suggested by respondents will be more relevant to users in assessing the risk related to changes in contribution and forecasting how much cash outflow will be incurred to cover the employee benefits than the proposal in the 2010 ED, discussed further in paragraph BC244(d).

BC243 Accordingly, the Board concluded that disclosing when, on average, the liabilities of a defined benefit plan mature would help users to understand the profile of cash flows required to meet the obligation. The Board considered requiring entities to disclose a maturity analysis of the obligation but, because the cost of such a disclosure might be onerous, the Board concluded that an entity should be required to disclose only the weighted average duration of the obligation. However, the amendments include a maturity analysis as an example of additional disclosures that could meet the disclosure objectives. The disclosure of the average duration provides information similar to the maturity analysis and will enhance the usefulness of other disclosures, such as the disclosure of actuarial assumptions dependent on the duration.

Other disclosures considered but rejected by the Board

BC244 The Board also considered, but rejected, requiring disclosure of:

(a) *actuarial assumptions and the process used to determine them*—the 2010 ED proposed that if the disclosure of demographic assumptions (such as mortality) would be difficult to interpret without additional demographic information, the entity should explain how it made those actuarial assumptions. Few respondents supported that proposal. Respondents commented that the disclosure would lead to boilerplate descriptions that would not be particularly helpful and that users rely on the entity, its actuaries and auditors to ensure that the demographic assumptions are reasonable. The Board agreed with these views and withdrew the proposal.

(b) *an alternative measure of the long-term employee benefit liability*—the 2010 ED proposed that entities should disclose the defined benefit obligation, excluding projected growth in salaries (sometimes referred to as the accumulated benefit obligation). Many respondents said that the relevance of such a disclosure would vary by country and by plan and that it would be inappropriate to require a disclosure simply because it would be relevant to some users in limited circumstances. The Board agreed with those respondents and withdrew the proposal.

(c) *disaggregation of the defined benefit obligation*—some respondents suggested that instead of the proposed disclosure as described in paragraph BC244(b), a more relevant disclosure would be a disaggregation of the defined benefit obligation showing, for example, vested benefits, accrued but unvested benefits, future salary increases, other constructive obligations and amounts owing to active members, deferred members and pensioners. The Board concluded that disaggregating the defined benefit obligation to distinguish components with different risk characteristics, as suggested by some respondents, would better meet the disclosure objectives, but requiring any particular disaggregation would be costly for preparers. However, disaggregation of the defined benefit obligation is included as an example of additional information that an entity may provide in order to meet the disclosure objectives.

(d) *factors that may cause contributions to differ from service cost*—in the Board's view, information about the effect of a surplus or deficit on the timing and amount of an entity's contributions is useful. Consequently, the 2010 ED proposed disclosure of factors that could cause contributions over the next five years to differ from current service cost. Many respondents did not support that proposal, observing that an entity's cash flows would be determined by funding requirements and not by the service cost as determined in accordance with IAS 19. Consequently, a discussion of those factors would not be relevant to a user's understanding of the entity's cash flows. The Board agreed with those respondents and withdrew the proposal.

(e) *historical information*—the amendments made in 2011 deleted the previous requirement to disclose historical information over five years about amounts in the statement of financial position and experience adjustments. The Board concluded that this requirement provided information about the defined benefit plan that was already available in previous financial statements and therefore was redundant.

Multi-employer plans

BC245 The amendments made in 2011 require disclosures for multi-employer defined benefit plans based on those in the previous version of IAS 19 with the following additional disclosure:

(a) qualitative information about any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan (paragraphs BC247–BC249).

(b) the expected contribution for the next annual period (paragraph BC250).

(c) the level of participation in a multi-employer plan (paragraphs BC251 and BC252).

BC246 In the Board's view, entities participating in a defined benefit multi-employer plan face greater risks than other entities: for example, risks that result from actions by other participants in the plan. Respondents to the discussion paper expressed the view that the disclosures in IAS 19 were insufficient to inform users about the potential effect on the amount, timing and uncertainty of future cash flows associated with an entity's participation in multi-employer defined benefit plans. Accordingly, the 2010 ED proposed additional disclosures about participation in a multi-employer plan and respondents generally welcomed those proposals.

Withdrawal obligations

BC247 IAS 37 requires an entity to disclose information about contingent liabilities and IAS 19 notes that contingent liabilities may arise from an entity's participation in a multi-employer plan. The Board identified two cases in which such information may be relevant, namely withdrawal from the plan and the wind-up of a plan. In the Board's view, disclosure of the withdrawal liability should be limited to qualitative information, for the following reasons:

(a) If an entity is not committed to withdrawing from the plan, the plan is not committed to being wound up or a withdrawal liability has not been agreed between the entity and the plan, determining the withdrawal liability would be difficult. Furthermore, additional measurement requirements would have to be developed as well as further disclosure about the assumptions used.

(b) Withdrawal is not always an option for an entity. However, the Board decided that an entity should disclose whether it is unable to withdraw from a plan because that would be useful information for a user of the financial statements.

(c) The cost of obtaining the information would make the disclosure onerous if it were required for all entities in all circumstances. Moreover, an entity may be unable to obtain the information.

BC248 Some respondents stated that disclosure of a withdrawal liability should not be required because different plans or jurisdictions use different assumptions to determine the withdrawal amount, and therefore the amounts are not comparable. The Board did not agree with that view. The amount required to withdraw from a plan faithfully represents the obligation, whether that amount is determined on the same basis as for another plan or on a different basis. If the amounts are determined on the basis of different underlying requirements, the actual amounts required to withdraw will differ.

BC249 The Board noted that if it is probable that the entity will withdraw from the plan, any additional liability should be recognised and measured under IAS 37. This requirement was implicit in IAS 19, but the Board made it explicit in the amendments made in 2011. Requiring entities to recognise an additional liability when it is probable that the entity will withdraw from the plan also converges with similar requirements in US GAAP.

Future contributions

BC250 The Board agreed with respondents' views that the proposal in the 2010 ED for an entity to disclose the contributions for the next five years would require estimates that may be difficult to determine and very subjective. Thus the Board aligned this disclosure with the general requirement for defined benefit plans, which requires an entity to disclose the expected contribution for a defined benefit plan for the next annual period. The Board confirmed the proposal in the ED for a narrative description of any funding arrangement and funding policy. That requirement is consistent with the requirement for single employer defined benefit plans.

Level of participation

BC251 The amendments made in 2011 require an entity that accounts for its participation in a multi-employer defined benefit plan as a defined contribution plan to disclose an indication of the level of its participation in the plan compared with other plan participants. Together with information about the whole plan, that disclosure provides information about the effect of any surplus or deficit on the amount, timing and uncertainty of an entity's future cash flows.

BC252 The Board provided examples of measures that might indicate the entity's level of participation, but did not specify a particular measure because a single measure may not be relevant in all cases.

Other long-term employee benefits

Death-in-service benefits

BC253 E54 proposed guidance on cases where death-in-service benefits are not insured externally and are not provided through a post-employment benefit plan. IASC concluded that such cases will be rare. Accordingly, IASC deleted the guidance on death-in-service benefits.

Termination benefits: amendments issued in 2011

BC254 The proposals in the 2005 ED proposed to align the accounting for termination benefits with the requirements in FASB Accounting Standards Codification (ASC) topic 420 *Exit or Disposal Cost Obligations* (FASB ASC Topic 420), relating to 'one-time termination benefits' and FASB ASC Topic 712 *Compensation—Nonretirement Postemployment Benefits*, relating to 'special termination benefits'. The Board acknowledged that differences with US GAAP would remain following the introduction of these amendments. Nonetheless, the Board believed that the proposed amendments would converge with some US GAAP requirements and would improve the accounting for termination benefits. The proposals for termination benefits complemented proposed amendments to the requirements on restructurings in IAS 37 in the 2005 ED. The Board received 123 comment letters in response to the proposals in the 2005 ED.

BC255 The Board considered the following:

(a) benefits payable in exchange for future service (see paragraphs BC256 and BC257);

(b) recognition of termination benefits (see paragraphs BC258–BC260);

(c) measurement of termination benefits (see paragraph BC261); and

(d) interaction with restructuring costs, plan amendments, curtailments and settlements (see paragraphs BC262–BC268).

Benefits payable in exchange for services

BC256 IAS 19 requires an entity to account for termination benefits separately from other employee benefits, because the event that gives rise to a present obligation is the termination of employment rather than employee service. In contrast, FASB ASC Topic 420 regards some involuntary termination benefits as being provided in exchange for employees' future services (or, expressed another way, a 'stay bonus'). In such cases under US GAAP, an entity recognises the cost of those benefits over the period of the employees' service, consistently with the accounting for other employee benefits.

BC257 In the 2005 ED, the Board proposed that IAS 19 should specify recognition requirements for an entity providing termination benefits in exchange for future service, consistent with Topic 420. However, when finalising the amendments made in 2011, the Board noted the potential for confusion caused by accounting for some benefits provided in exchange for future service as termination benefits. The Board concluded that treating benefits provided in exchange for future service as short-term or other long-term employee benefits or post-employment benefits would result in the same recognition as is required under Topic 420 (ie the cost of those benefits would be recognised over the period of service), and would maintain the existing distinction between benefits provided in exchange for termination of employment and benefits provided in exchange for services.

Recognition

BC258 IAS 19 before the amendments made in 2011 specified that an entity should recognise termination benefits when the entity was demonstrably committed to providing those benefits. In revisiting that conclusion, the Board considered the following circumstances:

(a) an offer of termination benefits that an entity can withdraw at its own discretion before acceptance by the employee.

(b) an offer of termination benefits that an entity cannot withdraw, including benefits provided as a result of an entity's decision to terminate an employee's employment (ie if the employee has no choice but to accept what is given).

BC259 The Board decided that the factor determining the timing of recognition is the entity's inability to withdraw the offer of termination benefits. In the circumstances in (a) this would be when the employee accepts the offer and in the circumstances in (b) this would be when the entity communicates a termination plan to the affected employees. The Board concluded that until these events occur the employer has discretion to avoid paying termination benefits and, therefore, a liability does not exist.

BC260 The criteria in Topic 420 relating to the termination plan are similar to the criteria in IAS 19 before the amendments made in 2011 for establishing whether an entity is demonstrably committed to a termination plan and, therefore, should recognise termination benefits. However, there was no requirement in that version of IAS 19 to communicate the plan of termination to employees. The Board added a requirement specifying that an entity does not have a present obligation to provide termination benefits until it has communicated its plan of termination to each of the affected employees. The Board also replaced the criteria in IAS 19 relating to the plan of termination with those in Topic 420. Although those criteria were very similar, the Board concluded that it would be better if they were identical.

Measurement

BC261 IAS 19 before the amendments made in 2011 required termination benefits that become due more than twelve months after the reporting date to be discounted, but provided no further measurement guidance. The Board amended the standard to state explicitly that the measurement of termination benefits should be consistent with the measurement requirements for the nature of the underlying benefits.

Interaction between plan amendments, curtailments, settlements, termination benefits and restructuring costs

BC262 In finalising the amendments made in 2011, the Board decided that an entity should:

(a) recognise a plan amendment or curtailment when it occurs (paragraphs BC154–BC159); and

(b) recognise termination benefits when the entity can no longer withdraw the offer of those benefits (paragraphs BC258–BC260).

BC263 Respondents to the 2010 ED were concerned about the accounting interactions between plan amendments, curtailments, settlements, termination benefits and restructurings because they often occur together, and it could be difficult to distinguish the gain or loss that arises from each transaction if they have different recognition requirements or are included in different components of defined benefit cost. Some respondents to the 2010 ED suggested aligning the timing of recognition of amounts resulting from plan amendments, curtailments, settlements, termination benefits and restructuring if they are related.

BC264 The requirements of IAS 19 before the amendments made in 2011 aligned the timing of recognition for a curtailment with the timing of recognition of a related restructuring, and suggested that when an entity recognises termination benefits the entity may also have to account for a curtailment. The objective of these requirements was to ensure that any gain or loss on curtailment is recognised at the same time as an expense resulting from a related termination benefit, from a restructuring provision or from both. In IAS 19 before the amendments made in 2011 and IAS 37, the recognition criteria for termination benefits and restructuring provisions were very similar and would have resulted in related termination benefits and restructuring being recognised together because both required recognition when an entity was demonstrably committed to the transaction.

BC265 The 2005 ED proposed to amend the timing of recognition of curtailments from being aligned with a related restructuring to being aligned with a related termination benefit. The 2010 ED did not include this amendment because the Board was in the process of finalising the amendments for termination benefits at the time.

BC266 To avoid an inconsistency in the timing of recognition for related transactions, the Board decided that:

(a) past service cost should be recognised at the earlier of:

(i) when the plan amendment occurs; and

(ii) when any related restructuring costs or termination benefits are recognised.

(b) termination benefits should be recognised at the earlier of:

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

(ii) when any related restructuring costs are recognised.

BC267 The Board also considered other approaches, including the proposal in the 2010 ED to align the timing of recognition for a plan amendment or curtailment with a related termination benefit but not with a related restructuring. In the Board's view the amendments made in 2011 have the following benefits over other approaches:

(a) They align the timing of recognition for related transactions for all combinations of curtailments, termination benefits and restructurings (which is consistent with the current requirements).

(b) They include the stand-alone recognition criteria developed for plan amendments and curtailments (ie that the plan amendment will be recognised when it occurs).

BC268 The 2005 ED proposed that the specific recognition criterion for restructuring costs should be withdrawn from IAS 37. If the Board confirms this proposal as part of its future discussion, then the references to the timing of recognition for restructuring costs will become redundant and the timing of recognition for plan amendments and curtailments will be aligned only with the timing of recognition for termination benefits. The Board will review the timing of recognition for restructuring costs when it finalises the amendments to IAS 37 resulting from the 2005 ED.

Transition

BC269 The amendments made in 2011 are to be applied retrospectively in accordance with the general requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with two exceptions:

(a) The carrying amount of assets outside the scope of IAS 19 need not be adjusted for changes in employee benefit costs that were included in the carrying amount before the beginning of the financial year in which the amendments are first applied. Thus entities may recognise previously unrecognised actuarial gains and losses and past service cost by adjusting equity, instead of by allocating part of those adjustments against the carrying amount of assets such as inventories. In the Board's view, such an allocation could have been costly and would have provided little or no benefit to users.

(b) In financial statements for periods beginning before 1 January 2014, an entity need not provide comparatives for the disclosures about the sensitivity of the defined benefit obligation. The Board provided this exemption to provide sufficient lead time for entities to implement the necessary systems.

First-time adopters

BC270 For entities adopting IFRSs for the first time, the amendments made in 2011 are to be applied retrospectively as required by IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The Board included a temporary exemption for entities adopting IFRSs to use paragraph 173(b) for the same reasons as given in paragraph BC269(b).

Early application

BC271 The amendments made in 2011 will improve the accounting and, in particular, the disclosures provided by a reporting entity in relation to its participation in defined benefit plans. In addition, some of the amendments address existing problems in applying IAS 19 in practice. The Board noted that the majority of the amendments made in 2011 are permitted by the previous version of IAS 19. Consequently, the Board permitted early application of all the amendments made in 2011.

Summary of changes from the 2010 ED and 2005 ED: amendments issued in 2011

BC272 The main changes from the 2010 ED are:

(a) The amendments do not specify where in profit or loss an entity should present the net interest component. The 2010 ED proposed that an entity should include the net interest component as part of finance cost in profit or loss.

(b) The amendments require gains and losses on settlement to be included in service cost. The 2010 ED proposed that gains and losses on settlement should be included in remeasurements.

(c) The amendments do not require the following disclosures proposed in the 2010 ED:

  (i) the defined benefit obligation, excluding projected growth in salaries;

  (ii) sensitivity of current service cost to changes in actuarial assumptions; and

  (iii) a description of the process used to determine the demographic actuarial assumptions.

(d) The amendments align the timing of recognition for plan amendments, termination benefits and restructuring costs. The 2010 ED proposed aligning the timing of recognition for plan amendments and termination benefits only.

(e) The amendments do not:

  (i) combine the post-employment and other long-term employee benefit categories, as had been proposed in the 2010 ED.

  (ii) state 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 had been proposed in the 2010 ED.

  (iii) incorporate IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* as had been proposed in the 2010 ED.

BC273 The main changes from the 2005 ED are:

(a) The amendment requires entities to recognise termination benefits when the entity can no longer withdraw an offer of those benefits. The 2005 ED proposed that voluntary termination benefits should be recognised when accepted by the employee, and that involuntary termination benefits should be recognised when the entity has a plan that meets specified criteria.

(b) The amendment clarifies the measurement requirements for termination benefits.

Convergence with US GAAP: amendments issued in 2011

Multi-employer plan disclosures

BC274 In March 2010 the FASB announced a new project to review disclosures about an employer's participation in a multi-employer plan and to develop disclosure requirements that would give better information about the risks that an entity faces by participating in a multi-employer plan. The FASB published a proposed Accounting Standards Update in the second quarter of 2010 with disclosure requirements similar to those relating to multi-employer defined benefit plans. The FASB expects to issue a final Accounting Standards Update in 2011.

Recognition of defined benefit cost

BC275 The amendments made in 2011 result in the measurement of an entity's surplus or deficit in a defined benefit plan in the statement of financial position, consistently with the requirements in US GAAP. Although both US GAAP and IAS 19 require the immediate recognition of changes in the net defined benefit liability (asset), there are differences in where those changes are recognised.

BC276 US GAAP defines net periodic pension cost[14] as comprising current service cost, interest cost on the defined benefit obligation, expected return on plan assets, amortisation of unrecognised prior service cost (if any), gains or losses recognised and amortised after exceeding a specified corridor (if any), amortisation of unrecognised initial net obligation and/or initial net asset. The IAS 19 requirements for the disaggregation of defined benefit cost and recognition of the components of defined benefit cost differ from the requirements in US GAAP as follows:

(a) *Disaggregation of the return on plan assets*—US GAAP distinguishes the expected return on plan assets and the difference between the expected and actual returns. The net interest approach in IAS 19 distinguishes an implied interest income on plan assets and the difference between the implied interest income and actual returns.

(b) *Past service cost*—US GAAP recognises past service cost in other comprehensive income initially, and then reclassifies past service cost from other comprehensive income to profit or loss in subsequent periods. IAS 19 requires past service cost to be included together with current service cost in profit or loss.

(c) *Reclassification*—US GAAP requires the reclassification of amounts recognised in other comprehensive income to profit or loss in subsequent periods. IAS 19 prohibits subsequent reclassification.

14 FASB ASC Section 715-30-20 *Defined Benefit Plans—Pension Glossary*

Termination benefits

BC277 FASB ASC Topic 420 specifies the accounting for a class of termination benefits known as 'one-time termination benefits'. Topic 420 requires an entity to recognise a 'stay bonus' over the period of the employees' service and to recognise other termination benefits when the entity has a plan of termination that meets specified criteria. The amendments made in 2011 distinguish benefits provided in exchange for service and benefits provided in exchange for the termination of employment. A 'stay bonus' would not be classified as a termination benefit under IAS 19 because it is provided in exchange for service and, therefore, would be attributed to periods of service in accordance with paragraph 70 of IAS 19.

BC278 FASB ASC Topic 712 specifies the accounting for a class of termination benefits known as 'special termination benefits'. Topic 712 requires an entity to recognise these special termination benefits when the employees accept the employer's offer of termination benefits. The amendments made to IAS 19 in 2011 are consistent with those requirements. Topic 712 also specifies the accounting for a class of termination benefits known as 'contractual termination benefits'. Topic 712 requires an entity to recognise contractual termination benefits when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. The amendments made in 2011 do not converge with those requirements; instead, IAS 19 requires those benefits to be recognised when an entity can no longer withdraw an offer of those benefits.

BC279 FASB ASC Topic 420 specifies that an entity should measure 'one-time' termination benefits at fair value (or at an amount based on fair value for benefits provided in exchange for future service). The Board did not align the measurement requirements of IAS 19 for termination benefits with those of Topic 420. When an entity provides termination benefits through a post-employment defined benefit plan (for example, by enhancing retirement benefits) the Board concluded that it would be unduly complex to specify that an entity should measure the benefits at fair value. To do so would require the effect of the changes to the plan arising from the termination of employment to be isolated, on a continuous basis, from the remainder of the plan.

Cost-benefit considerations: amendments issued in 2011

BC280 The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. To attain this objective, the Board seeks to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement changes to existing requirements might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

BC281 The evaluation of costs and benefits is necessarily subjective. In making its judgement, the Board considered the following:

(a) the costs incurred by preparers of financial statements.

(b) the costs incurred by users of financial statements when information is not available.

(c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information.

(d) the benefit of better economic decision-making as a result of improved financial reporting.

(e) the costs of transition for users, preparers and others.

BC282 The objective of the amendments made in 2011 is to improve the usefulness of information available to users for their assessment of the amounts, timing and uncertainty of future cash flows arising from defined benefit plans of the entity. However, the Board also considered the cost of implementing the proposed amendments and applying them on a continuous basis. In evaluating the relative costs and benefits of the proposed amendments, the Board was assisted by the information received in meetings with its Employee Benefits Working Group.

BC283 The amendments should improve the ability of users to understand the financial reporting for post-employment benefits by:

(a) reporting changes in the carrying amounts of defined benefit obligations and changes in the fair value of plan assets in a more understandable way;

(b) eliminating some recognition options that were allowed by IAS 19, thus improving comparability;

(c) clarifying requirements that have resulted in diverse practices; and

(d) improving information about the risks arising from an entity's involvement in defined benefit plans.

BC284 Costs will be involved in the adoption and continuing 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. However, those costs should be minimal because in order to apply the previous version of IAS 19 entities need to obtain much of the information that the amendments require. Consequently, the Board believes that the benefits of the amendments outweigh the costs.

Appendix
Amendments to the Basis for Conclusions on other IFRSs

This appendix contains amendments to the Basis for Conclusions (and related appendices) on other IFRSs that are necessary in order to ensure consistency with IAS 19 and the related amendments to other IFRSs. Amended paragraphs are shown with new text underlined and deleted text struck through.

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The amendments contained in this appendix when IAS 19, as amended in 2011, was issued have been incorporated into the Basis for Conclusions on the relevant IFRSs published in this volume.

Dissenting opinions

Dissent of James J Leisenring and Tatsumi Yamada from the issue in December 2004 of Actuarial Gains and Losses, Group Plans and Disclosures (Amendment to IAS 19)[15]

Mr Leisenring

DO1 Mr Leisenring dissents from the issue of the Amendment to IAS 19 Employee Benefits—*Actuarial Gains and Losses, Group Plans and Disclosures*.

DO2 Mr Leisenring dissents because he disagrees with the deletion of the last sentence in paragraph 40 and the addition of paragraphs 41 and 42. He believes that group entities that give a defined benefit promise to their employees should account for that defined benefit promise in their separate or individual financial statements. He further believes that separate or individual financial statements that purport to be prepared in accordance with IFRSs should comply with the same requirements as other financial statements that are prepared in accordance with IFRSs. He therefore disagrees with the removal of the requirement for group entities to treat defined benefit plans that share risks between entities under common control as defined benefit plans and the introduction instead of the requirements of paragraph 41.

DO3 Mr Leisenring notes that group entities are required to give disclosures about the plan as a whole but does not believe that disclosures are an adequate substitute for recognition and measurement in accordance with the requirements of IAS 19.

Mr Yamada

DO4 Mr Yamada dissents from the issue of the Amendment to IAS 19 Employee Benefits—*Actuarial Gains and Losses, Group Plans and Disclosures*.

DO5 Mr Yamada agrees that an option should be added to IAS 19 that allows entities that recognise actuarial gains and losses in full in the period in which they occur to recognise them outside profit or loss in a statement of recognised income and expense, even though under the previous IAS 19 they can be recognised in profit or loss in full in the period in which they occur. He agrees that the option provides more transparent information than the deferred recognition options commonly chosen under IAS 19. However, he also believes that all items of income and expense should be recognised in profit or loss in some period. Until they have been so recognised, they should be included in a component of equity separate from retained earnings. They should be transferred from that separate component of equity into retained earnings when they are recognised in profit or loss. Mr Yamada does not, therefore, agree with the requirements of paragraph 93D.[16]

15 Cross-references have been updated.

16 The amendments to IAS 19 made in 2011 deleted paragraph 93D.

DO6 Mr Yamada acknowledges the difficulty in finding a rational basis for recognising actuarial gains and losses in profit or loss in periods after their initial recognition in a statement of recognised income and expense when the plan is ongoing. He also acknowledges that, under IFRSs, some gains and losses are recognised directly in a separate component of equity and are not subsequently recognised in profit or loss. However, Mr Yamada does not believe that this justifies expanding this treatment to actuarial gains and losses.

DO7 The cumulative actuarial gains and losses could be recognised in profit or loss when a plan is wound up or transferred outside the entity. The cumulative amount recognised in a separate component of equity would be transferred to retained earnings at the same time. This would be consistent with the treatment of exchange gains and losses on subsidiaries that have a measurement currency different from the presentation currency of the group.

DO8 Therefore, Mr Yamada believes that the requirements of paragraph 93D mean that the option is not an improvement to financial reporting because it allows gains and losses to be excluded permanently from profit or loss and yet be recognised immediately in retained earnings.

Dissent of Jan Engström and Tatsumi Yamada from the issue in June 2011 of IAS 19 as amended

Mr Engström

DO1 Mr Engström voted against the amendments made to IAS 19 in 2011. The project was a limited scope project focused on bringing the full post-employment benefit onto the statement of financial position and on eliminating the corridor approach.

DO2 In Mr Engström's view, during the project it has become increasingly clear that a review of the measurement principles is much needed— something not included in the limited scope of the project. During the recent financial crisis the defined benefit obligation could be as much as 50 per cent higher in one company compared with an identical defined benefit obligation in another company operating in an adjacent country, with basically equal macroeconomic parameters, due to the imperfections in measurement requirements of IAS 19.

DO3 In Mr Engström's view, the amendments to IAS 19 made in 2011 introduce some radical changes from a principle point of view by not requiring some income and expenses truly related to a company's activities ever to be presented in profit or loss, indeed actually prohibiting such presentation. The adjustments of the defined benefit obligation, and of the plan assets, have for many companies been a very significant amount and by presenting income and expenses resulting from these adjustments only in other comprehensive income this project continues the gradual erosion of the concept of profit or loss.

DO4 Mr Engström sees no reason why the remeasurements component could not be subsequently reclassified to profit or loss on a reasonable basis consistently with the assumptions used to measure the defined benefit obligation.

DO5 Mr Engström would favour a comprehensive review of IAS 19, including a review of measurement, and he would prefer presentation to be decided only after the IASB has taken a stance on what profit or loss is, what other comprehensive income is and what should be subsequently reclassified into profit or loss.

DO6 As a consequence of these amendments made to IAS 19, and of the option introduced in IFRS 9 *Financial Instruments*, some material amounts may never be presented in profit or loss. IFRS 9 introduced an option to present some gains and losses on equity instruments not held for trading in other comprehensive income, without subsequent reclassification to profit or loss. In Mr Engström's view, these recent ad hoc decisions push financial reporting de facto towards a single income statement as some matters truly related to a company's activities are never to be presented in profit or loss.

Mr Yamada

DO7 Mr Yamada voted against the amendments made to IAS 19 in 2011.

DO8 Mr Yamada agrees with the Board's view in paragraph BC70 that immediate recognition of all changes in the fair values of plan assets and in the defined benefit obligation in the period in which those changes occur provides information that is more relevant to users of financial statements than the information provided by deferred recognition. Mr Yamada also agrees that immediate recognition provides a more faithful representation of defined benefit plans and is easier for a user to understand.

DO9 However, Mr Yamada does not agree with:

(a) the disaggregation of defined benefit cost (see paragraph DO10);

(b) the definition of net interest and remeasurements of the net defined benefit liability (asset) (see paragraphs DO11–DO14); and

(c) the presentation of remeasurements of the net defined benefit liability (asset) in other comprehensive income (see paragraphs DO15–DO17).

Disaggregation of defined benefit cost

DO10 In Mr Yamada's view the disaggregation of defined benefit cost into components (ie service cost, net interest and remeasurements) in profit or loss and other comprehensive income in paragraph 120 is not consistent with the presentation of plan assets and the defined benefit obligation in the statement of financial position. In his view, to be consistent with the presentation of a single net defined benefit liability (asset) in the statement of financial position, the presentation of changes in the net defined benefit liability (asset) should be a single net amount presented in profit or loss. Therefore, he does not agree with paragraph 134 not to specify how to present service cost and net interest on the net defined benefit liability (asset). He understands the usefulness of disaggregated information, but believes that an appropriate way of providing information on the components of defined benefit cost is to show them in the notes to the financial statements.

Definition of net interest and remeasurements on the net defined benefit liability (asset)

DO11 Mr Yamada sees no principle behind the disaggregation described in paragraph 120 (ie service cost, net interest and remeasurements). In particular, in his view the approach for calculating net interest on the net defined benefit liability (asset) is not an improvement in financial reporting.

DO12 In Mr Yamada's view there is no reason for requiring the component of the return on plan assets presented in profit or loss to be determined using the rate used to discount the defined benefit obligation as is in paragraph 125. He agrees with the respondents' concerns summarised in paragraph BC82 that plan assets may be made up of many different types of investments, and that 'the return on high quality corporate bonds would be arbitrary and would not be a faithful representation of the return that investors require or expect from each type of asset.' Therefore, in his view, it does not provide more useful information to use the rate used to discount the defined benefit obligation in place of the previous requirement to use expected return on plan assets.

DO13 Mr Yamada does not agree that the Board should require 'using the same rate [for plan assets] as the rate used to discount the liability [as] a practical approach that … would not require an entity to make a subjective judgement on how to divide the return on plan assets into an interest component and a remeasurement' (paragraph BC82). He agrees that determining the 'expected return on plan assets' that is used by the previous version of IAS 19 requires judgement by management, but this does not mean that the 'expected return on plan assets' is unreliable. In his view, estimating the 'expected return on plan assets' requires the same degree of judgement as do other accounting estimates.

DO14 In Mr Yamada's view, there is no clear explanation about the nature of the remeasurements component, nor why disaggregation of this amount is appropriate. In the previous version of IAS 19, actuarial gains and losses on plan assets were defined as experience adjustments, ie the effects of differences between the previous actuarial assumptions (the expected return on assets) and what actually occurred. However, paragraph BC86 explains the nature of the remeasurements component as being a residual after determining the service cost and net interest components, and simply restates the definition of remeasurements in paragraph 7.

Presentation of remeasurements in other comprehensive income

DO15 Paragraph BC88 sets out the Board's reasoning that the remeasurement component should be presented in other comprehensive income because 'although changes included in the remeasurements component may provide more information about the uncertainty and risk of future cash flows, they provide less information about the likely amount and timing of those cash flows'. Mr Yamada does not agree with that reasoning because, in his view, the actual return on plan assets provides information about the performance of plan assets during the period, but the disaggregation of the actual return into interest income and a remeasurements component does not provide information about the likely timing and amount of future cash flows. Therefore, in his view, it does not represent faithfully the performance of plan assets if the actual returns on plan assets in excess of the interest income on plan assets are presented in other comprehensive income and not presented in profit or loss when they occur. Instead, all the components should be presented in profit or loss when they occur. Therefore, he does not agree with paragraph 120(c). In his view the amount representing remeasurements does not have a clearly defined characteristic that justifies its presentation in other comprehensive income.

DO16 Mr Yamada notes that the definition of net interest on the net defined benefit liability (asset) results in the difference between the rate used to discount the defined benefit obligation applied to plan assets and the actual return on plan assets being presented in other comprehensive income. To do so eliminates from profit or loss the effects of differences between the actual return on plan assets and the rate applied to the defined benefit obligation. In his view the elimination of these differences introduces a type of smoothing mechanism. Thus, in his view the proposal is not an improvement on the previous version of IAS 19.

DO17 Given that the Board decided to present part of the defined benefit cost (ie remeasurements) in other comprehensive income, he is of the view that the Board should have retained the notion of actuarial gains and losses in the previous version of IAS 19 (paragraphs 93A–93D) rather than introduce a similar but not clearly better new notion of 'remeasurements'. This would mean that the expected return on plan assets is recognised in profit or loss and the difference between the expected return on plan assets and the actual return on plan assets is recognised in other comprehensive income. As stated in paragraph DO15, in Mr Yamada's view, this difference gives better information than the revised remeasurement component.