

IFAC
Public
Sector
Committee

Issued Month 2003
Exposure Draft XX

Response Due Date XX Month 2003

DRAFT ONLY
FOR PSC REVIEW
NOVEMBER 2002
Employee Benefits

**Proposed International Public Sector
Accounting Standard**

Issued for
comment by
the International
Federation of
Accountants



or than Post-employment Benefits

This Exposure Draft was approved by the Public Sector Committee of the International Federation of Accountants.

Acknowledgment

This Exposure Draft of an International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 19 (2002), *Employee Benefits* published by the International Accounting Standards Committee (IASC). The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the IASC. The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB. Extracts from IAS 19 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of the IASB.

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DRAFT ONLY FOR PSC REVIEW PSC November 2002

Commenting on this Exposure Draft

This Exposure Draft of the International Federation of Accountants was prepared by the Public Sector Committee. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard.

Comments should be submitted in writing so as to be received by XX Month 2003. E-mail responses are preferred. Unless respondents to Exposure Drafts specifically request confidentiality, their comments are a matter of public record once a Standard has been issued. Comments should be addressed to:

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INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing a core set of recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs play a key role in enabling these benefits to be realized.

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. ~~The Committee recognizes the right of governments and national standard setters to establish guidelines and accounting standards for financial reporting by the public sector in their jurisdictions.~~ The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

Item 18 has proposed amendments to the "Introduction" to IPSASs to be considered by the PSC. This "introduction" is marked up for one of those proposed amendments.

Due Process and Timetable

An important part of the process of developing IPSASs is for the Committee to receive comments on the proposals set out in these Exposure Drafts from governments, public sector entities, auditors, standard setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the Committee will consider the comments received on the Exposure Draft and may modify each proposed IPSASs in the light of the comments received before proceeding to issue a final Standard.

~~It is anticipated that the complete set of initial Standards will be substantially completed by the end of 2004.~~

Staff amendments based on amendments made to the "Introduction" when considering IPSAS 19 and IPSAS 20.

Purpose of the Exposure Draft

This Exposure Draft proposes to establish requirements for the accounting treatment and disclosure of employee benefits other than post-employment benefits, other long-term employee benefits and equity compensation benefits. The PSC continues to monitor the current IASB work on post-employment benefits and share-based payments with a view to issue a separate Exposure Draft on post-employment benefits, other long-term employee benefits and equity compensation benefits in the future.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by xx Month 2003. The Committee would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in the Exposure Draft. Respondents are also invited to provide detailed comments indicating the specific paragraph number or groups of paragraphs to which they relate, clearly explaining the issue and suggesting alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

In applying IASs to public sector entities, the Committee is aware of the importance of adapting those Standards so that they contribute to improved financial reporting in the public sector. To ensure that outcome is achieved, the Committee would particularly value comment on the proposals to:

- (a) exclude post-employment benefits, other long-term employee benefits and equity compensation benefits from the scope of the IPSAS. The PSC continues to monitor the current IASB work on post-employment benefits and share based payments with a view to issue a separate exposure draft on these subjects in the future.
- (b) include guidance on the recognition and measurement of employee benefits provided in a non-monetary form such as housing, motor cars, medical care and free or subsidized goods and services (paragraphs 14 to 16). The guidance deals with cases where the employees' right to non-monetary benefits:
 - (i) do not accrue in proportion to their period of service and do not accumulate; or
 - (ii) may accrue in proportion to periods of service and/or accumulate over a number of reporting periods;
- (c) include guidance on constructive obligations resulting in the recognition of a liability for termination benefits which is consistent and replicates the provisions of IPSAS 19 in relation to restructuring (paragraphs 37 to 42) or include in the IPSAS a cross reference to IPSAS 19; and
- (d) whether the discount rate described in paragraph 45 of the exposure draft is the appropriate rate for discounting termination benefits obligations of the public sector.

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

Employee Benefits

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits other than post-employment benefits, other long-term benefits and equity compensation benefits. The Standard requires an entity to recognize:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

~~1. This Standard should be applied by an employer in accounting for employee benefits.~~

~~2. This Standard does not deal with reporting by employee benefit plans (see IAS 26, accounting and Reporting by retirement benefit Plans).~~

1. An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for employee benefits other than:

- (a) post-employment benefits;
- (b) other long-term employee benefits
- (c) equity compensation benefits; and

Paras 1 to 3 added by staff.

(d) *employee benefits dealt with in other International Public Sector Accounting Standards*

2. *This Standard applies to all public sector entities other than Government Business Enterprises.*

3. *Government Business Enterprises (GBEs) are required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.*

43. This Standard applies to ~~all~~ employee benefits, including those provided:

- (a) under ~~formal plans or other~~ formal agreements between an entity and individual employees, groups of employees or their representatives;
- (b) under legislative requirements, or through industry arrangements, ~~whereby enterprises are required to contribute to national, state, industry or other multi-employer plans;~~ or
- (c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the enterprise has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the enterprise's informal practices would cause unacceptable damage to its relationship with employees.

45. Employee benefits to which this standard applies include:

- (a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services but not equity compensation benefits) for current employees; and

- ~~(b) — post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;~~
- ~~(c) — other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit sharing, bonuses and deferred compensation;~~
- ~~(db) termination benefits; and~~
- ~~(e) — equity compensation benefits.~~

Because each category identified in (a) ~~to and (cb)~~ above has different characteristics, this Standard establishes separate requirements for each category.

- 56. Employee benefits include benefits provided to either employees or their dependants and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.
- 67. An employee may provide services to an entity on a full time, part time, permanent, casual or temporary basis. For the purpose of this Standard, employees include directors or members of the governing body and other management personnel.

8. ----- This Standard does not apply to:

- (a) ----- post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- (b) ----- other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are payable twelve months or more after the end of the period, profit sharing, bonuses and deferred compensation;
- (c) ----- equity compensation benefits; and

Drafted by staff.

(d) --- employee benefits dealt with in other International Public Sector Accounting Standards.

Definitions

79. *The following terms are used in this Standard with the meanings specified:*

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Short-term employee benefits are employee benefits (other than termination benefits and equity compensation benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits and equity compensation benefits) which are payable after the completion of employment.

Other long-term employee benefits are employee benefits (other than post-employment benefits, termination benefits and equity compensation benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

Termination benefits are employee benefits payable as a result of either:

- (a) an entity's decision to terminate an employee's employment before the normal retirement date; or*
- (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.*

Equity compensation benefits are employee benefits under which either:

- (a) employees are entitled to receive equity financial instruments issued by the enterprise (or its parent); or*
- (b) the amount of the enterprise's obligation to employees depends on the future price of equity financial instruments issued by the entity.*

Staff note that some definitions relating to pension provisions of IAS 19 were omitted (rather than struck through) as they were not relevant to this ED. Definitions added from other IPSASs are marked up.

~~*Equity compensation plans are formal or informal arrangements under which an enterprise provides equity compensation benefits for one or more employees.*~~

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A legal obligation is an obligation that derives from:

(a) a contract (through its explicit or implicit terms);

(b) legislation; or

(c) other operation of law.

Liabilities are present obligations 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 or service potential.

Short-term Employee Benefits

810. Short-term employee benefits include items such as:

- (a) wages, salaries and social security contributions;
- (b) short-term compensated absences (such as paid annual leave and paid sick leave) where the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;

- (c) profit sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and
- (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

911. Accounting for short-term employee benefits is generally straightforward because ~~no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations~~ they are measured on an undiscounted basis.

Recognition and Measurement

All Short-term Employee Benefits

~~1012.~~ *When an employee has rendered service to an entity during an accounting period, the entity should recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:*

- (a) *as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity should recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and*
- (b) *as an expense, unless another International Accounting Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, ~~IAS 2, IPSAS 12~~ Inventories, and ~~IAS 16, IPSAS 17~~ Property, Plant and Equipment).*

Paragraphs ~~117, 14–20~~ and ~~17–24~~ explain how an entity should apply this requirement to short-term employee benefits in the form of compensated absences and profit sharing and bonus plans.

13 ~~-----~~ *In some circumstances, employee benefits that are paid or become payable during the period may result in future economic benefits or service potential. Such amounts are recognized as*

Drafted by
Staff.
based on
para 12(b)

assets rather than expenses. An example would be wages and salaries incurred in producing inventories or constructing other assets. In these cases the wages and salaries will be included in the cost of those assets under IPSAS 12 *Inventories* or IPSAS 17 *Property, Plant and Equipment*.

14 Short-term employee benefits may be provided in a non-monetary form such as housing, motor cars, medical care, and free or subsidized goods or services (including interest free or subsidised loans). In some circumstances, the employees' right to such non-monetary benefits do not accrue in proportion to their period of service and do not accumulate; rather the right to receive such benefits in each period exists irrespective of the duration of service provided by employees. For example, payment of health insurance premium by the employer or arrangements for the delivery of free or subsidised goods or services to employees are not usually dependent on the duration of service and the employee becomes entitled to such benefits, if any, on employment. In such circumstances, the cost associated with providing the benefits is recognized as an expense in the period in which the benefits are taken by employees. The amount recognised as expense is determined on the basis of net marginal cost (if any) to the entity of the benefits provided. No liability is recognized for non-accumulating benefits that the employees do not take during the reporting period.

15 In other circumstances, employee's entitlement to non-monetary benefits may accrue in proportion to periods of service and /or accumulate over a number of reporting periods. For example, the length of time for which employees are entitled to use the entity's housing facilities may be proportional to their periods of service. To the extent that the entitlements are accumulating and have not been settled, those benefits satisfy the definition of liabilities. In such cases, the amount recognized as liability is determined on the basis of the net marginal cost (if any) to the employer of the benefits expected to be provided. This requires employers to recognize as expenses (unless included in the carrying amount of an asset in accordance with another IPSAS) accumulating non-monetary benefits in the reporting periods during which employees accumulate those benefits and not in the reporting periods during which the benefits are taken.

16 Where goods or services have been purchased from other entities, the net marginal cost will be the cost of the acquired

Paragraphs 14 to 16 are based on similar commentary in the Australian Standard on employee benefits, AASB 1028.

goods or services less any amount expected to be paid or payable by employees. When non-monetary benefits provided by the entity are in the form of interest-free or subsidised loans, the amount recognized as liabilities is based on the expected marginal cost to the employer of borrowing those funds, less the expected interest charged to employees. Where the goods or services that the employer produces or manufactures (for example motor vehicles) are to be sold to employees at a discount, the amount recognized as liabilities is based on marginal production costs less amounts expected to be paid or payable by employees.

Short-term Compensated Absences

~~117~~. *An entity should recognise the expected cost of short-term employee benefits in the form of compensated absences under paragraph ~~10-12~~ as follows:*

- (a) *in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and*
- (b) *in the case of non-accumulating compensated absences, when the absences occur.*

~~1218~~. An entity may compensate employees for absence for various reasons including vacation, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to compensated absences falls into two categories:

- (a) accumulating; and
- (b) non-accumulating.

~~1319~~. Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recognised, even if the compensated absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

~~1420.~~ *An entity should measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.*

~~1521.~~ The method specified in ~~the previous~~ paragraph ~~20~~ ~~measures~~ ~~requires~~ the obligation ~~to be measured~~ at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused compensated absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid vacation.

Example Illustrating Paragraphs ~~14-20~~ and ~~1521~~

~~An A government~~ 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 calendar year. Sick 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, based on past experience which is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X2 and that the remaining 8 employees will take an average of six and a half days each.

The entity expects that it will pay an additional 12 days of sick pay as a result of the unused entitlement that has accumulated at 31 December 20X1 (one and a half days each, for 8 employees). Therefore, the entity recognises a liability equal to 12 days of sick pay.

~~1622.~~ Non-accumulating compensated absences do not carry forward: they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave and compensated absences for jury service or military service. An entity recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit Sharing and Bonus Plans

~~23~~ 23 In some jurisdictions, government departments or agencies or other public sector entities may initiate bonus plans to provide incentives to, for example, encourage the efficient performance of work by employees. In such cases, the entity may have a present obligation to make payments under the bonus plan.

Drafted
by staff.

~~1724~~ 1724. An entity should recognise the expected cost of **profit-sharing and** bonus payments under paragraph ~~10-12~~ when, and only when:

- (a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and
- (b) a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

~~18~~ Under some profit sharing plans, employees receive a share of the profit only if they remain with the entity for a specified period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit sharing payments.

Deleted
as relates
to profit
sharing
not
relevant
to public
sector.

Example Illustrating Paragraph 18

sharing plan requires an entity to pay a specified proportion of its net profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit sharing payments for the year will be 3% of net profit. The entity estimates that staff turnover will reduce the payments to 2.5% of net profit.

The entity recognises a liability and an expense of 2.5% of net profit.

~~1925~~ 1925. An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the

bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

~~2026.~~ An entity can make a reliable estimate of its legal or constructive obligation under a ~~profit-sharing or~~ bonus plan when, and only when:

- (a) the formal terms of the plan contain a formula for determining the amount of the benefit;
- (b) the entity determines the amounts to be paid before the financial statements are authorised for issue; or
- (c) past practice gives clear evidence of the amount of the entity's constructive obligation.

~~2127.~~ An obligation under ~~profit-sharing and~~ bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity ~~recognises~~ recognizes the cost of ~~profit-sharing and~~ bonus plans not as a distribution of net profit but as an expense.

~~2228.~~ If ~~profit-sharing and~~ bonus payments are not due wholly within twelve months after the end of the period in which the employees render the related service, those payments are not short term employee benefits and do not fall within the scope of this Standard, other long-term employee benefits (see paragraphs XXX126-131). Also, if profit-sharing and bonus payments meet the definition of equity compensation benefits, ~~an entity treats them under paragraphs 144-152; they do not fall within the scope of this Standard~~

Disclosure of Short-term Employee Benefits

~~23-29~~ Although this Standard does not require specific disclosures about short-term employee benefits, other International Public Sector Accounting Standards may require disclosures. For example, where required by ~~IAS 24~~ IPSAS 20, Related Party Disclosures, an entity discloses information about employee benefits for key management personnel. ~~IAS 1~~ IPSAS 1, Presentation of Financial Statements, requires that an entity that classifies its expenses by function should disclose additional information on the nature of staff costs/employee benefit costs in the notes and show the provision for employee benefit costs .

separately on the face of the statement of financial position or in the notes.

Termination Benefits

~~132-30~~ This Standard deals with termination benefits separately from the other employee benefits dealt with in this Standard, because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

~~133-31~~. *An entity should recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:*

- (a) *terminate the employment of an employee or group of employees before the normal retirement date; or*
- (b) *provide termination benefits as a result of an offer made in order to encourage a voluntary redundancy.*

~~134-32~~. *An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan should include, as a minimum:*

- (a) *the location, function, and approximate number of employees whose services are to be terminated;*
- (b) *the termination benefits for each job classification or function; and*
- (c) *the time at which the plan will be implemented. Implementation should begin as soon as possible and the period of time to complete implementation should be such that material changes to the plan are not likely.*

~~135-33~~. A government or Aa~~n~~ government entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business-practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:

- (a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and
- (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

~~4-34.~~ In some jurisdictions. ~~S~~Some employee benefits are payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some countries as termination indemnities, or termination gratuities, they are post-employment benefits, rather than termination benefits and do not fall within the scope of this Standard. Some entities provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination is a termination benefit.

~~437-35.~~ Termination benefits do not provide an entity with future economic benefits and are recognised as an expense immediately.

~~43836~~ Where an enterprise recognises termination benefits, the enterprise may also have to account for a curtailment or retirement benefits or other employee benefits (~~see paragraph 109~~ Staff note: Para 109 of IAS 19 deals with the recognition of gains or losses on the curtailment or settlement of a defined benefit plan).

Para 36 (para 138 of IAS 19) refers to benefits which mostly are related to stage 2 of the project. However it might be useful to retain it in this ED.

ALTERNATIVE 1

Cross Reference to IPSAS19 (see agenda item 9.1):

“A government or an individual entity may be committed to provide benefits to employees when terminating their employment. IPSAS 19 provides guidance on how the general recognition criteria are applied to the recognition of a provision for restructuring costs (including costs related to termination benefits). That guidance may also be relevant to the recognition of expenses and liabilities for employee termination benefits arising from a constructive obligation under this Standard”.

OR ALTERNATIVE 2**Replicating and adapting guidance
from IPSAS 19 (see agenda item 9.1):**

Start of paragraphs that are based on IPSAS 19.
Note: These paragraphs are not included in IAS 19

37. --- A government or an individual entity may be committed by a constructive obligation to provide termination benefits to employees when terminating their employment. A constructive obligation arises only when the entity has a detailed formal plan setting out the minimum information required in paragraph 3.2 and has raised valid expectations in employees affected (or their representative) that it will carry out the termination by starting to implement that plan or by announcing its main features to those employees (or their representatives).
38. --- Evidence that a government or an individual government entity has started to implement a termination plan would be provided, for example, by the public announcement of the main features of the plan. A public announcement of a detailed plan to terminate the employment constitutes a constructive obligation to terminate only if it is made in such a way and in sufficient detail (that is, setting out the main features of the plan) that it gives rise to valid expectations in employees (or their representatives), that the government or the entity will carry out the terminations.
39. --- For a plan to be sufficient to give rise to a constructive obligation when communicated to those employees affected by it, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the terminations begins or that the terminations will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of employees that the government or individual entity is at present

Paras 37 to 42 are based on similar paras in IPSAS 19. see the memo (agenda item 9.1)

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committed to terminations, because the timeframe allows opportunities for the government or entity to change its plans.

40. A decision by management or the governing body to terminate the employment of employees taken before the reporting date does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

(a) started to implement the termination plan; or

(b) announced the main features of the termination plan to those employees affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the terminations.

In some cases, an entity starts to implement a termination plan, or announces its main features to those affected, only after the reporting date. Disclosure may be required under International Public Sector Accounting Standard IPSAS 14 *Events After the Reporting Date*, if the terminations are of such importance that their non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

41. Although a constructive obligation is not created solely by a management or governing body decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments may have been concluded subject only to governing body or board approval. Once that approval has been obtained and communicated to the employees affected (or their representatives), the entity has a constructive obligation to carry out the terminations, if the entity has a detailed formal plan containing the minimum information set out in paragraph 3.2; and has raised valid expectations in those employees affected that it will carry out the terminations.

42. In some countries, the ultimate authority for making decisions about a public sector entity is vested in a governing body or board whose membership includes representatives of interests other than those of management (for example, employees) or notification to these representatives may be necessary before the governing body or board decision is taken. Because a decision by such a governing body or board involves communication to these representatives, it may result in a constructive obligation to carry out terminations.

End of paragraphs that are based on IPSAS 19.

Measurement

~~139-43.~~ *Where termination benefits fall due more than 12 months after the ~~balance-sheet~~reporting date, they should be discounted using the discount rate specified in paragraph ~~78-45~~.*

~~140-44.~~ *In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.*

~~78-45.~~ *The rate used to discount ~~termination benefit post-employment benefit~~obligations ~~that fall due more than 12 months after the reporting date~~ should be determined by reference to market yields at the ~~reporting balance-sheet~~date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the ~~reporting balance-sheet~~date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the ~~termination benefits~~post-employment ~~benefit~~ obligations.*

~~80-46.~~ *The discount rate reflects the time value of money but not ~~the~~ the entity-specific credit risk borne by the entity's creditors. The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.*

~~81-47.~~ *In some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.*

Disclosure of Termination Benefits

~~141-48.~~ *Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability*

IAS 19 requires that where termination benefits fall due more than 12 months after the reporting date, they should be discounted using the discount rate applied to discount post-employment benefit obligations.

Mark up in para 46 is based on para 79 of IAS 19 to the extent relevant to termination benefits.
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exists. As required by ~~IAS 37~~, IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

~~14249~~. As required by ~~IAS 8~~IPSAS 3, *Net ~~profit-Surplus~~ or ~~Loss-Deficit~~ for the Period, Fundamental Errors and Changes in Accounting Policies*, an entity discloses the nature and amount of an expense if it is of such size, nature or incidence that its disclosure is relevant to explain the performance of the entity for the period. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

~~14350~~. Where required by ~~IAS 24~~, IPSAS 20 *Related Party Disclosures*, an entity discloses information about termination benefits for key management personnel.

Transitional Provisions

~~15351~~. ~~This section specifies the transitional treatment for defined benefit plans.~~ Where an entity first adopts this Standard, ~~for other employee benefits, the entity~~ it applies IAS 8IPSAS 3, *Net Profit-Surplus or Loss-Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*.

Effective Date

52. *This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after XX Month Year. Earlier application is encouraged.*

53. *When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.*

Paras 52 and 53 are drafted by staff.

Comparison with IAS 19

International Public Sector Accounting Standard IPSAS XX Employee Benefits is drawn primarily from International Accounting Standard IAS 19 Employee Benefits. The main differences between IPSAS XX and IAS 19 are as follows:

- IPSAS XX uses different terminology, in certain instances, from IAS 19. The most significant examples are the use of the terms “entity”, “revenue”, “statement of financial performance”, and “statement of financial position” in IPSAS XX. The equivalent terms in IAS 19 are “enterprise”, “income”, “income statement”, and “balance sheet”.
- IPSAS XX does not deal with post-employment benefits, other long-term employee benefits and equity compensation benefits.
- IPSAS XX contains additional commentary in relation to recognition and measurement of short-term non-monetary benefits.
- IPSAS XX contains additional commentary in relation to liabilities for termination benefits arising from constructive obligations.