



Agenda Item 5: Employee Benefits

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IPSASB Meeting

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Objective of Session & Material Presented (Cover Memo para 1)

- **Objective**
 - **Review** an Issues Paper on Employee Benefits; and
 - **Approve** an Exposure Draft (ED) on Employee Benefits
- **Material Presented**

Agenda Item 5.1

Issues Paper, *Employee Benefits*

Agenda Item 5.2

Draft Exposure Draft, *Amendments to IPSAS 25, Employee Benefits*

Introduction

(Issues Paper paras 1-4)

September 2015:

IPSASB agreed to converge with IAS 19, *Employee Benefits* where there was no public sector specific reason that would warrant a different accounting treatment

Pending Issues from September 2015:

- Net Interest Approach; and
- Disclosures.



Government
Finance Statistics
Manual 2014
(GFSM 2014)

Issues (Issues Paper paras 4-5)

A) Significant Issues to finish the ED

- 1) Net Interest Approach
- 2) Discount Rate to Value Post-Employment Benefit Obligations
- 3) Disclosures

B) Proposed Changes to IPSAS 25

- 1) Definitions
- 2) Structure and Content (not including definitions)

C) Exposure Period

Issue (A1) – Net Interest Approach (Issues Paper paras 6-23)

IAS 19:

- Represents the **change** in the defined benefit obligation and the plan assets as a result of the **passage of time**.
- Product of the **net** balance sheet defined benefit liability (asset) and the **discount rate** used to measure the employee benefit obligation, each at the beginning of the annual period;
- IASB's view:
 - “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**”

Issue (A1) – Net Interest Approach (Issues Paper paras 6-23)

Consequences in IPSAS 25:

- **Removal** of the concept of expected return on plan assets that is now recognized in surplus or deficit;
- Existence of **one single discount rate** (discount rate of defined benefit obligation) instead of two rates (defined benefit obligation and expected return on plan assets);
- **One single recognition** of the net interest as part of surplus or deficit (finance costs) in the statement of financial performance.

Issue (A1) – Net Interest Approach (Issues Paper paras 6-23)

3 Differences between IAS 19 and GFSM 2014:

1. Presentation
2. Recognition
3. Measurement

Issue (A1) – Net Interest Approach (Issues Paper paras 6-23)

1. Presentation

IAS 19 – *Profit or Loss (Finance Costs – IAS 1)*

IPSAS 25 – *Surplus or Deficit (Finance Costs – IPSAS 1)*

GFSM 2014 – *Property expense for investment income disbursements*

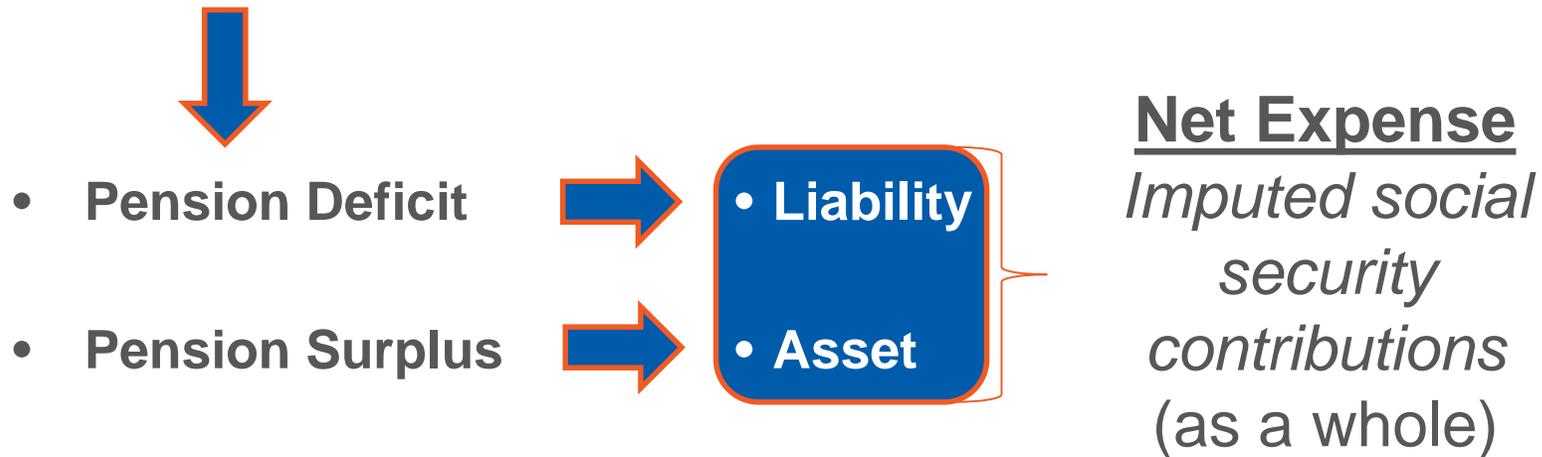
- **Government** operates a funded (not an institutional unit) / an unfunded non-autonomous pension fund for its employees
- **Pension fund** set up by government as a separate institutional unit / maintained by an insurance company

Issue (A1) – Net Interest Approach (Issues Paper paras 6-23)

2. Recognition

GFSM 2014

Pension Manager (Employer) ≠ Pension Administrator (Pension fund)



No Separate Recognition
of **interest** expense/revenue due to the passage
of time in Government accounts

Issue (A1) – Net Interest Approach (Issues Paper paras 6-23)

3. Measurement

GFSM 2014

- Plan assets are measured following the **measurement basis applied to all assets** in general, which is market values;
- **No additional calculation** to include the discount rates into the plan assets is necessary to estimate its present value;
- Changes in the volume or value of assets that do not result from transactions are recorded in the **Statement of Other Economic Flows** of the pension fund (includes the effect of the passage of time).

Issue (A1) – Net Interest Approach (Issues Paper paras 6-23)

GFSM 2014 Rationale

- Allocation of resources and redistribution of income in an economy and how this affects the behavior of economic agents.

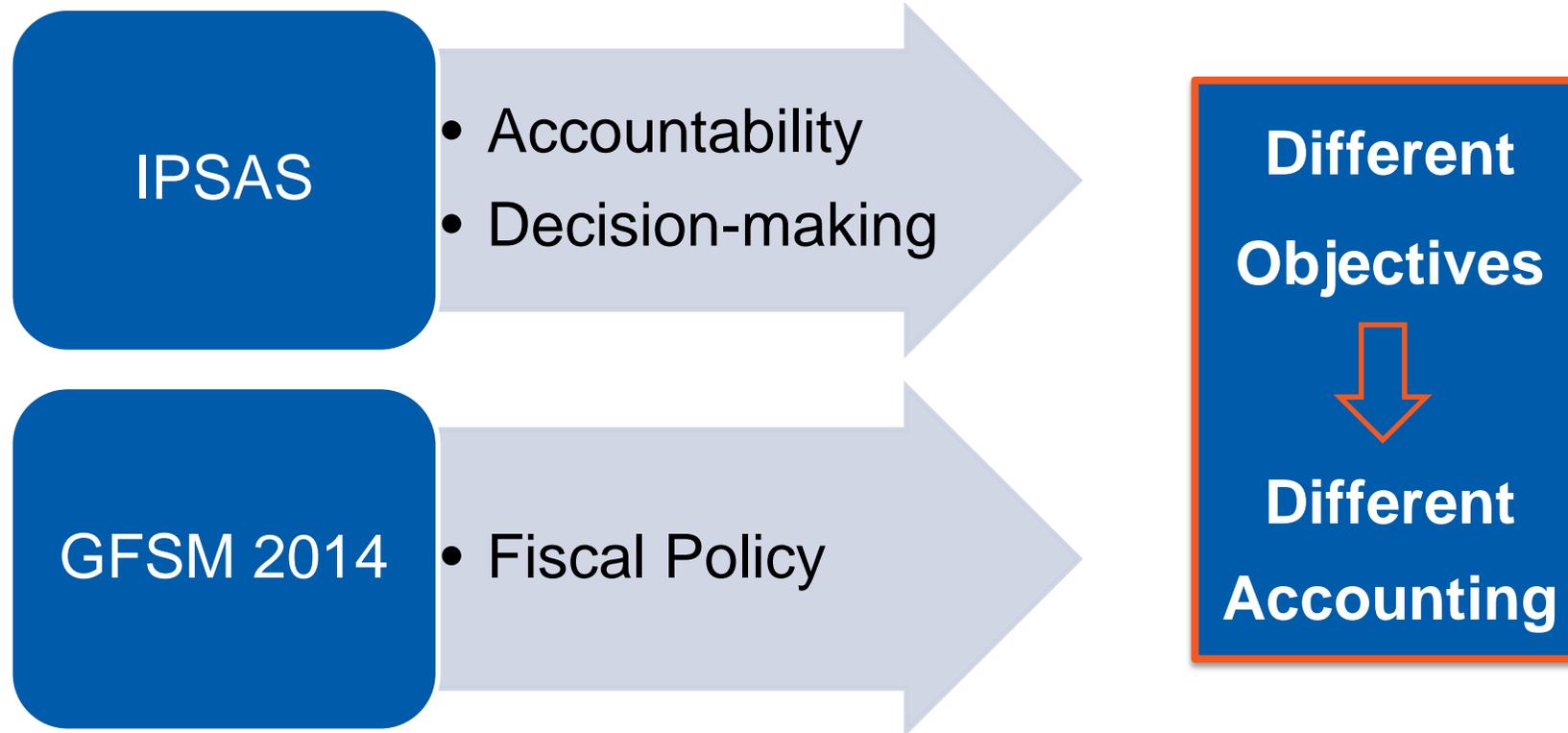


Symmetry

Households VS Pension Manager and Pension Administrator

Issue (A1) – Net Interest Approach (Issues Paper paras 6-23)

Conclusion



Matter for Consideration 1

- **Indicate** whether IPSASB agrees with the staff's recommendation to adopt the net interest approach in IPSAS 25 or provide alternative directions.

Issue (A2) – Discount Rate (Issues Paper paras 24-36)

2 Types of Differences Between IAS 19 and IPSAS 25

- (a) Differences related to the elimination of the corridor approach; and
- (b) Differences related to public sector specific reasons.

Issue (A2) – Discount Rate (Issues Paper paras 24-36)

(A) Differences related to the elimination of the corridor approach

- IAS 19 **eliminated** paragraph 82 which corresponds to paragraph 95 of IPSAS 25



- Staff **did not identify** a public sector specific reason to maintain paragraph 95
- Staff **proposes** to delete paragraph 95 of IPSAS 25 in the draft ED

Issue (A2) – Discount Rate (Issues Paper paras 24-36)

(B) Difference related to public sector specific reasons

IPSAS 25 (para. 91 and 94)	IAS 19 (para. 83 and 86)
Shall reflect the time value of money .	Shall be determined by reference to market yields on high quality corporate bonds .
<p>Make judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields on:</p> <ul style="list-style-type: none"> a) Government bonds, b) High quality corporate bonds, or c) Another financial instrument 	For currencies for which there is no deep market in such high quality corporate bonds , the market yields (at the end of the reporting period) on government bonds denominated in that currency shall be used .



Principles Based



Rules Based

Issue (A2) – Discount Rate (Issues Paper paras 24-36)

(B) Difference related to public sector specific reasons

Staff's view:

- The reasons that IPSASB put forward that lead to departure from IAS 19 **remain valid**;

Staff notes that:

- The departure from IAS 19 **preceded** the development and publication of the *Process for Reviewing and Modifying IASB Documents*;
- **Is not related** to a public sector specific reason; and
- This is a **limited scope project** to converge with IAS 19 amendments.

Matter for Consideration 2

- **Indicate:**
 - a) Whether IPSASB agrees with the staff's recommendation to delete paragraph 95 in IPSAS 25; and
 - b) Whether IPSASB wants to maintain the current wording in the paragraphs 91 and 94 in IPSAS 25.
or provide alternative directions

Issue (A3) – Disclosures (Issues Paper paras 37-42)

- 2008 SNA and ESA 2010 have a **supplementary table** on pension schemes in social insurance:
 - Pension entitlements related to defined contribution schemes, defined benefit schemes and social security pension schemes;
 - Balance sheet values for pension entitlements across all sectors of the economy;
 - Changes in pension entitlements due to transactions and due to other flows between the opening and closing balance; and
 - Pension entitlements that appear and do not appear in core national accounts.

Issue (A3) – Disclosures (Issues Paper paras 37-42)

- **GFSM 2014 does not have:**
 - The supplementary table
 - Specific requirements of what type of information should be disclosed
- GFSM 2014 only has a generic reference to description of “the nature of coverage and estimation on the measurement of defined-benefit pension fund entitlements”.

Issue (A3) – Disclosures (Issues Paper paras 37-42)

Staff's view:

- From a principles based approach:
 - The proposed requirements in the draft ED provides a good basis to feed the necessary information into the supplementary table that 2008 SNA and ESA 2010 have;
 - Staff did not identify specific requirements to be added in the draft ED.

Staff's recommendation to IPSASB:

- To maintain the IAS 19 disclosures in the draft ED

Matter for Consideration 3

- **Indicate** whether IPSASB agrees with the staff's recommendation to maintain the IAS 19 disclosures in the draft ED or provide alternative directions.

(B) Proposed changes to IPSAS 25 (Issues Paper para 43)

- 1) Definitions; and
- 2) Structure and content of draft ED (not including definitions).

(B1) Definitions (Issues Paper paras 44-49)

- 4 Categories of definitions;
- 7 New definitions;
- 8 Amended definitions;
- 2 Deleted definitions;
- 2 Definitions integrated into 1 definition
- 9 definitions maintained
- Fair value definition is excluded from IPSAS 25
- Draft ED includes all definitions

Matter for Consideration 4

- **Indicate** whether IPSASB agrees with the staff's approach to definitions or provide alternative directions.

(B2) Structure and content of draft ED (Issues Paper paras 50-55)

Structure

- **Sub-headings included:**
 - Within the Disclosure section of Post-employment Benefits—Defined Benefit Plans
 - Transitional Provisions
- **Sub-headings amended:**
 - Bonus Payments and Profit-Sharing Payments” was amended to “Profit-Sharing and Bonus Plans”

(B2) Structure and content of draft ED (Issues Paper paras 50-55)

Structure

- **Sub-headings deleted:**
 - Statement of Financial Performance
 - Actuarial Gains and Losses
 - Return on Plan Assets
 - Entity Combinations
 - Curtailments and Settlements
 - Financial Components of Post-employment Benefit Costs
- Maintenance of Composite Social Security Schemes section
- Illustrative examples of IAS 19 are in Application Guidance section of IPSAS 25

(B2) Structure and content of draft ED (Issues Paper paras 50-55)

Structure

- Illustrative examples of IAS 19 are in Application Guidance section of IPSAS 25
- Illustrative Examples section of IPSAS 25 is deleted

(B2) Structure and content of draft ED (Issues Paper paras 50-55)

Content

- IPSAS 25 has 2 rebuttable presumptions on:
 - a) **State Plans.** Rebuttable presumption as a defined benefit plan.
 - b) **Long-term disability payments.** Are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits.
 - Presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in the same way as for defined benefit plans.
- Objective: Provide further guidance

Matters for Consideration 5

- **Indicate** whether IPSASB wants to maintain the rebuttable presumptions on:
 - a) State plans; and
 - b) Long-term disability paymentsor provide alternative directions

(B2) Structure and content of draft ED (Issues Paper paras 50-55)

Content

- New illustrative example (para. AG1A) in IPSAS 25 that already existed in IAS 19 (2004)

Staff' view:

- Staff did not identify a public sector specific reason not to include paragraph AG1A in the draft ED

Staff's recommendation:

- Inclusion of paragraph AG1A in IPSAS 25

Matters for Consideration 6(a)

- **Indicate** whether IPSASB **agrees** with staff's recommendation to include paragraph AG1A in IPSAS 25 or provide alternative directions

(B2) Structure and content of draft ED (Issues Paper paras 57-59)

Content

Conceptual Framework	IPSAS 25	IAS 19
Non-legally Binding Obligation	Constructive Obligation	
Faithful Representation	Reliable	
Market Value	Fair Value	
Revenue		Income
Controlled Entities	Controlled / Controlling Entities	Parent / Subsidiaries

(B2) Structure and content of draft ED (Issues Paper paras 57-59)

Content

Staff's recommendation:

- **Not to replace** the IAS 19 terms with the Conceptual Framework terms because:
 - a) This is a limited scope IFRS convergence project;
 - b) A more general review of the recognition and measurement criteria needs to be made across all standards;
 - c) The IPSASB has already decided not to change the word "*reliable*" in IPSAS 25; and
 - d) There is an approved project on Measurement that will deal with the measurement bases across all standards.
- **Maintain** the IPSAS 25 terms in the draft ED

Matters for Consideration 6(b)

- **Indicate** whether IPSASB **agrees** with staff's recommendations to maintain the current terminology in IPSAS 25 or provide alternative directions

Matters for Consideration 6(c)

- **Indicate** whether IPSASB **agrees** with staff's recommendation to amend IPSAS 33, *First Time Adoption of Accrual Basis IPSASs* due to the revision of IPSAS 25:
 - a) Deletion of paragraph 102(c), cross-reference in paragraph 104 and paragraph 107;
 - b) Deletion of wording in paragraphs 104, 105 and 106;
 - c) Replace the term “actuarial gains and losses” with the term “remeasurements”

Or provide alternative directions

Matters for Consideration 7 and 8

- **Review** and **approve** the Exposure Draft XX *Amendments to IPSAS 25, Employee Benefits.*

Matters for Consideration 8

- **Confirm** an exposure period of 4 months.



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