

Meeting: International Public Sector Accounting Standards Board

Meeting Location: Virtual Meeting

Meeting Date: September 13–17 and 21, 2021

Agenda Item 7

For:

Approval

Discussion

Information

ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS

Project summary	The objective of this project is to develop an IPSAS adapted from IAS 26, Accounting and Reporting by Retirement Benefit Plans.	
Task Force members	<ul style="list-style-type: none"> • David Watkins, IPSASB Technical Advisor (Task Force Chair) • Mike Blake, IPSASB Member • Moushumi Dullabh, South African Treasury • Renée Pichard, IPSASB Member • Kamira Sanchez Nicosia, IPSASB Member • Karl-Ludwig Soll, United Nations 	
Meeting objectives Project management	Topic	Agenda Item
	Accounting and Reporting by Retirement Benefit Plans: Project Roadmap	7.1.1
	Instructions up to Previous Meeting	7.1.2
	Decisions up to Previous Meeting	7.1.3
Decisions required at this meeting	Measurement of the Actuarial Present Value of Promised Retirement Benefits	7.2.1
	Valuation of Plan Assets	7.2.2
	Presentation of the Actuarial Present Value of Promised Retirement Benefits	7.2.3
	Classification of Contributions and Benefits	7.2.4
	Definitions in IAS 26 for use in [draft] ED	7.2.5
Other supporting items	Review instructions for [draft] ED XX	7.3
	[draft] Exposure Draft (ED), (XX) Accounting and Reporting by Retirement Benefit Plans – Table format	7.3.1
	[draft] Exposure Draft (ED), (XX) Accounting and Reporting by Retirement Benefit Plans – ED format	7.3.2

**ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS:
 PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2021	<ol style="list-style-type: none"> 1. Approval of Accounting and Reporting by Retirement Benefit Plans Project Brief and Outline 2. Initial identification and discussion of possible issues
June 2021	<ol style="list-style-type: none"> 1. Discuss issues
September 2021	<ol style="list-style-type: none"> 1. Discuss Issues 2. Review [draft] Exposure Draft (ED)
December 2021	<ol style="list-style-type: none"> 3. Review [draft] Exposure Draft (ED) 4. Approve ED
January 2022	<ol style="list-style-type: none"> 1. Issue Exposure Draft
February 2022- May 2022	<ol style="list-style-type: none"> 1. Consultation Period (4 months)
June 2022	<ol style="list-style-type: none"> 1. Initial Review of Comments to Exposure Draft
September 2022	<ol style="list-style-type: none"> 1. Review of Comments to Exposure Draft 2. Discuss Issues 3. Review [draft] IPSAS
December 2022	<ol style="list-style-type: none"> 1. Approve IPSAS
January 2023	<ol style="list-style-type: none"> 1. Issue IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
June 2021	1. Remove the final part of the proposed Basis for Conclusions paragraph regarding scope, from “but provide benefits ...”.	1. Added to draft ED - Currently as BC 2
June 2021	2. Clarify that the requirements of IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> should be applied in conjunction with this guidance when relevant.	2. In progress
June 2021	3. Consider how an IPSAS adapted from IAS 26 would relate to IPSAS 1, and how IPSAS 2 might be integrated for preparing a retirement benefit plan cash flow statement.	3. In progress
March 2021	1. None to date – Instructions made at the March 2021 meeting were included in the approved Project Brief and Outline	1. N/A

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
June 2021	1. Retain the same scope as IAS 26, so not including other plans which provide benefits. State in the Basis for Conclusions that the requirements of this guidance may be applied by analogy to benefit plans with similar characteristics.	1. See draft ED - Currently BC 2
June 2021	2. Confirmed that the reporting entity is the retirement benefit plan.	2. BC In progress
June 2021	3. Agreed that a retirement benefit plan shall prepare: <ul style="list-style-type: none"> • A statement of financial position; • A statement of changes in net assets available for benefits; • A cash flow statement; • Notes to the financial statements; and • Information on the changes in pension obligations. 	3. Included in draft ED see paragraphs 16-17 BC in progress
June 2021	4. Include a Specific Matter for Comment in the exposure draft on whether retirement benefit plans should prepare a cash flow statement.	4. In progress
March 2021	1. The Project Brief and Outline was approved	1. BC in progress

Measurement of the Actuarial Present Value of Promised Retirement Benefits

Question

1. Whether there is any public sector reason that the measurement of the actuarial present value of promised retirement benefit plans should not be required to use projected salaries.

Recommendation

2. Staff and Task Force recommend that an IPSAS adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* require that the actuarial present value of promised retirement benefits be calculated using projected salaries and the current salary option be removed.

Background

3. This paper will:
 - (a) Address Issue #4(a) in the Project Brief and Outline for Accounting and Reporting by Retirement Benefit Plans on the measurement of the actuarial present value of promised retirement benefits;
 - (b) Consider the requirements in IPSAS 39, *Employee Benefits* for the measurement of defined benefit obligations; and
 - (c) Consider the approach taken by other standard-setters.

Analysis

4. The measurement of the actuarial present value of promised retirement benefits only impacts defined benefit retirement benefit plans, therefore this paper is written in that context.

IAS 26 requirements

5. IAS 26 defines the actuarial present value of promised retirement benefits as:

“The present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.”

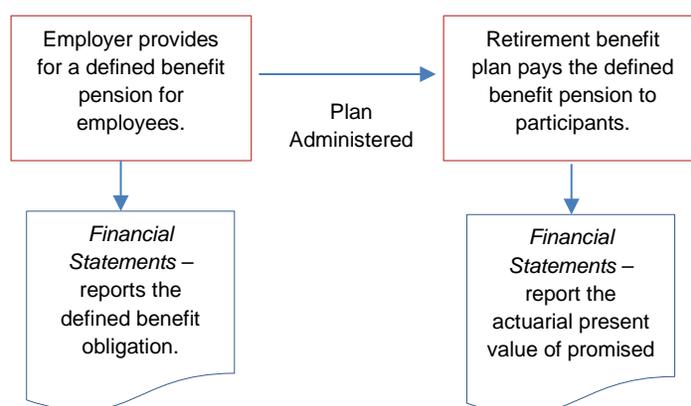
This is the total obligation a retirement benefit plan is expected to owe to participants when they either retire or leave the plan. Paragraphs 18 and 23 of IAS 26 allows this obligation to be calculated using either participants current salaries or projected salaries.

6. Paragraphs 24-25, of IAS 26 provide arguments for using either current salaries or projected salaries. The arguments in support of using current salaries are:
 - (a) The actuarial present value of promised retirement benefits, being the sum of the amounts presently attributable to each participant in the plan, can be calculated more objectively than with projected salary levels because it involves few assumptions;
 - (b) Increases in benefits attributable to a salary increase become an obligation of the plan at the time of the salary increase; and
 - (c) The amount of the actuarial present value of promised retirement benefits using current salary levels is generally more closely related to the amount payable in the event of termination or discontinuance of the plan.

7. The arguments in support of using projected salaries are:
 - (a) Financial information should be prepared on a going concern basis, irrespective of the assumptions and estimates that must be made;
 - (b) Under final pay plans¹, benefits are determined by reference to salaries at or near retirement date; hence salaries, contribution levels and rates of return must be projected; and
 - (c) Failure to incorporate salary projections, when most funding is based on salary projections, may result in the reporting of an apparent overfunding when the plan is not overfunded, or in reporting adequate funding when the plan is underfunded.
8. It was noted during the development of the Project Brief and Outline for this project that allowing an option for measuring this obligation may lead to an inconsistency with IPSAS 39, *Employee Benefits*.

IPSAS 39 requirements

9. Although IPSAS 39 does not apply to reporting by employee retirement benefit plans, it does require an entity to account for post-employment benefits which include retirement benefits (e.g., pensions and lump sum payments on retirement). Further, an entity is required to apply IPSAS 39 whether or not a separate entity, such as a pension scheme, superannuation scheme, or retirement benefit scheme, is established to receive contributions and to pay benefits.
10. IPSAS 39 requires the defined benefit obligation for defined benefit plans to be accounted for using an actuarial technique called the projected unit credit method to make a reliable estimate of the ultimate cost to the entity. This method requires an entity to make estimates of several factors of which one is financial variables which include increases in salaries. Therefore, IPSAS 39 requires projected salaries to be used when determining an employer's defined benefit obligation.
11. The connection between the IPSAS 39 defined benefit obligation and the IAS 26 actuarial present value of promised retirement benefits is illustrated below.



Note: Entities that contribute to a multi-employer plan may use defined contribution accounting to report its defined benefit obligation, in which case the above scenario is not applicable.

¹ In a final pay plan, member benefits are based on average earnings during a specified number of years at the end of a participant's career. This is presumably the time when earnings are highest. The benefit equals a percentage of the participant's final average earnings, multiplied by the number of years of service.

12. Therefore, if the employer reports its obligation for employees' defined benefit pensions and the retirement benefit plan reports its obligation to make payments to participants for their defined benefit pensions, in essence it is the same obligation (but reported by different entities).

Approach taken by other standard setters

13. The retirement benefit plan standards from other standard setters were reviewed to ascertain how they required the actuarial present value of promised retirement benefits to be measured. The following table summarizes the findings. Further detail is provided in Appendix A to this paper.

Jurisdiction	Accounting Standard/Regulation	Current Salaries	Projected Salaries
Australia	AASB 1056, <i>Superannuation Entities</i>	X	✓
Canada	Section 4600, <i>Pension Plans</i>	X	✓
New Zealand	NZ IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i>	✓	✓
South Africa	Financial Services Board (Regulator)	X	✓
UK Govt	Government Financial Reporting Manual	X	✓

14. As indicated above, the New Zealand standard is the only standard that allows current salaries to be used to measure the present value of promised retirement benefits.

What did CAG say?

15. In April 2021, members of the IPSASB's Consultative Advisory Group (CAG) were sent the finalized project brief and asked to provide comments. One CAG member commented that one of the biggest issues with IAS 26 is that it allows the use of current salaries to determine the actuarial present value of promised retirement benefits. This member commented that in the public sector, in most EU countries, there is some kind of a guarantee that salaries will follow inflation. In addition, salaries in the public sector are based on salary scales which are predetermined, so salaries increase with years of service. Therefore, using current salaries to determine future pension obligations, could significantly undervalue the current accrued amount of future pension payments.

Conclusion

16. One of the rationales for undertaking this project is to improve the transparency and accountability of government financial reporting. To do this the full obligation for retirement benefit obligations should be reported. Final pay pensions, which are common in the public sector, are determined based on an employee's salary for the last years of employment. Therefore, to determine the most accurate obligation projected salaries should be used to calculate the actuarial present value of promised retirement benefits.
17. Further, staff and Task Force do not agree with the arguments in favor of using current salaries because:

- (a) Although it may be 'easier' and more objective to calculate this obligation using current salaries it does not reflect the full value of the obligation;
 - (b) Even though salary increases would be reflected each year, it only reflects the obligation that would be paid at that point in time and not when participant would receive the benefits; and
 - (c) Financial statements are to be prepared on a going concern basis and not with the assumption that the retirement benefit plan would terminate at reporting date.
18. Therefore, staff and Task Force conclude that the option to use current salaries be removed from an IPSAS adapted from IAS 26 and require that the actuarial present value of promised retirement benefits be calculated using projected salaries.

Decision

19. Does the IPSASB agree with the recommendation at paragraph 2?

Measurement of the actuarial present value of promised retirement benefits by other standard setters.

Australia

1. AASB 1056, *Superannuation Entities* is a jurisdictionally specific standard. Although AASB 1056 is not based on IAS 26 it does provide a comparison with that standard. One of the notable differences cited is that:

“AASB 1056 requires measurement of defined benefit member liabilities to involve assumptions that would include projected salary levels; whereas IAS 26 permits the “actuarial present value of promised retirement benefits” to be based on either current or projected salary levels.”

Canada

2. Section 4600, *Pension Plans* requires the pension obligation of a defined benefit pension plan to be measured using best estimate assumptions and the ‘projected benefit method prorated on services’. This project benefit method requires salary projection (when appropriate) to be included in the calculation of the pension obligation.
3. As a shortcut Section 4600 allows the pension plan to measure the pension obligation at the defined benefit obligation amount determined by the plan’s sponsor as required by IAS 19, *Employee Benefits* in Part I of the CPA Canada Handbook and Section 3462. Both these standards require an employer’s defined benefit obligation to take into considerations projections of future salaries.

New Zealand

4. NZ IAS 26, *Accounting and Reporting by Retirement Benefit Plans* is based on IAS 26 and has retained the option to measure the actuarial present value of promised retirement benefits using either current salaries or projected salaries.

South Africa

5. The requirements set out by the Financial Services Board which is a regulator state that the actuarial present value of promised retirement benefits is calculated using future salary increases.

UK Government

6. The UK Government Financial Reporting Manual uses an amended IAS 26 and requires pension schemes to calculate and report the present value of the expected payments using projected salary levels.

Valuation of Plan Assets

Question

1. Whether there is any public sector reason that the valuation of plan assets should not be at fair value?

Recommendation

2. Staff and Task Force recommend that an IPSAS adapted from IAS 26, Accounting and Reporting by Retirement Benefit Plans require plan assets to be measured at fair value. Further, staff and Task Force also recommend that a Specific Matter for Comment (SMC) be included in the exposure draft for this project seeking constituent views on this requirement.

Background

3. This paper will:
 - (a) Address Issue #4(b) in the Project Brief and Outline for Accounting and Reporting by Retirement Benefit Plans on valuation of plan assets;
 - (b) Consider the requirements in other IPSAS; and
 - (c) Consider the approach taken by other standard-setters.

Analysis

4. The term plan assets is defined in IPSAS 39, *Employee Benefits* as: Plan assets comprise:
 - (a) Assets held by a long-term employee benefit fund; and
 - (b) Qualifying insurance policies¹.
5. Plan assets are acquired to generate an income, for appreciation, or both and are used to fund a retirement benefit plan. Plan assets can be any type of asset, but typical types include stocks, bonds, real estate, and mutual fund investments.
6. Because plan assets are used to fund benefits payable to participants, the value of these assets is compared with the actuarial present value of promised retirement benefits to determine the extent of

¹ A qualifying insurance policy is defined as: An insurance policy insured by an insurer that is not a related party of the reporting entity, if the proceeds of the policy:

- (a) Can be used only to pay or fund employee benefits under a defined benefit plan; and
- (b) Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity unless either:
 - (i) The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
 - (ii) The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

a plan's surplus or deficit. Therefore, how plan assets are valued affects both the surplus/deficit and the extent to which a plan may be funded or unfunded.

IAS 26 requirements

7. IAS 26 requirements for the measurement of plan assets is somewhat confusing, in that paragraphs 32-33 state:

Retirement benefit plan investments shall be carried at fair value. In the case of marketable securities fair value is market value. Where plan investments are held for which an estimate of fair value is not possible disclosure shall be made of the reason why fair value is not used.

8. Paragraph 33 adds to the confusion by stating:

... Where plan investments are held for which an estimate of fair value is not possible, such as total ownership of an entity, disclosure is made of the reason why fair value is not used. To the extent that investments are carried at amounts other than market value or fair value, fair value is generally also disclosed. ...

Staff and Task Force found this confusing because if the fair value of plan investments not measured at fair value is to be disclosed, then the fair value is known and could be used for measurement purposes.

Requirements of other IPSAS

To determine which is an appropriate measurement model for plan assets in an IPSAS adapted from IAS 26, staff and Task Force thought it would be prudent to examine the requirements of other IPSAS. In particular, IPSAS 39 because that standard would complement an IPSAS for retirement benefit plans. Also, other IPSAS which provide the accounting for types of assets that could be used as plan assets to ensure consistency.

IPSAS 39 requirements

9. IPSAS 39 requires the fair value of plan assets to be offset against the present value of a defined benefit obligation to determine the deficit or surplus of the net defined benefit liability (asset) that an employer recognizes for its obligation for employees' defined benefit retirement benefits. Therefore, the more accurate the value of plan assets the more accurate the defined benefit liability (asset) an employer will recognize.
10. Accordingly, IPSAS 39 requires plan assets to be measured at fair value.

IPSAS 16, Investment Property requirements

11. As noted in paragraph 5 any asset can be a plan asset with a purpose to provide and income or to appreciate. Therefore, it is conceivable that an investment property may be purchased as a plan asset as such a property would provide income and can appreciate.
12. IAS 16, *Investment Property* allows investment properties to be measured using either the fair value model or the cost model.

IPSAS 17, Property, Plant, and Equipment requirements

13. Certain property, plant, and equipment may also be purchased as plan assets because of the possibility that they will increase in value. Like investment property, property, plant, and equipment can be measured using either the cost model or the revaluation model. While the revaluation model and the fair value model are not identical, both provide a fair value for assets. (Note, ED 78, *Property, Plant, and Equipment* alters 'revaluation model' to 'current value model').

IPSAS 41, Financial Instruments requirements

14. Although any type of asset can be a plan asset, it is perhaps most likely that financial assets make up much of a retirement benefit plans portfolio. This is due to their investment potential and ability to be liquidated easily. IPSAS 41 requires financial assets to be measured at either fair value or amortized cost.
15. Financial assets can be measured at amortized cost only if:
- (a) The financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows; and
 - (b) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of these criteria are not met, the financial asset will be measured at fair value.

Requirements of other Standard setters

16. The retirement benefit plan standards from other standard setters were reviewed to ascertain how they required plan assets to be measured. The following table summarizes the findings. Further detail is provided in [Appendix A](#) to this paper.

Jurisdiction	Accounting Standard/Regulation	Measurement of Plan Assets
Australia	AASB 1056, <i>Superannuation Entities</i>	Fair value
Canada	Section 4600, <i>Pension Plans</i>	Fair Value
New Zealand	NZ IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i>	As per IAS 26
South Africa	Financial Services Board (Regulator)	Not specified
UK Govt	Government Financial Reporting Manual	As per IAS 26

17. As illustrated above, aside from South Africa, where it was not possible to determine the measurement requirements for plan assets, other jurisdictions either mandate fair value or have retained the IAS 26 requirements which is fair value unless a reliable fair value measurement cannot be obtained.

Conclusion

18. Staff and Task Force are of the view that plan assets are held to fund promised retirement benefits therefore the current value of those plan assets is instrumental in determining whether a retirement benefit plan is funded or unfunded. When assets are held for their financial capacity, current value is amount that could be received if the assets are sold. This would be fair value.
19. Even though IAS 26 anticipates that an estimate of fair value may not be available in certain circumstances, it does essentially require plan assets to be measured at fair value. Staff and Task Force are of the view that the IAS 26 wording can be improved to avoid the confusion noted above.
20. Further, IAS 26 was developed before IFRS 13, *Fair Value* was issued and was not amended when IFRS 13 was issued. When IAS 26 was issued, fair value principles were not as developed within the accounting literature as they are today. The fair value principles in IFRS 13, and proposed in ED 77, *Measurement*, allow for different measurement techniques when estimating fair value and allow an entity to use a hierarchy of inputs which extend beyond just market inputs. IFRS 13 and ED 77 principles provide a broader base of inputs when estimating fair value, thus facilitating a fair value measurement.
21. Therefore, staff and Task Force consider that an IPSAS adapted from IAS 26 should require plan assets be measured at fair value and an SMC be included in the Exposure Draft asking constituents if this is appropriate.

Decision

22. Does the IPSASB agree with the recommendation made at paragraph 2?

Valuation of plan assets by other standard setters.

Australia

1. AASB 1056, *Superannuation Entities* requires all assets, except tax assets, acquired goodwill, insurance assets and employer-sponsor receivables to be measured at fair value.

Canada

2. Section 4600, *Pension Plans* requires all investment assets to be measured at fair value.
3. Investment assets in Section 4600 are defined as:

Assets that are acquired by the pension plan to earn investment income, for value appreciation, or both. Examples include equity and debt instruments, loans, real estate, infrastructure, royalty agreements, private equity, hedges and other derivatives in an asset position, an interest in a master trust, and insurance contracts related to the plan's pension obligation of which the plan is the beneficiary. Investment assets do not include other assets relating to the administration of the pension plan (for example, prepaid rent for offices or office equipment).

New Zealand

4. NZ IAS 26, *Accounting and Reporting by Retirement Benefit Plans* is based on IAS 26 and retains the IAS 26 requirements for valuation of plan assets.

South Africa

5. It is difficult to determine whether the South African Financial Services Board mandates the measurement requirements for plan assets because the regulation is in the form of sample financial statements which do not specify how plan assets are to be measured.

UK Government

6. The UK Government Financial Reporting Manual uses an amended IAS 26 and retains the IAS 26 requirements for valuation of plan assets

Presentation of the Actuarial Present Value of Promised Retirement Benefits

Question

1. Whether there is any public sector reason that the actuarial present value of promised retirement benefits should not be presented on the face of the statement of financial position.

Recommendation

2. Staff and Task Force recommend that an IPSAS adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* require the actuarial present value of promised retirement benefits be presented on the face of the statement of financial position.

Background

3. This paper will:
 - (a) Address Issue #4(c) in the Project Brief and Outline for Accounting and Reporting by Retirement Benefit Plans on the presentation of the actuarial present value of promised retirement benefits;
 - (b) Consider the requirements in IPSAS 39, *Employee Benefits*; and
 - (c) Consider the approach taken by other standard-setters.

Analysis

4. At the June 2021 IPSASB meeting the Board agreed that an IPSAS adapted from IAS 26 should require a retirement benefit plan to prepare a statement of financial position. At a Retirement Benefit Plans Task Force call, the Task Force tentatively decided that an IPSAS adapted from IAS 26 should require that the actuarial present value of promised retirement benefits be presented on the face of the statement of financial position.

IAS 26 requirements

5. As noted in the project brief and outline to this project, IAS 26 paragraph 17¹ allows the actuarial present value of promised retirement benefits to be disclosed either:
 - (a) As part of the statement of net assets;
 - (b) As a note disclosure to the statement of net assets; or
 - (c) By reference to an accompanying actuarial report.
6. Paragraphs 29-30 provide arguments for each of the options above. Arguments in favor of either option (a) or (b) include:
 - (a) These approaches help users to assess the current status of the plan and the likelihood of the plan's obligations being met; and
 - (b) Financial statements should be complete and not rely on accompanying statements.

¹ Paragraph 17 is reproduced in full as Appendix A.

7. Arguments in favor of option (c) include:
 - (a) Disclosing the obligation for promised retirement benefits on the face or in the notes of the financial statements may result in an invalid comparison with the plan assets. This is because actuaries may not compare the actuarial present value of promised retirement benefits with market value of plan assets but may instead assess the present value of cash flows expected from the investments; and
 - (b) The information about promised retirement benefits should be contained solely in the separate actuarial report where a proper explanation can be provided.
8. This was raised as an issue because having one or more options may not be consistent with other IPSAS and may result in the presentation of information that is not useful for accountability or decision-making purposes.

IPSAS 39, Employee Benefits

9. Although IPSAS 39 does not apply to retirement benefit plans, it will complement an IPSAS adapted from IAS 26. As such, the obligation in IPSAS 39 that is similar to the actuarial present value of promised retirement benefits in IAS 26 is the 'present value of a defined benefit obligation'. While IPSAS 39 does not require this obligation to be presented on the face of the financial statements, it does require the 'net defined benefit liability (asset)' to be presented on the face of the statement of financial position.
10. The net defined liability (asset) is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The deficit or surplus is:
 - (a) The present value of the defined benefit obligation less;
 - (b) The fair value of plan assets (if any).
11. Therefore, while the gross amount of an employer's employee pension obligations is not presented on the face of the financial statements, the net amount (offset by plan assets) is required to be presented in the statement of financial position.

Requirements of other Standard Setters

12. The retirement benefit plan standards from other standard setters were reviewed to ascertain how they require the actuarial present value of promised retirement benefits plans to be presented. The following table illustrates these findings. Further detail is provided in Appendix B to this paper.

Jurisdiction	Accounting Standard/Regulation	Presentation of the actuarial present value of promised retirement benefits
Australia	AASB 1056, <i>Superannuation Entities</i>	<ul style="list-style-type: none"> • Statement of financial position
Canada	Section 4600, <i>Pension Plans</i>	<ul style="list-style-type: none"> • Statement of financial position
New Zealand	NZ IAS 26	<ul style="list-style-type: none"> • Face of the financial statements; or • Notes accompanying the financial statements
South Africa	Financial Services Board (Regulator)	<ul style="list-style-type: none"> • Actuarial report accompanying the financial statements
UK Govt	Government Financial Reporting Manual	<ul style="list-style-type: none"> • Statement of financial position

Conclusion

13. One of the key rationales for undertaking this project is to increase the transparency and accountability of governments, which includes presenting the obligation to pay retirement benefits to employees, in the financial statements in a useful manner. Options (b) and (c) in paragraph 5 essentially result in the obligation to pay promised retirement benefits being presented off the face of the financial statements. Staff and Task Force consider that the actuarial present value of promised retirement benefits is key information for users. Therefore, because this is a liability, and is key information, it should be presented on the face of the statement of financial position.

Decision

14. Does the IPSASB agree with recommendation at paragraph 2?

IAS 26 paragraph 17

- 17 The financial statements of a defined benefit plan shall contain either:**
- (a) a statement that shows;**
 - (i) the net assets available for benefits;**
 - (ii) the actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits; and**
 - (iii) the resulting excess or deficit; or**
 - (b) a statement of net assets available for benefits including either;**
 - (i) a note disclosing the actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits; or**
 - (ii) a reference to this information in an accompanying actuarial report.**

If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation shall be used as a base and the date of the valuation disclosed.

Presentation of actuarial present value of promised retirement benefits (or equivalent) by other standard setters

Australia

1. AASB 1056, *Superannuation Entities* requires 'member benefits' to be presented on the face of the financial statements. AASB 1056 requires an entity to prepare a statement of changes in member benefits which reconciles the member benefits opening and closing balances, and the closing balance is presented on the face of a statement of financial position.

Canada

2. Section 4600, *Pension Plans* requires the 'pension obligation' to be presented on the face of the financial statements. Like AASB 1056, Section 4600 also requires a statement of changes in pension obligations and the closing balance of this statement is presented on the face of the statement of financial position.

New Zealand

3. NZ IAS 26, *Accounting and Reporting by Retirement Benefit Plans* is based on IAS 26 and requires the actuarial present value of promised retirement benefits to be presented either on the face of the financial statements or in the notes accompanying the financial statements. The option to include a reference to an accompanying actuarial report has been removed.

South Africa

4. The requirements set out by the Financial Services Board, which is a regulator, requires that the actuarial present value of promised retirement benefits be presented in an actuarial report accompanying the financial statements.

UK Government

5. The UK Government Financial Reporting Manual, which is based on IAS 26, requires the 'actuarially determined present value of promised retirement benefits' to be on the face of the statement of financial position. The options to present this amount either in the notes to the accounts or in an actuarial report accompanying the financial statements have been removed.

Classification of Contributions and Benefits

Question

1. Whether there is any public sector specific reason to classify contributions and benefits as any particular element defined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Framework).

Recommendation

2. Staff and Task Force recommend that an IPSAS adapted from IAS 26 be silent on how contributions and benefits should be classified.

Background

3. This paper will:
 - (a) Address Issue #3 in the Project Brief and Outline for Accounting and Reporting by Retirement Benefit Plans on the classification of contributions (both employer and employee) and benefits paid to participants;
 - (b) Consider the requirements for each 'element' in the Framework; and
 - (c) Consider the approach taken by other standard-setters.

Analysis

4. At the March 2021 IPSASB meeting, IPSASB members raised a question as to how contributions made to, and benefits paid from, a retirement benefit plan should be classified. It was noted that jurisdictions classified these transactions differently. For example, some jurisdictions classify a contribution as a liability whereas other jurisdictions classify it as either revenue or equity.

IAS 26 Requirements

5. IAS 26 does not specifically classify contributions and benefits paid as any particular type of financial statement element.⁴ However, what IAS 26 does require is that employer contributions, employee contributions and benefits paid (or payable) are shown as separate line items in a statement of changes in net assets available for benefits.
6. The statement of changes in net assets available for benefits does bear some resemblance to a statement of financial performance. Therefore, it is conceivable that the employer and employee contributions, as inflows, are considered to be revenue and the benefits paid (or payable) as outflows are considered to be expenses. However, even though this statement bears resemblance to a statement of financial performance it should not be considered as such. This statement is basically a reconciliation of the opening and closing balances of the net assets available for benefits and as such shows the inflows and outflows of the retirement benefit plan.

⁴ The Framework defines six elements – assets; liabilities; revenue; expense; ownership contributions, and ownership distributions.

Conceptual Framework

7. The Framework, at paragraphs 5.2-5.4 discusses elements and their importance. These paragraphs are provided in full at [Appendix A](#). They suggest that the elements are the building blocks from which financial statements are constructed. However, paragraph 5.3 states that the elements defined do not refer to individual items that are recognized as a result of transactions and events. Staff interpret this as meaning that any one transaction could be classified differently depending on the facts and circumstances. Staff also note that the Framework does not link any element to a specific financial statement.
8. Paragraphs 9 to 22 below discuss how contributions and benefits might be classified as a particular element.

Contributions and Benefits

9. A retirement benefit plan would generally receive contributions from employers and employees in the form of cash or cash receivable – therefore the debit side of the transaction is an asset. The issue to be addressed in this paper is what is the credit side. There are three elements which give rise to a credit entry – liability, revenue, and ownership contributions.
10. Benefits paid or payable would reduce assets and thus be a credit entry and classified as either expenses, a reduction in liability, or ownership distributions.
11. Each of these is discussed below to ascertain if contributions and benefits fit the element descriptions in the Framework.

Contributions as a liability

12. Some constituents consider that contributions made into a retirement benefit plan give rise to a liability to the participants of the plan. A liability is defined in the Framework as “a present obligation of the entity for an outflow of resources that results from a past event”. This is because it can be argued that the contributions made, whether in a defined contribution plan or a defined benefit plan, are owed to participants by the retirement benefit plan.
13. Staff and Task Force consider that for a defined contribution plan this view is easy to conceptualize. When contributions are made into a defined contribution plan, they are identifiable as they are made into an individual participant’s account plan. Further, the participant may be able to access those benefits (subject to any restrictions) or transfer their funds to another plan. Therefore, the defined contribution plan has a liability to pay each participant the value of these contributions, plus or minus the returns on plan assets.
14. For a defined benefit plan, the linkage between the contributions paid into the plan by or on behalf of an individual participant and the benefits paid to that individual participant may not be as clear.

Benefits as a reduction of a liability

15. Benefits paid, and payable are a settlement of the liability

Contributions as revenue

16. Other constituents consider contributions to be revenue of the retirement benefit plan. Revenue is defined in the Framework as “increases in the net financial position of the entity, other than increases

arising from ownership contributions”. Therefore, when contributions are received, they could give rise to an increase in the net financial position⁵.

17. Proponents that consider contributions as revenue argue that when contributions are received, they increase the plan assets (debit entry). The credit entry is to the ‘contributions’ as presented in the statement of changes in net assets available for benefits. The concept of the argument that contributions are revenue is not affected by whether the plan is a defined contribution plan or a defined benefit plan.

Benefits as an expense

18. Some of those that support contributions as revenue also argue that benefits are expenses. An expense is defined in the Framework as “decreases in the net financial position, other than decreases arising from ownership distributions”. Benefits paid or payable reduce the plan assets and thus the net financial position of an entity.

Contributions as ownership contributions

19. Staff have also been informed that some retirement benefit plans consider contributions to be equity. Equity is not a term used in the Framework but ‘ownership contributions’ is the public sector equivalent. Ownership contributions are defined in the Framework as “inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity”. Staff and Task Force agree that contributions could meet the aspects of this definition regarding ‘contributed by external parties’ and ‘establish or increase an interest in the net financial position of the entity’. However, the unknown aspect is whether those that make the contributions (employers and employees) to the plan are the owners of the plan.
20. Staff and Task Force are of the view that the owners of a retirement benefit plan are those that will receive any balance in the fund in the event of a plan being wound up. That is, if a retirement benefit plan is to close, the recipient of any residual balance in the fund after all the member benefit obligations have been paid would be considered the owner. Therefore, the ‘owner’ may depend on the specifics of the plan – some plans may state that any residual will go to participants, while other plans may state that any residual will go to the sponsor of the plan (usually the employer). Note that there would only be a residual if the plan was over funded.
21. Like the discussion on contributions as revenue above at paragraph 17, the concept of the argument that contributions are ownership contributions is not affected by whether the plan is a defined contribution plan or a defined benefit plan.

Benefits paid and payable as ownership distributions

22. Ownership distributions are defined in the Framework as “outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity”. If contributions are considered to be ownership contributions, and

⁵ Note that if contributions are considered a liability (as discussed above), then the transaction would be an equal increase in assets and liabilities, thus no increase in net financial position.

the participants to the plan are the owners, then benefits paid and payable would reduce the net financial position of the entity and the definition of ownership distributions is met.

Approach taken by other standard setters

23. Staff reviewed the retirement benefit plan standards from five other standard setters to determine:

- (a) If contributions and benefits were classified as any particular element; and
- (b) How contributions and benefits are presented in the financial statements.

This limited review revealed no consensus on either the classification of contributions and benefits, nor on how they are presented in financial statements. Details are in [Appendix B](#).

Task Force Discussion

24. As noted above, there are various views about how contributions and benefits could be classified and presented. The actual classification of contributions and benefits as one particular type of element may be dependent on the specifics of the retirement benefit plan and staff and Task Force query whether it is necessary to put a 'label' on contributions and benefits.

25. Staff and Task Force are mindful that an IPSAS adapted from IAS 26 will be applicable across many jurisdictions and therefore must be flexible enough to account for variances in retirement benefit plan design and regulation. For example, a retirement benefit plan regulation may stipulate that investment managers costs are paid by the plan – that is out of contributions and/or investment earnings. In this scenario a portion of contributions may be considered revenue because they will contribute to paying administrative expenses, and the remaining contributions may be a liability to participants. However, another retirement benefit plan may stipulate that investment manager costs are paid by the public sector entity that provides the retirement benefits for employees, and therefore contributions may be classified differently. It is likely that the retirement benefit plan design and regulation will be key in determining how contributions and benefits should be classified.

26. Staff and Task Force consider that the classification of contributions and benefits as particular elements is not important: what is important is that the financial statements of a retirement benefit plan provide relevant information for users. As noted in Agenda Item 9.2.3 of the June 2021 IPSASB meeting, contributions to, and benefits paid and payable from, a retirement benefit plan are regarded as important information.

27. The financial statements prepared by a retirement benefit plan are specific to retirement benefit plans and differ from those prepared under IPSAS 1, *Presentation of Financial Statements*. The requirements of an IPSAS adapted from IAS 26 will override the requirements of IPSAS 1., At the June 2021 IPSASB meeting the Board decided that an IPSAS adapted from IAS 26 would require a retirement benefit plan to prepare:

- (a) A statement of financial position;
- (b) A statement of changes in net assets available for benefits;
- (c) A cash flow statement;
- (d) Notes to the financial statements; and
- (e) Information on the changes in pension obligations.

28. Staff and Task Force are of the view that how a retirement benefit plan treats contributions and benefits will affect the financial statements. For example, if a retirement benefit plan considers contributions and benefits to be revenue and expenses these line items will be presented on the face of the statement of changes in net assets available for benefits because they contribute to the increase and decrease of the net financial position. [Appendix C](#) provides an illustrative example of this statement of changes in net assets available for benefits. This statement includes line items for contributions (employer and employee) and for benefits paid. Staff and Task Force decided not to use the terms 'revenue' and 'expenses' but rather use receipts/inflows and payments/outflows respectively.
29. However, if a retirement benefit plan takes the view that contributions are a liability and benefits paid are a reduction in that liability then these would not appear as line items on the statement of changes in net assets available for benefits, but rather as line items in a statement of changes in pension obligations. A statement of changes in pension obligations is a reconciliation of the opening and closing balances of the actuarial present value of promised retirement benefits. [Appendix D](#) provides examples of the statement of changes in net assets available for benefits and the statement of changes in pension obligations if this approach is taken.
30. How a retirement benefit plan classifies contributions and benefits will also impact on how these transactions are classified in the cash flow statement. For example, if contributions and benefits are considered to be revenue and expenses, they are likely to be considered as operating activities. However, if contributions and benefits are considered to be a liability and a reduction in that liability, they may be considered financing activities. At this stage, staff and Task Force are not certain whether a cash flow statement prepared by a retirement benefit plan will be prepared under IPSAS 2, *Cash Flow Statements* in its entirety but it is intended to use IPSAS 2 as a guide.

Conclusion

31. Staff and Task Force are of the view that the most important aspect to consider in the context of contributions and benefits is that the information is presented in a way that is useful to the users of the financial statements of the particular retirement benefit plan. The classification of contributions and benefits may depend on how a retirement benefit plan is designed and any regulations it may be subject to. Therefore, staff and Task Force consider that an IPSAS adapted from IAS 26 should be silent on the classification of contributions and benefits as particular elements, but application guidance and illustrative examples coupled with implementation guidance should be included to illustrate different approaches a retirement benefit plan may take.

Decision

32. Does the Taskforce agree with the recommendation made at paragraph 2?

The Conceptual Framework paragraphs 5.2 – 5.3

- 5.2 Financial statements portray the financial effects of transactions and other events by grouping them into broad classes which share common economic characteristics. These broad classes are termed the elements of financial statements. Elements are the building blocks from which financial statements are constructed. These building blocks provide an initial point for recording, classifying and aggregating economic data and activity in a way that provides users with information that meets the objectives of financial reporting and achieves the qualitative characteristics of financial reporting while taking into account the constraints on information included in GPFRs⁶
- 5.3 The elements defined in this Chapter do not refer to the individual items that are recognized as a result of transactions and events. Sub-classification of individual items within an element and aggregations of items are used to enhance the understandability of the financial statements. Presentation is addressed in Chapter 8, *Presentation in General Purpose Financial Reports*.
- 5.4 In some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements as defined in this Chapter may be necessary. Consequently, the identification of the elements in this Chapter does not preclude IPSASs from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in the Chapter (hereafter referred to as “other resources” or “other obligations”) when necessary to better achieve the objectives of financial reporting

⁶ General Purpose Financial Reports.

Review of approaches taken by other Standard Setters

Australia

1. AASB 1056, *Superannuation Entities* classifies contributions received as liabilities and benefits paid as a settlement of those liabilities. The standard preceding AASB 1056, AAS 25, *Financial Reporting by Superannuation Plans* considered contributions, rollovers and other inward transfers to be revenue, and benefits to members were treated as expenses. However, during the development of AASB 1056 the AASB changed its view, paragraphs BC83--BC84 explain.

BC83 The AASB decided this treatment [in AAS 25] should not be retained because:

- (a) For defined contribution members, member contributions transfers and rollovers and employer contributions fully vest in members and are payable to, or on behalf of, members upon demand (if they rollover their benefits to another superannuation entity or meet a condition of release) and therefore give rise to liabilities; and
- (b) Employer contributions on behalf of defined benefit members assist in funding the obligations to such members.

BC 84 Accordingly, the AASB concluded these flows increase the liabilities of superannuation entities and benefit payments reduce those liabilities, and they are not in the nature of revenues and expenses.

2. Contributions and benefits to members are presented in the statement of changes in member benefits and form part of the reconciliation from the opening and closing balance of the member benefits obligation. This member benefits obligation⁷ is shown on the face of the statement of financial position.

Canada

3. Section 4600, *Pension Plans* does not classify contributions and benefits to an element. Contributions (both sponsors and participants) are presented in the statement of changes in net assets and represent an increase in the plan's net assets. Benefits paid are presented in a statement of changes in pension obligations and represent a reduction in the plan's pension obligation.

New Zealand

4. NZ IAS 26, *Accounting and Reporting by Retirement Benefit Plans* is based on IAS 26 and therefore requires contributions (employer and employee) and benefits paid or payable to be presented as separate line items in a statement of changes in net assets available for benefits.

⁷ This is the same as the actuarial present value of promised retirement benefits in IAS 26.

5. NZ IAS 26 does not specifically classify contributions and benefits paid as any element. However, when NZ IAS 26 was developed, extra requirements for the statement of changes in net assets were included, which do seem to classify contributions and benefits paid as revenue and expenses. For example, paragraph NZ 35.6 requires the disclosure of ‘revenues, other than investment revenues and contribution inflows ...’ – implying that contributions are revenue. Similarly, paragraphs NZ 35.2 and NZ 35.4 requires the disclosure of ‘expenses other than benefit outflows ...’ – implying that benefit outflows are an expense.

South Africa

6. The South African pensions regulator sets the financial reporting requirements for pension fund reporting in the Regulatory Reporting Requirements for Retirement Funds. These requirements specifically state that contributions are recognized as income and that benefit payments are recognized as an expense and are presented in the statement of changes of net assets and funds.

UK Government

7. The Government Financial Reporting Manual also uses IAS 26 as a base for reporting by retirement benefit plans. Therefore, contributions and benefits paid are not classified as elements. Public sector retirement benefit plans in the UK are required to prepare financial statements using proforma financial statements. These require contributions to be accounted for as income (revenue) and pension benefits payable to be accounted for as a decrease in liabilities.

Statement of Changes in Net Assets Available for Benefits

(Contributions as receipts/inflows and Benefits Paid as payments/outflows)

For year ended December 31, 20X2

(In thousands of currency units)

	20X2	20X1
Net Assets Available for Benefits at the beginning of the year	X	X
Investment Income		
Net change in fair value of investments	X	X
Interest income	X	X
Dividend income	X	X
Other income		
Contributions		
Employer contributions	X	X
Employee contributions	X	X
Total Increases in Net Assets Available for Benefits	X	X
Benefits payable	X	X
Administrative expenses	X	X
Investment related expenses	X	X
Other expenses	X	X
Taxes on income	X	X
Total Decreases in Net Assets Available for Benefits	X	X

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Surplus or deficits on disposal of investments and changes in fair value of investments	X	X
Transfers to and from other plans	X	X
Net increase/decrease in assets available for benefits	X	X
Net assets available for benefits at end of year	X	X

Statement of Changes in Net Assets Available for Benefits

(Contributions as a liability and benefits paid as a reduction in that liability)

For year ended December 31, 20X2

(In thousands of currency units)

	20X2	20X1
Net Assets Available for Benefits at the beginning of the year	X	X
Investment Income		
Net change in fair value of investments	X	X
Interest income	X	X
Dividend income	X	X
Other income		
Total Increases in Net Assets Available for Benefits	X	X
Administrative expenses	X	X
Investment related expenses	X	X
Other expenses	X	X
Taxes on income	X	X
Total Decreases in Net Assets Available for Benefits	X	X
Surplus or deficits on disposal of investments and changes in fair value of investments	X	X
Transfers to and from other plans	X	X
Net increase/decrease in assets available for benefits	X	X
Net assets available for benefits at end of year	X	X

Statement of Changes in Retirement Benefit Obligations

(Contributions as a liability and benefits paid as a reduction in that liability)

For year ended December 31, 20X2

(In thousands of currency units)

	20X2	20X1
Retirement benefit obligations at the beginning of the year	X	X
Contributions		
Employer contributions	X	X
Employee contributions	X	X
Transfers from other retirement benefit plans	X	X
Total Increases in Retirement Benefit Obligations	X	X
Benefits payable	X	X
Taxes on contributions	X	X
Transfers to other retirement benefit plans	X	X
Total Decreases in Retirement Benefit Obligations	X	X
Changes in actuarial assumptions	X	X
Net increase/decrease in Retirement Benefit Obligations	X	X
Retirement Benefit Obligations at end of year	X	X

Definitions in IAS 26 for use in [draft] ED

Question

1. Whether there is any public sector reason to amend in an IPSAS adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* the definitions for:
 - (a) Defined benefit plans;
 - (b) Defined contribution plans; and
 - (c) Actuarial present value of promised retirement benefits.

Recommendation

2. Staff and Task Force recommend that in an IPSAS adapted from IAS 26 the definitions be retained for:
 - (a) Defined benefit plans;
 - (b) Defined contribution plans; and
 - (c) Actuarial present value of promised retirement benefits.

Background

3. This paper will consider the definitions in IAS 26 and IPSAS 39 that are either the same or similar and determine if it is appropriate to replace the IAS 26 definitions with those in IPSAS 39 for use in an IPSAS adapted from IAS 26.

Analysis

4. IAS 26 notes at paragraph 4 that IAS 19, *Employee Benefits*, is concerned with the determination of the cost of retirement benefits in the financial statements of employers having plans. Hence IAS 26 complements IAS 19. IAS 26 and IAS 19 have some crossover with concepts and definitions.
5. IPSAS 39 is the IPSAS equivalent of IAS 19. Because IAS 26 complements IAS 19, an IPSAS adapted from IAS 26 will also complement IPSAS 39. Therefore, there will also be a crossover of concepts and definitions.
6. Staff and Task Force reviewed the definitions in IAS 26 to determine if any were different or similar to those in existing IPSAS and found that two terms were already defined in IPSAS 39, and another has a similar concept to an already defined term:
 - (a) Defined benefit plans (already defined in IPSAS 39);
 - (b) Defined contribution plans (already defined in IPSAS 39); and
 - (c) Actuarial present value of promised retirement benefits (similar in concept to 'present value of defined benefit obligation' as defined in IPSAS 39).

7. The following table compares these three definitions.

IAS 26	IPSAS 39
<p>Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employee's earnings and/or years of service.</p>	<p>Defined benefit plans are post-employment plans other than defined contribution plans.</p>
<p>Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.</p>	<p>Defined contribution plans are post-employment plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.</p>
<p>Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.</p>	<p>The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected payments required to settle the obligation resulting from employee service in the current and prior periods.</p>

8. Staff and Task Force acknowledge that having *defined benefit plans* and *defined contribution plans* defined twice in the suite of IPSAS, with slightly different wording, may be confusing for users. However, staff and Task Force are of the view that the definitions in IPSAS 39 do not fully explain the difference between the plans. For example, the IPSAS 39 definition for a defined benefit plan is a 'catch all' for all "post-employment plans other than defined contribution plans". Therefore, this definition does not describe what a 'defined benefit plan' actually is and also includes other post-employment plans that may not be related to retirement benefits. The Board decided at the June 2021 meeting that the scope of an IPSAS adapted from IAS 26 would not be expanded to include other plans that provide benefits. In contrast, the IAS 26 definition of a defined benefit plan describes it as a plan that provides retirement benefits using a formula based on an employee's earnings and/or years of service. Staff and Taskforce also consider that the IPSAS 39 definition of a defined contribution plan does not accurately reflect the features of this type of plan. For example, that definition only refers to contributions made by the entity (employer) and does not take into consideration that employees may also contribute to their defined contribution plan. In this respect the IPSAS 39 definition is written from the view of the reporting entity. In contrast, the IAS 26 definition is written in the context of the retirement plan as the reporting entity and thus describes a defined contribution plan in terms of retirement benefits being determined by contributions and investment earnings.
9. Regarding the definition of 'actuarial present value of promised retirement benefits', the staff and Task Force consider that, although this definition is very similar to the IPSAS 39 definition for the

'present value of defined benefit obligations', the IAS 26 definition is not limited to defined benefit plans. Staff and Task Force acknowledge that in the majority of circumstances the present value of the promised retirement benefit will relate to defined benefit plans. However, it is possible to have an unfunded defined contribution plan where the investment earnings are 'virtual', In this circumstance the actuarial present value of promised retirement benefits would include the obligation owed for such a plan.

10. Staff and Task Force are also of the view that including the word 'actuarial' is an important signpost that this obligation arises from an actuarial calculation. Further one Task Force member provided comments from their actuary which highlighted the subtle difference between the IAS 26 and IPSAS 39 definitions. This being that the key difference is that the actuarial present value of promised retirement benefits involves the payment being contingent on a set of circumstances (e.g., the participant being alive or dead). But the present value of defined benefit obligations is simply the benefit payment being made with 100% certainty. That is the actuarial present value of promised retirement benefits involves uncertainty and probability on the benefits being made. While the present value of defined benefit obligations assumes complete certainty.
11. For these reasons staff and Task Force consider that an IPSAS adapted from IAS 26 should retain the definitions as defined in IAS 26.

Decision Required

12. Does the IPSASB agree with the recommendation at paragraph 2?

REVIEW INSTRUCTIONS FOR [draft] ED XX, *Accounting and Reporting by Retirement Benefit Plans*

1. Attached is the first draft of Exposure Draft (ED) XX, *Accounting and Reporting by Retirement Benefit Plans* in two formats.
2. The first [draft] ED (Agenda Item 7.3.1) is in a table format which provides the cross-referencing to IAS 26, *Accounting and Reporting by Retirement Benefit Plans* paragraphs and indicates if an IAS 26 paragraph has been retained and/or moved to either, another place in the ED, to the Application Guidance or Basis for Conclusions. This [draft] ED is in a 'marked-up' form – IAS 26 text is either in black or green (if moved) and new text is blue, deleted text is red.
3. The second [draft] ED (Agenda Item 7.3.2) is in the format of an ED as it would be published and is a 'clean' version.
4. When developing this [draft] ED, staff and Task Force were conscious each retirement benefit plan may have its own design and/or regulation. Therefore, an IPSAS to be applied by retirement benefit plans must be flexible to cater for any differences between plans.
5. The [draft] ED is intended to reflect the decisions made by the Taskforce and Board to date. These include:
 - (a) The scope would not be extended to other benefit plans;
 - (b) The reporting entity is the retirement benefit plan;
 - (c) The financial statements to be prepared by a retirement benefit plan include:
 - (i) A statement of financial position;
 - (ii) A statement of changes in net assets available for benefits;
 - (iii) A cash flow statement; and
 - (iv) Notes to the financial statements.
 - (d) Information on the changes in pension obligations (either as a financial statement or in the notes to the financial statements) should also be prepared;
 - (e) The actuarial present value of promised retirement benefits shall be calculated using projected salaries;
 - (f) Plan assets shall be measured at fair value;
 - (g) The actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position;
 - (h) Contributions and benefits paid shall not be classified as any particular element; and
 - (i) The IAS 26 definitions for defined benefit plans, defined contribution plans and the actuarial present value of promised retirement benefits will be retained.

6. As this is a preliminary draft ED, some of these decisions may not yet be fully reflected and staff and Task Force recognize there is still work to be done on the Application Guidance, Basis for Conclusions, and Illustrative Examples.
7. However, staff and Taskforce are seeking views on:
 - (a) The direction of the ED to date, such as the reorganizing of the paragraphs in IAS 26 into a [draft] ED;
 - (b) Which aspects of the [draft] ED should have application guidance; and
 - (c) Which Specific Matters for Comments should be included?

TABLE FORMAT

Standard

Notes	[DRAFT] IPSAS [X] (ED XX), Accounting and Reporting by Retirement Benefit Plans	IAS 26?
Paragraph 1 is based on the objective paragraphs of other IPSAS	Objective	No. IAS 26 has no objective
	8. The objective of this [draft] Standard is to prescribe the accounting and reporting requirements for retirement benefit plans.	
	Scope	No Standard IPSAS scope paragraph, replacing IAS 26.1
	9. An retirement benefit plan that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard.	
	This Standard shall be applied in the financial statements of retirement benefit plans where such financial statements are prepared.	IAS 26.1
	10. Retirement benefit plans are sometimes referred to by various other names, such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'. This [draft] Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan and from the participants themselves . All other Standards apply to the financial statements of retirement benefit plans to the extent that they are not superseded by this Standard.	IAS 26.2 Deleted text moved to AG10 and expanded on.
	11. This [draft] Standard deals with accounting and reporting by the plan to all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.	IAS 26.3
	12. IAS-19 IPSAS 39 , <i>Employee Benefits</i> is concerned with the determination of the cost of retirement benefits in the financial statements of employers having plans. Hence this [draft] Standard complements IAS-19 IPSAS 39 .	IAS 26.4

Notes	[DRAFT] IPSAS [X] (ED XX), Accounting and Reporting by Retirement Benefit Plans	IAS 26?
Staff consider part of scope	13. <u>Retirement benefit plans are normally described as either defined contribution plans or defined benefit plans, each having their own distinctive characteristics. Occasionally plans exist that contain characteristics of both. Such hybrid plans are considered to be defined benefit plans for the purposes of this [draft] Standard.</u>	IAS 26.12
	14. Retirement benefit plans may be defined contribution plans or defined benefit plans. Many retirement benefit plans require the creation of separate funds, which may or may not have separate legal identity and may or may not have trustees, to which contributions are made and from which retirement benefits are paid. This [draft] Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.	IAS 26.5
	15. Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this [draft] Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company.	IAS 26.6
	16. This [draft] Standard does not deal with other forms of employment benefits such as employment termination indemnities payments, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security type arrangements are also excluded from the scope of this [draft] Standard (see IPSAS 42, Social Benefits).	IAS 26.7
	Definitions	IAS 26.8
Definitions put into alphabetical order	17. The following terms are used in this [draft] Standard with the meanings specified:	

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
See AG12 Moved from below	<u>Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.</u>	
Moved below	Retirement benefit plans are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices.	
Moved from below	<u>Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.</u>	
	Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.	
Moved above	Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.	
	Funding is the transfer of assets to an entity (the fund plan) separate from the employer's entity to meet future obligations for the payment of retirement benefits.	
Not needed	For the purposes of this Standard the following terms are also used:	
Moved from below	<u>Net assets available for benefits are the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits.</u>	
	Participants are the members of a retirement benefit plan and others who are entitled to benefits under the plan.	

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
Moved above	Net assets available for benefits are the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits.	
Moved above	Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.	
Moved from above	<u>Retirement benefit plans are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices.</u>	
	Vested benefits are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.	
Standard paragraph for IPSAS	<u>Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately.</u>	
	Some retirement benefit plans have sponsors other than employers; this Standard also applies to the financial statements of such plans.	IAS 26.9 moved to AG6
	Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired a degree of obligation as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.	IAS 26.10 moved to AG7

Notes	[DRAFT] IPSAS [X] (ED XX), Accounting and Reporting by Retirement Benefit Plans	IAS 26?
	Many retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. Those parties are called trustees in some countries. The term trustee is used in this Standard to describe such parties regardless of whether a trust has been formed.	IAS 26.11 moved to AG8
	Retirement benefit plans are normally described as either defined contribution plans or defined benefit plans, each having their own distinctive characteristics. Occasionally plans exist that contain characteristics of both. Such hybrid plans are considered to be defined benefit plans for the purposes of this Standard.	IAS 26.12 moved to paragraph 6 above
	Defined contribution plans	Deleted
	The financial statements of a defined contribution plan shall contain a statement of net assets available for benefits and a description of the funding policy.	IAS 26.13 Not needed see paragraph 20(g)
	Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's obligation is usually discharged by contributions to the fund. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.	IAS 26.14 moved to AG26
	The participants are interested in the activities of the plan because they directly affect the level of their future benefits. Participants are interested in knowing whether contributions have been received and proper control has been exercised to protect the rights of beneficiaries. An employer is interested in the efficient and fair operation of the plan.	IAS 26.15 moved to AG27

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
	<p>The objective of reporting by a defined contribution plan is periodically to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements including the following:</p> <ul style="list-style-type: none"> (a) a description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions; (b) statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and (c) a description of the investment policies. 	IAS 26.16 moved to AG1
	Defined benefit plans	
	<p>The financial statements of a defined benefit plan shall contain either:</p> <ul style="list-style-type: none"> (d) a statement of financial position that shows: <ul style="list-style-type: none"> (i) the net assets available for benefits; (ii) the actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits; and (iii) the resulting excess or deficit.; or 	<p>IAS 26.17 (part of) Not needed See paragraph 16</p> <hr/> <p>Not needed See paragraph Error! Reference source not found.</p> <hr/> <p>Not needed see paragraph 16(i)</p>
	<ul style="list-style-type: none"> (e) a statement of net assets available for benefits including either: <ul style="list-style-type: none"> (i) a note disclosing the actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits; or (ii) reference to this information in an accompanying actuarial report. 	IAS 26.17 (part of)
	<p>If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation shall be used as a base and the date of the valuation disclosed.</p>	IAS 26.17 (part of) Moved to paragraph 12

Notes	[DRAFT] IPSAS [X] (ED XX), Accounting and Reporting by Retirement Benefit Plans	IAS 26?
The decision to use projected salaries was made by the TF at Call #3	For the purposes of paragraph 17 XX, the actuarial present value of promised retirement benefits shall be based on the benefits promised under the terms of the plan on service rendered to date using either current salary levels or projected salary levels with disclosure of the basis used. The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits shall also be disclosed.	IAS 26.18 (part of) – moved to paragraph 11 IAS 26.18 (part of) moved to paragraph 21(c)
	The financial statements shall explain the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.	IAS 26.19 – moved to disclosures paragraph 21(d)
	Under a defined benefit plan, the payment of promised retirement benefits depends on the financial position of the plan and the ability of contributors to make future contributions to the plan as well as the investment performance and operating efficiency of the plan.	IAS 26.20 moved to AG13
	A defined benefit plan needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels.	IAS 26.21 moved to AG14
	The objective of reporting by a defined benefit plan is periodically to provide information about the financial resources and activities of the plan that is useful in assessing the relationships between the accumulation of resources and plan benefits over time. This objective is usually achieved by providing financial statements including the following: (f) a description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions; (g) statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; (h) actuarial information either as part of the statements or by way of a separate report; and (i) a description of the investment policies	IAS 26.22 moved to AG2
	<u>Recognition and Measurement</u>	New heading

Notes	[DRAFT] IPSAS [X] (ED XX), Accounting and Reporting by Retirement Benefit Plans	IAS 26?
	Actuarial present value of promised retirement benefits	
Decision made at the TF Call #3	18. For the purposes of paragraph Error! Reference source not found., the <u>The actuarial present value of promised retirement benefits shall be based on the benefits promised under the terms of the plan on service rendered to date using either current salary levels or projected salary levels with disclosure of the basis used.</u>	IAS 26.18
	The present value of the expected payments by a retirement benefit plan may shall be calculated and reported using current salary levels or projected salary levels up to the time of retirement of participants.	IAS 26.23 Not needed says the same as paragraph 11
	<p><u>The reasons given for adopting a current salary approach include:</u></p> <ul style="list-style-type: none"> (a) <u>the actuarial present value of promised retirement benefits, being the sum of the amounts presently attributable to each participant in the plan, can be calculated more objectively than with projected salary levels because it involves fewer assumptions;</u> (b) <u>increases in benefits attributable to a salary increase become an obligation of the plan at the time of the salary increase; and</u> (c) <u>the amount of the actuarial present value of promised retirement benefits using current salary levels is generally more closely related to the amount payable in the event of termination or discontinuance of the plan.</u> 	IAS 26.24 moved to BC10

Notes	[DRAFT] IPSAS [X] (ED XX), Accounting and Reporting by Retirement Benefit Plans	IAS 26?
	<p>Reasons given for adopting a projected salary approach include:</p> <ul style="list-style-type: none"> (d) financial information should be prepared on a going concern basis, irrespective of the assumptions and estimates that must be made; (e) under final pay plans, benefits are determined by reference to salaries at or near retirement date; hence salaries, contribution levels and rates of return must be projected; and (f) failure to incorporate salary projections, when most funding is based on salary projections, may result in the reporting of an apparent overfunding when the plan is not overfunded, or in reporting adequate funding when the plan is underfunded. 	IAS 26.25 moved to BC11
	<p>The actuarial present value of promised retirement benefits based on current salaries is disclosed in the financial statements of a plan to indicate the obligation for benefits earned to the date of the financial statements. The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding. In addition to disclosure of the actuarial present value of promised retirement benefits, sufficient explanation may need to be given so as to indicate clearly the context in which the actuarial present value of promised retirement benefits should be read. Such explanation may be in the form of information about the adequacy of the planned future funding and of the funding policy based on salary projections. This may be included in the financial statements or in the actuary's report.</p>	IAS 26.26 moved to AG16
	<i>Frequency of actuarial valuations</i>	Not needed
	19. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation shall be used as a base and the date of the valuation disclosed.	IAS 26.17 (part of)
	<p>In many countries, actuarial valuations are not obtained more frequently than every three years. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is used as a base and the date of the valuation disclosed.</p>	IAS 26.27 Moved to AG17

Notes	[DRAFT] IPSAS [X] (ED XX), Accounting and Reporting by Retirement Benefit Plans	IAS 26?
	<u>Valuation of Plan Assets</u>	Moved from before IAS 26.32
The TF agreed that all plan assets should be measured at FV – sentence deleted to align with ED 77.	20. Retirement benefit plan investments shall be carried <u>measured</u> at fair value. In the case of marketable securities fair value is market value. Where plan investments are held for which an estimate of fair value is not possible disclosure shall be made of the reason why fair value is not used.	IAS 26.32
	<u>Presentation and Disclosure</u>	New Heading
	<u>Presentation of Financial Statements</u>	New Heading
The Board decided that a RBP shall prepare these financial statements	21. The financial statements of a A retirement benefit plan, whether defined benefit or defined contribution, shall also contain present the following information: (a) a statement of changes in net assets available for benefits. A statement of financial position; (b) <u>A statement of changes in net assets available for benefits;</u> (c) <u>A cash flow statement; and</u> (d) <u>Notes to the financial statements.</u> a summary of significant accounting policies; and a description of the plan and the effect of any changes in the plan during the period.	IAS 26.34 Moved to paragraph 20(a)-20(b)
No decision about whether this information should be in a statement or note has been made.	22. <u>A retirement benefit plan shall also explain the changes in retirement benefit obligations to participants either by:</u> (a) <u>Presenting a statement of changes in retirement benefit obligations; or</u> (b) <u>Disclosing in the notes to the financial statements a reconciliation between the opening and closing retirement benefit obligation balances.</u>	New paragraph

Notes	[DRAFT] IPSAS [X] (ED XX), Accounting and Reporting by Retirement Benefit Plans	IAS 26?
	Financial Statement Content statement content	
	<i>Statement of Financial Position</i>	New heading
	<p>23. <u>As a minimum, the face of the statement of financial position shall include line items that present the following amounts (if applicable):</u></p> <ul style="list-style-type: none"> (a) <u>Plan assets (suitably classified);</u> (b) <u>Employer contributions receivable;</u> (c) <u>Employee contributions receivable;</u> (d) <u>Other assets;</u> (e) <u>Liabilities excluding obligations to participants;</u> (f) <u>Liabilities for payments due to participants;</u> (g) <u>Net assets available for benefits ((35(a))-(35(f))</u> (h) <u>Obligations to participants⁸; and</u> (i) <u>Excess or deficit of funding ((35(g))-(35(h)).</u> 	New paragraph
	<p>24. <u>Notwithstanding the requirements of paragraph 16, for defined benefit plans the actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position.</u></p>	
	<i>Statement of Changes in Net Assets Available for Benefits</i>	New heading

⁸ For a defined benefit plan this obligation is the actuarial present value of promised retirement benefits.

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
See AG20-AG23 for guidance on another approach	<p>25. <u>As a minimum the a statement of changes in net assets available for benefits showing the shall include line items that present the following amounts (if applicable and as appropriate):</u></p> <ul style="list-style-type: none"> (a) (i) <u>employer contributions;</u> (b) (ii) <u>employee contributions;</u> (c) (iii) <u>investment income such as interest and dividends;</u> (d) (iv) <u>other income;</u> (e) (v) <u>benefits paid or payable (analysed, for example, as retirement, death and disability benefits, and lump sum payments);</u> (f) <u>transfers from and to other plans;</u> (g) (vi) <u>administrative expenses;</u> (h) (vii) <u>other expenses;</u> (i) (viii) <u>taxes on income; and</u> (j) (ix) <u>fits and losses surplus or deficit on disposal of investments and changes in value of investments.</u> <p>(x) transfers from and to other plans;</p>	IAS 26.36(b)
	<i>Cash Flow Statement</i>	New heading
	26. A retirement benefit plan shall prepare a statement of cash flows.	New paragraph AG provided

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
	<p>For defined benefit plans, information is presented in one of the following formats which reflect different practices in the disclosure and presentation of actuarial information:</p> <ul style="list-style-type: none"> (a) a statement is included in the financial statements that shows the net assets available for benefits, the actuarial present value of promised retirement benefits, and the resulting excess or deficit. The financial statements of the plan also contain statements of changes in net assets available for benefits and changes in the actuarial present value of promised retirement benefits. The financial statements may be accompanied by a separate actuary's report supporting the actuarial present value of promised retirement benefits; (b) financial statements that include a statement of net assets available for benefits and a statement of changes in net assets available for benefits. The actuarial present value of promised retirement benefits is disclosed in a note to the statements. The financial statements may also be accompanied by a report from an actuary supporting the actuarial present value of promised retirement benefits; and (c) financial statements that include a statement of net assets available for benefits and a statement of changes in net assets available for benefits with the actuarial present value of promised retirement benefits contained in a separate actuarial report. <p>————— In each format a trustees' report in the nature of a management or directors' report and an investment report may also accompany the financial statements.</p>	<p>IAS 26.28 – moved to BC12</p>

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
	<p>Those in favour of the formats described in paragraph 28(a) and (b) believe that the quantification of promised retirement benefits and other information provided under those approaches help users to assess the current status of the plan and the likelihood of the plan's obligations being met. They also believe that financial statements should be complete in themselves and not rely on accompanying statements. However, some believe that the format described in paragraph 28(a) could give the impression that a liability exists, whereas the actuarial present value of promised retirement benefits does not in their opinion have all the characteristics of a liability.</p>	<p>IAS 26.29 – moved to BC13</p>
	<p>Those who favour the format described in paragraph 28(c) believe that the actuarial present value of promised retirement benefits should not be included in a statement of net assets available for benefits as in the format described in paragraph 28(a) or even be disclosed in a note as in paragraph 28(b), because it will be compared directly with plan assets and such a comparison may not be valid. They contend that actuaries do not necessarily compare actuarial present value of promised retirement benefits with market values of investments but may instead assess the present value of cash flows expected from the investments. Therefore, those in favour of this format believe that such a comparison is unlikely to reflect the actuary's overall assessment of the plan and that it may be misunderstood. Also, some believe that, regardless of whether quantified, the information about promised retirement benefits should be contained solely in the separate actuarial report where a proper explanation can be provided.</p>	<p>IAS 26.30 – moved to BC14</p>

Notes	[DRAFT] IPSAS [X] (ED XX), Accounting and Reporting by Retirement Benefit Plans	IAS 26?
	<p>This Standard accepts the views in favour of permitting disclosure of the information concerning promised retirement benefits in a separate actuarial report. It rejects arguments against the quantification of the actuarial present value of promised retirement benefits. Accordingly, the formats described in paragraph 28(a) and (b) are considered acceptable under this Standard, as is the format described in paragraph 28(c) so long as the financial statements contain a reference to, and are accompanied by, an actuarial report that includes the actuarial present value of promised retirement benefits.</p>	IAS 26.31 - moved to BC15
	All plans	Deleted
	Valuation of plan assets	Moved to before paragraph 13
	<p>Retirement benefit plan investments shall be carried at fair value. In the case of marketable securities fair value is market value. Where plan investments are held for which an estimate of fair value is not possible disclosure shall be made of the reason why fair value is not used.</p>	IAS 26.32
	<p>In the case of marketable securities fair value is usually market value because this is considered the most useful measure of the securities at the report date and of the investment performance for the period. Those securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity. Where plan investments are held for which an estimate of fair value is not possible, such as total ownership of an entity, disclosure is made of the reason why fair value is not used. To the extent that investments are carried at amounts other than market value or fair value, fair value is generally also disclosed. Assets used in the operations of the fund are accounted for in accordance with the applicable Standards <u>IPSAS</u>.</p>	IAS 26.33 moved to AG18

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
	Disclosure	
	<p>27. <u>The notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall disclose the following:</u></p> <ul style="list-style-type: none"> (a) <u>A summary of significant accounting policies; and</u> (b) <u>A description of the plan and the effect of any changes in the plan during the period;</u> (c) <u>The basis of for the valuation of assets;</u> (d) <u>Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security;</u> (e) <u>Details of any investment in the employer;</u> (f) <u>Liabilities other than the actuarial present value of promised retirement benefits; and</u> (g) <u>A description of the funding policy.</u> 	<p>New lead sentence</p> <p>IAS 26.34 (b) and (c)</p> <p>IAS 26.35 (ii)-(v)</p>
<p>AG28-AG30</p> <p>For further information</p>		<p>IAS 26.35(c)</p>
	<p>The financial statements of a defined contribution plan shall contain a statement of net assets available for benefits description of the funding policy.</p>	<p>IAS 26.13</p> <p>Not required provided at paragraph 20(g)</p>
	<p>The financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall also contain the following information:</p> <ul style="list-style-type: none"> a statement of changes in net assets available for benefits; A a summary of significant accounting policies; and A a description of the plan and the effect of any changes in the plan during the period. 	<p>IAS 26.34 – moved above to paragraph 14(a) and 20(a)-20(b)</p>
		<p>IAS 26.35</p>

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
	<p>Financial statements provided by retirement benefit plans include the following, if applicable:</p> <p>a statement of net assets available for benefits disclosing:</p> <p>assets at the end of the period suitably classified;</p> <p>‡</p> <p>the basis of valuation of assets;</p> <p>details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security;</p> <p>— details of any investment in the employer;</p> <p>and</p> <p>— liabilities other than the actuarial present value of promised retirement benefits;</p>	<p>Included in paragraph 14 (now statement of financial position)</p> <p>Included in paragraph 16(a)</p> <p>Include in paragraph 20(c)-(f)</p>
	<p>(h) a statement of changes in net assets available for benefits showing the following:</p> <p>(i) — employer contributions;</p> <p>(ii) — employee contributions;</p> <p>(iii) — investment income such as interest and dividends;</p> <p>(iv) — other income;</p> <p>(v) — benefits paid or payable (analysed, for example, as retirement, death and disability benefits, and lump sum payments);</p> <p>(vi) — administrative expenses;</p> <p>(vii) — other expenses;</p> <p>(viii) — taxes on income;</p> <p>(ix) — surplus or deficits on disposal of investments and changes in value of investments; and</p> <p>(x) — transfers from and to other plans;</p>	<p>IAS 26.35 (part of) moved to paragraph 18</p>
		<p>IAS 26.35 (part of)</p>

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
	(i) a description of the funding policy;	Moved to paragraph 20(g)
28.	<u>For defined benefit plans the following shall also be disclosed in the notes to the financial statements:</u>	New lead paragraph
	<p>(a) for defined benefit plans, The the actuarial present value of promised retirement benefits (which may distinguish between vested benefits and non-vested benefits) based on the benefits promised under the terms of the plan, on service rendered to date and using either current salary levels or projected salary levels; this information may be included in an accompanying actuarial report to be read in conjunction with the related financial statements;</p> <p>(b) for defined benefit plans, A a description of the significant actuarial assumptions made, and the method used to calculate the actuarial present value of promised retirement benefits;</p>	IAS 26.35 (d)-(e) amended
	(c) The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits shall also be disclosed, and	IAS 26.18 (part of)
	(d) The financial statements shall <u>An explanation of explain the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.</u>	IAS 26.19

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
Preference is to not refer to external reports that the entity has not control over.	29. The report of a retirement benefit plan contains a description of the plan, either as part of the financial statements or in a separate report . It may contain the following: <ul style="list-style-type: none"> (a) The the names of the employers and the employee groups covered; (b) The the number of participants receiving benefits and the number of other participants, classified as appropriate; (c) The the type of plan—defined contribution or defined benefit; (d) A a note as to whether participants contribute to the plan; (e) A a description of the retirement benefits promised to participants; (f) A a description of any plan termination terms; and (g) Changes changes in items (a) to (f) during the period covered by the report. 	IAS 26.36
Preference is to not refer to external reports that the entity has not control over.	It is not uncommon to refer to other documents that are readily available to users and in which the plan is described, and to include only information on subsequent changes.	
	Effective-date Date and Transition	
	Effective Date	
	30. This <u>[draft]</u> Standard becomes operative for financial statements of retirement benefit plans covering periods beginning on or after <u>XX XXX 20XX</u> 1 January 1988 .	IAS 26.37
	<u>Transition</u>	
	31. XXXX	

Application Guidance

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
	<p>Appendix A</p> <p>Application Guidance</p> <p><i>This appendix is an integral part of [draft] IPSAS [X] (ED XX)</i></p>	
	<u>Objective</u>	
	<p><u>AG1.</u> <u>The objective of reporting by a defined contribution plan is periodically to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements including the following:</u></p> <p><u>(a) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;</u></p> <p><u>(b) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and</u></p> <p><u>(c) A description of the investment policies.</u></p>	IAS 26.16
	<p><u>AG2.</u> <u>The objective of reporting by a defined benefit plan is periodically to provide information about the financial resources and activities of the plan that is useful in assessing the relationships between the accumulation of resources and plan benefits over time. This objective is usually achieved by providing financial statements including the following:</u></p> <p><u>(a) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;</u></p> <p><u>(b) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period;</u></p> <p><u>(c) Actuarial information about the retirement benefit obligations, including the measurement basis either as part of the statements or by way of a separate report; and</u></p> <p><u>(d) A description of the investment policies</u></p>	IAS 26.22

	<p><u>AG3.</u> <u>Another objective of this [draft] Standard is to improve the transparency and accountability of governments by providing information that is useful to users about a government’s obligations in respect of employee’s promised retirement benefits.</u></p> <p><u>AG4.</u> <u>Many governments provide pensions for their employees by way of a multi-employer plan or state plan. Multi-employer plans and state plans are defined in IPSAS 39^{9,10}. Multi-employer plans and state plans can be either defined benefit plans or defined contribution plans. However, for entities providing defined benefit pensions for employees using either a multi-employer or state plan, IPSAS 39, <i>Employee Benefits</i> allows entities to use defined contribution accounting if there is insufficient information to use defined benefit accounting. This has the potential to underestimate the actual obligation owed to employees when that entity applies IPSAS 39. Therefore, the full obligation owed by governments may be unknown.</u></p> <p><u>AG5.</u> <u>Therefore, to achieve the objective of improved government transparency and accountability this [draft] Standard] requires retirement benefit plans to present, on the face of the financial statements, the estimated present value of promised retirement benefits based on type of plan. For example, defined benefit plans will present this obligation based on a defined benefit basis and a defined contribution plan will present this obligation on a defined contribution basis.</u></p>	<p>New paragraph</p>
	<p><u>Scope</u></p>	
<p>Staff consider AG in nature</p>	<p><u>AG6.</u> <u>Some retirement benefit plans have sponsors other than employers; this [draft] Standard also applies to the financial statements of such plans.</u></p>	<p>IAS 26.9</p>

⁹ Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) Pool the assets contributed by various entities that are not under common control; and

(b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

¹⁰ State plans are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

Staff consider AG in nature	AG7. <u>Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired a degree of obligation as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.</u>	IAS 26.10
Staff consider AG in nature	AG8. <u>Many retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. Those parties are called trustees in some countries. The term trustee is used in this [draft] Standard to describe such parties regardless of whether a trust has been formed.</u>	IAS 26.11
	AG9. <u>Retirement benefit plans can also be classified as single employer, multi-employer, or state plans. That classification may have an impact the application of IPSAS 39 but does not alter the application of this [draft] Standard.</u>	
	AG10. <u>All other IPSAS apply to the financial statements of retirement benefit plans to the extent that they are not superseded by this [draft] Standard. For example, any plan assets that are financial instruments would be accounted for under IPSAS 41, <i>Financial Instruments</i>.</u>	IAS 26.2 (Part of) and new text
	AG11. <u>Further this [draft] Standard sets out in paragraph (X) which financial statements a retirement benefit plan shall prepare. Therefore, the requirements of this [draft] Standard supersede the requirements of IPSAS 1, <i>Presentation of Financial Statements</i>.</u>	

	<u>Definitions</u>	
	<p><u>AG12.</u> This [draft] Standard defines the actuarial present value of promised retirement benefits. As noted in paragraph 5, this [draft] Standard complements IPSAS 39, <i>Employee Benefits</i>. IPSAS 39 includes a definition of the 'present value of a defined benefit obligation' as being the present value without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. Both defined terms result in arriving at an obligation, in IPSAS 39 the obligation is for the employer to a retirement benefit plan, and in this [draft] Standard the obligation is from the retirement benefit plan to the participants of the plan.</p>	
	<p><u>AG13.</u> Under a defined benefit plan, the payment of promised retirement benefits depends on the financial position of the plan and the ability of contributors to make future contributions to the plan as well as the investment performance and operating efficiency of the plan.</p>	IAS 26.20
	<p><u>AG14.</u> A defined benefit plan needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels.</p>	IAS 26.21
	<p><u>AG15.</u> Defined contributions plans differ from defined benefit plans in that the amounts to be paid as retirement benefits are determined by the amount of contributions to a participant's plan together with investment earnings.</p>	IAS 26.16

	<u>Recognition and Measurement</u>	
	<u>Actuarial Present Value of Promised Retirement Benefits</u>	
	<p><u>AG16. The actuarial present value of promised retirement benefits based on current salaries is disclosed in the financial statements of a plan to indicate the obligation for benefits earned to the date of the financial statements. The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding. In addition to disclosure of the actuarial present value of promised retirement benefits, sufficient explanation may need to be given so as to indicate clearly the context in which the actuarial present value of promised retirement benefits should be read. Such explanation may be in the form of information about the adequacy of the planned future funding and of the funding policy based on salary projections. This may be included in the financial statements or in the actuary's report.</u></p>	IAS 26.26
Footnote added	<p><u>AG17. In many countries, actuarial valuations are not obtained more frequently than every three years. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is used as a base and the date of the valuation disclosed.¹¹</u></p>	IAS 26.27

¹¹ [The requirements for the frequency of actuarial valuation may be established by a jurisdiction's retirement benefit plan regulator.](#)

	<u>Valuation of Plan Assets</u>	
	<p><u>AG18. This [draft] Standard requires all plan assets to be measured at fair value. In the case of marketable securities fair value is usually market value because this is considered the most useful measure of the securities at the report date and of the investment performance for the period. Those securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity. Where plan investments are held for which an estimate of fair value is not possible, such as total ownership of an entity, disclosure is made of the reason why fair value is not used. To the extent that investments are carried at amounts other than market value or fair value, fair value is generally also disclosed. Assets used in the operations of the fund are accounted for in accordance with the applicable Standards IPSAS.</u></p>	IAS 26. 33
	<u>Presentation and Disclosure</u>	
	<u>Financial Statements</u>	
	<u>Statement of Financial Position</u>	
	<p><u>AG19. Plan assets are to be shown on the face of the statement of financial position and suitably classified. This requires grouping assets of a similar nature. For example, as equities, short-term deposits, and investment funds.</u></p>	
	<u>Statement of Changes in Net Assets Available for Benefits</u>	
	<p><u>AG20. The line items shown in the statement of changes in net assets available for benefits are only those that are directly attributable to the plan. Whether some amounts are directly attributable to a plan may depend on the terms of a plan. For example, some retirement benefit plans may specify that some administrative costs, for example, the salaries of investment managers of the plan are paid out of administrative fees drawn from investment income.</u></p>	

	<p><u>AG21.</u> <u>Line items in the statement of changes in net assets available for benefits may differ depending on how the retirement benefit entity views contributions and benefits paid.</u></p> <p><u>AG22.</u> <u>Some retirement benefit plans consider contributions to be receipts/inflows and benefits paid to be payments/outflows, in which case these line items would be shown on the face of the statement of changes in net assets available for benefits as they form part of the reconciliation of the opening and closing balance of net assets available for benefits.</u></p>	
	<u>Statement of Changes in Retirement Benefit Obligations</u>	
	<p><u>AG23.</u> <u>However, other retirement benefit plans may consider contributions to be a liability to participants and benefits paid to be a reduction of those liabilities. In these circumstances, the line items for contributions and benefits paid would be shown on the face of a statement of changes in retirement benefit obligations as these items form part of the reconciliation of the opening and closing balances for member obligations. Under this approach, these items would not be shown in the statement of changes in net assets available for benefits.</u></p>	
	<u>Cash Flow Statement (paragraph 19)</u>	
[note: add an illustrative example showing the differences]	<p><u>AG24.</u> <u>When preparing a cash flow statement, a retirement benefit plan should consider the requirements and guidance in IPSAS 2, <i>Cash Flow Statements</i> as much as practical.</u></p> <p><u>AG25.</u> <u>However, different retirement benefit plans may treat certain transactions differently. For example, contributions may be receipts/inflows or a liability to the participant, depending on the terms of the retirement benefit plan. Therefore, the classification of transactions as operating, investing, or financing cash flows may differ between plans.</u></p>	New paragraph
	<u>Disclosure</u>	

	<p><u>AG26.</u> <u>Defined contribution plans are required to provide a description of the funding policy this is because, under Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's obligation is usually discharged by contributions to the fund. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.</u></p>	IAS 26.14
	<p><u>AG27.</u> <u>The participants are interested in the activities of the plan because they directly affect the level of their future benefits. Participants are interested in knowing whether contributions have been received and proper control has been exercised to protect the rights of beneficiaries. An employer is interested in the efficient and fair operation of the plan.</u></p>	IAS 26.15
	<p><u>AG28.</u> <u>This [draft] Standard requires retirement benefit plans to provide a description of the funding policy. This description should include information about how a retirement benefit plan, intends to fund the payment of promised benefits.</u></p> <p><u>AG29.</u> <u>Information about how a plan intends to fund benefit payments may provide useful information to some users about the maturity of the retirement benefit plan. Funding predominantly from contributions may indicate a young plan whereas funding predominantly from returns on plans assets may indicate a more mature plan.</u></p> <p><u>AG30.</u> <u>information provided in disclosures should also reveal if the plan is funded or unfunded. If unfunded the description of the funding policy should provide information about how amounts due for promised benefits will be satisfied. For example, either by employee contributions or as funding from a central government or another entity.</u></p>	New paragraph
	<p><u>Effective Date and Transition</u></p>	

Basis for Conclusions

Notes	[DRAFT] IPSAS [X] (ED XX), <i>Accounting and Reporting by Retirement Benefit Plans</i>	IAS 26?
	Appendix B Basis for Conclusions	
	BC1. <i>BC about reason for doing project</i>	
	BC2. <i>The IPSASB discussed whether the scope of this [draft] Standard should be expanded to include benefit plans that have similar characteristics to retirement benefit plans but provide benefits other than retirement benefits. The IPSASB decided to retain the scope that is in IAS 26 because the primary purpose of the project is to provide guidance for accounting and reporting by retirement benefit plans. The IPSASB noted that application of this [draft] Standard by analogy would be appropriate under paragraph 12-15 of IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for plans that have characteristics similar to retirement benefit plans.</i>	
	BC3. <i>BC about reporting entity</i>	
	BC4. <i>BC about not expanding to other plans</i>	
	BC5. <i>BC about hybrid plans</i>	
	BC6. <i>BC about Multi employer plans</i>	

	<u>Definitions</u>	
This difference was advised to staff from an actuary.	<u>BC7.</u> The IPSASB discussed whether the definitions in IAS 26 were appropriate for this [draft] Standard. It was noted that the definition for actuarial present value of promised retirement benefit plans was similar to the definition for the present value of defined benefit obligations in IPSAS 39, <i>Employee Benefits</i> . It was decided to retain the definition in IAS 26 as the two terms while similar are not the same concept. The key difference is that the actuarial present value of promised retirement benefits involves the payment being contingent on a set of circumstances (e.g., the participant being alive or dead). But the present value of defined benefit obligations is simply the benefit payment being made with 100% certainty. That is the actuarial present value of promised retirement benefits involves uncertainty and probability on the benefits being made. While the present value of defined benefit obligations assumes complete certainty.	
	<u>BC8.</u> The IPSASB also noted that IAS 26 also defines 'defined benefit plans' and 'defined contribution plans' and that these terms are already defined in IPSAS 39 but slightly differently. However, the Board decided to retain the IAS 26 definitions for this [draft] Standard because they were written in the context of the retirement plan as the reporting entity and thus describes a defined contribution plan in terms of retirement benefits being determined by contributions and investment earnings.	
	Recognition and Measurement	
	Actuarial Present Value of Promised Retirement Benefits	
	<u>BC9.</u> <i>BC about why the Board decided for the projected salary approach</i>	

	<p><u>BC10. The reasons given for adopting a current salary approach include:</u></p> <ul style="list-style-type: none"> (a) <u>the actuarial present value of promised retirement benefits, being the sum of the amounts presently attributable to each participant in the plan, can be calculated more objectively than with projected salary levels because it involves fewer assumptions;</u> (b) <u>increases in benefits attributable to a salary increase become an obligation of the plan at the time of the salary increase; and</u> (c) <u>the amount of the actuarial present value of promised retirement benefits using current salary levels is generally more closely related to the amount payable in the event of termination or discontinuance of the plan.</u> 	IAS 26.24
	<p><u>BC11. Reasons given for adopting a projected salary approach include:</u></p> <ul style="list-style-type: none"> (a) <u>financial information should be prepared on a going concern basis, irrespective of the assumptions and estimates that must be made;</u> (b) <u>under final pay plans, benefits are determined by reference to salaries at or near retirement date; hence salaries, contribution levels and rates of return must be projected; and</u> (c) <u>failure to incorporate salary projections, when most funding is based on salary projections, may result in the reporting of an apparent overfunding when the plan is not overfunded, or in reporting adequate funding when the plan is underfunded.</u> 	IAS 26.25

	<u>Presentation of Financial Statements</u>	
	<p>BC12. <u>The IPSASB discussed the options in IAS 26 for presenting information. IAS 26 permitted that for For defined benefit plans, information is could be presented in one of the following formats which reflect different practices in the disclosure and presentation of actuarial information:</u></p> <p>(a) <u>a statement is included in the financial statements that shows the net assets available for benefits, the actuarial present value of promised retirement benefits, and the resulting excess or deficit. The financial statements of the plan also contain statements of changes in net assets available for benefits and changes in the actuarial present value of promised retirement benefits. The financial statements may be accompanied by a separate actuary's report supporting the actuarial present value of promised retirement benefits;</u></p> <p>(b) <u>financial statements that include a statement of net assets available for benefits and a statement of changes in net assets available for benefits. The actuarial present value of promised retirement benefits is disclosed in a note to the statements. The financial statements may also be accompanied by a report from an actuary supporting the actuarial present value of promised retirement benefits; and</u></p> <p>(c) <u>financial statements that include a statement of net assets available for benefits and a statement of changes in net assets available for benefits with the actuarial present value of promised retirement benefits contained in a separate actuarial report.</u></p> <p><u>In each format a trustees' report in the nature of a management or directors' report and an investment report may also accompany the financial statements.</u></p>	IAS 26.28

	<p><u>BC13. IAS 26 states that those Those in favour favor of the formats described in paragraph 28(a) BC12(a) and BC12(b) believe that the quantification of promised retirement benefits and other information provided under those approaches help users to assess the current status of the plan and the likelihood of the plan's obligations being met. They also believe that financial statements should be complete in themselves and not rely on accompanying statements. However, some believe that the format described in paragraph 28(a) BC12(a) could give the impression that a liability exists, whereas the actuarial present value of promised retirement benefits does not in their opinion have all the characteristics of a liability.</u></p>	IAS 26.29
	<p><u>BC14. IAS 26 further states that those Those who favour favor the format described in paragraph 28(e) BC12(c) believe that the actuarial present value of promised retirement benefits should not be included in a statement of net assets available for benefits as in the format described in paragraph 28(a) BC12(a) or even be disclosed in a note as in paragraph 28(b) BC12(b), because it will be compared directly with plan assets and such a comparison may not be valid. They contend that actuaries do not necessarily compare actuarial present value of promised retirement benefits with market values of investments but may instead assess the present value of cash flows expected from the investments. Therefore, those in favour favor of this format believe that such a comparison is unlikely to reflect the actuary's overall assessment of the plan and that it may be misunderstood. Also, some believe that, regardless of whether quantified, the information about promised retirement benefits should be contained solely in the separate actuarial report where a proper explanation can be provided.</u></p>	IAS 26.30

	<p><u>BC15.</u></p> <p><u>The IPSASB This [draft] Standard accepts rejected the views in favour of permitting disclosure of the information concerning promised retirement benefits only in notes to the financial statements or in a separate actuarial report. It rejects arguments against the quantification of the actuarial present value of promised retirement benefits. Accordingly, only the formats format described in paragraph BC12(a) 28(a) and (b) are is considered acceptable under this [draft] Standard, as is the format described in paragraph 28(c) so long as the financial statements contain a reference to, and are accompanied by, an actuarial report that includes the actuarial present value of promised retirement benefits.</u></p>	<p>IAS 26.31</p>
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Implementation Guidance

This guidance accompanies but is not part of [draft] IPSAS [X] (ED XX).

Statement of Financial Position

As at December 31, 20X2

(in thousands of currency units)

Assets	20X2	20X1
Cash and cash equivalents	X	X
Plan assets		
Equities	X	X
Short-term deposits	X	X
Investment funds	X	X
Contributions receivable		
Employer contributions	X	X
Employee contributions	X	X
Other assets	X	X
Total Assets	X	X
Liabilities		
Payables	X	X
Payments due to participants	X	X
Income tax payable	X	X
Total Liabilities excluding benefit obligations to participants	X	X
Net assets available for benefits	X	X
Benefit obligations to participants	X	X
Excess or deficit of funding	X	X

EXAMPLE A

Statement of Changes in Net Assets Available for Benefits

(Contributions as Receipts/Inflows and Benefits Paid as Payments/Outflows)

For year ended December 31, 20X2

(in thousands of currency units)

	20X2	20X1
Net Assets Available for Benefits at the beginning of the year	X	X
Investment Income		
Net change in fair value of investments	X	X
Interest income	X	X
Dividend income	X	X
Other income		
Contributions		
Employer contributions	X	X
Employee contributions	X	X
Total Increases in Net Assets Available for Benefits	X	X
Benefits paid	X	X
Administrative expenses	X	X
Investment related expenses	X	X
Other expenses	X	X
Taxes on income	X	X
Total Decreases in Net Assets Available for Benefits	X	X

Surplus or deficits on disposal of investments and changes in fair value of investments	X	X
Transfers to and from other plans	X	X
Net increase/decrease in assets available for benefits	X	X
Net assets available for benefits at end of year	X	X

EXAMPLE B

Statement of Changes in Net Assets Available for Benefits

(Contributions as a liability and benefits paid as a reduction in that liability)

For year ended December 31, 20X2

(in thousands of currency units)

	20X2	20X1
Net Assets Available for Benefits at the beginning of the year	X	X
Investment Income		
Net change in fair value of investments	X	X
Interest income	X	X
Dividend income	X	X
Other income		
Total Increases in Net Assets Available for Benefits	X	X
Administrative expenses	X	X
Investment related expenses	X	X
Other expenses	X	X
Taxes on income	X	X
Total Decreases in Net Assets Available for Benefits	X	X
Surplus or deficits on disposal of investments and changes in fair value of investments	X	X
Transfers to and from other plans	X	X
Net increase/decrease in assets available for benefits	X	X
Net assets available for benefits at end of year	X	X

Statement of Changes in Retirement Benefit Obligations

For year ended December 31, 20X2

(in thousands of currency units)

	20X2	20X1
Retirement benefit obligations at the beginning of the year	X	X
Contributions		
Employer contributions	X	X
Employee contributions	X	X
Transfers from other retirement benefit plans	X	X
Total Increases in Retirement Benefit Obligations	X	X
Benefits paid	X	X
Taxes on contributions	X	X
Transfers to other retirement benefit plans	X	X
Total Decreases in Retirement Benefit Obligations	X	X
Changes in actuarial assumptions	X	X
Net increase/decrease in Retirement Benefit Obligations	X	X
Retirement Benefit Obligations at end of year	X	X

Exposure Draft
[XXX 202X]
Comments due: [XXX XX, 202X]

IPSAS[®]

*Proposed International Public Sector Accounting
Standard[®]*

Accounting and Reporting by Retirement Benefit Plans

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

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IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, *Accounting and Reporting by Retirement Benefit Plans* was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [DATE].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

SMC's to be developed

- SMC on use of projected salaries
- SMC on whether retirement benefit plans should prepare a cash flow statement

TABLE OF CONTENTS PAGE

DRAFT

Objective

1. The objective of this [draft] Standard is to prescribe the accounting and reporting requirements for retirement benefit plans.

Scope

2. **An retirement benefit plan that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard.**
3. Retirement benefit plans are sometimes referred to by various other names, such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'. This [draft] Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan.
4. This [draft] Standard deals with accounting and reporting by the plan to all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.
5. IPSAS 39, *Employee Benefits* is concerned with the determination of the cost of retirement benefits in the financial statements of employers having plans. Hence this [draft] Standard complements IPSAS 39.
6. Retirement benefit plans are normally described as either defined contribution plans or defined benefit plans, each having their own distinctive characteristics. Occasionally plans exist that contain characteristics of both. Such hybrid plans are considered to be defined benefit plans for the purposes of this [draft] Standard.
7. Many retirement benefit plans require the creation of separate funds, which may or may not have separate legal identity and may or may not have trustees, to which contributions are made and from which retirement benefits are paid. This [draft] Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.
8. Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this [draft] Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company.
9. This [draft] Standard does not deal with other forms of employment benefits such as employment termination payments, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security arrangements are also excluded from the scope of this [draft] Standard (see IPSAS 42, *Social Benefits*).

Definitions

10. The following terms are used in this [draft] Standard with the meanings specified:

Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.

Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.

Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

Funding is the transfer of assets to an entity (the plan) separate from the employer's entity to meet future obligations for the payment of retirement benefits.

Net assets available for benefits are the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits.

Participants are the members of a retirement benefit plan and others who are entitled to benefits under the plan.

Retirement benefit plans are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices.

Vested benefits are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately.

Recognition and Measurement

Actuarial present value of promised retirement benefits

11. The actuarial present value of promised retirement benefits shall be based on the benefits promised under the terms of the plan on service rendered to date using projected salary levels.
12. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation shall be used as a base and the date of the valuation disclosed.

Valuation of Plan Assets

13. Retirement benefit plan investments shall be measured at fair value.

Presentation and Disclosure

Presentation of Financial Statements

14. **A retirement benefit plan, whether defined benefit or defined contribution, shall present the following:**
 - (a) **A statement of financial position;**
 - (b) **A statement of changes in net assets available for benefits;**
 - (c) **A cash flow statement; and**
 - (d) **Notes to the financial statements.**
15. **A retirement benefit plan shall also explain the changes in retirement benefit obligations to participants either by:**
 - (a) **Presenting a statement of changes in retirement benefit obligations; or**
 - (b) **Disclosing in the notes to the financial statements a reconciliation between the opening and closing retirement benefit obligation balances.**

Financial Statement Content

Statement of Financial Position

16. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts (if applicable):**
 - (a) **Plan assets (suitably classified);**
 - (b) **Employer contributions receivable;**
 - (c) **Employee contributions receivable;**
 - (d) **Other assets;**
 - (e) **Liabilities excluding obligations to participants;**
 - (f) **Liabilities for payments due to participants;**
 - (g) **Net assets available for benefits ((35(a)) -(35(f))**
 - (h) **Obligations to participants¹²; and**
 - (i) **Excess or deficit funding ((35(g)-(35(h))).**
17. **Notwithstanding the requirements of paragraph 16, for defined benefit plans the actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position.**

¹² For a defined benefit plan this obligation is the actuarial present value of promised retirement benefits.

Statement of Changes in Net Assets Available for Benefits

18. **As a minimum the statement of changes in net assets available for benefits shall include line items that present the following amounts (if applicable and as appropriate):**
- (a) **employer contributions;**
 - (b) **employee contributions;**
 - (c) **investment income such as interest and dividends;**
 - (d) **other income;**
 - (e) **benefits paid or payable (analysed, for example, as retirement, death and disability benefits, and lump sum payments);**
 - (f) **transfers from and to other plans;**
 - (g) **administrative expenses;**
 - (h) **other expenses;**
 - (i) **taxes on income; and**
 - (j) **surplus or deficits on disposal of investments and changes in value of investments.**

. Cash Flow Statement

19. **A retirement benefit plan shall prepare a statement of cash flows.**

Disclosure

20. The notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall disclose the following:
- (a) A summary of significant accounting policies;
 - (b) A description of the plan and the effect of any changes in the plan during the period;
 - (c) The basis for the valuation of assets;
 - (d) Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security;
 - (e) Details of any investment in the employer;
 - (f) Liabilities other than the actuarial present value of promised retirement benefits; and
 - (g) A description of the funding policy;
21. For defined benefit plans the following shall also be disclosed in the notes to the financial statements:
- (a) The actuarial present value of promised retirement benefits (which may distinguish between vested benefits and non-vested benefits) based on the benefits promised under the terms of the plan, on service rendered to date using projected salary levels;
 - (b) A description of the significant actuarial assumptions made, and the method used to calculate the actuarial present value of promised retirement benefits;

- (c) The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits; and
 - (d) An explanation of the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.
22. The report of a retirement benefit plan contains a description of the plan as part of the financial statements. It may contain the following:
- (a) The names of the employers and the employee groups covered;
 - (b) The number of participants receiving benefits and the number of other participants, classified as appropriate;
 - (c) The type of plan—defined contribution or defined benefit;
 - (d) A note as to whether participants contribute to the plan;
 - (e) A description of the retirement benefits promised to participants;
 - (f) A description of any plan termination terms; and
 - (g) Changes in items (a) to (f) during the period covered by the report.

Effective Date and Transition

Effective Date

23. This [draft] Standard becomes operative for financial statements of retirement benefit plans covering periods beginning on or after XX XXX 20XX.

Transition

24. [TO BE DETERMINED]

Application Guidance

This appendix is an integral part of [draft] IPSAS [X] (ED XX)

Objective

AG31. The objective of reporting by a defined contribution plan is periodically to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements including the following:

- (d) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;
- (e) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and
- (f) A description of the investment policies.

AG32. The objective of reporting by a defined benefit plan is periodically to provide information about the financial resources and activities of the plan that is useful in assessing the relationships between the accumulation of resources and plan benefits over time. This objective is usually achieved by providing financial statements including the following:

- (g) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;
- (h) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period;
- (i) Actuarial information about the retirement benefit obligations, including the measurement basis; and
- (j) A description of the investment policies.

AG33. Another objective of this [draft] Standard is to improve the transparency and accountability of governments, by providing information that is useful to users about a government's obligations in respect of employee's promised retirement benefits.

AG34. Many governments provide pensions for their employees by way of a multi-employer plan or state plan. Multi-employer plans and state plans are defined in IPSAS 39^{13,14}. Multi-employer plans and

¹³ Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

- (a) Pool the assets contributed by various entities that are not under common control; and
- (b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

¹⁴ State plans are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

state plans can be either defined benefit plans or defined contribution plans. However, for entities providing defined benefit pensions for employees using either a multi-employer or state plan, IPSAS 39, *Employee Benefits* allows entities to use defined contribution accounting if there is insufficient information to use defined benefit accounting. This has the potential to underestimate the actual obligation owed to employees when that entity applies IPSAS 39. Therefore, the full obligation owed by governments may be unknown.

[AG35.](#) Therefore, to achieve the objective of improved government transparency and accountability this [draft] Standard] requires retirement benefit plans to present. on the face of the financial statements. the estimated present value of promised retirement benefits based on type of plan. For example, defined benefit plans will present this obligation based on a defined benefit basis and a defined contribution plan will present this obligation on a defined contribution basis.

Scope

[AG36.](#) Some retirement benefit plans have sponsors other than employers; this [draft] Standard also applies to the financial statements of such plans.

[AG37.](#) Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired a degree of obligation as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.

[AG38.](#) Many retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. Those parties are called trustees in some countries. The term trustee is used in this [draft] Standard to describe such parties regardless of whether a trust has been formed.

[AG39.](#) Retirement benefit plans can also be classified as single employer, multi-employer, or state plans. That classification may have an impact the application of IPSAS 39 but does not alter the application of this [draft] Standard.

[AG40.](#) All other IPSAS apply to the financial statements of retirement benefit plans to the extent that they are not superseded by this [draft] Standard. For example, any plan assets that are financial instruments would be accounted for under IPSAS 41, *Financial Instruments*.

[AG41.](#) This [draft] Standard sets out in paragraph (X) which financial statements a retirement benefit plan shall prepare. Therefore, the requirements of this [draft] Standard supersede the requirements of IPSAS 1, *Presentation of Financial Statements*.

Definitions

[AG42.](#) This [draft] Standard defines the actuarial present value of promised retirement benefits. As noted in paragraph 5, this [draft] Standard complements IPSAS 39, *Employee Benefits*. IPSAS 39 includes a 'definition of the present value of a defined benefit obligation' as being the present value without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. Both defined terms result in arriving at an obligation, in IPSAS 39 the obligation is for the employer to a retirement benefit plan, and in this [draft] Standard the obligation is from the retirement benefit plan to the participants of the plan.

- [AG43.](#) Under a defined benefit plan, the payment of promised retirement benefits depends on the financial position of the plan and the ability of contributors to make future contributions to the plan as well as the investment performance and operating efficiency of the plan.
- [AG44.](#) A defined benefit plan needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels.
- [AG45.](#) Defined contributions plans differ from defined benefit plans in that the amounts to be paid as retirement benefits are determined by the amount of contributions to a participant's plan together with investment earnings.

Recognition and Measurement

Actuarial Present Value of Promised Retirement Benefits

- [AG46.](#) The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding. In addition to disclosure of the actuarial present value of promised retirement benefits, sufficient explanation may need to be given so as to indicate clearly the context in which the actuarial present value of promised retirement benefits should be read. Such explanation may be in the form of information about the adequacy of the planned future funding and of the funding policy based on salary projections.
- [AG47.](#) In many countries, actuarial valuations are not obtained more frequently than every three years. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is used as a base and the date of the valuation disclosed.¹⁵

Valuation of Plan Assets

- [AG48.](#) This [draft] Standard requires all plan assets to be measured at fair value. In the case of marketable securities fair value is usually market value because this is considered the most useful measure of the securities at the report date and of the investment performance for the period. Those securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity. Assets used in the operations of the fund are accounted for in accordance with the applicable IPSAS.

Presentation and Disclosure

Financial Statements

Statement of Financial Position

- [AG49.](#) Plan assets are to be shown on the face of the statement of financial position and suitably classified. This requires grouping assets of a similar nature. For example, as equities, short-term deposits, and investment funds.

¹⁵ The requirements for the frequency of actuarial valuation may be established by a jurisdiction's retirement benefit plan regulator.

Statement of Changes in Net Assets Available for Benefits

[AG50.](#) The line items shown in the statement of changes in net assets available for benefits are only those that are directly attributable to the plan. Whether some amounts are directly attributable to a plan may depend on the terms of a plan. For example, some retirement benefit plans may specify that some administrative costs, for example, the salaries of investment managers of the plan are paid out of administrative fees drawn from investment income.

[AG51.](#) Line items in the statement of changes in net assets available for benefits may differ depending on how the retirement benefit entity views contributions and benefits paid.

[AG52.](#) Some retirement benefit plans consider contributions to be receipts/inflows and benefits paid to be payments/outflows, in which case these line items would be shown on the face of the statement of changes in net assets available for benefits as they form part of the reconciliation of the opening and closing balance of net assets available for benefits.

Statement of Changes in Retirement Benefit Obligations

[AG53.](#) However, other retirement benefit plans may consider contributions to be a liability to participants and benefits paid to be a reduction of those liabilities. In these circumstances, the line items for contributions and benefits paid would be shown on the face of a statement of changes in retirement benefit obligations as these items form part of the reconciliation of the opening and closing balances for member obligations. Under this approach, these items would not be shown in the statement of changes in net assets available for benefits.

Cash Flow Statement (paragraph 20)

[AG54.](#) When preparing a cash flow statement, a retirement benefit plan should consider the requirements and guidance in IPSAS 2, *Cash Flow Statements* as much as practical.

[AG55.](#) However, different retirement benefit plans may treat certain transactions differently. For example, contributions may be receipts/inflows or a liability to the participant, depending on the terms of the retirement benefit plan. Therefore, the classification of transactions as operating, investing, or financing cash flows may differ between plans.

Disclosure

[AG56.](#) Defined contribution plans are required to provide a description of the funding policy this is because, under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's obligation is usually discharged by contributions to the fund. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.

[AG57.](#) The participants are interested in the activities of the plan because they directly affect the level of their future benefits. Participants are interested in knowing whether contributions have been received and proper control has been exercised to protect the rights of beneficiaries. An employer is interested in the efficient and fair operation of the plan.

[AG58.](#) This [draft] Standard requires retirement benefit plans to provide a description of the funding policy. This description should include information about how a retirement benefit plan, intends to fund the payment of promised benefits.

[AG59.](#) Information about how a plan intends to fund benefit payments may provide useful information to some users about the maturity of the retirement benefit plan. Funding predominantly from contributions may indicate a young plan whereas funding predominantly from returns on plans assets may indicate a more mature plan.

[AG60.](#) Information provided in disclosures should also reveal if the plan is funded or unfunded. If unfunded the description of the funding policy should provide information about how amounts due for promised benefits will be satisfied. For example, either by employee contributions or as funding from a central government or another entity.

Effective Date and Transition

[AG61.](#) XXXXX

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Amendments to Other IPSAS

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Appendix C**Basis for Conclusions**

- BC1. *BC about reason for doing project*
- BC2. The IPSASB discussed whether the scope of this [draft] Standard should be expanded to include benefit plans that have similar characteristics to retirement benefit plans but provide benefits other than retirement benefits. The IPSASB decided to retain the scope that is in IAS 26 because the primary purpose of the project is to provide guidance for accounting and reporting by retirement benefit plans. The IPSASB noted that application of this [draft] Standard by analogy would be appropriate under paragraph 12-15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* for plans that have characteristics similar to retirement benefit plans.
- BC3. *BC about reporting entity*
- BC4. *BC about not expanding to other plans*
- BC5. *BC about hybrid plans*
- BC6. *BC about Multi employer plans*

Definitions

- BC7. The IPSASB discussed whether the definitions in IAS 26 were appropriate for this [draft] Standard. It was noted that the definition for actuarial present value of promised retirement benefit plans was similar to the definition for the present value of defined benefit obligations in IPSAS 39, *Employee Benefits*. It was decided to retain the definition in IAS 26 as the two terms while similar are not the same concept. The key difference is that the actuarial present value of promised retirement benefits involves the payment being contingent on a set of circumstances (e.g., the participant being alive or dead). But the present value of defined benefit obligations is simply the benefit payment being made with 100% certainty. That is the actuarial present value of promised retirement benefits involves uncertainty and probability on the benefits being made. While the present value of defined benefit obligations assumes complete certainty.
- BC8. The IPSASB also noted that IAS 26 also defines 'defined benefit plans' and 'defined contribution plans' and that these terms are already defined in IPSAS 39 but slightly differently. However, the Board decided to retain the IAS 26 definitions for this [draft] Standard because they were written in the context of the retirement plan as the reporting entity and thus describes a defined contribution plan in terms of retirement benefits being determined by contributions and investment earnings.

Recognition and Measurement**Actuarial Present Value of Promised Retirement Benefits**

- BC9. *BC about why the Board decided for the projected salary approach*
- BC10. The reasons given for adopting a current salary approach include:

- (k) the actuarial present value of promised retirement benefits, being the sum of the amounts presently attributable to each participant in the plan, can be calculated more objectively than with projected salary levels because it involves fewer assumptions;
- (l) increases in benefits attributable to a salary increase become an obligation of the plan at the time of the salary increase; and
- (m) the amount of the actuarial present value of promised retirement benefits using current salary levels is generally more closely related to the amount payable in the event of termination or discontinuance of the plan.

BC11. Reasons given for adopting a projected salary approach include:

- (n) financial information should be prepared on a going concern basis, irrespective of the assumptions and estimates that must be made;
- (o) under final pay plans, benefits are determined by reference to salaries at or near retirement date; hence salaries, contribution levels and rates of return must be projected; and
- (p) failure to incorporate salary projections, when most funding is based on salary projections, may result in the reporting of an apparent overfunding when the plan is not overfunded, or in reporting adequate funding when the plan is underfunded.

Presentation of Financial Statements

BC12. The IPSASB discussed the options in IAS 26 for presenting information. IAS 26 permitted that for defined benefit plans, information could be presented in one of the following formats which reflect different practices in the disclosure and presentation of actuarial information:

- (q) a statement is included in the financial statements that shows the net assets available for benefits, the actuarial present value of promised retirement benefits, and the resulting excess or deficit. The financial statements of the plan also contain statements of changes in net assets available for benefits and changes in the actuarial present value of promised retirement benefits. The financial statements may be accompanied by a separate actuary's report supporting the actuarial present value of promised retirement benefits;
- (r) financial statements that include a statement of net assets available for benefits and a statement of changes in net assets available for benefits. The actuarial present value of promised retirement benefits is disclosed in a note to the statements. The financial statements may also be accompanied by a report from an actuary supporting the actuarial present value of promised retirement benefits; and
- (s) financial statements that include a statement of net assets available for benefits and a statement of changes in net assets available for benefits with the actuarial present value of promised retirement benefits contained in a separate actuarial report.

In each format a trustees' report in the nature of a management or directors' report and an investment report may also accompany the financial statements.

BC13. IAS 26 states that those in favor of the formats described in paragraph BC10(a) and BC10(b) believe that the quantification of promised retirement benefits and other information provided under those approaches help users to assess the current status of the plan and the likelihood of the plan's obligations being met. They also believe that financial statements should be complete in themselves and not rely on accompanying statements. However, some believe that the format described in paragraph BC10(a) could give the impression that a liability exists, whereas the

actuarial present value of promised retirement benefits does not in their opinion have all the characteristics of a liability.

- BC14. IAS 26 further states that those who favor the format described in paragraph BC10(c) believe that the actuarial present value of promised retirement benefits should not be included in a statement of net assets available for benefits as in the format described in paragraph BC10(a) or even be disclosed in a note as in paragraph BC10(b), because it will be compared directly with plan assets and such a comparison may not be valid. They contend that actuaries do not necessarily compare actuarial present value of promised retirement benefits with market values of investments but may instead assess the present value of cash flows expected from the investments. Therefore, those in favor of this format believe that such a comparison is unlikely to reflect the actuary's overall assessment of the plan and that it may be misunderstood. Also, some believe that, regardless of whether quantified, the information about promised retirement benefits should be contained solely in the separate actuarial report where a proper explanation can be provided.
- BC15. The IPSASB rejected permitting disclosure of the information concerning promised retirement benefits only in notes to the financial statements or in a separate actuarial report. Accordingly, only the format described in paragraph BC10(a) is acceptable under this [draft] Standard.

Implementation Guidance

This guidance accompanies but is not part of [draft] IPSAS [X] (ED XX).

Statement of Financial Position

As at December 31, 20X2

(In thousands of currency units)

Assets	20X2	20X1
Cash and cash equivalents	X	X
Plan assets		
Equities	X	X
Short-term deposits	X	X
Investment funds	X	X
Contributions receivable		
Employer contributions	X	X
Employee contributions	X	X
Other assets	X	X
Total Assets	X	X
Liabilities		
Payables	X	X
Payments due to participants	X	X
Income tax payable	X	X
Total Liabilities excluding benefits obligations to participants	X	X
Net assets available for benefits	X	X
Benefit obligations to participants	X	X
Excess or deficit of funding	X	X

EXAMPLE A**Statement of Changes in Net Assets Available for Benefits****(Contributions as Receipts/Inflows and Benefits Paid as Payments/Outflows)****For year ended December 31, 20X2**

(In thousands of currency units)

	20X2	20X1
Net Assets Available for Benefits at the beginning of the year	X	X
Investment Income		
Net change in fair value of investments	X	X
Interest income	X	X
Dividend income	X	X
Other income		
Contributions		
Employer contributions	X	X
Employee contributions	X	X
Total Increases in Net Assets Available for Benefits	X	X
Benefits paid	X	X
Administrative expenses	X	X
Investment related expenses	X	X
Other expenses	X	X
Taxes on income	X	X
Total Decreases in Net Assets Available for Benefits	X	X
Surplus or deficits on disposal of investments and changes in fair value of investments	X	X
Transfers to and from other plans	X	X
Net increase/decrease in assets available for benefits	X	X
Net assets available for benefits at end of year	X	X

EXAMPLE B**Statement of Changes in Net Assets Available for Benefits****(Contributions as a liability and benefits paid as a reduction in that liability)****For year ended December 31, 20X2**

(In thousands of currency units)

	20X2	20X1
Net Assets Available for Benefits at the beginning of the year	X	X
Investment Income		
Net change in fair value of investments	X	X
Interest income	X	X
Dividend income	X	X
Other income		
Total Increases in Net Assets Available for Benefits	X	X
Administrative expenses	X	X
Investment related expenses	X	X
Other expenses	X	X
Taxes on income	X	X
Total Decreases in Net Assets Available for Benefits	X	X
Surplus or deficits on disposal of investments and changes in fair value of investments	X	X
Transfers to and from other plans	X	X
Net increase/decrease in assets available for benefits	X	X
Net assets available for benefits at end of year	X	X

EXAMPLE B continued.

Statement of Changes in Retirement Benefit Obligations

For year ended December 31, 20X2

(In thousands of currency units)

	20X2	20X1
Retirement benefit obligations at the beginning of the year	X	X
Contributions		
Employer contributions	X	X
Employee contributions	X	X
Transfers from other retirement benefit plans	X	X
Total Increases in Retirement Benefit Obligations	X	X
Benefits paid	X	X
Taxes on contributions	X	X
Transfers to other retirement benefit plans	X	X
Total Decreases in Retirement Benefit Obligations	X	X
Changes in actuarial assumptions	X	X
Net increase/decrease in Retirement Benefit Obligations	X	X
Retirement Benefit Obligations at end of year	X	X

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