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DATE: 25 MAY 2006
MEMO TO: MEMBERS OF THE IPSASB
FROM: JOHN STANFORD
SUBJECT: EMPLOYEE BENEFITS-GOVERNMENT EMPLOYEES

ACTION REQUIRED

The Members are asked to:

- **Consider** the revised draft of an IPSAS, ED XX, "*Employee Benefits*" and approve for issue or give directions for further development.

AGENDA MATERIAL

		Pages
10.2	Revised draft EDXX, "Employee Benefits" marked up version	10.7 – 10.111

ED OF IPSAS XX, EMPLOYEE BENEFITS BASED ON IAS 19

Agenda Item 10.2 is a revised draft of an ED on Employee Benefits, based on IAS 19, "Employee Benefits". The ED is presented in marked-up format, highlighting changes from the preliminary draft ED considered at the Tokyo meeting. A clean copy is available from staff on request.

The revised ED maintains the approach in the preliminary ED of retaining the illustrative examples in IAS 19 with narrative change only to reflect the different terminology used by the IPSASB. The ED reflects a number of minor modifications and editorial changes highlighted both at the Tokyo meeting and out of session by Members and Technical Advisers.

Further issues are highlighted as follows:

(a) Discount Rate

At the Tokyo meeting it was agreed that further advice should be sought from those with expertise and experience in identifying the discount rate for determining the present value of liabilities relating to obligations arising from defined benefit pension plans, which applies the principles in IAS 19 to the public sector. Advice was sought on 3 issues:

1. The appropriate discount rate for discounting obligations related to public sector defined benefit plans which adopts the principles of IAS 19;
2. Whether different tiers of government (eg, national/state/local) should use different discount rates; and
3. The appropriate rate for jurisdictions that do not have a deep market in government bonds.

With the support of members and observers input has been (is expected to be) received from the following:

- OECD Pensions Committee;
- South African Actuary with Links to IASB;
- Actuary suggested by staff of UK Accounting Standards Board;
- Actuary involved in implementation of IAS 19 in Swiss public sector; and
- Actuary who presented to the Task Force on Employers Retirement Schemes (still to come).

Staff are grateful to the Swiss Public Member, the South African and US members and the OECD Observer for their help in liaising with actuaries and the input received. A summary of the Staff interpretation of the views of these individuals is shown below. Further comments received between the date of this memorandum and the Paris meeting will be interpreted and tabled. Copies of correspondence are available from Staff on request.

Consultee	*Issue 1*	*Issue 2*	*Issue 3*
OECD Pensions Committee	Government Bonds	Same rate for all tiers	No View Given
South African Actuary with links to IASB	Same for both sectors-high quality corporate bonds	Same rate for all tiers	Acknowledges topicality and complexity of issue. Leave to preparers to determine
UK Actuary	No View Given	Same rate for all tiers	No View Given
Swiss Actuary	Same for both sectors-high quality corporate bonds	Same rate for all tiers	High quality corporate bonds if available

Two of the three respondents who put forward a view on the appropriate discount rate could see no rationale for adopting a discount rate for public sector entities that differs for profit-oriented entities and public sector entities. The UK Actuary declined to comment on all but the issue of different discount rates on the basis that he did not have sufficient expertise in the public sector.

The South African Actuary suggested that there is no persuasive rationale for having a different rate for the public and private sector. However, this expert also considered that "it is arguable that the appropriate discount rate would be the yield on government bonds that match the term of the liabilities" for both public sector and private sector schemes.

The Swiss actuary recommended the use of high quality corporate bonds, but also said that he was unclear why the IASB decided to use high quality corporate bond yields rather than government bond yields. The Swiss actuary also noted that in Switzerland there is no deep market in corporate bonds, so the discount rate actually used is derived from the yield in government bonds with an adjustment to reflect a risk premium between government bonds and AA corporate bonds.

Conversely, the OECD Pensions Committee considered government bonds to be the appropriate discount rate. Staff and the OECD Observer have sought further input on the underlying rationale for this view and will provide any update at the forthcoming meeting.

Issue 1

Based on these responses Staff considers that there are 3 options:

1. Retain the requirement in the preliminary draft ED considered at Tokyo that the discount rate should be based on the yield on government bonds;
2. Adopt the requirement in IAS 19 that the discount rate should be based on the yield on high quality corporate bonds; or
3. Specify that the discount rate should be a risk-free rate reflecting the time value of money, noting that, dependent upon prevailing circumstances in particular jurisdictions, this might be based on either high quality corporate bonds or government bonds.

Staff are of the view that Option 3 is potentially the best approach. Staff has strong reservations whether in the public sector in many jurisdictions, particularly those with developed economies, the risk-free rate will be best represented by yields on high quality corporate bonds. However, it is possible that there may be jurisdictions where the yield on government bonds is not the best representation of the risk-free rate, and therefore reliance on government bonds for determining the discount rate might lead to the use of high discount rates leading to unrealistically low carrying amounts for post employment benefit obligations.

Whilst Staff favors Option 3, it is questionable whether there is a public sector specific reason to depart from IAS 19. The responses from two of the experts, whilst suggesting some reservations about the use of a risk-free rate based on the yield on high quality corporate bonds, did not suggest that there should be different requirements for public sector and private sector entities. Staff has therefore adopted the requirements and commentary in IAS 19 (with modifications to reflect standard terminology in IPSASs) and have inserted alternative paragraphs providing the appropriate wording.

If Option 3 is adopted it will be necessary to include a definition of a risk-free discount rate. Therefore a boxed definition has been inserted at paragraph 10. Staff also considers that it would be appropriate to include additional and revised disclosure requirements in paragraph 140, requiring entities to disclose:

- the basis on which the discount rates have been determined including the jurisdiction from which the rates have been derived where this is external to that in which the entity is reporting; and
- the discount rate that would have been applied and the amount of the liability had the discount rate been based on yields on high quality corporate bonds (where yields on government bonds have been used) or yields on government bonds (where yields on high quality corporate bonds have been used).

These requirements have also been included in boxes in the text after paragraph 140. If these additional and revised disclosure requirements are adopted the numbering of the other disclosure items in paragraph 140 will be revised.

Paragraph BC6 of the Basis for Conclusions has been drafted to reflect a requirement that the discount rate is based on high quality corporate bonds. Boxed alternative paragraphs have been inserted if a decision is taken to depart from the approach in IAS 19 for discount rates.

Issue 2

All respondents agreed that there is no rationale for different discount rates for different tiers of government. Consistent with this response staff have not revised the ED to insert differential discount rate requirements.

Issue 3

IAS 19 does not provide guidance on this issue, so entities reporting under IFRS need to establish a policy. In this proposed IPSAS staff considers that in such cases it would be useful to provide guidance on the most appropriate approach to determining a discount rate. In the view of Staff such commentary would state that entities should determine a discount rate. based on either the yield on high quality corporate bonds or the yield on government bonds in a jurisdiction, which has similar economic characteristics to that in which the entity is operating, where there is a deep market. However, as with Issue 1, it is questionable whether there is a public sector specific reason to insert such commentary. Suggested commentary paragraphs are in boxes.

Members are asked to determine which of the approaches should be adopted or to provide alternative directions.

(b) Reimbursements

At the Tokyo meeting it was decided that there was no public sector reason to delete or modify the sections of IAS 19 on “Insurance Benefits” and “Reimbursements”. Although the black letter paragraph of the section of IAS 19 dealing with reimbursements is written in general terms the grey letter that follows focuses exclusively on reimbursements from qualifying insurance policies.

Discussions with stakeholders suggest that in the public sector reimbursements might arise from the legally binding commitments of other public sector entities. The commentary in paragraph 120 has therefore been modified to illustrate such public sector circumstances by using the example of a supra-national public sector body, whose national member governments have entered into a legally binding commitment to pay part or all of the expenditure required to settle defined benefit obligations of the supra-national body.

Members are asked to confirm the revised approach in the ED for reimbursements or provide alternative directions.

(c) IAS 19 Presentational Requirements for Actuarial Gains and Losses

Like IAS 19 this proposed IPSAS allows recognition of actuarial gains and losses in full in the period in which they occur outside net surplus and deficit provided that this is done consistently for all defined benefit plans and all actuarial gains and losses. In IAS 19 such actuarial gains and losses are presented in a “statement of recognised income and expense”.

This presentational requirement was effected by a consequential amendment in IAS 19 to IAS 1 in 2004. This amendment requires that a statement of changes in equity that comprises only certain specified items is titled a statement of recognised income and expense:

The requirement in IAS 19 also imposes a further constraint by prohibiting the inclusion of other items on the face of the statement of recognised income and expense when it is used to present actuarial gains and losses. Such items, which include the amounts of transactions with equity holders acting in their capacity as equity holders and changes in retained earnings, must be shown in notes rather than on the face of the statement.

This amendment was not part of the IASB’s Improvements Project and therefore post-dated the December 2003 cut-off point for ED 26. It is therefore not reflected in the proposed revised IPSAS 1 in ED 26. This proposed IPSAS, at paragraph 95, has been revised to reflect the requirement in IAS 19 and a consequential amendment has been made to IPSAS 1 (revised version in ED 26). The rationale is explained in paragraph BC8 of the Basis for Conclusions.

Members are asked to confirm the approach in the ED or provide alternative directions.

(d)Transitional Provisions

IAS 19 provides a transitional provision in relation to the liability computed under its provisions for obligations related to defined benefit plans. This transitional provision requires an entity to determine a transitional liability and deduct any liability already recognized under an existing accounting policy in order to obtain the increase in the liability. The increase in the liability can be expensed either immediately or over a period up to 5 years from the date of adoption of IAS 19. Any decrease in a liability is recognized immediately.

Although there is no wide-ranging evidence on the approach of public sector entities to the recognition of liabilities related to obligations arising from defined benefit plans it seems likely that many entities are not recognizing such liabilities at present and that, if so, a requirement to recognize the very substantial amounts arising from the requirements of this Standard over a 5 year period may create difficulties, particularly for the interface between financial reporting and .longer-term budgeting and other longer-term prospective information. Staff are of the view that a longer transitional period is justifiable and therefore suggests that a 10 year transitional period is appropriate. The requirement in paragraph example following paragraph 168 has been revised to illustrate an entity expensing the transitional liability over a ten year period. The rationale is explained in the Basis for Conclusions at paragraph BC10. A specific matter for comment (7) has been included on this issue.

The Standard includes two further transitional provisions relating to IAS 19 introduced by IFRS 1," First Time Adoption of International Financial Reporting Standards". The first in paragraphs 169 and 170 provides a further transitional provision for entities electing to use the corridor approach for the recognition of actuarial gains and losses. This relief allows a first time adopter to choose to recognize all cumulative actuarial gains and losses at the date of transition to IFRS. If the entity makes this election the accounting policy must be applied to all defined benefit plans. If it does so, the entity is not precluded from adopting the corridor approach for subsequent actuarial gains and losses. The second at paragraph 174 provides relief from disclosures requiring trend data for four years prior to the reporting period and allows such trend information to be built up prospectively.

Staff have also inserted a further transitional provision at paragraph 173 in respect of disclosures relating to defined benefit plans which require reconciliations between opening and closing balances on the basis that many entities will not have systems in place to provide opening balances and that it would be inappropriate for them to defer reporting under this proposed Standard. The rationale is provided at paragraph BC12 of the Basis for Conclusions.

The current IPSAS 1, "Presentation of Financial Statements" provides general relief from the inclusion of comparative information for all first time adopters of IPSASs. Paragraph 171 extends this relief to all first time adopters of this Standard. The rationale is provided in BC11of the Basis for Conclusions.

A general question on whether any of the transitional provisions included in the ED are unnecessary or additional transitional provisions are needed has been included as Specific Matter for Comment 8.

Members are asked to agree the approach to transitional provisions or provide alternative directions.

Exposure Draft

xxxx2006

Comments are requested by xxxx, 2006

Employee Benefits

IFAC

International Federation
of Accountants

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, *Employee Benefits*, for publication in May 2006. This proposed International Public Sector Accounting Standard may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **September 30, 2006**. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director

International Public Sector Accounting Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Email responses should be sent to: publicsectorpubs@ifac.org

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at http://www.ifac.org.

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ACKNOWLEDGMENT

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS. .

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSASs prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications of the IPSASB helpful, particularly Study 14, "Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities 2nd Edition".

Due Process and Timetable

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

comments received on the Exposure Draft and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for accounting for employee benefits, including post-retirement benefits.

Request for Comments

Comments are invited on any proposals in the Exposure Draft by ~~XX XX XX~~December 31 2006. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the specific issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including materials and examples contained in appendices) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The IPSASB would particularly value comment on whether you agree that:

1. The definition of ~~the~~ composite social security schemes in paragraph 10 is appropriate. If you do not agree that the definition is appropriate can you suggest an alternative definition?~~.~~

2. The accounting requirements for ~~the~~ composite social security schemes in paragraphs 46-48 are appropriate. Under the proposed accounting requirements reporting entities are required to account for obligations under composite social security schemes, which relate to consideration in exchange for service rendered by employees and ~~ex-~~former employees of the reporting entity, in the same way as for multi-employer plans. If you do not think that these requirements are appropriate can you suggest what the requirements ~~are appropriate~~for composite social security schemes should be?~~.~~

3. The discount rate used to discount post-employment benefit obligations should be determined by reference to market yields at the reporting date on high quality corporate bonds consistent with the currency and estimated term of the post-employment benefit obligations. (paragraph 90) , If you do not think that the discount rate should be based on market yields on high quality corporate bonds what approach do you think should be adopted in this proposed Standard?

Alternative Question 3 if Decision Made to Adopt Requirement That Discount Rate be a Risk-Free Rate Determined Either By Reference to High Quality Corporate Bonds or Government Bonds

3. The discount rate used to discount post-employment benefit obligations should be a risk free rate. determined by reference to yields at the reporting date on either high quality corporate bonds or government bonds of a currency and term consistent with the currency and estimated term of the post-employment benefit obligations (paragraph 90). If you do nor agree with this requirement what approach do you favor for determining the discount rate for discounting post-employment benefit obligations?

4. Where there is not a deep market in central government bonds, entities should use their judgment in adopting a discount rate based on yields at the reporting date on central government bonds in a jurisdiction where there is deep market for such bonds (paragraph 93).. If you do not agree with this approach what approach do you think that entities should adopt in determining a discount rate where there is not a deep market in their jurisdiction?

(Staff Note 1: Question 4 will not be necessary if decision is taken to be silent on this Issue)

5. Reporting entities should be permitted to adopt a policy of fully recognizing actuarial gains and losses in the period in which they occur in the Statement of Changes in ~~New Assets/Equity~~Revenue and Expense in accordance with paragraph 106. If you do not think that such a policy is appropriate what requirements in relation to actuarial gains and losses should be reflected in the Standard?

6. The disclosures required for post-employment benefits in paragraph 140 are appropriate. If you consider that they are unduly onerous what disclosures would you not require?. Conversely, if you think that the disclosures are inadequate what further disclosures would you include?

7. The transitional ~~arrangements~~ provision in paragraph 166, whereby an entity has ten years from the date of first adoption of this Standard in which to recognize the excess between the "transitional liability" determined under the requirements of this ED and any liability recognized under the previous accounting policy for the recognition of liabilities related to defined benefit plans, ~~are~~ is appropriate. If you do not think that ~~they are~~this transitional

provision is –appropriate what transitional provisions should be adopted in relation to liabilities related to defined benefit plans?

8. The other transitional provisions in paragraphs 169-175 are appropriate. If you think that certain of these transitional provisions are unnecessary or additional transitional provisions are needed please indicate what those provisions are.

IPSASED XX

EMPLOYEE BENEFITS

Acknowledgement

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 19 (revised December 2004), "Employee Benefits" published by the International Accounting Standards Board (IASB).The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation were established in 2001 to replace the International Accounting Standards Committee .(IASC). The International Accounting Standards (IASs) issued by IASC remain in force until they are amended or withdrawn by IASB. Extracts from IAS 19 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of IASB.

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EMPLOYEE BENEFITS

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

EMPLOYEE BENEFITS

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COMPARISON WITH IAS 19 (2004)

International Public Sector Accounting Standard ED xx "*Employee Benefits*" is set out in paragraphs ~~xx–xx~~1-176. All the paragraphs have equal authority except as note otherwise. IPSAS XX. should be read in the context of its objective, the Basis for Conclusions, and the "Preface to International Public Sector Accounting Standards". IPSAS 1 ~~1~~,"Presentation of Financial Statements" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

IN1. The Standard prescribes the accounting and disclosure by public sector entities for employee benefits. It is based on IAS 19, Employee Benefits. The Standard does not deal with reporting by retirement benefit plans (see the relevant international and national accounting standard dealing with accounting and reporting by retirement benefit plans).

IN2. The Standard identifies four categories of employee benefits:

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are payable twelve months or more after the end of the period, performance related bonuses , profit-sharing bonuses and deferred compensation; and

(d) termination benefits.

IN3. Benefits in all these categories are commonplace for public sector entities globally.

IN43. The Standard requires an entity to recognizse short-term employee benefits when an employee has rendered service in exchange for those benefits.

IN54. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. The Standard gives specific guidance on the classification of multi-employer plans, state plans, the composite social security scheme and plans with insured benefits. In addressing composite social security schemes the Standard states that that are not consideration in exchange for service rendered by public sector employees are not within the scope.

IN65. Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) or into a notional fund and will have no legal or constructive obligation to pay further contributions if the fund or notional fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Standard requires an entity to recognizse contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions.

IN7~~6~~. All other post-employment benefit plans are defined benefit plans. Defined benefit plans may be unfunded, or they may be wholly or partly funded. The Standard requires an entity to:

(a) account not only for its legal obligation, but also for any constructive obligation that arises from the entity's practices;

(b) determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recogniz~~s~~ed in the financial statements do not differ materially from the amounts that would be determined at the reporting date;

(c) use the Projected Unit Credit Method to measure its obligations and costs;

(d) attribute benefit to periods of service under the plan's benefit formula, unless an employee's service in later years will lead to a materially higher level of benefit than in earlier years;

(e) use unbiased and mutually compatible actuarial assumptions about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries, changes in medical costs and certain changes in state benefits). Financial assumptions should be based on market expectations, at the ~~balance~~ reporting ~~sheet~~ date, for the period over which the obligations are to be settled;

(f) determine the discount rate by reference to market yields at the ~~balance sheet~~reporting date on central government bonds of a currency and term consistent with the currency and term of the post-employment benefit obligations. Where an entity is operating in a jurisdiction where there is not an active and liquid market in central government bonds the entity should use its judgment in selecting a discount rate by reference to market yields on central government bonds of a jurisdiction with an active and liquid market in central government bonds ;

(g) deduct the fair value of any plan assets from the carrying amount of the obligation. Certain reimbursement rights that do not qualify as plan assets are treated in the same way as plan assets, except that they are presented as a separate asset, rather than as a deduction from the obligation;

(h) limit the carrying amount of an asset so that it does not exceed the net total of:

(i) any unrecogniz~~s~~ed past service cost and actuarial losses; plus

(ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan;

(i) recogniz~~s~~e past service cost on a straight-line basis over the average period until the amended benefits become vested;

(j) recogniz~~s~~e gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss should comprise any resulting change in the present value of the defined benefit obligation and of the fair value of the plan assets and the unrecogniz~~s~~ed part of any related actuarial gains and losses and past service cost; and

(k) recogniz~~s~~e a specified portion of the net cumulative actuarial gains and losses that exceed the greater of:

(i) 10% of the present value of the defined benefit obligation (before deducting plan assets); and

(ii) 10% of the fair value of any plan assets.

The portion of actuarial gains and losses to be recogniz~~s~~ed for each defined benefit plan is the excess that fell outside the 10% ‘corridor’ at the previous reporting date, divided by the expected average remaining working lives of the employees participating in that plan.

The Standard also permits systematic methods of faster recognition, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. Such permitted methods include immediate recognition of all actuarial gains and losses in net surplus or ~~/~~deficit.~~.~~ In addition, the Standard permits an entity to recogniz~~s~~e all actuarial gains and losses in the period in which they occur outside net surplus or ~~/~~deficit in the statement of changes in ~~net assets/equity~~ revenue and expense for the year.

IN8~~7~~. The Standard requires a simpler method of accounting for other long-term employee benefits than for post-employment benefits: actuarial gains and losses and past service cost are recogniz~~s~~ed immediately.

IN9~~8~~. Termination benefits are employee benefits payable as a result of either: an entity’s decision to terminate an employee’s employment before the normal retirement date; or an employee’s decision to accept voluntary redundancy in exchange for those benefits. The event which gives rise to an obligation is the termination rather than employee service. Therefore, an entity should recogniz~~s~~e termination benefits when, and only when, the entity is demonstrably committed to either:

(a) terminate the employment of an employee or group of employees before the normal retirement date; or

(b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

IN10~~9~~. An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan (with specified minimum contents) for the termination and is without realistic possibility of withdrawal.

IN11~~0~~. Where termination benefits fall due more than 12 months after the ~~balance sheet~~reporting date, they should be discounted. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.

IN12~~1~~. The Standard is effective for accounting periods beginning on or after ~~(a date to be determined~~1 January 2008~~)~~. Earlier application is encouraged. On first adopting the Standard, an entity is permitted to recogniz~~s~~e any resulting increase in its liability for post-employment benefits over not more than ~~five~~ ten years. If the adoption of the standard decreases the liability, an entity is required to recogniz~~s~~e the decrease immediately.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD XX

EMPLOYEE BENEFITS

The standards, which have been set in bold type, shall be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards." International Public Sector Accounting Standards (IPSASs) are not intended to apply to immaterial items.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to ~~recognise~~recognize:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

2~~1~~. **This Standard shall be applied by an employer in accounting for all employee benefits, except share based transactions (see the relevant international or national accounting standard dealing with share based transactions).**

3~~2~~. This Standard does not deal with reporting by employee retirement benefit plans (see the relevant international or national accounting standard dealing with employee retirement benefit plans). This Standard does not deal with benefits provided by composite social security schemes that are not consideration in exchange for service rendered by public sector employees.

~~3~~4~~.~~ The employee benefits to which this Standard applies include those provided:

(a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;

(b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry , or other multi-employer plans or where entities are required to contribute to the composite social security scheme; or

(c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's

informal practices would cause unacceptable damage to its relationship with employees.

~~4~~5. Employee benefits include:

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and

(d) termination benefits.

Because each category identified in (a)-(d) above has different characteristics, this Standard establishes separate requirements for each category.

~~5~~6. Employee benefits include benefits provided to either employees or their dependants and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.

~~6~~7. An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include key management personnel as defined in IPSAS 20, “Related Party Disclosures”.~~.~~

~~7~~8. **This Standard applies to all public sector entities other than Government Business Enterprises.**

~~8~~9. The Preface to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRS) are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards.

Definitions

~~9~~10. **The following terms are used in this Standard with the meanings specified:**

Actuarial gains and losses comprise:

(a) **experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and**

(b) **the effects of changes in actuarial assumptions.**

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

(a) **are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and**

(b) **are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:**

(i) **the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or**

(ii) **the assets are returned to the reporting entity to reimburse it for employee benefits already paid.**

Composite social security schemes are programs established by legislation that:

(a) **Operate as multi-employer plans to provide post-employment benefits; as well as to ~~and~~**

(b) **Provide benefits that are not consideration in exchange for service rendered by employees.**

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans are post-employment benefit 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.

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

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

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 concerned.**

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

Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Plan assets comprise:

(a) **assets held by a long-term employee benefit fund; and**

(b) **qualifying insurance policies.**

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

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

The present value of a defined benefit obligation is 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.

A qualifying insurance policy is an insurance policy [1] issued by an insurer that is not a related party (as defined in IPSAS 20, "Related Party Disclosures") 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.**

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

The following definition will be included if decision is taken to adopt an approach for the discounting of post-employment benefit obligations which requires entity to select a risk-free rate.

A risk-free discount rate is a discount rate that reflects the time value of money but does not reflect the risks associated with an obligation arising from a defined benefit plan or the entity's credit rating.

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

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

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

[1] A qualifying insurance policy is not necessarily an insurance contract (see the relevant international or national standard dealing with insurance contracts).

(a) **an entity's decision to terminate an employee's employment before the normal retirement date; or**

(b) **an employee's decision to accept voluntary redundancy in exchange for those benefits.**

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

Short-term employee benefits

~~10~~11. Short-term employee benefits include items such as:

(a) wages, salaries and social security contributions;

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

(c) performance related bonuses and profit-sharing payable within twelve months after the end of the period in which the employees render the related service; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

~~11~~12. Accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

Recognition and measurement

All short-term employee benefits

~~12.~~13 **When an employee has rendered service to an entity during an accounting period, the entity shall recogniz~~s~~e the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:**

(a) **as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recogniz~~s~~e that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and**

(b) **as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example,**

IPSAS 12, “Inventories” and IPSAS 17, “Property, Plant and Equipment)”.

Paragraphs ~~13~~14, ~~16~~ 17 and ~~19~~ 20 explain how an entity shall apply this requirement to short-term employee benefits in the form of compensated absences and~~, performance related payments,~~ bonus ~~plans~~ and profit-sharing plans.

Short-term compensated absences

~~13.~~14 **An entity shall recogni~~s~~ze the expected cost of short-term employee benefits in the form of compensated absences under paragraph ~~10~~ 11 as follows:**

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

(b) **in the case of non-accumulating compensated absences, when the absences occur.**

~~14~~15. An entity may compensate employees for absence for various reasons including vacation, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to compensated absences falls into two categories:

(a) accumulating; and

(b) non-accumulating.

~~15~~16. Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period’s entitlement is not used in full. Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recogni~~s~~zed, even if the compensated absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

~~16~~17. **An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.**

~~17~~18. The method specified in paragraph ~~16~~ 17 measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed

computations to estimate that there is no material obligation for unused compensated absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid vacation.

Example illustrating paragraphs 17~~6~~ and 18~~7~~
A public sector hospital has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At ~~30~~ 31 December ~~20X1~~20X7, the average unused entitlement is two days per employee. The hospital expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of paid sick leave in ~~20X2~~ 20X8 and that the remaining eight employees will take an average of six and a half days each. *The hospital expects that it will pay an additional 12 days of sick pay as a result of the unused entitlement that has accumulated at 31 December 20X~~1~~7 (one and a half days each, for eight employees). Therefore, the entity recogniz~~s~~es a liability equal to 12 days of sick pay.*

19~~8~~. Non-accumulating compensated absences do not carry forward: they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave and compensated absences for jury service or military service. An entity recogniz~~s~~es no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

~~Performance Related Payments,~~ Bonus Payments and Profit-~~-~~Sharing Payments

~~19~~20. **An entity shall recogniz~~s~~e the expected cost of ~~performance related payments,~~ bonus payments and profit-sharing payments under paragraph ~~12~~ 13 when, and only when:**

(a) **the entity has a present legal or constructive obligation to make such payments as a result of past events; and**

(b) **a reliable estimate of the obligation can be made.**

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

~~20~~21. Some public sector entities have bonus plans that are related to service delivery objectives or aspects of financial performance. Under such plans employees receive specified amounts, dependant on an assessment of their contribution to the achievement of the objectives of the entity or a segment of the entity. In some cases such plans may be for groups of employees, such as when performance is evaluated for all or some employees in a particular segment, rather than on an individual basis. Because of the nature of public sector entities, profit sharing plans are ~~likely to be~~ far less common in the public sector than for profit-oriented entities. However, they are likely to be an aspect of employee remuneration in many GBEs and also in segments of public sector entities, which operate on a commercial basis. ~~-~~Some public sector entities may not operate profit-sharing schemes, but may evaluate performance against financially based measures such as the generation of ~~income~~ revenue streams and budgetary targets. Some ~~performance-related payment schemes and~~ bonus plans may entail payments to all employees who rendered employment services in a reporting period, even though they may have left the entity before the reporting date. However, under other ~~performance-related payment schemes and~~ bonus plans, employees receive payments only if they remain with the entity for a specified period e.g. a requirement that employees render services for the whole of the reporting period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments. Paragraph 23~~2~~ provides further conditions that are to be satisfied before an entity can recognize the expected cost of performance related payments, bonus payments and profit-sharing payments

Example illustrating paragraph ~~20~~21
A performance-related bonus plan requires a government printing room to pay a specified proportion of its budgeted surplus for the year to employees who meet pre-determined performance targets and serve throughout the year i.e. are in post on both the first and last day of the reporting period. If no employees leave during the year, the total profit-sharing payments for the year will be 3% of ~~net profit~~budgeted surplus. The entity estimates that staff turnover will reduce the payments to 2.5% of ~~net profit~~budgeted surplus.   *The entity recogniz~~s~~es a liability and an expense of 2.5% of ~~net profit~~budgeted surplus.*

~~21~~22. An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a

constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

~~22~~23. An entity can make a reliable estimate of its legal or constructive obligation under a performance-related payment scheme or bonus plan when, and only when:

(a) The formal terms of the plan contain a formula for determining the amount of the benefit;

(b) The entity determines the amounts to be paid before the financial statements are authorised for issue; or

(c) Past practice gives clear evidence of the amount of the entity's constructive obligation.

~~23~~24. An obligation under ~~performance-related schemes~~, ~~profit-shares and~~ bonus plans and profit-shares results from employee service is recognized as an expense in ~~the statement of financial performance.~~net surplus or deficit.

~~24~~25. If ~~performance-related~~ bonus payments and profit-shares are not due wholly within twelve months after the end of the period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 146–151).

Disclosure

~~25~~26. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, IPSAS 20, "Related Party Disclosures" requires disclosures on the aggregate remuneration of key management personnel. IPSAS 1, "Presentation of Financial Statements" requires the disclosure of information about salaries and employee benefits.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

~~26~~27. Post-employment benefits include, for example:

(a) retirement benefits, such as pensions; and

(b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity

such as a pension scheme, superannuation scheme or retirement benefit scheme, to receive contributions and to pay benefits.

~~27~~28. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions. In order to be classified as a defined contribution plan a post-employment benefit plan must require the entity to pay fixed contributions into a separate entity. Under defined contribution plans:

(a) the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus~~,~~ the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and

(b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

~~28~~29. Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

(a) a plan benefit formula that is not linked solely to the amount of contributions;

(b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.

~~29~~30. Under defined benefit plans:

(a) the entity's obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

~~30~~31. Unlike defined contribution plans, the definition of a defined benefit plan does not require the payment of contributions to a separate entity. Paragraphs ~~31-51~~32-52 below explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, state plans, the composite social security scheme and insured benefits.

Multi-employer plans

~~31~~32. **An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:**

(a) **account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**

(b) **disclose the information required by paragraph 140 .**

~~32~~33. **When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:**

(a) **account for the plan under paragraphs ~~52-54~~54-55 as if it were a defined contribution plan;**

(b) **disclose:**

(i) **the fact that the plan is a defined benefit plan; and**

(ii) **the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and**

(c) **to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:**

(i) **any available information about that surplus or deficit;**

(ii) **the basis used to determine that surplus or deficit; and**

(iii) **the implications, if any, for the entity.**

~~33~~34. One example of a public sector defined benefit multi-employer plan is one where:

(a) the plan is financed on a pay-as-you-go basis such that: contributions of employers and/or employees are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future

contributions, or ~~injections of~~ additional ~~resources from~~contributions by participating entities~~ if contributions are insufficient to meet liabilities falling due in a particular year;~~ and

(b) employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the reporting date is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

~~34~~35. A public sector entity participating in a multi-employer plan which is a defined benefit plan, will normally have access to sufficient information to enable it to account for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, there may be rare cases where an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) the entity does not have access to information about the plan that satisfies the requirements of this Standard; or

(b) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. For example all government agencies may participate in a multi-employer plan under which all agencies jointly and severally have an obligation for the benefits accrued to current and former employees of all agencies. An indication that there is no consistent and reliable basis for allocating the obligation may be that there are common rates of employer and employee contributions for all entities participating in the plan rather than differential rates which reflect actuarial assumptions specific to particular entities.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the additional information required by paragraph ~~32~~33.

~~35~~36. There may be a contractual agreement between the multi-employer plan and its participant entities that determines how the surplus in the plan will be distributed to the participant entities (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 32 shall recogniz~~s~~e the asset or

liability that arises from the contractual agreement and the resulting ~~income~~ revenue or expenses in net surplus or deficit.~~profit or loss.~~

Example illustrating paragraph ~~35~~36
Along with similar entities in State X. Local Government Unit A participates in a multi-employer defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other local government units participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual local government units participating in the plan. Local Government Unit A therefore accounts for the plan as if it were a defined contribution plan. A funding valuation, which is not drawn up on the basis of assumptions compatible with the requirements of this Standard, shows a deficit of 480 million currency units in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. Local Government Unit A's total contributions under the contract are 40 million currency units.
The entity recogniz~~s~~es a liability for the contributions adjusted for the time value of money and an equal expense in net surplus~~/~~ or deficit~~. for the year~~.

~~36~~37. IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" requires an entity to recogniz~~s~~e, or disclose information about, certain contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

(a) actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or

(b) any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

~~37~~38. Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in

accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Defined benefit plans that share risks between various entities under common control

3839. Defined benefit plans that share risks between various entities under common control, for example, a parent andcontrolling and its subsidiariescontrolled entities, are not multi-employer plans.

3940. An entity participating in such a plan obtains information about the plan as a whole measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Standard to individual group entities, the entity shall, in its separate or individual financial statements, recognizse the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognizsed in the separate or individual financial statements of the group economic entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognizse a cost equal to their contribution payable for the period.

4041. Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) the policy for determining the contribution to be paid by the entity.

(c) if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 3940, all the information about the plan as a whole in accordance with paragraphs 130-141139-140.

(d) if the entity accounts for the contribution payable for the period in accordance with paragraph 3940, the information about the plan as a whole required in accordance with paragraphs 140(b)–(e), (j), (n), (o), (q) and 141. The other disclosures required by paragraph 140 do not apply.

State plans

4142. **An entity shall account for post-employment benefits under state plans provided as consideration in exchange for service rendered by employees and ex-past employees of the entity in the same way as for a multi-employer plan (see paragraphs 31 32 and 332)**

~~42~~43. State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national, state or local government or by another body (for example, an agency created specifically for this purpose). Dependent upon the nature of the particular state plan, it may include both employees and ~~ex-~~ past employees of private sector entities and public sector entities, only employees and ~~ex~~past-employees of public sector entities or only employees and ~~ex-~~ past employees of private sector entities. This Standard does not address accounting by public sector entities for any obligations in state plans related to employees and ex-employees of private sector entities, which are not controlled by the reporting entity. This Standard deals only with employee benefits of the reporting entity. It does not deal with benefits to employees of other entities. Whilst Government may establish state plans and provide benefits to employees of private sector entities and/or self-employed individuals, obligations arising in respect of such plans are not addressed in this Standard.

~~43.~~44. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Public sector entities covered by state plans account for those plans as either defined contribution or defined benefit plans. The accounting treatment depends upon whether the entity has a legal or constructive obligation to pay future benefits. If an entity's only obligation is to pay the contributions as they fall due and, if, in the event of the entity ceasing~~s~~ to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in future years, it accounts for that state plan as a defined contribution plan.

~~44~~45. It is possible that a state plan may be characterized as a defined contribution plan by controlled entities, but as a defined benefit plan by the economic entity. This might be because a controlled entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes under circumstances identified at paragraph 3~~4~~5(b). However, the economic entity may be able to obtain sufficient information to enable it to account for its proportionate share of the defined benefit obligation. Where a state plan is characterized as a defined benefit plan by the economic entity, the reporting entity will account for that plan as a defined benefit plan in respect of the employees and ex-employees of all controlled entities.

~~The~~ Composite Social Security Schemes

~~45~~46. **An entity shall account for post-employment benefits under the composite social security scheme provided as consideration in exchange for service**

rendered by employees and ex-employees of the entity in the same way as for a multi-employer plan (see paragraphs ~~31~~ 32 and 33~~2~~).

~~46.~~47. Composite social security schemes are schemes established by legislation that provide benefits~~,~~ to individuals who have satisfied eligibility criteria. Such criteria principally include a requirement that an individual has attained a pensionable age laid down in legislation. There may also be other criteria related to factors such as income and personal wealth. In some jurisdictions the composite social security scheme may also operate to provide benefits as consideration in exchange for employment services rendered by individuals. This Standard requires a reporting entity to account for obligations for employee benefits of the reporting entity that arise under the composite social security scheme as for a multi-employer plan in accordance with paragraphs 32~~1~~ and 33~~2~~. This Standard does not address any obligations of the composite social security system which may arise in respect of employees and ex-employees of private sector entities, which are not controlled by the reporting entity.

~~47.~~48 For an economic entity, such as at the whole-of-government level, the accounting treatment for obligations for employee benefits under the composite social security scheme depends upon whether the component of that scheme operating to provide post-employment benefits to employees of the economic entity is characterized as a defined contribution or a defined benefit plan. ~~-~~In making this judgment the reporting entity will consider the factors highlighted in paragraph 35~~4~~. As for state plans, it is possible that the component of that scheme operating to provide post-employment benefits may be characterized as a defined contribution plan by controlled entities, but as a defined benefit plan by the reporting entity.

Insured benefits

~~48.~~49 **An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:**

(a) **pay the employee benefits directly when they fall due; or**

(b) **pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.**

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

~~49~~50. The benefits insured by an insurance contract need not have a direct or automatic relationship with the entity's obligation for employee benefits.

Post-employment benefit plans involving insurance contracts are subject to the same distinction between accounting and funding as other funded plans.

5051. Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

(a) accounts for a qualifying insurance policy as a plan asset (see paragraph 109); and

(b) recognizses other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 119120).

5152. Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-employment benefits: defined contribution plans

5253. Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

Recognition and measurement

5354. When an employee has rendered service to an entity during a period, the entity shall recognizse the contribution payable to a defined contribution plan in exchange for that service:

(a) **as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity**

shall recognizse that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) **as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IPSAS 12, “-Inventories” and IPSAS 17 “Property, Plant and Equipment”).**

5455. **Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 7890.**

Disclosure

5556. **An entity shall disclose the amount recognizsed as an expense for defined contribution plans.**

5657. Where required by IPSAS 20, “Related Party Disclosures” an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment benefits: defined benefit plans

5758. Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Recognition and measurement

5859. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity’s ability (and willingness) to make good any shortfall in the fund’s assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognizsed for a defined benefit plan is not necessarily the amount of the contribution due for the period.

5960. Accounting by an entity for defined benefit plans involves the following steps:

(a) using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 7879-8283) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit (see paragraphs 8384–102103);

(b) discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 7576–7778);

(c) determining the fair value of any plan assets (see paragraphs 116117-118119);

(d) determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognizsed (see paragraphs 103104–1109);

(e) where a plan has been introduced or changed, determining the resulting past service cost (see paragraphs 1110–1165); and

(f) where a plan has been curtailed or settled, determining the resulting gain or loss (see paragraphs 127128–1343).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately. For example, a State Government responsible for educational and health services and a number of other services may have separate plans for teachers, healthcare workers and other employees.

6061. In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the constructive obligation

6162. **An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.**

6263. The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to

cancel a plan if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity which is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of Financial Position

~~63~~64. **The amount recogniz~~s~~ed as a defined benefit liability shall be the net total of the following amounts:**

(a) **the present value of the defined benefit obligation at the reporting date (see paragraph ~~64~~65);**

(b) **plus any actuarial gains (less any actuarial losses) not recogniz~~s~~ed because of the treatment set out in paragraphs ~~103~~ 104 and ~~104~~105;**

(c) **minus any past service cost not yet recogniz~~s~~ed (see paragraph ~~110~~111);**

(d) **minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs ~~116–118~~117-119).**

~~64~~65. The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets.

~~65~~66. **An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recogniz~~s~~ed in the financial statements do not differ materially from the amounts that would be determined at the reporting date.**

~~66~~67. This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the reporting date. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

~~67~~68. **The amount determined under paragraph ~~63~~ 64 may be negative (an asset). An entity shall measure the resulting asset at the lower of:**

(a) **the amount determined under paragraph ~~63~~64; and**

(b) **the total of:**

(i) **any cumulative unrecogniz~~s~~ed net actuarial losses and past service cost (see paragraphs ~~102, 103~~104, 105 and ~~110~~111); and**

(ii) **the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph ~~89~~90.**

~~68~~69. **The application of paragraph ~~67~~ 68 shall not result in a gain being recogniz~~s~~ed solely as a result of an actuarial loss or past service cost in the current period or in a loss being recogniz~~s~~ed solely as a result of an actuarial gain in the current period. The entity shall therefore recogniz~~s~~e immediately under paragraph ~~63~~ 64 the following, to the extent that they arise while the defined benefit asset is determined in accordance with paragraph ~~67~~68(b):**

(a) **net actuarial losses of the current period and past service cost of the current period to the extent that they exceed any reduction in the present value of the economic benefits specified in paragraph ~~67~~68(b)(ii). If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period shall be recogniz~~s~~ed immediately under paragraph ~~63~~64.**

(b) **net actuarial gains of the current period after the deduction of past service cost of the current period to the extent that they exceed any increase in the present value of the economic benefits specified in paragraph ~~67~~68(b)(ii). If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period shall be recogniz~~s~~ed immediately under paragraph 63.**

~~69~~70. Paragraph ~~68~~ 69 applies to an entity only if it has, at the beginning or end of the accounting period, a surplus [2] in a defined benefit plan and cannot, based on the current terms of the plan, recover that surplus fully through refunds or reductions in future contributions. In such cases, past service cost and actuarial losses that arise in the period, the recognition of which is deferred under paragraph ~~67~~68(b)(i), will increase the amount specified in paragraph ~~67~~68. If that increase is not offset by an equal decrease in the present value of economic benefits that qualify for recognition under paragraph ~~67~~68(b)(ii), there will be an

[2] A surplus is an excess of the fair value of the plan assets over the present value of the defined benefit obligation.

increase in the net total specified by paragraph ~~67~~68(b) and, hence, a recogniz~~s~~ed gain. Paragraph ~~68~~ 69 prohibits the recognition of a gain in these circumstances. The opposite effect arises with actuarial gains that arise in the period, the recognition of which is deferred under paragraph ~~63~~64, to the extent that the actuarial gains reduce cumulative unrecogniz~~s~~ed actuarial losses. Paragraph ~~68~~ 69 prohibits the recognition of a loss in these circumstances. For examples of the application of this paragraph, see Appendix C.

~~70~~71. An asset may arise where a defined benefit plan has been overfunded or in certain cases where actuarial gains are recogniz~~s~~ed. An entity recogniz~~s~~es an asset in such cases because:

(a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit.

~~71~~72. The limit in paragraph ~~67~~68(b) does not override the delayed recognition of certain actuarial losses (see paragraphs 105~~3~~ and 106~~4~~) and certain past service cost (see paragraph 111~~0~~), other than as specified in paragraph ~~68~~69. However, that limit does override the transitional option in paragraph ~~165~~166(b). Paragraph ~~139~~140(f)(iii) requires an entity to disclose any amount not recogniz~~s~~ed as an asset because of the limit in paragraph ~~67~~68(b).

Example illustrating paragraph ~~60~~72	
A defined benefit plan has the following characteristics:	
Present value of the obligation	1100
Fair value of plan assets	-1190
	-90
Unrecogniz~~s~~ed actuarial losses	-110
Unrecogniz~~s~~ed past service cost	-70
Unrecogniz~~s~~ed increase in the liability on initial adoption of the Standard under paragraph ~~166~~167(b)	-50
Negative amount determined under paragraph ~~63~~64	-320

Example illustrating paragraph 6072	
Present value of available future refunds and reductions in future contributions	90
The limit under paragraph 6768(b) is computed as follows:	
Unrecognizsed actuarial losses	110
Unrecognizsed past service cost	70
Present value of available future refunds and reductions in future contributions	90
Limit	270
270 is less than 320. Therefore, the entity recognizses an asset of 270 and discloses that the limit reduced the carrying amount of the asset by 50 (see paragraph 140f)(iii)).	

Statement of Financial Performance

7273. **An entity shall recognizse the net total of the following amounts in net surplus/ or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:**

(a) **current service cost (see paragraphs 7475-102103);**

(b) **interest cost (see paragraph 9394);**

(c) **the expected return on any plan assets (see paragraphs 123124-124125) and on any reimbursement rights (see paragraph 119120);**

(d) **actuarial gains and losses, as required in accordance with the entity's accounting policy (see paragraphs 103104-108)108;**

(e) **past service cost (see paragraph 110111);**

(f) **the effect of any curtailments or settlements (see paragraphs 127 128 and 128129); and**

(g) **the effect of the limit in paragraph 6768(b), unless it is recognizsed in the Statement of Net Changes in Assets/EquityRevenue and Expense in accordance with paragraph 6869.**

7374. Other Standards require the inclusion of certain employee benefit costs within the cost of assets such as inventories or property, plant and equipment (see IPSAS 12, "Inventories" and IPSAS 17, "Property, Plant and Equipment"). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 7273.

Recognition and measurement: present value of defined benefit obligations and current service cost

~~74~~75. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:

(a) apply an actuarial valuation method (see paragraphs ~~75~~76-~~77~~78);

(b) attribute benefit to periods of service (see paragraphs ~~78~~79–~~82~~83); and

(c) make actuarial assumptions (see paragraphs ~~83~~84-~~102~~103).

Actuarial valuation method

~~75~~76. **An entity shall use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.**

~~76~~77. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs ~~78~~79–~~82~~83) and measures each unit separately to build up the final obligation (see paragraphs ~~83~~84-~~102~~103).

Example illustrating paragraph ~~76~~77

A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is 10000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	**1**	**2**	**3**	**4**	**5**
Benefit attributed to:					
– prior years	0	131	262	393	524
– current year (1% of final salary)	131	131	131	131	131

Example illustrating paragraph 7677

– current and prior years	131	262	393	524	655

Year	**1**	**2**	**3**	**4**	**5**
Opening obligation	–	89	196	324	476
Interest at 10%	–	9	20	33	48
Current service cost	89	98	108	119	131
Closing obligation	89	196	324	476	655

Note:

1. The opening obligation is the present value of benefit attributed to prior years.
2. The current service cost is the present value of benefit attributed to the current year.
3. The closing obligation is the present value of benefit attributed to current and prior years.

7778. An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation falls due within twelve months of the balance sheetreporting date.

Attributing benefit to periods of service

78.9. **In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:**

(a) **the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until**

(b) **the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.**

7980. The Projected Unit Credit Method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit

obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits which an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

Examples illustrating paragraph ~~79~~80
1. A defined benefit plan provides a lump-sum benefit of 100 payable on retirement for each year of service. *A benefit of 100 is attributed to each year. The current service cost is the present value of 100. The present value of the defined benefit obligation is the present value of 100, multiplied by the number of years of service up to the ~~balance sheet~~reporting date.* *If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the ~~balance sheet~~reporting date.*
2. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65. *Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the ~~balance sheet~~reporting date. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.*

~~80.~~81 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at each successive reporting date, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although certain post-employment benefits, for

example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

Examples illustrating paragraph ~~80~~81

1. A plan pays a benefit of 100 for each year of service. The benefits vest aft ten years of service.

   A benefit of 100 is attributed to each year. In each of the first ten years, t current service cost and the present value of the obligation reflect t probability that the employee may not complete ten years of service.

2. A plan pays a benefit of 100 for each year of service, excluding service befo the age of 25. The benefits vest immediately.

   No benefit is attributed to service before the age of 25 because service befo that date does not lead to benefits (conditional or unconditional). A benefit 100 is attributed to each subsequent year.

~~81.~~82 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

Examples illustrating paragraph ~~81~~82

Examples illustrating paragraph ~~81~~82

1. A plan pays a lump-sum benefit of 1000 that vests after ten years of service. The plan provides no further benefit for subsequent service.

   A benefit of 100 (1000 divided by ten) is attributed to each of the first ten years. The current service cost in each of the first ten years reflects the probability that the employee may not complete ten years of service. No benefit is attributed to subsequent years.

2. A plan pays a lump-sum retirement benefit of 2000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service.

   For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2000 divided by 20) to each year from the age of 35 to the age of 55.

   For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2000 divided by 20) to each of the first twenty years.

   For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of 200 (2000 divided by 10) to each of the first ten years.

   For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

3. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50% of those costs if the employee leaves after twenty or more years of service.

   Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by ten) to each of the first ten years and 1% (10% divided by ten) to each of the second ten years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within ten years, no benefit is attributed.

Examples illustrating paragraph ~~81~~82

4. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50% of those costs if the employee leaves after twenty or more years of service.

   Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity attributes benefit on a straight-line basis under paragraph 68. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2.5% of the present value of the expected medical costs (50% divided by twenty).

   For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 1% of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

   For employees expected to leave within ten years, no benefit is attributed.

~~82~~83. Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the reporting date, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph ~~78~~79(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Example illustrating paragraph ~~82~~83

Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Actuarial assumptions

~~83~~84. **Actuarial assumptions shall be unbiased and mutually compatible.**

~~84~~85. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) mortality, both during and after employment;

(ii) rates of employee turnover, disability and early retirement;

(iii) the proportion of plan members with dependants who will be eligible for benefits; and

(iv) claim rates under medical plans; and

(b) financial assumptions, dealing with items such as:

(i) the discount rate (see paragraphs ~~89-102~~90-94);

(ii) future salary and benefit levels (see paragraphs ~~94-98~~95-99);

(iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments (see paragraphs ~~99-102~~100-103); and

(iv) the expected rate of return on plan assets (see paragraphs ~~123~~124-~~124~~125).

~~85~~86. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

~~86.~~87 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

~~87~~88. An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyper-inflationary economy (see IPSAS 10, "Financial Reporting in Hyperinflationary Economies"), or where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.

~~88~~89. **Financial assumptions shall be based on market expectations, at the reporting date, for the period over which the obligations are to be settled.**

Actuarial assumptions: discount rate

~~89~~90. **The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the reporting date ~~on government bonds~~on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the reporting date) on government bonds shall be used. The currency and term of ~~the~~ the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.**

Paragraph 90 above is now the same as paragraph 78 in IAS 19 (except for IPSASB terminology)

An alternative Paragraph 90 is shown below if decision is made to reflect the principle of a risk-free rate rather than specify a rate related to high quality corporate bonds or government bonds

90. **The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be a risk-free rate determined by reference to market yields at the reporting date on central government bonds or market yields on high quality corporate bonds. The currency and term of the central government bonds or high quality corporate bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.**

~~90~~91. One actuarial assumption which has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

~~91~~92. The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

93. In some cases there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the

discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds.

Paragraph 93 above is now the same as paragraph 81 in IAS 19

An alternative Paragraph 93 is shown below if decision is made to reflect the principle of a risk-free rate rather than specify a rate related to high quality corporate bonds or government bonds and to provide guidance to entities operating in jurisdictions with no deep market in either high quality corporate bonds or government bonds.

93. For public sector entities the discount rate that reflects the time value of money may be either the market yield on high quality corporate bonds or the market yield on central government bonds, whichever is the best representation of a risk-free rate in the jurisdiction in which the entity is operating. For entities operating in jurisdictions where there is no deep market in either high quality corporate bonds or central government bonds the entity will need to identify a rate which best represents the risk-free rate; this may be a discount rate which reflects the yield on high quality corporate bonds or central government bonds issued in a neighbouring jurisdiction with a deep market in either high quality corporate bonds or government bonds. In rare cases there may be benefits which are payable beyond the final maturity of available corporate bonds or government bonds. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds.

~~92. For public sector entities the discount rate that reflects the time value of money is the yield on government bonds. The discount rate should reflect market yields at the reporting date on government bonds with an expected term consistent with the expected term of the obligations. In rare cases there may be benefits which are payable beyond the final maturity of available government bonds. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds.~~

~~93~~94. Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation.

The present value of the obligation will differ from the liability recogniz~~s~~ed in the ~~balance sheet~~statement of financial position because the liability is recogniz~~s~~ed after deducting the fair value of any plan assets and because some actuarial gains and losses, and some past service cost, are not recogniz~~s~~ed immediately. [Appendix A illustrates the computation of interest cost, among other things.]

Actuarial assumptions: salaries, benefits and medical costs

~~94~~95. **Post-employment benefit obligations shall be measured on a basis that reflects:**

(a) **estimated future salary increases;**

(b) **the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and**

(c) **estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:**

(i) **those changes were enacted before the reporting date; or**

(ii) **past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.**

~~95~~96. Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

~~96~~97. If the formal terms of a plan (or a constructive obligation that goes beyond those terms) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example:

(a) the entity has a past history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future; or

(b) actuarial gains have already been recogniz~~s~~ed in the financial statements and the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph ~~112~~113(c)).

~~97~~98. Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the reporting date. Such changes will result in:

(a) past service cost, to the extent that they change benefits for service before the change; and

(b) current service cost for periods after the change, to the extent that they change benefits for service after the change.

~~98~~99. Some post-employment benefits are linked to variables such as the level of benefit entitlements from the basic/welfare or general/contributory pension or state medical care. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence.

~~99~~100. **Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.**

~~100~~101. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.

~~101~~102. The level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Therefore, historical data is adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the historical data. It is also adjusted where there is reliable evidence that historical trends will not continue.

~~102~~103. Some post-employment health care plans require employees to contribute to the medical costs covered by the plan. Estimates of future medical costs take account of any such contributions, based on the terms of the plan at the reporting date (or based on any constructive obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments. The cost of meeting claims may be reduced by benefits from state or other medical providers (see paragraphs ~~94~~95(c) and ~~98~~99).

Actuarial gains and losses

~~103~~104. **In measuring its defined benefit liability in accordance with paragraph ~~63~~64, an entity shall, subject to paragraph ~~68~~69, recogniz~~s~~e a portion (as**

specified in paragraph ~~104~~105) of its actuarial gains and losses as ~~income~~ revenue or expense if the net cumulative unrecogni~~s~~zed actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

(a) **10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and**

(b) **10% of the fair value of any plan assets at that date.**

These limits shall be calculated and applied separately for each defined benefit plan.

~~104~~105. **The portion of actuarial gains and losses to be recogni~~s~~zed for each defined benefit plan is the excess determined in accordance with paragraph ~~103~~104, divided by the expected average remaining working lives of the employees participating in that plan. However, an entity may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. An entity may apply such systematic methods to actuarial gains and losses even if they are within the limits specified in paragraph 104~~2~~.**

~~105~~106. **If, as permitted by paragraph ~~104~~105, an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recogni~~s~~ze them outside ~~the statement of financial performance~~net surplus or deficit, in accordance with paragraphs ~~106~~107-~~108~~109, providing it does so for:**

(a) **all of its defined benefit plans; and**

(b) **all of its actuarial gains and losses.**

~~106~~107. Actuarial gains and losses recogni~~s~~zed outside ~~the statement of financial performance~~net surplus or deficit as permitted by paragraph ~~105~~ 106 shall be presented in the statement of changes ~~in net~~revenue and expense ~~assets/equity~~ . An entity that recogni~~s~~zes actuarial gains and losses in accordance with paragraph ~~105~~ 106 shall also recogni~~s~~ze any adjustments arising from the limit in paragraph ~~67(~~68b) outside ~~profit or loss~~net surplus or deficit in the statement of changes in ~~net assets/equity.~~revenue and expense

~~107~~108. Actuarial gains and losses and adjustments arising from the limit in paragraph ~~67~~68(b) that have been recogni~~s~~zed directly in the statement of changes in ~~net assets/equity~~revenue and expense shall be recogni~~s~~zed immediately in ~~retained earnings~~accumulated surpluses. They shall not be recogni~~s~~zed in ~~the statement of financial performance~~net surplus or deficit in a subsequent period.

108109. Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses include, for example:

(a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(c) the effect of changes in the discount rate; and

(d) differences between the actual return on plan assets and the expected return on plan assets (see paragraphs 123124-124125).

1109. In the long term, actuarial gains and losses may offset one another. Therefore, estimates of post-employment benefit obligations may be viewed as a range (or 'corridor') around the best estimate. An entity is permitted, but not required, to recognizse actuarial gains and losses that fall within that range. This Standard requires an entity to recognizse, as a minimum, a specified portion of the actuarial gains and losses that fall outside a 'corridor' of plus or minus 10%. [Appendix A illustrates the treatment of actuarial gains and losses, among other things.] The Standard also permits systematic methods of faster recognition, provided that those methods satisfy the conditions set out in paragraph 103 104 Such permitted methods include, for example, immediate recognition of all actuarial gains and losses, both within and outside the 'corridor'. Paragraph 165166(b)(iii) explains the need to consider any unrecognizsed part of the transitional liability in accounting for subsequent actuarial gains.

Past service cost

110111. **In measuring its defined benefit liability under paragraph 6364, an entity shall, subject to paragraph 6869, recognizse past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an entity shall recognizse past service cost immediately.**

111112. Past service cost arises when an entity introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognizsed over that

period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment (see paragraph ~~75~~76).

Example illustrating paragraph ~~111~~112

An entity operates a pension plan that provides a pension of 2% of final salary for each year of service. The benefits become vested after five years of service. On 1 January 20X7~~5~~ the entity improves the pension to 2.5% of final salary for each year of service starting from 1 January ~~20X1~~20X7. At the date of the improvement, the present value of the additional benefits for service from 1 January 20X3~~1~~ to 1 January 20X7~~5~~ is as follows:

Employees with more than five years' service at 1/1/X7~~5~~	150
Employees with less than five years' service at 1/1/X7~~5~~ (average period until vesting: three years)	120
	270

The entity recogniz~~s~~es 150 immediately because those benefits are already vested. The entity recogniz~~s~~es 120 on a straight-line basis over three years from 1 January 20X7~~5~~.

~~112~~113. Past service cost excludes:

(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) under and over estimates of discretionary pension increases where an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains that have already been recogniz~~s~~ed in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (the resulting increase in the obligation is an actuarial loss and not past service cost, see paragraph ~~97~~98(a));

(d) the increase in vested benefits when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the estimated cost of benefits was recogniz~~s~~ed as current service cost as the service was rendered); and

(e) the effect of plan amendments that reduce benefits for future service (a curtailment).

~~113~~114. An entity establishes the amortisation schedule for past service cost when the benefits are introduced or changed. It would be impracticable to maintain the detailed records needed to identify and implement subsequent changes in that amortisation schedule. Moreover, the effect is likely to be material only where there is a curtailment or settlement. Therefore, an entity amends the amortisation schedule for past service cost only if there is a curtailment or settlement.

~~114~~115. Where an entity reduces benefits payable under an existing defined benefit plan, the resulting reduction in the defined benefit liability is recogniz~~s~~ed as (negative) past service cost over the average period until the reduced portion of the benefits becomes vested.

~~115~~116. Where an entity reduces certain benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

Recognition and measurement: plan assets

Fair value of plan assets

~~116~~117. The fair value of any plan assets is deducted in determining the amount recogniz~~s~~ed in the statement of financial position under paragraph ~~63~~64. When no market price is available, the fair value of plan assets is estimated; for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation).

~~117~~118. Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

~~118~~119. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations, as described in paragraph ~~63~~ 64 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

~~119~~120. **When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall recogni**z~~s~~**e its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In all other respects, an entity shall treat that asset in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan may be presented net of the amount recogni**z~~s~~**ed for a reimbursement.**

~~120~~121. Sometimes, an entity is able to look to another party~~, such as an insurer,~~ to pay part or all of the expenditure required to settle a defined benefit obligation. Such parties may include insurers or other public sector entities. For example the national governments which are members of a supra-national public sector body may have entered into a legally enforceable commitment to pay part or all of the expenditure required to settle the defined benefit obligations of that supra-national body.

~~Qualifying insurance policies, as defined in paragraph 9, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 119 does not apply (see paragraphs 48-51 and 118).~~

~~121.~~122 Qualifying insurance policies, as defined in paragraph 10 are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 120 does not apply (see paragraphs 49-52 and 119). When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph ~~119~~ 120 deals with such cases: the entity recogniz~~s~~es its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit liability recogniz~~s~~ed under paragraph ~~63~~64; in all other respects, the entity treats that asset in the same way as plan assets. In particular, the defined benefit liability recogniz~~s~~ed under paragraph ~~63~~ 64 is increased (reduced) to the extent that net cumulative actuarial gains (losses) on the defined benefit obligation and on the related reimbursement right remain unrecogniz~~s~~ed under paragraphs ~~103~~ 104 and ~~104~~105. Paragraph ~~139~~140(f)(iv) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

Example illustrating paragraphs ~~119-121~~120-122	
Present value of obligation	1241
Unrecognizz~~s~~ed actuarial gains	17
Liability recognizz~~s~~ed in ~~balance sheet~~statement of financial position	1258
Reimbursements for other public sector ~~Rights under~~entities ~~insurance policies~~ that exactly match the amount and timing of some of the benefits payable under the plan. Those benefits have a present value of 1,092.	1092

The unrecognizz~~s~~ed actuarial gains of 17 are the net cumulative actuarial gains on the obligation and on the reimbursement rights.

~~122~~123. If the right to reimbursement arises under an insurance policy or a legally binding agreement ~~that~~ exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation, as described in paragraph ~~63~~ 64 (subject to any reduction required if the reimbursement is not recoverable in full).

Return on plan assets

~~123~~124. The expected return on plan assets is one component of the expense recognizz~~s~~ed in the ~~income~~ statement of financial performance. The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss; it is included with the actuarial gains and losses on the defined benefit obligation in determining the net amount that is compared with the limits of the 10% ‘corridor’ specified in paragraph ~~103~~104.

~~124~~125. The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The expected return on plan assets reflects changes in the fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

Example illustrating paragraph ~~124~~125

At 1 January 20X7~~1~~, the fair value of plan assets was 10000 and net cumulative unrecogniz~~s~~ed actuarial gains were 760. On 30 June 20X7~~1~~, the plan paid benefits of 1900 and received contributions of 4900. At 31 December 20X7~~1~~, the fair value of plan assets was 15000 and the present value of the defined benefit obligation was 14792. Actuarial losses on the obligation for 20X7~~1~~ were 60.

At 1 January 20X7~~1~~, the reporting entity made the following estimates, based on market prices at that date:

	%
Interest and dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Administration costs	-1.00
Expected rate of return	10.25

For 20X7~~1~~, the expected and actual return on plan assets are as follows:

Return on 10000 held for 12 months at 10.25%	1025
Return on 3000 held for six months at 5% (equivalent to 10.25% annually, compounded every six months)	150
Expected return on plan assets for 20X7~~1~~	1175
Fair value of plan assets at 31 December 20X7~~1~~	15000
Less fair value of plan assets at 1 January 20X7~~1~~	-10000
Less contributions received	-4900
Add benefits paid	1900
Actual return on plan assets	2000

Example illustrating paragraph ~~124~~125

The difference between the expected return on plan assets -1175 and the actual return on plan assets -2000 is an actuarial gain of 825. Therefore, the cumulative net unrecogniz~~s~~ed actuarial gains are 1525 (760 plus 825 less 60). Under paragraph 103~~92~~, the limits of the corridor are set at 1500 (greater of: (i) 10% of 15000 and (ii) 10% of 14792). In the following year (20X8~~2~~), the entity recogniz~~s~~es in net surplus~~/~~ or deficit an actuarial gain of 25 (1525 less 1500) divided by the expected average remaining working life of the employees concerned.

The expected return on plan assets for 20X8~~2~~ will be based on market expectations at 1/1/X8~~2~~ for returns over the entire life of the obligation.

~~125~~126. In determining the expected and actual return on plan assets, an entity deducts expected administration costs, other than those included in the actuarial assumptions used to measure the obligation.

~~Business~~ Entity combinations

~~126~~127. In determining the assets and liabilities to be recognized related to post-employment benefits in a ~~business~~ entity combination an entity considers the international or national standard dealing with ~~business~~ entity combinations.

Curtailments and settlements

~~127~~128. **An entity shall recogniz~~s~~e gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement shall comprise:**

(a) **any resulting change in the present value of the defined benefit obligation;**

(b) **any resulting change in the fair value of the plan assets;**

(c) **any related actuarial gains and losses and past service cost that, under paragraphs ~~103~~ 104 and ~~110~~111, had not previously been recogniz~~s~~ed.**

~~128~~129. **Before determining the effect of a curtailment or settlement, an entity shall remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).**

~~129~~130. A curtailment occurs when an entity either:

(a) is demonstrably committed to make a material reduction in the number of employees covered by a plan; or

(b) amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan. An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements. Curtailments are often linked with a restructuring. Therefore, an entity accounts for a curtailment at the same time as for a related restructuring.

~~130~~131. A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.

~~131~~132. In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph ~~48~~49) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs ~~119-1~~120-12322 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

~~132~~133. A settlement occurs together with a curtailment if a plan is terminated such that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a curtailment or settlement if the plan is replaced by a new plan that offers benefits that are, in substance, identical.

~~133~~134. Where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of the previously unrecogniz~~s~~ed past service cost and actuarial gains and losses (and of transitional amounts remaining unrecogniz~~s~~ed under paragraph ~~165~~166(b)). The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement, unless another basis is more rational in the circumstances. For example, it may be appropriate to apply any gain arising on a curtailment or settlement of the same plan to first eliminate any unrecogniz~~s~~ed past service cost relating to the same plan.

Example illustrating paragraph ~~133~~134

A public sector entity is required by legislation to discontinue the direct provision of waste collection and waste disposal services. Employees of this discontinued segment will earn no further benefits. This is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the entity has a defined benefit obligation with a net present value of 1000, plan assets with a fair value of 820 and net cumulative unrecogniz~~s~~ed actuarial gains of 50. The entity had first adopted the Standard one year before. This increased the net liability by 100, which the entity chose to recogniz~~s~~e over five years (see paragraph ~~165~~166(b)). The curtailment reduces the net present value of the obligation by 100 to 900.

Of the previously unrecogniz~~s~~ed actuarial gains and transitional amounts, 10% (100/1000) relates to the part of the obligation that was eliminated through the curtailment. Therefore, the effect of the curtailment is as follows:

	Before curtailment	Curtailment gain	After curtailment
Net present value of obligation	1000	-100	900
Fair value of plan assets	-820	–	-820
	180	-100	80
Unrecogniz~~s~~ed actuarial gains	50	-5	45
Unrecogniz~~s~~ed transitional amount(100 × 4/5)	-80	8	-72
Net liability recogniz~~s~~ed in surplus/deficit for period	150	-97	53

Presentation

Offset

~~134~~135. **An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:**

(a) **has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and**

(b) **intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.**

~~135~~136. The offsetting criteria are similar to those established for financial instruments in IPSAS 15, *Financial Instruments: Disclosure and Presentation.*

Current/non-current distinction

~~136~~137. Some entities distinguish current assets and liabilities from non-current assets and liabilities. This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

Financial components of post-employment benefit costs

~~137~~138. This Standard does not specify whether an entity should present current service cost, interest cost and the expected return on plan assets as components of a single item of ~~income~~ revenue or expense on the face of the statement of financial performance..

Disclosure

~~138~~139. **An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.**

~~139~~140. **An entity shall disclose the following information about defined benefit plans:**

(a) **the entity's accounting policy for recognising actuarial gains and losses.**

(b) **a general description of the type of plan.**

(c) **a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:**

(i) **current service cost,**

(ii) **interest cost,**

(iii) **contributions by plan participants,**

(iv) **actuarial gains and losses,**

(v) **foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,**

(vi) **benefits paid,**

(vii) **past service cost,**

(viii) **~~business~~ entitycombinations,**

(ix) **curtailments and**

(x) **settlements.**

(d) **an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.**

(e) **a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognizsed as an asset in accordance with paragraph ~~119~~ 120 showing separately, if applicable, the effects during the period attributable to each of the following:**

(i) **expected return on plan assets,**

(ii) **actuarial gains and losses,**

(iii) **foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,**

(iv) **contributions by the employer,**

(v) **contributions by plan participants,**

(vi) **benefits paid,**

(vii) **~~business~~ entity combinations and**

(viii) **settlements.**

(f) **a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognizsed in the statement of financial position, showing at least:**

(i) **the net actuarial gains or losses not recognizsed in the statement of financial position (see paragraph ~~103~~104);**

(ii) **the past service cost not recognizsed in the statement of financial position(see paragraph ~~110~~111);**

(iii) **any amount not recogniz~~s~~ed as an asset, because of the limit in paragraph ~~67~~68(b);**

(iv) **the fair value at the reporting date of any reimbursement right recogniz~~s~~ed as an asset in accordance with paragraph ~~119~~ 120 (with a brief description of the link between the reimbursement right and the related obligation); and**

(v) **the other amounts recogniz~~s~~ed in the statement of financial position.**

(g) **the total expense recogniz~~s~~ed in the statement of financial performance for each of the following, and the line item(s) in which they are included:**

(i) **current service cost;**

(ii) **interest cost;**

(iii) **expected return on plan assets;**

(iv) **expected return on any reimbursement right recogniz~~s~~ed as an asset in accordance with paragraph ~~119~~120;**

(v) **actuarial gains and losses;**

(vi) **past service cost;**

(vii) **the effect of any curtailment or settlement; and**

(viii) **the effect of the limit in paragraph ~~67~~68(b).**

(h) **the total amount recogniz~~s~~ed in the statement of changes in net assets/equity for each of the following:**

(i) **actuarial gains and losses; and**

(ii) **the effect of the limit in paragraph ~~67~~68(b).**

(i) **for entities that recogniz~~s~~e actuarial gains and losses in the statement of statement of changes in net assets/equity in accordance with paragraph ~~105~~106, the cumulative amount of actuarial gains and losses recogniz~~s~~ed in the statement of changes in net assets/equity**

(j) **for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.**

(k) **the amounts included in the fair value of plan assets for:**

(i) **each category of the entity's own financial instruments; and**

(ii) **any property occupied by, or other assets used by, the entity.**

(l) **a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.**

(m) **the actual return on plan assets, as well as the actual return on any reimbursement right recogniz~~s~~ed as an asset in accordance with paragraph ~~119~~120.**

(n) **the principal actuarial assumptions used as at the reporting date, including, when applicable:**

(i) **the discount rates ~~;~~**

(ii) **the expected rates of return on any plan assets for the periods presented in the financial statements;**

(iii) **the expected rates of return for the periods presented in the financial statements on any reimbursement right recogniz~~s~~ed as an asset in accordance with paragraph ~~119~~120;**

(iv) **the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);**

(v) **medical cost trend rates; and**

(vi) **any other material actuarial assumptions used.**

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

(o) **the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:**

(i) **the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and**

(ii) **the accumulated post-employment benefit obligation for medical costs.**

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

(p) **the amounts for the current annual period and previous four annual periods of:**

(i) **the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and**

(ii) **the experience adjustments arising on:**

– **the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the reporting date and**

– **the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the ~~balance sheet~~reporting date.**

(q) **the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting date.**

Additional and revised disclosures to be inserted in paragraph 140(n) if decision is taken to depart from IAS 19 in respect of discount rates (if these disclosures are adopted the other disclosures in paragraph 140(n) will be renumbered)

(ii) the discount rates and the basis on which the discount rates have been determined including the jurisdiction from which the rates have been derived where this is a different jurisdiction to that in which the entity is reporting;

(iii) where available the discount rate that would have been applied and the amount of the liability had the discount rate been based on yields on high quality corporate bonds (where yields on government bonds have been used) or yields on

government bonds (where yields on high quality corporate bonds have been used);

~~140~~141. Paragraph ~~139~~140(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan shall include informal practices that give rise to constructive obligations included in the measurement of the defined benefit obligation in accordance with paragraph ~~61~~62. Further detail is not required.

~~141~~142. When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:

(a) the geographical location of the plans

(b) whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans.

When an entity provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

~~142~~143. Paragraph ~~32~~ 33 requires additional disclosures about multi-employer defined benefit plans that are treated as if they were defined contribution plans.

~~143~~144. Where required by IPSAS 20, "Related Party Disclosures" an entity discloses information about:

(a) related party transactions with post-employment benefit plans; and

(b) post-employment benefits for key management personnel.

~~144~~145. Where required by IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long-term employee benefits

~~145~~146. Other long-term employee benefits include, for example:

(a) long-term compensated absences such as long-service or sabbatical leave;

(b) jubilee or other long-service benefits;

(c) long-term disability benefits;

(d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service; and

(e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

~~146~~147. The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Furthermore, the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost. For these reasons, this Standard requires a simplified method of accounting for other long-term employee benefits. This method differs from the accounting required for post-employment benefits as follows:

(a) actuarial gains and losses are recogniz~~s~~ed immediately and no 'corridor' is applied; and

(b) all past service cost is recogniz~~s~~ed immediately.

Recognition and measurement

~~147~~148. **The amount recogniz~~s~~ed as a liability for other long-term employee benefits shall be the net total of the following amounts:**

(a) **the present value of the defined benefit obligation at the reporting date (see paragraph ~~75~~76);**

(b) **minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs ~~116~~117-~~118~~119).**

In measuring the liability, an entity shall apply paragraphs ~~53~~54–~~102~~103, excluding paragraphs ~~63~~ 64 and ~~72~~73. An entity shall apply paragraph ~~119~~ 120 in recognising and measuring any reimbursement right.

~~148~~149. **For other long-term employee benefits, an entity shall recogniz~~s~~e the net total of the following amounts as expense or (subject to paragraph ~~58~~59) revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:**

(a) **current service cost (see paragraphs ~~74~~75–~~102~~103);**

(b) **interest cost (see paragraph ~~93~~94);**

(c) **the expected return on any plan assets (see paragraphs ~~123~~124-~~124~~125) and on any reimbursement right recogniz~~s~~ed as an asset (see paragraph ~~119~~120);**

(d) **actuarial gains and losses, which shall all be recogniz~~s~~ed immediately;**

(e) **past service cost, which shall all be recogniz~~s~~ed immediately; and**

(f) **the effect of any curtailments or settlements (see paragraphs ~~127~~ 128 and ~~128~~129).**

~~149~~150. One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recogniz~~s~~ed when an event occurs that causes a long-term disability.

Disclosure

~~150~~151. Although this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures, for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with IPSAS 1, "Presentation of Financial Statements". When required by IPSAS 20 "Related Party Disclosures", an entity discloses information about other long-term employee benefits for key management personnel.

Termination benefits

~~151~~152. This Standard deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

~~152~~153. **An entity shall recogniz~~s~~e termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:**

(a) **terminate the employment of an employee or group of employees before the normal retirement date; or**

(b) **provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.**

~~153~~154. **An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan shall include, as a minimum:**

(a) **the location, function, and approximate number of employees whose services are to be terminated;**

(b) **the termination benefits for each job classification or function; and**

(c) **the time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.**

~~154~~155. An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:

(a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and

(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

~~155~~156. Some employee benefits are payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some countries as termination indemnities, or termination gratuities, they are post-employment benefits, rather than termination benefits and an entity accounts for them as post-employment benefits. Some entities provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination is a termination benefit.

~~156~~157. Termination benefits do not provide an entity with future economic benefits and are recogniz~~s~~ed as an expense immediately.

~~157~~158. Where an entity recogniz~~s~~es termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits (see paragraph ~~127~~128).

Measurement

~~158~~159. **Where termination benefits fall due more than 12 months after the reporting date, they shall be discounted using the discount rate specified in paragraph 89.**

~~159~~160. **In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.**

Disclosure

~~160~~161. Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by IPSAS 19,~~–~~ "Provisions, Contingent Liabilities and Contingent Assets" an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

~~161~~162. As required by IPSAS 1, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

~~162~~163. Where required by IPSAS 20, "Related Party Disclosures" an entity discloses information about termination benefits for key management personnel.

Transitional provisions

~~163~~164. ~~This section~~Paragraphs 165 and 166 specify~~ies~~ the transitional treatment for liabilities arising from defined benefit plans. Paragraphs 169 and 170 deal with the approach to the recognition of actuarial gains and losses related to defined benefit plans. Paragraphs 171 and 172 deal with requirements related to comparative information and information on prior periods. Where an entity first adopts this Standard for other employee benefits, the entity applies IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors"~~.~~ IPSAS 3 deals with changes in accounting policy as a result of adoption of an International Public Sector Accounting Standard.

~~164~~165. **On first adopting this Standard, an entity shall determine its transitional liability for defined benefit plans at that date as:**

(a) **the present value of the obligation (see paragraph ~~75~~76) at the date of adoption;**

(b) **minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs ~~116~~117-~~118~~119);**

(c) **minus any past service cost that, under paragraph ~~110~~111, shall be recognizsed in later periods.**

~~165~~166. **If the transitional liability is more than the liability that would have been recognizsed at the same date under the entity's previous accounting policy,**

the entity shall make an irrevocable choice to recogniz~~s~~e that increase as part of its defined benefit liability under paragraph ~~63~~64:

(a) **immediately, under IPSAS 3; or**

(b) **as an expense on a straight-line basis over up to ~~five~~ ten years from the date of adoption. If an entity chooses (b), the entity shall:**

(i) **apply the limit described in paragraph ~~67~~68(b) in measuring any asset recogniz~~s~~ed in the ~~balance sheet~~reporting date;**

(ii) **disclose at each reporting date: (1) the amount of the increase that remains unrecogniz~~s~~ed; and (2) the amount recogniz~~s~~ed in the current period;**

(iii) **limit the recognition of subsequent actuarial gains (but not negative past service cost) as follows. If an actuarial gain is to be recogniz~~s~~ed under paragraphs ~~103~~ 104 and ~~104~~105, an entity shall recogniz~~s~~e that actuarial gain only to the extent that the net cumulative unrecogniz~~s~~ed actuarial gains (before recognition of that actuarial gain) exceed the unrecogniz~~s~~ed part of the transitional liability; and**

(iv) **include the related part of the unrecogniz~~s~~ed transitional liability in determining any subsequent gain or loss on settlement or curtailment.**

~~166~~167. **If the transitional liability is less than the liability that would have been recogniz~~s~~ed at the same date under the entity's previous accounting policy, the entity shall recogniz~~s~~e that decrease immediately under IPSAS 3..**

~~167~~168. On the initial adoption of the Standard, the effect of the change in accounting policy includes all actuarial gains and losses that arose in earlier periods even if they fall inside the 10% 'corridor' specified in paragraph ~~103~~104. Entities reporting under accrual accounting for the first time will not have recognized any liability, in which case the transitional liability will represent the increase in the liability. Under the provisions of this Standard, this increased liability may be expensed on a staright-line basis over a period up to ten years from the date of first adoption of this Standard.

Example illustrating paragraphs ~~164~~ 165 to ~~166~~167

At 31 December ~~1998~~2006, an entity's ~~balance sheet~~statement of financial position includes a pension liability of 100. The entity adopts the Standard as of 1 January ~~1999~~2007, when the present value of the obligation under the Standard is 1,300 and the fair value of plan assets is 1000. On 1 January ~~1993~~2001, the entity had improved pensions (cost for non-vested benefits: 160; and average remaining period at that date until vesting: 10 years).

The transitional effect is as follows:

Present value of the obligation	1300
Fair value of plan assets	-1000
Less: past service cost to be recogni~~s~~zed in later periods (160 × 9~~4~~/10)	-~~64~~ 144
Transitional liability	~~236~~156
Liability already ~~recognised~~recognized	100
Increase in liability	~~136~~56

The entity may choose to recogni~~s~~ze the increase of ~~136~~ 56 either immediately or over up to ~~5~~ 10 years. The choice is irrevocable.

At 31 December ~~1999~~2007, the present value of the obligation under the Standard is 1400 and the fair value of plan assets is 1050. Net cumulative unrecogni~~s~~zed actuarial gains since the date of adopting the Standard are 120. The expected average remaining working life of the employees participating in the plan was eight years. The entity has adopted a policy of recognising all actuarial gains and losses immediately, as permitted by paragraph ~~93~~94.

The effect of the limit in paragraph 155(b)(iii) is as follows.

Net cumulative unrecogni~~s~~zed actuarial gains	120
Unrecogni~~s~~zed part of transitional liability (~~136~~ 56 × ~~4/5~~9/10)	-~~109~~50
Maximum gain to be recogni~~s~~zed (paragraph ~~155~~166(b)(iii))	~~11~~70

169. **On first adoption of this Standard an entity electing to adopt the approach to the recognition of actuarial gains and losses in paragraphs 104 and 105 is not required to split the cumulative actuarial gains and losses from the inception of the defined benefit plan(s) until the date of first adoption of this Standard into a recognized and unrecognized portion.**

170. **An entity which, in accordance with paragraph 169, determines not to split cumulative actuarial gains and losses from the inception of the defined benefit plan(s) until the date of first adoption of this Standard into a recognized and unrecognized portion, shall recognize all cumulative actuarial gains and losses at the date of first adoption of this Standard. An entity making such an election shall not be precluded from adopting the approach to the recognition of actuarial gains and losses in paragraphs 104 and 105 in future reporting periods.**

171. **In the first year of adoption of this Standard an entity is not required to provide comparative information.**

172. IPSAS1 provides relief from the inclusion of comparative information for entities in the first year of adoption of accrual accounting in accordance with International Public Sector Accounting Standards. Paragraph 171 extends this relief to all entities, currently reporting under the accrual basis in accordance with International Public Sector Accounting Standards, in the first year of adoption of this Standard. An entity is permitted and encouraged to include comparative information where this is available.

173. **In the first year of adoption of this Standard an entity is not required to provide the disclosures in paragraphs 140 (c). 140 (e) and 140 (f).**

174. **In the first year of adoption of this Standard an entity may provide the information required in paragraph 140(p) of this Standard prospectively.**

175. The reconciliations in paragraphs 140 (c), 140 (e) and 140 (f) all involve the disclosure of opening balances relating to components of defined benefit obligations, plan assets and reimbursement rights. These disclosures are not required in the first year of adoption of this Standard. The information specified in paragraph 140(p) relates to the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and certain experience adjustments. This disclosure is only required for the current annual period in the first year of adoption. Information on prior annual periods is provided prospectively as the entity reports under the requirements of this Standard. This allows entities to build trend information over a period rather than producing such information retrospectively.

Effective date

~~168~~176.. **This Standard becomes operative for financial statements covering periods beginning on or after I January 2008~~xx xx xx~~. Earlier adoption is encouraged.**

Appendix A

Illustrative example

The appendix accompanies, but is not part of, IPSAS xx.

Extracts from statements of financial performance and statements of financial position are provided to show the effects of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Standards.

Background information

The following information is given about a funded defined benefit plan. To keep interest computations simple, all transactions are assumed to occur at the year-end. The present value of the obligation and the fair value of the plan assets were both 1000 at 1 January ~~20X1~~20X6. Net cumulative unrecogniz~~s~~ed actuarial gains at that date were 140.

	~~20X1~~20X6	~~20X2~~20X7	~~20X3~~20X8
Discount rate at start of year	10.0%	9.0%	8.0%
Expected rate of return on plan assets at start of year	12.0%	11.1%	10.3%
Current service cost	130	140	150
Benefits paid	150	180	190
Contributions paid	90	100	100
Present value of obligation at 31 December	1141	1197	1295
Fair value of plan assets at 31 December	1092	1109	1093
Expected average remaining working lives of employees (years)	10	10	10

In ~~20X2~~20X7, the plan was amended to provide additional benefits with effect from 1 January ~~20X2~~20X7. The present value as at 1 January ~~20X2~~ 20X7 of additional benefits for employee service before 1 January ~~20X2~~ 20X7 was 50 for vested benefits and 30 for non-vested benefits. As at 1 January ~~20X2~~20X7, the entity estimated that the average period until the non-vested benefits would become vested was three years; the past service cost arising from additional non-vested benefits is therefore recogniz~~s~~ed on a straight-line basis over three years. The past service cost arising from additional vested benefits is recogniz~~s~~ed immediately (paragraph 111~~0~~ of the Standard). The entity has

adopted a policy of recognising actuarial gains and losses under the minimum requirements of paragraph ~~104~~105.

Changes in the present value of the obligation and in the fair value of the plan assets

The first step is to summarise the changes in the present value of the obligation and in the fair value of the plan assets and use this to determine the amount of the actuarial gains or losses for the period. These are as follows:

	~~20X1~~20X7	~~20X2~~20X8	~~20X3~~20X9
Present value of obligation, 1 January	1000	1141	1197
Interest cost	100	103	96
Current service cost	130	140	150
Past service cost—non-vested benefits	–	30	–
Past service cost—vested benefits	–	50	–
Benefits paid	-150	-180	-190
Actuarial (gain) loss on obligation (balancing figure)	61	-87	42
Present value of obligation, 31 December	1141	1197	1295
Fair value of plan assets, 1 January	1000	1092	1109
Expected return on plan assets	120	121	114
Contributions	90	100	110
Benefits paid	-150	-180	-190
Actuarial gain (loss) on plan assets (balancing figure)	32	-24	-50
Fair value of plan assets, 31 December	1092	1109	1093

Limits of the 'corridor'

The next step is to determine the limits of the corridor and then compare these with the cumulative unrecogniz~~s~~ed actuarial gains and losses in order to determine the net

actuarial gain or loss to be recogniz~~s~~ed in the following period. Under paragraph ~~103~~ 104 of the Standard, the limits of the 'corridor' are set at the greater of:

(a) 10% of the present value of the obligation before deducting plan assets; and

(b) 10% of the fair value of any plan assets.

These limits, and the recogniz~~s~~ed and unrecogniz~~s~~ed actuarial gains and losses, are as follows:

	~~20X1~~20X7	~~20X2~~20X8	~~20X3~~20X9
Net cumulative unrecogniz~~s~~ed actuarial gains (losses) at 1 January	140	107	170
Limits of 'corridor' at 1 January	100	114	120
Excess [A]	40	–	50
Average expected remaining working lives (years) [B]	10	10	10
Actuarial gain (loss) to be recogniz~~s~~ed [A/B]	4	–	5
Unrecogniz~~s~~ed actuarial gains (losses) at 1 January	140	107	170
Actuarial gain (loss) for year—obligation	-61	87	-42
Actuarial gain (loss) for year—plan assets	32	-24	-50
Subtotal	111	170	78
Actuarial (gain) loss recogniz~~s~~ed	-4	–	-5
Unrecogniz~~s~~ed actuarial gains (losses) at 31 December	107	170	73

Amounts recogniz~~s~~ed in the statement of financial position and statement of financial performance, and related analyses

The final step is to determine the amounts to be recogniz~~s~~ed in the statement of financial position and the statement of financial performance, and the related analyses to be disclosed in accordance with paragraph ~~139~~140(f), (g) and (l) of the Standard (the analyses required to be disclosed in accordance with paragraph ~~139~~140(c) and (e) are given in the section of this Appendix 'Changes in the present value of the obligation and in the fair value of the plan assets'). These are as follows.

	~~20X1~~20X7	~~20X2~~20X8	~~20X3~~20X9
Present value of the obligation	1141	1197	1295
Fair value of plan assets	-1092	-1109	-1093
	49	88	202
Unrecogni~~se~~zed actuarial gains (losses)	107	170	73
Unrecogniz~~s~~ed past service cost—non-vested benefits	–	-20	-10
Liability recogniz~~s~~ed in statement of financial position	**156**	**238**	**265**
Current service cost	130	140	150
Interest cost	100	103	96
Expected return on plan assets	-120	-121	-114
Net actuarial (gain) loss recogniz~~s~~ed in year	-4	–	-5
Past service cost—non-vested benefits	–	10	10
Past service cost—vested benefits	–	50	–
Expense recogniz~~s~~ed in statement of financial performance	**106**	**182**	**137**
Actual return on plan assets			
Expected return on plan assets	120	121	114
Actuarial gain (loss) on plan assets	32	-24	-50
Actual return on plan assets	152	97	64

Note: see example illustrating paragraphs ~~119~~120-~~122~~ 123 for presentation of reimbursements.

Appendix B

Illustrative disclosures

This appendix accompanies, but is not part of IPSAS XX. Extracts from notes show how the required disclosures may be aggregated in the case of an entity ~~large multi-national group~~ that provides a variety of employee benefits. These extracts do not necessarily conform with all the disclosure and presentation requirements of IPSAS XX and other Standards. In particular, they do not illustrate the disclosure of:

(a) accounting policies for employee benefits (see IPSAS 1 *Presentation of Financial Statements*). Paragraph ~~139~~140(a) of the Standard requires this disclosure to include the entity's accounting policy for recognising actuarial gains and losses.

(b) a general description of the type of plan (paragraph ~~139~~140(b)).

(c) a narrative description of the basis used to determine the overall expected rate of return on assets (paragraph ~~139~~140(l)).

(d) employee benefits granted to directors and key management personnel (see IPSAS 20, *Related Party Disclosures*).

(e) share-based employee benefits (see the international or national standards dealing with share-based payments).

Employee benefit obligations

The amounts recogniz~~s~~ed in the statement of financial position are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	~~20X2~~20X8	~~20X1~~20X7	~~20X2~~20X8	~~20X1~~20X7
Present value of funded obligations	20300	17400	–	–
Fair value of plan assets	18420	17280	–	–
	1880	120	–	–
Present value of unfunded obligations	2000	1000	7337	6405
Unrecogniz~~s~~ed actuarial gains (losses)	-1605	840	-2707	-2607
Unrecogniz~~s~~ed past service cost	-450	-650	–	–
Net liability	1825	1310	4630	3798
Amounts in the ~~balance sheet~~statement of financial position:				
liabilities	1825	1400	4630	3798
assets	–	-90	–	–
Net liability	1825	1310	4630	3798

The pension plan assets include ordinary shares issued by [name of reporting entity] with a fair value of 317 (20X7~~1~~: 281). Plan assets also include property occupied by [name of reporting entity] with a fair value of 200 (20X7~~1~~: 185).

The amounts recogniz~~s~~ed in net surplus or ~~/~~deficit are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X8~~2~~	20X7~~1~~	20X8~~2~~	20X7~~1~~
Current service cost	850	750	479	411
Interest on obligation	950	1000	803	705
Expected return on plan assets	-900	-650		
Net actuarial losses (gains) recogniz~~s~~ed in year	-70	-20	150	140
Past service cost	200	200		
Losses (gains) on curtailments and settlements	175	-390		
Total, included in 'employee benefits expense'	1205	890	1432	1256
Actual return on plan assets	600	2250	–	–

Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X8~~2~~	*20X7~~1~~*	*20X8~~2~~*	*20X7~~1~~*
Opening defined benefit obligation	18400	11600	6405	5439
Service cost	850	750	479	411
Interest cost	950	1000	803	705
Actuarial losses (gains)	2350	950	250	400
Losses (gains) on curtailments	-500	–		
Liabilities extinguished on settlements	–	-350		
Liabilities assumed in a business combination	–	5000		
Exchange differences on foreign plans	900	-150		
Benefits paid	-650	-400	-600	-550
Closing defined benefit obligation	22300	18400	7337	6405

Changes in the fair value of plan assets are as follows:

	Defined benefit pension plans	
	20X8~~2~~	*20X7~~1~~*
Opening fair value of plan assets	17280	9200
Expected return	900	650
Actuarial gains and (losses)	-300	1600
Assets distributed on settlements	-400	–
Contributions by employer	700	350
Assets acquired in a business combination	–	6000
Exchange differences on foreign plans	890	-120
Benefits paid	-650	-400

	18420	17280

The ~~group~~ entity expects to contribute 900 to its defined benefit pension plans in 20X9~~3~~.

The major categories of plan assets as a percentage of total plan assets are as follows:	*20X8~~2~~*	*20X7~~1~~*
European equities	30%	35%
North American equities	16%	15%
European bonds	31%	28%
North American bonds	18%	17%
Property	5%	5%

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	20X8~~2~~	*20X7~~1~~*
Discount rate at 31 December	5.0%	6.5%
Expected return on plan assets at 31 December	5.4%	7.0%
Future salary increases	5%	4%
Future pension increases	3%	2%
Proportion of employees opting for early retirement	30%	30%
Annual increase in healthcare costs	8%	8%
Future changes in maximum state healthcare benefits	3%	2%

Assumed healthcare cost trend rates have a significant effect on the amounts recogniz~~s~~ed in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	190	-150

Effect on defined benefit obligation	1000	-900

Amounts for the current and previous four periods are as follows:

Defined benefit pension plans

	20X8~~2~~	*20X7~~1~~*	*20X6~~0~~*	*20X5~~W9~~*	*20X4~~W8~~*
Defined benefit obligation	-22300	-18400	-11600	-10582	-9144
Plan assets	18420	17280	9200	8502	10000
Surplus/(deficit)	-3880	-1120	-2400	-2080	856
Experience adjustments on plan liabilities	-1111	-768	-69	543	-642
Experience adjustments on plan assets	-300	1600	-1078	-2890	2777

Post-employment medical benefits

	20X8~~2~~	*20X7~~1~~*	*20X6~~0~~*	*20X5~~W9~~*	*20X4~~W8~~*
Defined benefit obligation	7337	6405	5439	4923	4221
Experience adjustments on plan liabilities	-232	829	490	-174	-103

The reporting entity~~group~~ also participates in ~~an industry-wide~~ defined benefit plan for all local government units in Jurisdiction Y that provides pensions linked to final salaries and is funded on a pay-as-you-go basis. It is not practicable to determine the present value of the group's obligation or the related current service cost as the plan computes its obligations on a basis that differs materially from the basis used in [name of reporting entity]'s financial statements. [describe basis] On that basis, the plan's financial statements to 30 June 20X6~~0~~ show an unfunded liability of 27525. The unfunded liability will result in future payments by participating employers. The plan has approximately 75000 members, of whom approximately 5000 are current or former employees of [name of reporting entity] or their dependants. The expense recogniz~~s~~ed in the statement of financial performance, which is equal to contributions due for the year, and is not included in the above amounts, was 230 (20X7~~1~~: 215). The reporting entity's~~group's~~

future contributions may be increased substantially if other entities withdraw from the plan.

Appendix C

Illustration of the application of paragraph ~~68~~69

The appendix accompanies, but is not part of, IPSAS XX.

The issue

Paragraph ~~67~~ 68 of the Standard imposes a ceiling on the defined benefit asset that can be recogniz~~s~~ed.

58 **The amount determined under paragraph ~~63~~ 64 may be negative (an asset). An entity shall measure the resulting asset at the lower of:**

(a) **the amount determined under paragraph ~~63~~ 64** [ie the surplus/deficit in the plan plus (minus) any unrecogniz~~s~~ed losses (gains)]**; and**

(b) **the total of:**

(i) **any cumulative unrecogniz~~s~~ed net actuarial losses and past service cost (see paragraphs ~~92~~93, ~~93~~ 94 and ~~96~~97); and**

(ii) **the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph ~~78~~79.**

Without paragraph ~~68~~ 69 (see below), paragraph ~~67~~68(b)(i) has the following consequence: sometimes deferring the recognition of an actuarial loss (gain) in determining the amount specified by paragraph ~~54~~ 64 leads to a gain (loss) being recogniz~~s~~ed in the ~~income~~ statement of financial performance.

The following example illustrates the effect of applying paragraph ~~67~~ 68 without paragraph ~~68~~69. The example assumes that the entity's accounting policy is not to recogniz~~s~~e actuarial gains and losses within the 'corridor' and to amortise actuarial gains and losses outside the 'corridor'. (Whether the 'corridor' is used is not significant. The issue can arise whenever there is deferred recognition under paragraph ~~63~~64.)

Example 1

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph ~~67~~68(b)(ii))	Losses unrecogniz~~s~~ed under paragraph ~~63~~64	Paragraph ~~63~~64	Paragraph ~~67~~68(b)	Asset ceiling, ie recogniz~~s~~ed asset	Gain recogniz~~s~~ed in year 2
1	100	0	0	100	0	0	–

2	70	0	30	100	30	30	30

At the end of year 1, there is a surplus of 100 in the plan (column A in the table above), but no economic benefits are available to the entity either from refunds or reductions in future contributions[3] (column B). There are no unrecogniz~~s~~ed gains and losses under paragraph ~~63~~ 64 (column C). So, if there were no asset ceiling, an asset of 100 would be recogniz~~s~~ed, being the amount specified by paragraph ~~63~~ 64 (column D). The asset ceiling in paragraph ~~67restricts~~ 68restricts the asset to nil (column F).

In year 2 there is an actuarial loss in the plan of 30 that reduces the surplus from 100 to 70 (column A) the recognition of which is deferred under paragraph ~~63~~ 64 (column C). So, if there were no asset ceiling, an asset of 100 (column D) would be recogniz~~s~~ed. The asset ceiling without paragraph ~~68~~ 69 would be 30 (column E). An asset of 30 would be recogniz~~s~~ed (column F), giving rise to an increase in revenue ~~gain in income~~ (column G) even though all that has happened is that a surplus from which the entity cannot benefit has decreased.

A similarly counter-intuitive effect could arise with actuarial gains (to the extent that they reduce cumulative unrecogniz~~s~~ed actuarial losses).

Paragraph ~~68~~ 69

Paragraph ~~68~~ 69 prohibits the recognition of gains (losses) that arise solely from past service cost and actuarial losses (gains).

~~68~~69 **The application of paragraph ~~67~~ 68 shall not result in a gain being recogniz~~s~~ed solely as a result of an actuarial loss or past service cost in the current period or in a loss being recogniz~~s~~ed solely as a result of an actuarial gain in the current period. The entity shall therefore recogniz~~s~~e immediately under paragraph 64~~3~~the following, to the extent that they arise while the defined benefit asset is determined in accordance with paragraph ~~67~~68**(b)

(a) **net actuarial losses of the current period and past service cost of the current period to the extent that they exceed any reduction in the present value of the economic benefits specified in paragraph ~~67~~68**(b)(ii)**. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period shall be recogniz~~s~~ed immediately under paragraph ~~63~~64.**

(b) **net actuarial gains of the current period after the deduction of past service cost of the current period to the extent that they exceed any increase in the present value of the economic benefits specified in paragraph ~~67~~68**(b)(ii)**. If there is no change or a decrease in the present**

[3] Based on the current terms of the plan.

value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period shall be recogniz~~s~~ed immediately under paragraph ~~63~~64.

Examples

The following examples illustrate the result of applying paragraph ~~68~~69. As above, it is assumed that the entity's accounting policy is not to recogniz~~s~~e actuarial gains and losses within the 'corridor' and to amortise actuarial gains and losses outside the 'corridor'. For the sake of simplicity the periodic amortisation of unrecogniz~~s~~ed gains and losses outside the corridor is ignored in the examples.

Example 1 continued – Adjustment when there are actuarial losses and no change in the economic benefits available

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph ~~58~~68(b)(ii))	Losses unrecogniz~~s~~ed under paragraph ~~54~~64	Paragraph ~~54~~64	Paragraph ~~58~~68(b)	Asset ceiling, ie recogniz~~s~~ed asset	Gain recogniz~~s~~ed in year 2
1	100	0	0	100	0	0	–
2	70	0	0	70	0	0	0

The facts are as in example 1 above. Applying paragraph ~~68~~69, there is no change in the economic benefits available to the entity[4] so the entire actuarial loss of 30 is recogniz~~s~~ed immediately under paragraph ~~63~~ 64 (column D). The asset ceiling remains at nil (column F) and no gain is recogniz~~s~~ed.

In effect, the actuarial loss of 30 is recogniz~~s~~ed immediately, but is offset by the reduction in the effect of the asset ceiling.

	Asset in Statement of Financial Position under paragraph ~~63~~ 64 (column D above)	**Effect of the asset ceiling**	**Asset ceiling(column F above)**
Year 1	100	-100	0

[4] The term 'economic benefits available to the entity' is used to refer to those economic benefits that qualify for recognition under paragraph ~~58~~68(b)(ii).

Year 2	70	-70	0
Gain/(loss)	-30	30	0

In the above example, there is no change in the present value of the economic benefits available to the entity. The application of paragraph ~~68~~ 69 becomes more complex when there are changes in present value of the economic benefits available, as illustrated in the following examples.

Example 2 – Adjustment when there are actuarial losses and a decrease in the economic benefits available

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph ~~58~~68(b)(ii))	Losses unrecogniz~~s~~ed under paragraph ~~54~~64	Paragraph ~~54~~64	Paragraph ~~58~~68(b)	Asset ceiling, ie recogniz~~s~~ed asset	Gain recogniz~~s~~ed in year 2
1	60	30	40	100	70	70	–
2	25	20	50	75	70	70	0

At the end of year 1, there is a surplus of 60 in the plan (column A) and economic benefits available to the entity of 30 (column B). There are unrecogniz~~s~~ed losses of 40 under paragraph ~~63~~64[5] (column C). So, if there were no asset ceiling, an asset of 100 would be recogniz~~s~~ed (column D). The asset ceiling restricts the asset to 70 (column F).

In year 2, an actuarial loss of 35 in the plan reduces the surplus from 60 to 25 (column A). The economic benefits available to the entity fall by 10 from 30 to 20 (column B). Applying paragraph ~~68~~69, the actuarial loss of 35 is analysed as follows:

Actuarial loss equal to the reduction in economic benefits 10

Actuarial loss that exceeds the reduction in economic benefits 25

[5] The application of paragraph ~~58A~~ 68 allows the recognition of some actuarial gains and losses to be deferred under paragraph ~~54~~ 64 and, hence, to be included in the calculation of the asset ceiling. For example, cumulative unrecogniz~~s~~ed actuarial losses that have built up while the amount specified by paragraph ~~58~~68(b) is not lower than the amount specified by paragraph ~~54~~ 64 will not be recogniz~~s~~ed immediately at the point that the amount specified by paragraph ~~58~~68(b) becomes lower. Instead their recognition will continue to be deferred in line with the entity's accounting policy. The cumulative unrecogniz~~s~~ed losses in this example are losses the recognition of which is deferred even though paragraph ~~58A~~ 69 applies.

In accordance with paragraph 6869, 25 of the actuarial loss is recognizsed immediately under paragraph 63 64 (column D). The reduction in economic benefits of 10 is included in the cumulative unrecognizsed losses that increase to 50 (column C). The asset ceiling, therefore, also remains at 70 (column E) and no gain is recognizsed.

In effect, an actuarial loss of 25 is recognizsed immediately, but is offset by the reduction in the effect of the asset ceiling.

	Balance sheet aAsset in statement of financial position under paragraph 63 64 (column D above)	**Effect of the asset ceiling**	**Asset ceiling (column F above)**
Year 1	100	-30	70
Year 2	75	-5	70
Gain/(loss)	-25	25	0

Example 3 – Adjustment when there are actuarial gains and a decrease in the economic benefits available to the entity

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph 5868(b)(ii))	Losses unrecognizsed under paragraph 6454	Paragraph 5464	Paragraph 5868(b)	Asset ceiling, ie recognizsed asset	Gain recognisezed in year 2
1	60	30	40	100	70	70	–
2	110	25	40	150	65	65	-5

At the end of year 1 there is a surplus of 60 in the plan (column A) and economic benefits available to the entity of 30 (column B). There are unrecognizsed losses of 40 under paragraph 63 64 that arose before the asset ceiling had any effect (column C). So, if there were no asset ceiling, an asset of 100 would be recognizsed (column D). The asset ceiling restricts the asset to 70 (column F).

In year 2, an actuarial gain of 50 in the plan increases the surplus from 60 to 110 (column A). The economic benefits available to the entity decrease by 5 (column B). Applying paragraph 58A69, there is no increase in economic benefits available to the entity. Therefore, the entire actuarial gain of 50 is recognised recognized immediately under paragraph 63 64 (column D) and the cumulative unrecognizsed loss under paragraph 54

64 remains at 40 (column C). The asset ceiling decreases to 65 because of the reduction in economic benefits. That reduction is not an actuarial loss as defined by IPSAS XX and therefore does not qualify for deferred recognition.

In effect, an actuarial gain of 50 is recogniz~~s~~ed immediately, but is (more than) offset by the increase in the effect of the asset ceiling.

	Asset in Statement of Financial Performance under paragraph ~~72~~ 73 (column D above)	**Effect of the asset ceiling**	**Asset ceiling (column F above)**
Year 1	100	-30	70
Year 2	150	-85	65
Gain/(loss)	50	-55	-5

In both examples 2 and 3 there is a reduction in economic benefits available to the entity. However, in example 2 no loss is recogniz~~s~~ed whereas in example 3 a loss is recogniz~~s~~ed. This difference in treatment is consistent with the treatment of changes in the present value of economic benefits before paragraph ~~68~~ 69 was introduced. The purpose of paragraph ~~68~~ 69 is solely to prevent gains (losses) being recogniz~~s~~ed because of past service cost or actuarial losses (gains). As far as is possible, all other consequences of deferred recognition and the asset ceiling are left unchanged.

Example 4 – Adjustment in a period in which the asset ceiling ceases to have an effect

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph ~~58~~68(b)(ii))	Losses unrecogniz~~s~~ed under paragraph ~~54~~64	Paragraph ~~54~~64	Paragraph ~~58~~68(b)	Asset ceiling, ie recogniz~~s~~ed asset	Gain recogniz~~s~~ed in year 2
1	60	25	40	100	65	65	–
2	-50	0	115	65	115	65	0

At the end of year 1 there is a surplus of 60 in the plan (column A) and economic benefits are available to the entity of 25 (column B). There are unrecogniz~~s~~ed losses of 40 under paragraph ~~54~~ 64 that arose before the asset ceiling had any effect (column C). So, if there

were no asset ceiling, an asset of 100 would be recogniz~~s~~ed (column D). The asset ceiling restricts the asset to 65 (column F).

In year 2, an actuarial loss of 110 in the plan reduces the surplus from 60 to a deficit of 50 (column A). The economic benefits available to the entity decrease from 25 to 0 (column B). To apply paragraph 69~~58A~~ it is necessary to determine how much of the actuarial loss arises while the defined benefit asset is determined in accordance with paragraph ~~67~~68(b). Once the surplus becomes a deficit, the amount determined by paragraph 63 is lower than the net total under paragraph ~~67~~68(b). So, the actuarial loss that arises while the defined benefit asset is determined in accordance with paragraph ~~67~~68(b) is the loss that reduces the surplus to nil, ie 60. The actuarial loss is, therefore, analysed as follows:

Actuarial loss that arises while the defined benefit asset is measured under paragraph ~~67~~68(b):	
Actuarial loss that equals the reduction in economic benefits	25
Actuarial loss that exceeds the reduction in economic benefits	35
	60
Actuarial loss that arises while the defined benefit asset is measured under paragraph 64~~3~~	50
Total actuarial loss	110

In accordance with paragraph ~~68~~69, 35 of the actuarial loss is recogniz~~s~~ed immediately under paragraph ~~63~~ 64 (column D); 75 (25 + 50) of the actuarial loss is included in the cumulative unrecogniz~~s~~ed losses which increase to 115 (column C). The amount determined under paragraph ~~63~~ 64 becomes 65 (column D) and under paragraph ~~67~~68(b) becomes 115 (column E). The recogniz~~s~~ed asset is the lower of the two, ie 65 (column F), and no gain or loss is recogniz~~s~~ed (column G).

In effect, an actuarial loss of 35 is recogniz~~s~~ed immediately, but is offset by the reduction in the effect of the asset ceiling.

	Asset in Statement of Financial Performance under paragraph ~~63~~ 64 (column D above)	**Effect of the asset ceiling**	**Asset ceiling (column F above)**
Year 1	100	-35	65

Year 2	65	0	65
Gain/(loss)	-35	35	0

Notes

1 In applying paragraph ~~68~~ 69 in situations when there is an increase in the present value of the economic benefits available to the entity, it is important to remember that the present value of the economic benefits available cannot exceed the surplus in the plan.[6]

2 In practice, benefit improvements often result in a past service cost and an increase in expected future contributions due to increased current service costs of future years. The increase in expected future contributions may increase the economic benefits available to the entity in the form of anticipated reductions in those future contributions. The prohibition against recognising a gain solely as a result of past service cost in the current period does not prevent the recognition of a gain because of an increase in economic benefits. Similarly, a change in actuarial assumptions that causes an actuarial loss may also increase expected future contributions and, hence, the economic benefits available to the entity in the form of anticipated reductions in future contributions. Again, the prohibition against recognising a gain solely as a result of an actuarial loss in the current period does not prevent the recognition of a gain because of an increase in economic benefits.

~~6 The example following paragraph 60 of IAS 19 is corrected so that the present value of available future refunds and reductions in contributions equals the surplus in the plan of 90 (rather than 100), with a further correction to make the limit 270 (rather than 280).~~

Amendments to other ~~Standards~~IPSASs

~~**To be considered**~~

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

~~**STAFF NOTE**~~

~~**Appendices D to F of IAS 19 deal with process/form issues related to the IASB approval of the 2002 and 2004 amendments to IAS 19, and consequential amendments to other IFRSs/IASs.**~~

~~**They are IASB specific and have been deleted from this text. They are available from staff on request.**~~

In IPSAS 1, "Presentation of Financial Statements" (proposed version in ED26) the following underlined wording is added at the end of paragraph 118

118. An entity shall present a statement of changes in net assets/equity, showing on the face of the statement::

(a) surplus or deficit for the period;

(b) each item of revenue and expense fro the period that, as required by other International Public Sector Accounting Standards, is recognized directly in netassets/equity, and the total of these items;

(c) total revenue and expense fro the period (calculated as the sum of (a) and (b) showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and

(d) for each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.

A statement of changes in net assets/equity that comprises only these items shall be titled a statement of recognized revenue and expense.

Basis for Conclusions

~~**To be further developed following IPSASB discussion**~~

This appendix gives the International Public Sector Accounting Standards Board's (IPSASB's) reasons for supporting or rejecting certain solutions related to the accounting for cash-generating impairment of assets. It also identifies circumstances in which the requirements of this proposed IPSAS depart from the requirements of IAS 36 and the reasons for such departure. This appendix does not form part of the Standard.

Introduction

BC1 —The International Public Sector Accounting Standards Board (IPSASB) has acknowledged the need for a standard on employee benefits since the inception of the Standards program in 1997. Because of the labor-intensive character of the operations of many public sector entities, expenses related to employee benefits are likely to be particularly significant in evaluating the financial performance of those entities. In particular the IPSASB considers it fundamental to sound public sector financial reporting that the general-purpose financial statements of public sector entities reflect expenses and liabilities related to the post-employment benefits of employees, and that these should be determined on a systematic and consistent basis.

~~The IPSASB has previously deferred development of such a Standard because of the expectation earlier in the decade that there might be fundamental changes to the IASB's approach to employee benefits and because the IPSASB decided to prioritize resources to address more general social policy obligations of government, which include the provision of pensions not provided as consideration in exchange for service rendered by employees.~~

BC2 The IPSASB has previously deferred development of such a Standard because of the expectation earlier in the decade that there might be significant changes to IAS 19. The IPSASB also initially decided to prioritize resources to initiate projects on the general social policy obligations of government and state retirement benefits.

Definitions

B~~C2~~C3 The IPSASB considered whether the definitions in IAS 19 (December 2004) are appropriate for public sector entities. The IPSASB concluded that arrangements for the provision of employee benefits in the public sector are sufficiently similar to those in the private sector that the definitions in IAS 19 are relevant.

~~C3However, the IPSASB acknowledged that in many jurisdictions post-employment benefits are paid through composite social security schemes. Composite social~~

security schemes also provide benefits that are not consideration in exchange for service rendered by employees. The IPSASB therefore developed a definition of composite social security schemes that recognizes both components of such schemes

Composite Social Security Schemes

BC4 The IPSASB acknowledged that in many jurisdictions post-employment benefits are paid through composite social security schemes. Composite social security schemes also provide benefits that are not consideration in exchange for service rendered by employees. The proposed Standard therefore includes a definition of composite social security schemes that recognizes both components of such schemes.

C4BC5 Having developed a definition of composite social security schemes the IPSASB considered the accounting requirements for the composite social security scheme. The IPSASB considered whether this Standard shouldHowever, this Standard does not deal with all potential obligations of public sector entities under composite social security schemes. The IPSASB concluded that, as this Standard deals with employee benefits of reporting entities, -only benefits payable under composite social security schemes as consideration given by the reporting entity in exchange for service rendered by employees and ex-employees of the reporting entity should beare within its scope.-. The IPSASB noted that it is addressing certain other benefits payable under composite social security schemes under a separate Standard addressing dealing with the State Retirement Pensions.

Discount Rates

C5BC6. The IPSASB considered the appropriate discount rate at which post-employment obligations for public sector entities should be discounted to present value The IPSASB concluded that there is no reason to deviate from the IASB's conclusion that the discount rate should be a risk-free rate reflecting the time value of money. The IPSASB concluded that the rate that best achieves these objectives in the public sector is the yield on government bonds. The IPSASB considered the appropriate discount rate at which post-employment obligations for public sector entities should be discounted to present value in accordance with the principles of IAS 19. Options considered included:

- Adopting the approach in IAS 19 involving a discount rate based on the market yield on high quality corporate bonds
- Specifying a discount rate based on the market yield on government bonds: and

- Specifying a risk-free discount rate which might be represented by either the market yield on high quality corporate bonds or the market yield on government bonds.

The IPSASB acknowledged the views of those who argued that the yield on government bonds is a better representation of a risk free rate for public sector entities or that entities should be required to determine a risk-free rate based on yields on high quality corporate bonds or government bonds dependent upon which rate is the best representation of a risk-free rate in a particular jurisdiction, However, the IPSASB concluded that there is no public sector reason to depart from IAS 19.

Alternative paragraphs if decision is made to depart from IAS 19 on discount rates

-BC6 .The IPSASB considered the appropriate discount rate at which post-employment obligations for public sector entities should be discounted to present value. in accordance with the principles of IAS 19. IAS 19's adoption of a discount rate based on the market yields at the balance sheet date on high quality corporate bonds has the objectives of reflecting the time value of money whilst neither reflecting the risks associated with defined benefit obligations nor entity specific credit risk. ~~IASB's conclusion that the discount rate should be a risk-free rate reflecting the time value of money. The IPSASB concluded that the rate that best achieves these objectives in the public sector is the yield on government bonds.~~The IPSASB considered that, in many jurisdictions, the yield on government bonds would provide a discount rate most consistent with these principles. However, there may be circumstances where the yield on government bonds is not the best representation of a risk-free rate and where the application of a discount rate based on market yields on government bonds may lead to unrealistically high discount rates and distorted carrying amounts. The IPSASB therefore includes a requirement that entities discount post-employment benefit obligations using a risk free rate. Dependent upon the circumstances of particular jurisdictions this rate will either be based on market yields on high quality corporate bonds or market yields on government bonds.

BC7 The IPSASB considered whether it should provide guidance to assist entities operating in jurisdictions where there is neither a deep market in high quality corporate bonds nor a deep market in government bonds to determine a risk-free discount rate. The IPSASB acknowledges that determination of an appropriate discount rate is likely to be a difficult issue for entities operating in such jurisdictions which may be in the process of migrating, or have recently migrated to, the accrual basis of accounting. The IPSASB concluded that in such cases an entity may usefully consider a risk-free rate based on either the yield on high quality corporate bonds or the yield on government bonds in a jurisdiction, where there is a deep market which has similar economic characteristics to that in which

the entity is operating, and that professional judgment is required in determining the appropriate accounting policy.

BC8. The IPSASB also considered it appropriate to include disclosure requirements on the basis on which discount rates have been determined, the jurisdiction from which the discount rates have been derived where, external to that in which the entity is operating and the discount rate that would have been applied and, where available, the amount of the liability had the discount rate been based on yields on high quality corporate bonds (where yields on government bonds have been used) or yields on government bonds (where yields on high quality corporate bonds have been used).

Actuarial Gains and Losses: the Corridor

BC6C7 The IPSASB considered accounting requirements for actuarial gains and losses. In particular the IPSASB considered whether the approach in IAS 19 known as the "corridor", whereby actuarial gains and losses only have to be recognized immediately if they fall outside pre-determined parameters related to the fair value of plan assets and the carrying value of defined benefit obligations at the last reporting date, should be adopted in this Standard. The IPSASB recognized the view of those who argue that that the "corridor" approach is conceptually unsound and leads to an unjustifiable deferring of revenue and expenses. However, the IPSASB concluded that there is no public sector reason to remove the "corridor"and require the immediate recognition of all actuarial gains and losses. The IPSASB therefore decided to retain the "corridor" approach in this Standard and to allow entities to select any of the 3 options permitted by IAS 19 for dealing with actuarial gains and losses that are within the "corridor". These are:

(a) non-recognition;

(b) recognition on a systematic and consistent basis of actuarial gains and losses related to all defined benefit plans in the statement of financial performance.; and

(c) recognition on a systematic and consistent basis of actuarial gains and losses related to all defined benefit plans outside the statement of financial performance.

Actuarial: Gains and Losses: Presentation where Recognition Outside Statement of Financial Performance

C7BC8 The IPSASB noted thatWhere an entity adopts a policy of recognizing actuarial gains and losses for all its defined benefit plans outside the income statement, IAS 19 permits entities an additional option of recognizing actuarial gains IAS 19 and IAS 1 require "and losses" inthe statement of changes in equity" to be re-termed a "the statement of recognisze d income and expense". on a systematic basis.. The

~~IPSASB considered whether it is appropriate to provide public sector entities with the option of recognizing actuarial gains and losses outside the statement of financial performance. The IPSASB concluded that there is no reason why public sector entities should be denied this option. The IPSASB also noted that~~T ~~t~~he suite of financial statements in IPSAS 1, “Presentation of Financial Statements” does not include a “statement of recognized income and expense”. The IPSASB therefore considered whether, IPSAS 1 should be amended to re-term the “statement of changes in net assets/equity” the “statement of recognized income and expense”, under certain circumstances, ~~include a requirement for statement of recognized income and expense”.~~ or whether entities should be permitted to recognize actuarial gains and losses in the existing “statement of changes in net asse~~r~~ts/equity”~~.~~, which is required by IPSAS 1. The IPSASB ~~considered that the creation of a new statement, which would only reflect actuarial gains and losses recogniszed outside the statement of financial performance would be confusing to users and therefore concluded that entities adopting a policy of recognizing actuarial gains and losses outside the statement of financial performance should be permitted to recognize such items in the statement of changes in net assets/equity~~concluded that it should effect a consequential amendment to ~~.~~IPSAS 1 to reterm “the statement of net assets/equity” as the statement of recognized income and expense” when it only includes certain line items, including actuarial gains and losses.

Reimbursements

BC9 Although the requirement in relation to Reimbursements in IAS 19 is general, the commentary is written from the perspective of insurance policies that are not qualifying insurance policies and are therefore not plan assets. The IPSASB concluded that there may be cases in the public sector where another public sector entity may enter into a legally binding commitment to provide part or all of the expenditure required to settle a defined benefit obligation of the reporting entity. Commentary has therefore been modified to acknowledge that such circumstances may arise.

Transitional Provisions

BC10 The IPSASB considered that the requirements of this Standard in relation to liabilities relating to obligations arising from defined benefit plans may have a significant impact on financial performance and financial position for many public sector entities, adopting this Standard for the first time. Many public sector entities may not be recognizing liabilities related to such obligations currently and the amounts that therefore arise as transitional liabilities are likely to be large. In some cases recognition of such amounts might conflict with long-term budgetary projections and other prospective information. The IPSASB therefore concluded that it should insert a transitional provision whereby, on initial adoption of this

Standard, entities have a period up to 10 years to recognize, on a straight line basis, the amount by which the transitional liability, determined in accordance with paragraph 165, exceeds the liability, if any, that would have been recognized at the same date under the previous accounting policy for accounting for obligations arising under defined benefit plans.

BC11. IPSAS1 provides relief from the provision of comparative information for all entities reporting on an accrual accounting basis under IPSASs for the first time. The IPSASB debated whether relief should also be provided to entities in the first year of adoption of this proposed Standard. Much of the comparative information required by this Standard relating to post-employment benefits requires actuarially determined input. Comparative information on short term benefits requires analysis of sickness and recreation leave which may not have been carried out in prior years. The IPSASB therefore concluded that such relief was necessary because it did not think it appropriate for entities to have to defer reporting under this proposed Standard because of an inability to provide comparative information. Paragraph 171 provides this relief

BC12 The IPSASB also considered that it is appropriate to include transitional arrangements that provide relief from certain disclosure requirements in paragraph 140 that require opening balances relating to a number of components of obligations and plan assets. This is because entities may not have the systems to provide such information and the IPSASB concluded that it would be inappropriate for entities to have to defer reporting under this proposed Standard because of an inability to provide these disclosures. Paragraph 173 provides this relief.

~~**(Staff Note: To be inserted following decisions)**~~

Comparison with IAS 19

International Public Sector Accounting Standard (IPSAS) ~~xx~~XX, "Employee Benefits" is drawn primarily form International Accounting Standard (IAS) 19, "Employee Benefits" (2004). The main differences between IPSAS xx and IAS 19 are as follows:

- **IPSAS ~~xx~~ XX contains commentary additional to that in IAS 19 to clarify that in order to meet the definition of a defined contribution plan a post-employment plan must involve the reporting entity paying fixed contributions into a separate entity.**
- **IPSAS ~~xx~~ XX introduces a definition of and requirements related to composite social security schemes.**
- **For discounting post-employment obligations IPSAS ~~xx~~ XX requires entities to use a discount rate, which is a risk-free rate determined either by reference to yields at the reporting date on government bonds of a currency and term consistent with the currency and estimated term of the post-employment benefit obligations or by reference to yields on high quality corporate bonds of a currency and estimated term of the post-employment benefit obligations. *(Staff Note: this bullet point is only necessary if decision is taken to depart from IAS 19)***
- **IPSAS XX contains commentary additional to that in IAS 19 to acknowledge that as well as non-qualifying insurance polices reimbursements may arise from the legally binding commitments of other public sector entities.**
- **IPSAS XX provides relief from the provision of comparative information in the first year of adoption of this Standard. IPSAS XX also provides relief from certain other disclosures relating to defined benefit plans in the first year of adoption and allows a disclosure requiring trend information to be built up prospectively from the first year of adoption of this Standard.**
- ~~**IPSAS xx permits entities to adopt a policy of fully recognizing actuarial gains and losses in the Statement of Changes in New Assets/Equity**~~
- **IPSAS ~~xx~~ XX uses different terminology, in certain instances, from IAS 19. The most significant examples are the use of the terms "revenue, net surplus or deficit, "statement of financial performance", and "statement of financial position". The equivalent terms in IAS 19 are "income", "profit and loss", "income statement" and "balance sheet".**