



## Agenda Item 5: Employee Benefits

João Fonseca, Technical Manager

IPSASB Meeting

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

- **Objective**

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

- **Material Presented**

Agenda Item 5.1

Issues Paper, *Employee Benefits*

Agenda Item 5.2

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

## Introduction

(Issues Paper paras 1-4)

### September 2015:

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

### Pending Issues from September 2015:

- Net Interest Approach; and
- Disclosures.



Government  
Finance Statistics  
Manual 2014  
(GFSM 2014)

# Issues

## (Issues Paper paras 4-5)

### **A) Significant Issues to finish the ED**

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

### **B) Proposed Changes to IPSAS 25**

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

### **C) Exposure Period**

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

### IAS 19:

- Represents the **change** in the defined benefit obligation and the plan assets as a result of the **passage of time**.
- Product of the **net** balance sheet defined benefit liability (asset) and the **discount rate** used to measure the employee benefit obligation, each at the beginning of the annual period;
- IASB's view:
  - “The net interest approach results in an entity recognising **interest income** when the plan has a **surplus**, and **interest cost** when the plan has a **deficit**”

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

### Consequences in IPSAS 25:

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

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

### 3 Differences between IAS 19 and GFSM 2014:

1. Presentation
2. Recognition
3. Measurement

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

## 1. Presentation

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

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

**GFSM 2014** – *Property expense for investment income disbursements*

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

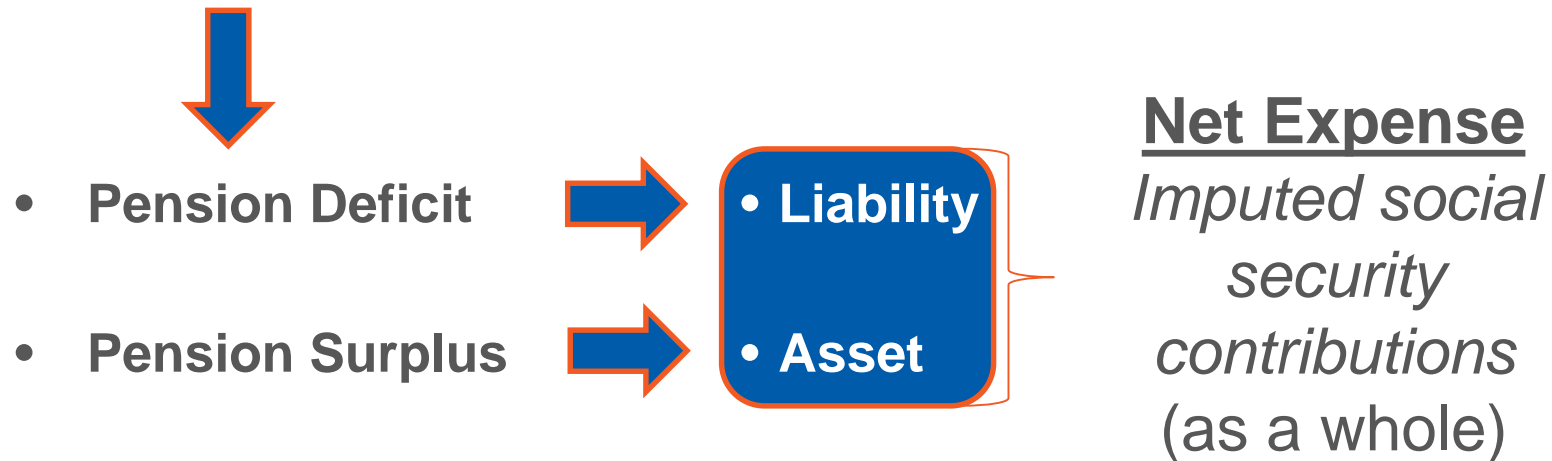


## Issue (A1) – Net Interest Approach (Issues Paper paras 6-23)

### 2. Recognition

GFSM 2014

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



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

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

### 3. Measurement

#### GFSM 2014

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

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

### GFSM 2014 Rationale

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

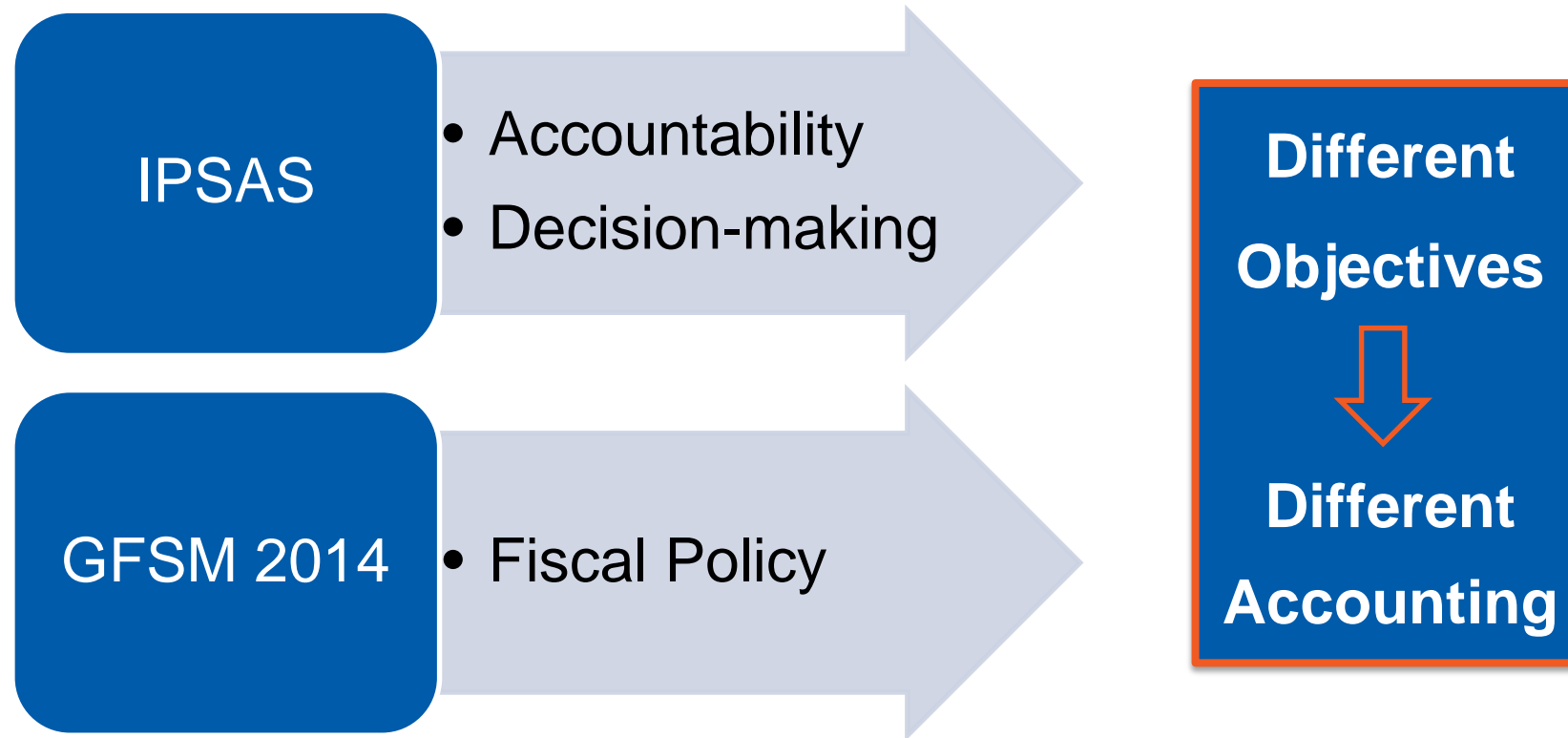


### Symmetry

Households VS Pension Manager and Pension Administrator

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

### Conclusion



## Matter for Consideration 1

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

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

### 2 Types of Differences Between IAS 19 and IPSAS 25

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

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

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

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



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

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

### (B) Difference related to public sector specific reasons

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



**Principles Based**



**Rules Based**



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

### (B) Difference related to public sector specific reasons

#### Staff's view:

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

#### Staff notes that:

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

## Matter for Consideration 2

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

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

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

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

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

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

### **Staff's view:**

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

### **Staff's recommendation to IPSASB:**

- To maintain the IAS 19 disclosures in the draft ED

## Matter for Consideration 3

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

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

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

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

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



## Matter for Consideration 4

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

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

### Structure

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

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

### **Structure**

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

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

### **Structure**

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

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

### Content

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

## Matters for Consideration 5

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

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

### **Content**

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

### **Staff' view:**

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

### **Staff's recommendation:**

- Inclusion of paragraph AG1A in IPSAS 25

## Matters for Consideration 6(a)

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



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

### Content

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

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

### Content

#### Staff's recommendation:

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

## Matters for Consideration 6(b)

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

## Matters for Consideration 6(c)

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

Or provide alternative directions

## Matters for Consideration 7 and 8

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

## Matters for Consideration 8

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



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