

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 21-24, 2016

Agenda Item 5

For:

☒ Approval

☒ Discussion

☐ Information

Employee Benefits

Project summary	Limited scope project to converge with IAS 19, <i>Employee Benefits</i> . The IPSASB issued Exposure Draft 59, <i>Amendments to IPSAS 25, Employee Benefits</i> in April 2016.	
Meeting objectives	Topic	Agenda Item
Decisions required at this meeting	1. Proposed amendments to IPSAS 25 (SMC #1)	5.1
	2. Deletion of section on Composite Social Security Programs (SMC #2)	5.2
	3. Approval of draft IPSAS 39, <i>Employee Benefits</i>	5.3
Other supporting items	1. Draft IPSAS 39, <i>Employee Benefits</i> (marked-up version from Exposure Draft 59)	5.4
	2. Analysis of Responses to Exposure Draft 59	5.5
	3. List of Respondents and Analyses of Responses by Region, Function and Language	5.6

Proposed Amendments to IPSAS 25 (SMC #1)

Question

1. Does the IPSASB agree with staff's analysis of the responses to Specific Matter for Comment #1 of Exposure Draft (ED) 59?

SMC #1—Do you agree with the proposals in the Exposure Draft for revision of IPSAS 25? If not, please indicate what proposed amendments you do not agree with and provide reasons.

Detail

2. As at May 6, 2016, the IPSASB had received 24 responses to ED 59, *Amendments to IPSAS 25, Employee Benefits*. 17 respondents (R01, R02, R03, R04, R05, R06, R07, R08, R12, R13, R15¹, R16, R17, R18, R19, R20 and R22) supported IPSASB's approach in the ED.
3. Seven respondents (R09, R10, R11, R14, R21, R23 and R24) partially supported IPSASB's approach and provided suggested amendments to IPSASB's literature.
4. Because of their detail and diversity, staff has summarized these suggestions in *Appendix A—Summary of suggested amendments to IPSASB's literature* and categorized them into two types as follows:
 - a) Category 1 – Suggested amendments that are within the scope of the project (R09, R10 and R23); and
 - b) Category 2 – Suggested amendments that are outside of the scope of the project (R11, R14, R21 and R24).
5. Although supporting “the specific changes to proposed within ED59 under Comments 1 and 2”, R17 considers that a “much more comprehensive revision of IPSAS 25 is required particularly in relation to post-employment benefits”. Staff notes that this is a limited scope project to address IAS 19 related amendments. Therefore, staff recommends the IPSASB only to amend IPSAS 25 requirements that are related to IAS 19 amendments.
6. Staff addressed some comments made by respondents directly in Agenda Item 5.5 – *Respondents' Comments on SMC in ED 59, Amendments to IPSAS 25, Employee Benefits* that are related to issues that IPSAS IPSASs already provide guidance on the accounting treatment. Therefore, staff did not include them in Appendix A.

Decision

7. Does the IPSASB agree with staff's recommendations in *Appendix A—Summary of suggested amendments to IPSASB's literature*?

¹ R15 only made a suggestion that is already addressed in IPSAS 25 (see page 21 of *Agenda Item 5.6 – Analysis of Responses to ED 59*). Therefore, staff considered this response as supporting IPSASB's approach in ED 59.

APPENDIX A—SUMMARY OF SUGGESTED AMENDMENTS TO IPSASB'S LITERATURE

Category	Respondents' Suggestions	Staff's Recommendations	
		Accept?	Reason(s)
1	<ul style="list-style-type: none"> “(1) Regarding paragraph BC23 Paragraph BC23 of ED 59 lists items (a) - (m) as the main revisions to the IPSAS 25 besides the elimination of the corridor option. Since the description of each item is unclear (euphemistic), we had difficulty in identifying to which paragraph in the body of the standard each item corresponds (specifically items (a), (e), (f), (i) and (k)). In order to make the standard more understandable for readers, corresponding paragraphs of the standard should be specified in items (a) to (m). Furthermore, the structure of BC23 is confusing in that it describes the revisions made to IAS 19 and the rationale of accepting (or not accepting) those revisions in IPSAS 25 without any distinction. We therefore believe that they should be separately described. Items (l) and (m) correspond to paragraph 96A, and there seems to be several items that correspond to paragraph 135A. In order to make the standard more understandable for readers, we believe it is necessary to reorganize the paragraph so that each item from (a) to (m) corresponds to a specific paragraph of the body of the standard.” (R9) 	<ul style="list-style-type: none"> No 	<ul style="list-style-type: none"> Staff notes that: <ul style="list-style-type: none"> (a) The basis for conclusions in IPSASs do not have direct cross-references to paragraphs in the authoritative core standard; (b) The basis for conclusions in IPSASs are divided by sections of the core standard or related to other issues, where appropriate; (c) IPSAS 25 follows the same structure as IAS 19; (d) IPSAS 25 is a converged standard with IAS 19, that provides a complete history of amendments made to IAS 19 that constituents can read; and (e) The draft IPSAS 39, <i>Employee Benefits</i> does not have the proposed paragraphs of ED 59. Therefore, staff recommends the IPSASB: <ul style="list-style-type: none"> (a) Retain the IPSAS 25 structure similar to IAS 19 in the final standard. (b) Not to include cross-referenced paragraphs to the core standard in the basis for conclusion of the final standard.
	<ul style="list-style-type: none"> “(2) Regarding paragraph BC30 Paragraphs BC24 to BC30 of ED 59 explain how the IPSASB considered the differences between Government Finance Statistics (GFS) and IPSASs. Paragraphs BC24 - BC29 explain the actual differences between GFS and IPSASs and the last paragraph BC30 describes why the IPSASB did not revise the IPSAS in line with GFS as follows: “The IPSASB concluded that these differences are due to the different objectives and presentational frameworks of IPSASs and GFS. They do 	<ul style="list-style-type: none"> No 	<ul style="list-style-type: none"> Paragraphs BC24-BC29 already provide an explanation of the main differences between IPSAS 25 and GFS and concludes in paragraph BC30 that “They do not constitute public sector specific reasons that warrant departure from IAS 19.” Staff notes that IPSAS 25 is a converged standard with IAS 19. According to the IPSASB's <i>Process for Reviewing and Modifying IASB Documents</i> (also known as <i>Rules of the Road</i>), the IPSASB

Category	Respondents' Suggestions	Staff's Recommendations	
		Accept?	Reason(s)
	<p>not constitute public sector specific reasons that warrant departure from IAS 19."</p> <p>We believe that this description is inadequate for a "basis for conclusion". We think the IPSASB should state the rationale for justifying the differences with GFS for issues addressed in BC24 - BC29. For instance, ED 59 adopts the net interest approach, while GFS applies different measurement basis to interest revenue/expense on plan assets and liabilities (defined benefit obligation). We believe that the IPSASB should explain more clearly the basis for conclusion to take precedence of the IAS over GFS." (R9)</p> <ul style="list-style-type: none"> • "Paragraphs 154B, 154C, 159B and 162B <p>While the corresponding paragraphs in IAS 19 (paragraphs 161, 162, 166 and 170) contain the wording "provided in exchange for service", all the above paragraphs only include "provide for service". Since this "in exchange" is the wording included in the definition of employee benefits, we believe it should be included in ED 59 as well." (R09)</p> <ul style="list-style-type: none"> • "We agree with the proposed changes to Basis for Conclusion except for the following: <ul style="list-style-type: none"> (a) BC4 under the heading "Composite Social Security Programs and State Plans" suggests that composite social security programs for benefits that are not in consideration for service rendered by employees or past employees is still considered relevant by IPSASB. This is inconsistent with the proposed amendments as the ED proposes to delete the composite social security programs section. Recommendation is to remove/delete this BC should the composite social security programs section be deleted (Page 64). (b) BC10 under the heading "Actuarial Gains and Losses – the Corridor" suggests that the "corridor approach" is still applicable. This is inconsistent with the proposed amendments as the ED proposes to remove the "corridor approach". Recommendation is to remove/delete 	<ul style="list-style-type: none"> • Yes • Yes 	<p>only modifies IASB documents if there are public sector reasons that warrant departure.</p> <p>Therefore, staff recommends that the IPSASB retains current paragraphs BC24-BC30 in the final standard.</p> <ul style="list-style-type: none"> • The IPSASB decided to remove the wording "in exchange" in the Termination Benefits section of IPSAS 25 to avoid confusion with the IPSASs defined term "exchange transactions". Staff agrees with the retention of wording "in exchange", because in IPSAS 25 this wording is associated with the meaning of reciprocity and not whether the transaction is at fair value or not. • Staff agrees with the removal of paragraphs BC4 and BC5 because staff is recommending the deletion of the section on <i>Composite Social Security Programs</i> (see Agenda Item 5.2—<i>Deletion of section on Composite Social Security Schemes</i>) in the final standard (see Agenda Item 5.4—Draft IPSAS 39, <i>Employee Benefits</i>). <p>Staff supports removing paragraph BC10 because staff is recommending that the IPSASB issues a new IPSAS on Employee Benefits. Therefore there is no need to use the past tense in the paragraph to past tense.</p> <p>Therefore, staff recommends the removal of paragraphs BC4, BC5 and BC10 in the final standard (see Agenda Item 5.4—Draft IPSAS 39, <i>Employee Benefits</i>).</p>

Category	Respondents' Suggestions	Staff's Recommendations	
		Accept?	Reason(s)
	<p>this BC as the proposed BC10A contradicts this paragraph (Page 65).” (R10)</p> <ul style="list-style-type: none"> “Rationale for the recognition of remeasurements in the statement of changes in net assets <p>The proposed changes to IPSAS 25 require that all remeasurements are recognised in the Statement of Changes in Net Assets.</p> <p>In the previous version of IPSAS 25, an entity was required to recognise actuarial gains and losses in surplus or deficit if they applied the corridor method. An entity was permitted to recognise actuarial gains and losses in the Statement of Changes in Net Assets if they recognised actuarial gains and losses in full when incurred.</p> <p>While the Basis for Conclusions acknowledges the withdrawal of the corridor method (BC10A), and the change in where remeasurements are recognised (BC23(d)), there is no clear rationale why the IPSASB decided to implement the change to full recognition of remeasurements in the Statement of Changes in Net Assets.</p> <p>As jurisdictions may have recognised actuarial gains and losses in full in the surplus or deficit in prior years (South Africa is an example), we believe there should be a clear explanation why the IPSASB believes this treatment is appropriate for the public sector.” (R23)</p>	<ul style="list-style-type: none"> Yes 	<ul style="list-style-type: none"> Staff recommends the IPSASB includes an explanation of the recognition of remeasurements in net assets/equity because it will enable users to understand the IPSASB's rationale (see staff's proposal in paragraph BC10 of IPSAS 39, <i>Employee Benefits</i>—Agenda Item 5.4).
2	<ul style="list-style-type: none"> “We did agree however that all other items of remeasurement should be presented in OCI and, as such, have reservations about showing these items in net assets/equity under IPSAS 25.” (R11) 	<ul style="list-style-type: none"> No 	<ul style="list-style-type: none"> Staff notes that IPSASs do not have “other comprehensive income”. Therefore, in order to achieve the same accounting outcome of not affecting surplus or deficit remeasurements should be recognized in net assets/equity. <p>Staff recommends that the IPSASB retains the ED proposal of recognizing remeasurements in net assets/equity. Staff proposes that paragraph BC10 of draft IPSAS 39 (Agenda Item 5.4) explains the rationale of presenting remeasurements in net assets/equity.</p>

Agenda Item

5.1

Category	Respondents' Suggestions	Staff's Recommendations	
		Accept?	Reason(s)
	<ul style="list-style-type: none"> "We do not agree with the flexibility allowed in determining the discount rate for actuarial assumptions in paragraphs 91 to 94. We see no benefit in simply stating in the initial, bold paragraph (91) that the discount rate shall reflect the time value of money. The bold section of paragraph 91 should require the determination of the discount rate by reference to government bonds, and if there is no market in such bonds, then by reference to corporate bonds. We feel that paragraph 94 contains all the right elements, but that these should be spelt out more prominently in the bold section of paragraph 91. <p>Discount rates are a large driver of annual changes in pension scheme values. Basing the discount rate on an observable input such as government or corporate bond rates would lead to less volatility and increase comparability and transparency. The risk of manipulation would also be diminished." (R11)</p>	<ul style="list-style-type: none"> No 	<ul style="list-style-type: none"> Staff notes that this is a limited scope project to address IAS 19-related amendments. Therefore, staff recommends that the IPSASB only amends IPSAS 25 requirements that are related to IAS 19 amendments. Although the subsequent proposal to delete the section on Composite Social Security Systems is an exception to this principle.
	<ul style="list-style-type: none"> "From Sweden we would also like to question the mandatory use of the PUCM method for calculation of the employee pension plan liabilities. The Swedish pension plans are all based on a paid-up policy technique, meaning that if an employee leaves his employment long before retirement, he will get a pension anyway according to an earned share of a full pension. On the other hand, if a person is employed in the government sector for the first time at the age of 48, he will not get the full pension as if he had been employed for e.g. thirty years if that is the requirement for full pension. Normally he will then have a separate pension from his earlier private sector employment. Our method, consequently, is to record a liability in accordance with the pension earned at the end of each year with a calculated yield on the paid-in premium. Later there can be recalculations due to changes in prices or salaries. The liability will however not be affected by forecasts on expected future salary at the time of retirement. With this background we believe that the PUCM method does not in all cases show the best possible value of the liability. Our opinion is that the 	<ul style="list-style-type: none"> No 	<ul style="list-style-type: none"> Staff notes that this is a limited scope project to address IAS 19 related amendments. Therefore, staff recommends the IPSASB only amends IPSAS 25 requirements that are related to IAS 19 amendments.

Category	Respondents' Suggestions	Staff's Recommendations	
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	<p>PUCM method should not be mandatory for countries or entities where the paid-up policy technique is applied.</p> <p>Especially this is the case for the individual units (agencies) of the government sector, where the effects are more obviously hard to handle. In the private sector in Sweden the PUCM method is only mandatory if you present financial statements according to IASB's standards, not according to the national legislation. If the IPSASB still would decide that the PUCM method should be mandatory for governments applying IPSAS, our opinion is that it should only be mandatory for the consolidated level of local or central government." (R14)</p> <ul style="list-style-type: none"> • "HoTARAC welcomes the decision to retain some flexibility in the selection of discount rates (paragraph 91) and agrees with paragraph BC8 that entities should determine the interest rate that best reflects the time value of money. HoTARAC believes that Step 1 (i) of the "Process for Reviewing and Modifying IASB Documents" warrants a further departure from the requirement to use spot rates in IAS 19. Spot rates are volatile, resulting in significant fluctuations in employee expenses and long-term employee liabilities. This is of particular relevance to the public sector due to: <ul style="list-style-type: none"> • the size of employee liabilities, which often include a large proportion of defined benefit superannuation obligations; and • the operating surplus being a relatively small proportion of expenses. <p>This can result in users having difficulty in evaluating the performance of a public sector entity as the impact of policy and operating decisions on surpluses or deficits can be overwhelmed by the effects of such spot rate movements. HoTARAC recommends exploring the use of a longer-term average interest rate to smooth these fluctuations. One HoTARAC member believes this longer-term average should be based on published historical bond rates." (R21)</p>	<ul style="list-style-type: none"> • No 	<ul style="list-style-type: none"> • Staff notes that this is a limited scope project to address IAS 19 related amendments. Therefore, staff recommends the IPSASB only amends IPSAS 25 requirements that are related to IAS 19 amendments.

Deletion of section on Composite Social Security Programs (SMC #2)**Question**

1. Does the IPSASB agree with staff's analysis on the responses to Specific Matter for Comment (SMC) #2 of Exposure Draft (ED) 59?

SMC#2— IPSAS 25 currently includes a section on Composite Social Security Programs (paragraphs 47-49). The IPSASB is considering deleting this section because the IPSASB is not aware that it has been applied in any jurisdiction. If you do not agree that this section should be deleted, please provide a reason for your response along with any proposed revisions.

Detail

2. As at May 6, 2016, the IPSASB had received 24 responses to the ED 59, *Amendments to IPSAS 25, Employee Benefits*. 17 respondents (R01, R02, R04, R05, R06, R09, R12, R13, R15, R17, R18, R19, R20, R21, R22, R23 and R24) supported deleting the section on Composite Social Security Programs.
3. Three respondents (R03, R10 and R11) partially supported IPSASB's approach and provided suggested amendments to IPSASB's literature. Four respondents (R07, R08, R14 and R16) had no view or did not respond to SMC #2.
4. R3 stated "that it does no harm to leave the section on Composite Social Security Programs in the standard and it may prove useful in the future should any jurisdiction seek to apply it".
5. R10 stated that "although it may not be known to be currently applied by any jurisdiction, there could possibly be other jurisdictions that could apply this section in future. This would mean that the section would have to be included again, which would be another administrative burden."
6. R11 is of the view that this section should only be deleted if composite social security schemes are now rare or non-existent and not because the IPSASB is not aware that any jurisdiction applies this section.
7. Staff did not identify any new and compelling reasons from constituents to retain the section on composite social security schemes that has not been addressed by IPSASB. Therefore, staff recommends the IPSASB to delete the section on Composite Social Security Programs and remove all references to Composite Social Security Programs in the final standard.

Decision

8. Does the IPSASB agree with staff's recommendation to delete the section on Composite Social Security Programs?

Approval of Draft IPSAS 39, *Employee Benefits*

Question

- Does IPSASB agree with staff's analysis to replace IPSAS 25 with IPSAS 39 with an effective date of January 1, 2018?

Detail

- Staff identified three reasons to approve a new standard on employee benefits (IPSAS 39, *Employee Benefits*—Agenda Item 5.4):
 - Understandability of the revised IPSAS 25;
 - Management of IPSAS Handbook; and
 - IPSASB's previous practice.

Reason #1: Understandability of the revised IPSAS 25

- ED 59 proposed extensive amendments² to IPSAS 25 that affected its structure, as shown in the following Table 1:

Table 1 – Impact of Amendments to IPSAS 25

	Paragraphs ³	
	#	%
IPSAS 25	181	
Removed by ED 59	-58	-33%
Removed by IPSAS 33	-11	-6%
Removed by <i>The Applicability of IPSASs</i>	-2	-1%
New paragraphs	67	38%
Revised IPSAS 25	177	100%
New paragraphs	67	38%
Retained and not amended or moved	33	19%
Not retained	77	44%
Amended	67	38%
Moved	3	2%
Amended and moved	7	4%
Revised IPSAS 25	177	100%

- Table 1 shows that if IPSAS 25 were to be modified:
 - One third of the paragraphs would be removed;
 - 38% of the paragraphs would be new; and
 - Only 19% of the paragraphs in IPSAS 25 would be retained.

² Includes amendments as a result of review of responses to ED 59.

³ Includes only core standard and excludes application guidance. Does not include last paragraph of draft IPSAS 39, *Employee Benefits* on Withdrawal and Replacement of IPSAS 25 (2008).

5. As a consequence, the understandability of a revised IPSAS 25 would be significantly decreased. In this context, R17 also complained about the complexity of IPSAS 25.

Reason #2: IPSASs handbook management

6. Unlike the IASB IPSASB publishes one Handbook, The IASB publishes two separate Handbooks as follows:
 - (1) Blue Book—Consolidated without early application; Official pronouncements applicable on 1 January, YYYY. Does not include Standards with an effective date after 1 January, YYYY.
 - (2) Red Book—Official pronouncements issued at 1 January YYYY. Includes Standards with an effective date after 1 January YYYY but not the Standards they will replace.
7. This means that the IPSASB would have to publish in the same handbook two versions of IPSAS 25 in the same Handbook, which is impracticable or include an extensive list of 199 paragraphs⁴ in the Effective Date section of the revised IPSAS 25 (which reduces the understandability of the revised IPSAS 25).

Reason #3: IPSASB's Previous Practice

8. In the IPSASs project on *Accounting for Interest in Other Entities* that affected several IPSASs, the IPSASB already had a previous practice of publishing new standards (IPSAS 34, *Separate Financial Statements* and IPSAS 35, *Consolidated Financial Statements*) that replaced an existing standard (IPSAS 6, *Consolidated and Separate Financial Statements*) even though the IASB retained its own standard (IAS 27, *Separate Financial Statements*) with amendments and a modified title⁵ and issued IFRS 10, *Consolidated Financial Statements*.

Staff's recommendation

9. Based on the three reasons provided above, staff recommends that the IPSASB replaces IPSAS 25, *Employee Benefits* with a new pronouncement, IPSAS 39, *Employee Benefits*.
10. Staff also recommends that IPSAS 39, *Employee Benefits* should have an effective date of January 1, 2018.
11. Staff notes that draft IPSAS 39 only includes in marked-up amendments to Exposure Draft 59, *Amendments to IPSAS 25, Employee Benefits* as a result of the review of responses and the necessary drafting amendments to issue IPSAS 39.
12. Staff also notes that the Basis for Conclusions of draft IPSAS 39, *Employee Benefits*, includes paragraphs that existed in IPSAS 25 that are still applicable in the draft IPSAS 39, does not include paragraphs that are no longer applicable to IPSAS 39 and includes an amended paragraph⁶ that existed in IPSAS 25.

Decision required

13. Does the IPSASB agree with staff's recommendation to issue IPSAS 39, *Employee Benefits* with an effective date of January 1, 2018? If so, the IPSASB is requested to do a page-by-page review

⁴ 58 paragraphs removed, 67 paragraphs added, 74 paragraphs amended, of which 67 paragraphs only amended and 7 paragraphs amended and moved.

⁵ The previous title was IAS 27, *Consolidated and Separate Financial Statements*.

⁶ Paragraph BC14 of IPSAS 25 is now paragraph BC7 of draft IPSAS 39.

Agenda Item 5.3

if IPSAS 39, *Employee Benefits* (see Agenda Item 5.4—Draft IPSAS 39, *Employee Benefits* (marked up version⁷ from ED 59)).

⁷ IPSAS 39, *Employee Benefits* includes all amendments proposed in ED 59 and staff's proposals as a consequence of the review of responses to ED 59. Paragraph sequencing and cross-referencing are not marked up for understandability reasons.

**Final Pronouncement
August 2016**

IPSAS™

*International Public Sector Accounting Standard
(IPSAS™)*

IPSAS 39, *Employee Benefits*

IPSASB

International Public
Sector Accounting
Standards Board®

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

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

In meeting this objective the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

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

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IPSAS 39—EMPLOYEE BENEFITS

CONTENTS

	Paragraph
Objective	1
Scope	2–7
Definitions	8
Short-Term Employee Benefits	9–25
Recognition and Measurement	11–24
All Short-Term Employee Benefits	11–12
Short-Term Paid Absences	13–18
Profit-Sharing and Bonus Plans	19–24
Disclosure	25
Post-employment Benefits—Distinction between Defined Contribution Plans and Defined Benefit Plans	26–51
Multi-Employer Plans	32–39
Defined Benefit Plans that Share Risks between Entities under Common Control	40–43
State Plans	44–47
Insured Benefits	48–51
Post-employment Benefits—Defined Contribution Plans	52–56
Recognition and Measurement	53–54
Disclosure	55–56
Post-employment Benefits—Defined Benefit Plans	57–154
Recognition and Measurement	58–67
Accounting for the Constructive Obligation	63–64
Statement of Financial Position	65–67
Recognition and Measurement—Present Value of Defined Benefit Obligations and Current Service Cost	68–100
Actuarial Valuation Method	69–71
Attributing Benefit to Periods of Service	72–76
Actuarial Assumptions	77–82
Actuarial Assumptions: Mortality	83–84
Actuarial Assumptions—Discount Rate	85–88
Actuarial Assumptions—Salaries, Benefits and Medical Costs	89–100
Past service cost and gains and losses on settlement	101–114
Past Service Cost	104–109
Gains and losses on settlement	111–114
Recognition and Measurement—Plan Assets	115–121

Fair Value of Plan Assets	115–117
Reimbursements	118–121
Components of defined benefit cost	122–132
Net interest on the net defined benefit liability (asset)	125–128
Remeasurements of the net defined benefit liability (asset)	129–132
Presentation	133–136
Offset	133–134
Current/Non-Current Distinction	135
Components of defined benefit cost	136
Disclosure	137–154
Other Long-Term Employee Benefits	155–161
Recognition and Measurement	158–160
Disclosure	161
Termination Benefits	162–174
Recognition	168–171
Measurement	172–173
Disclosure	174
Transitional Provisions	175
Effective Date	176–177
Withdrawal and Replacement of IPSAS 25 (2008)	178
Application Guidance	
Amendments to Other IPSASs	
Basis for Conclusions	
Comparison with IAS 19	

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognize:
 - (a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
 - (b) An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Scope

2. **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. 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 programs that are not consideration in exchange for service rendered by employees or past employees of public sector entities.
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 program; 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.
5. Employee Benefits include:
 - (a) Short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:
 - (i) Wages, salaries and social security contributions;
 - (ii) Paid annual leave and paid sick leave;
 - (iii) Profit-sharing and bonuses; and
 - (iv) Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;
 - (b) Post-employment benefits, such as the following:
 - (i) Retirement benefits (e.g., pensions and lump sum payments on retirement); and

- (ii) Other post-employment benefits, such as post-employment life insurance and post-employment medical care;
 - (c) Other long-term employee benefits, such as the following:
 - (i) Long-term paid absences such as long-service leave or sabbatical leave;
 - (ii) Jubilee or other long-service benefits; and
 - (iii) Long-term disability benefits; and
 - (d) Termination benefits.
6. Employee benefits include benefits provided either to employees or to 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.
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*.
- ~~8. This Standard applies to all public sector entities other than Government Business Enterprises.~~
- ~~9. The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.~~

Definitions

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

Definitions of employee benefits

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

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

- (a) An entity's decision to terminate an employee's employment before the normal retirement date; or
- (b) An employee's decision to accept an offer of benefits in exchange for the termination of employment.

Definitions relating to classification of plans

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

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.

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

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.

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

Definitions relating to the net defined benefit liability (asset)

The **net defined benefit liability (asset)** is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The **deficit or surplus** is:

- (a) The present value of the defined benefit obligation less
- (b) The fair value of plan assets (if any).

The **asset ceiling** is 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 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.

Plan assets comprise:

- (a) Assets held by a long-term employee benefit fund; and
- (b) Qualifying insurance policies.

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.

A **qualifying insurance policy** is an insurance policy* issued by an insurer that is not a related party (as defined in IPSAS 20) 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.

Definitions relating to defined benefit cost

Service cost comprises:

- (a) **Current service cost**, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;
- (b) **Past service cost**, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and
- (c) Any gain or loss on settlement.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprise:

- (a) Actuarial gains and losses;
- (b) The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
- (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

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

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

- (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.

The **return on plan assets** is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less:

- (a) Any costs of managing the plan assets; and
- (b) Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

A **settlement** is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-Term Employee Benefits

9. Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:
 - (a) Wages, salaries, and social security contributions;
 - (b) Paid annual leave and paid sick leave;
 - (c) Profit-sharing and bonuses; and
 - (d) Non-monetary benefits (such as medical care, housing, cars, and free or subsidized goods or services) for current employees.
10. An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and measurement

All Short-Term Employee Benefits

11. **When an employee has rendered service to an entity during an accounting period, the entity shall recognize 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 recognize 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.

- (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*).**

- 12. **Paragraphs 13, 16, and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.**

Short-Term Paid Absences

- 13. **An entity shall recognize the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:**

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

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

- (a) Accumulating; and
- (b) Non-accumulating.

- 15. Accumulating paid 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 paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or nonvesting (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 paid absences. The obligation exists, and is recognized, even if the paid 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. **An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.**

- 17. The method specified in the previous paragraph 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 paid 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 annual leave.

- 18. Non-accumulating paid 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 paid absences for jury service or military service. An entity recognizes no liability or

expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-Sharing and Bonus Plans

19. **An entity shall recognize the expected cost of profit-sharing and bonus payments under paragraph 11 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. In the public sector, some entities have bonus plans that are related to service delivery objectives or aspects of financial performance. Under such plans, employees receive specified amounts, dependent 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 objectives of public sector entities, profit-sharing plans are far less common in the public sector than for profit-oriented entities. However, they are likely to be an aspect of employee remuneration in segments of public sector entities that 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 revenue streams and the achievement of budgetary targets. Some 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 end of the reporting [date period](#). However, under other bonus plans, employees receive payments only if they remain with the entity for a specified period, for example, 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 22 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.

21. 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. An entity can make a reliable estimate of its legal or constructive obligation under a performance-related payment scheme, bonus plan, or profit-sharing scheme 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 authorized for issue; or
 - (c) Past practice gives clear evidence of the amount of the entity's constructive obligation.
23. An obligation under profit-sharing plans and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognizes the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.
24. If profit-sharing and bonus payments are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 155–161).

Disclosure

25. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, IPSAS 20 requires disclosures of the aggregate remuneration of key management personnel and IPSAS 1 requires the disclosure of information about employee benefits expense.

Post-employment Benefits—Distinction between Defined Contribution Plans and Defined Benefit Plans

26. Post-employment benefits include items such as the following:
- (a) Retirement benefits (e.g. pensions and lump sum payments on retirement); 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. 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.
28. Under defined contribution plans 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. 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, in substance, on the employee.
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 and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

- (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.
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.
31. Paragraphs 32–51 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans, and insured benefits.

Multi-Employer Plans

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).**
33. **If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it 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 paragraphs 137–150 (excluding paragraph 150(d)).**
34. **When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:**
- (a) **Account for the plan in accordance with paragraphs 53 and 54 as if it were a defined contribution plan; and**
 - (b) **Disclose the information required by paragraph 150.**
35. One example of a multi-employer defined benefit plan is one where:
- (a) The plan is financed on a pay-as-you-go basis: contributions 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; 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 end of the reporting period 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.

36. Where sufficient information is available about a multi-employer plan defined benefit plan, an entity accounts 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, 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) ~~(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; or
- (b) ~~(a)~~ The entity does not have access to sufficient information about the plan that satisfies the requirements of this Standard.

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 150.

37. There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (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 34 shall recognize the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.
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).
39. **In determining when to recognize, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.**

Defined Benefit Plans that Share Risks between Entities under Common Control

40. Defined benefit plans that share risks between various entities under common control, for example, controlling and controlled entities, are not multi-employer plans.

41. 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, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Standard to individual entities within the economic entity, the entity shall, in its separate or individual financial statements, recognize the net defined benefit cost so charged. If there is no such agreement, arrangement, or policy, the net defined benefit cost shall be recognized in the separate or individual financial statements of the entity that is legally the sponsoring employer for the plan. The other entities shall, in their separate or individual financial statements, recognize a cost equal to their contribution payable for the period.
42. There are cases in the public sector where a controlling entity and one or more controlled entities participate in a defined benefit plan. Unless there is a contractual agreement, binding arrangement, or stated policy, as specified in paragraph 41, the controlled entity accounts on a defined contribution basis and the controlling entity accounts on a defined benefit basis in its consolidated financial statements. The controlled entity also discloses that it accounts on a defined contribution basis in its separate financial statements. A controlled entity that accounts on a defined contribution basis also provides details of the controlling entity, and states that, in the controlling entity's consolidated financial statements, accounting is on a defined benefit basis. The controlled entity also makes the disclosures required in paragraph 151.
43. **Participation in such a plan is a related party transaction for each individual entity. An entity shall therefore, in its separate or individual financial statements, disclose the information required by paragraph 151.**

State Plans

44. **An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 32 and 39).**
45. 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). This Standard deals only with employee benefits of the entity, and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting entity. While governments 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. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.
46. 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. 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 the entity has no obligation to pay future benefits, it accounts for that state plan as a defined contribution plan.

47. A state plan may be classified as a defined contribution plan by a controlled entity. However, it is a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Where that presumption is rebutted the state plan is accounted for as a defined contribution plan.

Insured Benefits

48. **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) **To pay the employee benefits directly when they fall due; or**
- b) **To 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. The benefits insured by an insurance policy need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance policies are subject to the same distinction between accounting and funding as other funded plans.
50. 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 8); and
 - (b) Recognizes other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 118).
51. 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

52. 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 are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

Recognition and Measurement

53. **When an employee has rendered service to an entity during a period, the entity shall recognize 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 end of the reporting period, an entity shall recognize 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 and IPSAS 17).**
54. **When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 85.**

Disclosure

55. **An entity shall disclose the amount recognized as an expense for defined contribution plans.**
56. Where required by IPSAS 20, an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment Benefits—Defined Benefit Plans

57. 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

58. 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 recognized for a defined benefit plan is not necessarily the amount of the contribution due for the period.

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

- (a) Determining the deficit or surplus. This involves:
 - (i) Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 69–71). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 72–76), 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 affect the cost of the benefit (see paragraphs 77–100);
 - (ii) Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 69–71 and 85–88);
 - (iii) Deducting the fair value of any plan assets (see paragraphs 115–117) from the present value of the defined benefit obligation;
- (b) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 66).
- (c) Determining amounts to be recognized in surplus or deficit:
 - (i) Current service cost (see paragraphs 72–76).
 - (ii) Any past service cost and gain or loss on settlement (see paragraphs 101–114).
 - (iii) Net interest on the net defined benefit liability (asset) (see paragraphs 125–128).
- (d) Determining the remeasurements of the net defined benefit liability (asset), to be recognized in net assets/equity, comprising:
 - (i) Actuarial gains and losses (see paragraphs 130 and 131);
 - (ii) Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 132); and
 - (iii) Any change in the effect of the asset ceiling (see paragraph 66), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

60. **An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.**

61. 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 end of the reporting period. 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 end of the reporting period.

62. 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

63. **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.**
64. 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 terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of Financial Position

65. **An entity shall recognize the net defined benefit liability (asset) in the statement of financial position.**
66. **When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:**
- (a) **The surplus in the defined benefit plan; and**
 - (b) **The asset ceiling, determined using the discount rate specified in paragraph 85.**
67. A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit 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. The asset ceiling is the present value of those future benefits.

Recognition and Measurement—Present Value of Defined Benefit Obligations and Current Service Cost

68. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. 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:

- (a) To apply an actuarial valuation method (see paragraphs 69–71);
- (b) To attribute benefit to periods of service (see paragraphs 72–76); and
- (c) To make actuarial assumptions (see paragraphs 77–100).

Actuarial Valuation Method

69. **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.**
70. The projected unit credit method (sometimes known as the accrued benefit method prorated 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 72–76), and measures each unit separately to build up the final obligation (see paragraphs 77–100).
71. An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing Benefit to Periods of Service

72. **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.**
73. 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 that 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.
74. 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 the end of each successive reporting period, 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 some 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.

75. 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.
76. 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 end of the reporting period, but do not create an additional obligation. Therefore:
 - (a) For the purpose of paragraph 72(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.

Actuarial Assumptions

77. **Actuarial assumptions shall be unbiased and mutually compatible.**
78. 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 (see paragraphs 83 and 84);
 - (ii) Rates of employee turnover, disability, and early retirement;
 - (iii) The proportion of plan members with dependants who will be eligible for benefits;
 - (iv) The proportion of plan members who will select each form of payment option available under the plan terms; and
 - (v) Claim rates under medical plans.
 - (b) Financial assumptions, dealing with items such as:
 - (i) The discount rate (see paragraphs 85–88);
 - (ii) Benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 89–97);

- (iii) In the case of medical benefits, future medical costs, including claim handling costs (i.e., the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs 98–100); and
- (iv) Taxes payable by the plan on contributions relating to service before the end of the reporting [date period](#) or on benefits resulting from that service.

79. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.
80. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, and discount rates. For example, all assumptions that 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.
81. 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 hyperinflationary 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.
82. **Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.**

Actuarial Assumptions: Mortality

83. **An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.**
84. In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial Assumptions—Discount Rate

85. **The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations.**
86. One actuarial assumption that 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.
87. 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.
88. An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the end of the reporting [date period](#) on

government bonds, high quality corporate bonds, or by another financial instrument. In some jurisdictions, market yields at the end of the reporting [date period](#) on government bonds will provide the best approximation of the time value of money. However, there may be jurisdictions in which this is not the case, for example, jurisdictions where there is no deep market in government bonds, or in which market yields at the end of the reporting [date period](#) on government bonds do not reflect the time value of money. In such cases, the reporting entity determines the rate by another method, such as by reference to market yields on high quality corporate bonds. There may also be circumstances where there is no deep market in government bonds or high quality corporate bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such circumstances, 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 financial instrument, such as government bonds or corporate bonds.

Actuarial Assumptions—Salaries, Benefits and Medical Costs

89. **An entity shall measure its defined benefit obligations on a basis that reflects:**
- (a) **The benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;**
 - (b) **Any estimated future salary increases that affect the benefits payable;**
 - (c) **The effect of any limit on the employer's share of the cost of the future benefits;**
 - (d) **Contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and**
 - (e) **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 end of the reporting period; or**
 - (ii) **Historical data, or other reliable evidence, indicate 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.**
90. Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:
- (a) The entity has a 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;
 - (b) 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 110(c)); or
 - (c) Benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional

contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

91. 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 end of the reporting period. 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.
92. Estimates of future salary increases take account of inflation, seniority, promotion, and other relevant factors, such as supply and demand in the employment market.
93. Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:
 - (a) The estimated life of the entity; and
 - (b) The estimated life of the plan.
94. Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 118. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.
95. Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:
 - (a) If the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method required by paragraph 72 for the gross benefit (ie either using the plan's contribution formula or on a straight-line basis); or
 - (b) If the amount of the contributions is independent of the number of years of service, the entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

Paragraph AG13 provides related application guidance.

96. For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph 95(a), changes in the contributions result in:
- (a) Current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a constructive obligation); or
 - (b) Actuarial gains and losses (if those changes are set out in the formal terms of a plan, or arise from a constructive obligation).
97. Some post-employment benefits are linked to variables such as the level of benefit entitlements from social security pensions or state medical care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.
98. **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.**
99. 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 utilization or delivery patterns, and changes in the health status of plan participants.
100. The level and frequency of claims is particularly sensitive to the age, health status, and gender of employees (and their dependants), and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. It is also adjusted where there is reliable evidence that historical trends will not continue.

Past service cost and gains and losses on settlement

101. **Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.**
102. An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognizes past service cost before any gain or loss on settlement.
103. A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

Past Service Cost

104. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.
105. **An entity shall recognize past service cost as an expense at the earlier of the following dates:**
- (a) **When the plan amendment or curtailment occurs; and**
 - (b) **When the entity recognizes related restructuring costs (see IPSAS 19) or termination benefits (see paragraph 168).**
106. A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.
107. A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. 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.
108. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).
109. Where an entity reduces 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.
110. 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) Underestimates and overestimates of discretionary pension increases when 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 or from the return on plan assets that have been recognized 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 (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 90); and
 - (d) The increase in vested benefits (i.e., benefits that are not conditional on future employment, see paragraph 74) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognized the estimated cost of benefits as current service cost as the service was rendered).

Gains and losses on settlement

111. The gain or loss on a settlement is the difference between:

- (a) The present value of the defined benefit obligation being settled, as determined on the date of settlement; and
 - (b) The settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.
112. **An entity shall recognize a gain or loss on the settlement of a defined benefit plan when the settlement occurs.**
113. 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 (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.
114. 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) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 118–121 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and Measurement—Plan Assets

Fair Value of Plan Assets

115. The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.
116. 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.
117. 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 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

118. **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:**
- (a) **Recognize its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.**

- (b) **Disaggregate and recognize changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 126 and 128). The components of defined benefit cost recognized in accordance with paragraph 122 may be recognized net of amounts relating to changes in the carrying amount of the right to reimbursement.**
119. 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. Qualifying insurance policies, as defined in paragraph 8, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets, and paragraph 118 is not relevant (see paragraphs 48–51 and 117).
120. When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 118 is relevant to such cases: the entity recognizes its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph 142(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.
121. 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 (subject to any reduction required if the reimbursement is not recoverable in full).

Components of defined benefit cost

122. **An entity shall recognize the components of defined benefit cost, except to the extent that another IPSAS requires or permits their inclusion in the cost of an asset, as follows:**
- (a) **Service cost (see paragraphs 68–114) in surplus or deficit;**
 - (b) **Net interest on the net defined benefit liability (asset) (see paragraphs 125–128) in surplus or deficit; and**
 - (c) **Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132) in net assets/equity.**
123. Other IPSASs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant and equipment (see IPSAS 12 and IPSAS 17). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.
124. **Remeasurements of the net defined benefit liability (asset) recognized in net assets/equity shall not be reclassified to surplus or deficit in a subsequent period. However, the entity may transfer those amounts recognized in net assets/equity within net assets/equity.**

Net interest on the net defined benefit liability (asset)

125. **Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in**

paragraph 85, both as determined at the start of the reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

126. Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 66.
127. Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 85, both as determined at the start of the reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).
128. Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 85, both as determined at the start of the reporting period. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset)

129. Remeasurements of the net defined benefit liability (asset) comprise:
 - (a) Actuarial gains and losses (see paragraphs 130 and 131);
 - (b) The return on plan assets (see paragraph 132), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 127); and
 - (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 128).
130. Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. 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 to assumptions concerning benefit payment options;
 - (c) 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; and
 - (d) The effect of changes in the discount rate.
131. Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

132. In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 78). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

133. **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 realize the surplus in one plan and settle its obligation under the other plan simultaneously.**
134. The offsetting criteria are similar to those established for financial instruments in IPSAS 28, *Financial Instruments: Presentation*.

Current/Non-Current Distinction

135. 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.

Components of defined benefit cost

136. Paragraph 122 requires an entity to recognize service cost and net interest on the net defined benefit liability (asset) in surplus or deficit. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with IPSAS 1.

Disclosure

137. **An entity shall disclose information that:**
- (a) Explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 141);**
 - (b) Identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 142–146); and**
 - (c) Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 147–149).**
138. To meet the objectives in paragraph 137, an entity shall consider all the following:
- (a) The level of detail necessary to satisfy the disclosure requirements;
 - (b) How much emphasis to place on each of the various requirements;
 - (c) How much aggregation or disaggregation to undertake; and

- (d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.
139. If the disclosures provided in accordance with the requirements in this Standard and other IPSASs are insufficient to meet the objectives in paragraph 137, an entity shall disclose additional information necessary to meet those objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:
- (a) Between amounts owing to active members, deferred members, and pensioners.
 - (b) Between vested benefits and accrued but not vested benefits.
 - (c) Between conditional benefits, amounts attributable to future salary increases and other benefits.
140. An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:
- (a) Different geographical locations.
 - (b) Different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.
 - (c) Different regulatory environments.
 - (d) Different reporting segments.
 - (e) Different funding arrangements (e.g. wholly unfunded, wholly or partly funded).

Characteristics of defined benefit plans and risks associated with them

141. An entity shall disclose:
- (a) Information about the characteristics of its defined benefit plans, including:
 - (i) The nature of the benefits provided by the plan (e.g. final salary defined benefit plan or contribution-based plan with guarantee).
 - (ii) A description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 66).
 - (iii) A description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of management of the plan.
 - (b) A description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g. property, the plan may expose the entity to a concentration of property market risk.
 - (c) A description of any plan amendments, curtailments and settlements.
 - (d) The basis on which the discount rate has been determined.

Explanation of amounts in the financial statements

142. An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:
- (a) The net defined benefit liability (asset), showing separate reconciliations for:
 - (i) Plan assets.
 - (ii) The present value of the defined benefit obligation.
 - (iii) The effect of the asset ceiling.
 - (b) Any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.
143. Each reconciliation listed in paragraph 142 shall show each of the following, if applicable:
- (a) Current service cost.
 - (b) Interest revenue or expense.
 - (c) Remeasurements of the net defined benefit liability (asset), showing separately:
 - (i) The return on plan assets, excluding amounts included in interest in (b).
 - (ii) Actuarial gains and losses arising from changes in demographic assumptions (see paragraph 78(a)).
 - (iii) Actuarial gains and losses arising from changes in financial assumptions (see paragraph 78(b)).
 - (iv) Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.
 - (d) Past service cost and gains and losses arising from settlements. As permitted by paragraph 102, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.
 - (e) The effect of changes in foreign exchange rates.
 - (f) Contributions to the plan, showing separately those by the employer and by plan participants.
 - (g) Payments from the plan, showing separately the amount paid in respect of any settlements.
 - (h) The effects of public sector combinations and disposals.
144. An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not. For example, and considering the level of disclosure discussed in paragraph 138, an entity could distinguish between:
- (a) Cash and cash equivalents;

- (b) Equity instruments (segregated by industry type, company size, geography etc.);
 - (c) Debt instruments (segregated by type of issuer, credit quality, geography etc.);
 - (d) Real estate (segregated by geography etc.);
 - (e) Derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc.);
 - (f) Investment funds (segregated by type of fund);
 - (g) Asset-backed securities; and
 - (h) Structured debt.
145. An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.
146. An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 86). Such disclosure shall be in absolute terms (e.g. as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows

147. An entity shall disclose:
- (a) A sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 146) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.
 - (b) The methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.
 - (c) Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.
148. An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.
149. To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:
- (a) A description of any funding arrangements and funding policy that affect future contributions.
 - (b) The expected contributions to the plan for the next reporting period.
 - (c) Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other

information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-employer plans

150. If an entity participates in a multi-employer defined benefit plan, it shall disclose:
- (a) A description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.
 - (b) A description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.
 - (c) A description of any agreed allocation of a deficit or surplus on:
 - (i) Wind-up of the plan; or
 - (ii) The entity's withdrawal from the plan.
 - (d) If the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 141–149:
 - (i) The fact that the plan is a defined benefit plan.
 - (ii) The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.
 - (iii) The expected contributions to the plan for the next reporting period.
 - (iv) Information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.
 - (v) An indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Defined benefit plans that share risks between entities under common control

151. If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:
- (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 as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 137–149.
 - (d) If the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 137–139, 141, 144–146 and 149(a) and (b).

152. The information required by paragraph 151(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:
- (a) That group entity's financial statements separately identify and disclose the information required about the plan; and
 - (b) That group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure requirements in other IPSASs

153. Where required by IPSAS 20, an entity discloses information about:
- (a) Related party transactions with post-employment benefit plans; and
 - (b) Post-employment benefits for key management personnel.
154. Where required by IPSAS 19, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other Long-Term Employee Benefits

155. Other long-term employee benefits **may** include items such as the following, if not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service:
- (a) Long-term paid 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;
 - (e) Deferred remuneration; and
 - (f) Compensation payable by the entity until an individual enters new employment.
156. 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. For this reason, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognize remeasurements in net assets/equity.
157. This Standard includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in accordance with paragraphs 57–154.

Recognition and Measurement

158. **In recognizing and measuring the surplus or deficit in another long-term employee benefit plan, an entity shall apply paragraphs 58–100 and 115–117. An entity shall apply paragraphs 118–121 in recognizing and measuring any reimbursement right.**

159. **For other long-term employee benefits, an entity shall recognize the net total of the following amounts in surplus or deficit, except to the extent that another IPSAS requires or permits their inclusion in the cost of an asset:**
- (a) **Service cost (see paragraphs 68–114);**
 - (b) **Net interest on the net defined benefit liability (asset) (see paragraphs 125-128); and**
 - (c) **Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132).**
160. 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 recognized when an event occurs that causes a long-term disability.

Disclosure

161. Although this Standard does not require specific disclosures about other long-term employee benefits, other IPSASs may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

Termination Benefits

162. This Standard deals with termination benefits separately from other employee benefits, because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits [in exchange](#) for termination of employment.
163. Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.
164. The form of the employee benefit does not determine whether it is [in exchange](#) provided for service or [in exchange](#) for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:
- (a) Enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.
 - (b) Salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

165. Indicators that an employee benefit is provided [in exchange](#) for services include the following:
- (a) The benefit is conditional on future service being provided (including benefits that increase if further service is provided).
 - (b) The benefit is provided in accordance with the terms of an employee benefit plan.
166. Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.
167. Some employee benefits are provided 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 jurisdictions 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.

Recognition

168. **An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates:**
- (a) **When the entity can no longer withdraw the offer of those benefits; and**
 - (b) **When the entity recognizes costs for a restructuring that is within the scope of IPSAS 19 and involves the payment of termination benefits.**
169. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:
- (a) When the employee accepts the offer; and
 - (b) When a restriction (e.g. a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.
170. For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:
- (a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

- (b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
- (c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

171. When an entity recognizes termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 105).

Measurement

172. **An entity shall measure termination benefits on initial recognition, and shall measure and recognize subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:**

- (a) **If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognized, the entity shall apply the requirements for short-term employee benefits.**
- (b) **If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the entity shall apply the requirements for other long-term employee benefits.**

173. Because termination benefits are not provided in exchange for service, paragraphs 72–76 relating to the attribution of the benefit to periods of service are not relevant.

Disclosure

174. Although this Standard does not require specific disclosures about termination benefits, other IPSASs may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

~~First time adoption of this Standard~~

~~166. [Deleted]~~

~~167. [Deleted]~~

~~168. [Deleted]~~

~~169. [Deleted]~~

~~170. [Deleted]~~

~~171. [Deleted]~~

~~172. [Deleted]~~

~~173. [Deleted]~~

~~174. [Deleted]~~

~~175. [Deleted]~~

~~176. [Deleted]~~

Transitional Provisions

175. An entity shall apply this Standard retrospectively, in accordance with IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, except that:
- (a) An entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts this Standard.
 - (b) In financial statements for periods beginning before January 1, 2018, an entity need not present comparative information for the disclosures required by paragraph 141 about the sensitivity of the defined benefit obligation.

Effective Date

176. An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 201~~4~~⁸. Earlier adoption is encouraged. If an entity applies this Standard for a period beginning before January 1, 201~~4~~⁸, it shall disclose that fact.

~~177A. Paragraphs 10, 11, 37, 113, 114, and 131 were amended and paragraph 131A was added by *Improvements to IPSASs* issued in January 2010. An entity shall apply the amendments in paragraphs 10, 11, and 37 for annual financial statements covering periods beginning on or after January 1, 2011. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2011, it shall disclose that fact. An entity shall apply the amendments in paragraphs 113, 114, 131 and 131A to changes in benefits that occur on or after January 1, 2011.~~

~~177B. Paragraphs 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176 and 178 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.~~

~~177C. This Standard was amended by *Amendments to IPSAS 25, Employee Benefits* issued in MM/YY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after DD/MM/YY. Earlier application is encouraged. If an entity applies these amendments for annual financial statements covering periods on or after DD/MM/YY, it shall disclose that fact.~~

177. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the

entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Withdrawal and Replacement of IPSAS 25 (2008)

178. This Standard supersedes IPSAS 25 (2008). IPSAS 25 remains applicable until IPSAS 39 is applied or becomes effective, whichever is earlier.

Application Guidance

This Appendix is an integral part of IPSAS 39.

Example Illustrating Paragraph 20: Accounting for Performance-Related Bonus Plan

- AG1. A performance-related bonus plan requires a government printing unit to pay a specified proportion of its surplus for the year to employees who meet predetermined 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 bonus payments for the year will be 3% of actual surplus. The entity determines that staff turnover will reduce the payments to 2.5% of actual surplus.

The entity recognizes a liability and an expense of 2.5% of actual surplus.

Example Illustrating Paragraph 37: Accounting for a Multi-Employer Plan

- AG2. 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 CU480 million^(a) ~~currency units~~ in the plan. The plan has agreed, under a binding arrangement, 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 CU40 million ~~currency units~~.

The entity recognizes a liability for the contributions adjusted for the time value of money and an equal expense in surplus or deficit.

(a) In this Standard monetary amounts are denominated in "currency units (CU)".

Example Illustrating Paragraph 70: Projected Unit Credit Method

- AG3. 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 CU10,000 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 five, 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)	<u>131</u>	<u>131</u>	<u>131</u>	<u>131</u>	<u>131</u>
– current and prior years	<u>131</u>	<u>262</u>	<u>393</u>	<u>524</u>	<u>655</u>
Year	1	2	3	4	5
Opening obligation	–	89	196	324	476
Interest at 10%	–	9	20	33	48
Current service cost	<u>89</u>	<u>98</u>	<u>108</u>	<u>119</u>	<u>131</u>
Closing obligation	<u>89</u>	<u>196</u>	<u>324</u>	<u>476</u>	<u>655</u>

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.

Examples Illustrating Paragraph 73: Attributing Benefit to Years of Service

- AG4. A defined benefit plan provides a lump sum benefit of CU100 payable on retirement for each year of service.

A benefit of CU100 is attributed to each year. The current service cost is the present value of CU100. The present value of the defined benefit obligation is the present value of CU100, multiplied by the number of years of service up to the end of the reporting period.

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 end of the reporting period.

- AG5. 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 end of the reporting [date period](#). The current service cost and the present value of the defined benefit obligation are discounted, because pension payments begin at the age of 65.

Examples Illustrating Paragraph 74: Vesting and Non-Vesting Benefits

- AG6. A plan pays a benefit of CU100 for each year of service. The benefits vest after 10 years of service.

A benefit of CU100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete 10 years of service.

- AG7. A plan pays a benefit of CU100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of CU100 is attributed to each subsequent year.

Examples Illustrating Paragraph 75: Attributing Benefits to Accounting Periods

- AG8. A plan pays a lump sum benefit of CU1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

A benefit of CU100 (CU1,000 divided by 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

- AG9. A plan pays a lump sum retirement benefit of CU2,000 to all employees who are still employed at the age of 55 after 20 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 CU100 (CU2,000 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 (CU2,000 divided by 20) to each of the first 20 years.

For an employee who joins at the age of 55, service beyond 10 years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of CU200 (CU2,000 divided by 10) to each of the first 10 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.

- AG10. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 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 10) to each of the first ten years and 1% (10% divided by 10) to each of the second 10 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 10 years, no benefit is attributed.

- AG11. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 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 20 or more years, the entity attributes benefit on a straight-line basis under paragraph 73. Service beyond 20 years will lead to no

material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5% of the present value of the expected medical costs (50% divided by 20).

For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 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 10th year and the estimated date of leaving.

For employees expected to leave within 10 years, no benefit is attributed.

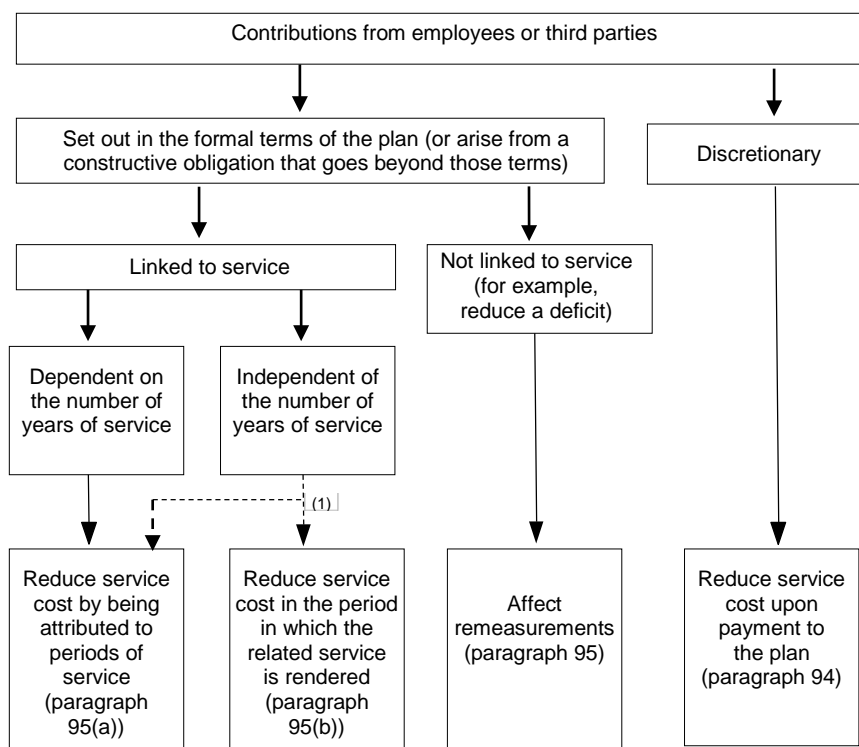
Example Illustrating Paragraph 76: Attributing Benefits to Accounting Periods

AG12. 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.

Example Illustrating Paragraphs 94 and 95: Contributions from employees or third parties

AG13. The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



(1) This dotted arrow means that an entity is permitted to choose either

Example Illustrating Paragraphs 162-173: Termination Benefits**AG14. *Background***

As a result of a recent acquisition, an entity plans to close a factory in 10 months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of CU30,000. Employees leaving before closure of the factory will receive CU10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are CU3,200,000 (i.e., $20 \times \text{CU}10,000 + 100 \times \text{CU}30,000$). As required by paragraph 163, the entity accounts for benefits provided for termination of employment as termination benefits and accounts for benefits provided for services as short-term employee benefits.

Termination benefits

The benefit provided for termination of employment is CU10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (i.e., all employees will leave employment when the factory closes). Therefore the entity recognizes a liability of CU1,200,000 (i.e., $120 \times \text{CU}10,000$) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognizes the restructuring costs associated with the closure of the factory.

Benefits provided for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the reporting period. In this example, discounting is not required, so an expense of CU200,000 (i.e., $\text{CU}2,000,000 \div 10$) is recognized in each month during the service period of 10 months, with a corresponding increase in the carrying amount of the liability.

Appendix B**Amendments to Other IPSASs****IPSAS 1, *Presentation of Financial Statements***

Paragraph 116 is amended. New text is underlined and deleted text is struck through.

116. The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 115, employee benefits has the same meaning as in IPSAS 25 ~~39~~, *Employee Benefits*.

IPSAS 17, *Property, Plant, and Equipment*

Paragraph 31 is amended. New text is underlined and deleted text is struck through.

31. Examples of directly attributable costs are:
- (a) Costs of employee benefits (as defined in IPSAS 25 ~~39~~, *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant, and equipment;
 - ...

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 14 is amended. New text is underlined and deleted text is struck through.

14. This Standard does not apply to provisions for income taxes or income tax equivalents (guidance on accounting for income taxes is found in IAS 12, *Income Taxes*.) Nor does it apply to provisions arising from employee benefits (guidance on accounting for employee benefits is found in IPSAS 25 ~~39~~, *Employee Benefits*.)

IPSAS 20, *Related Party Disclosures*

Paragraph 38 is amended. New text is underlined and deleted text is struck through.

38. Requirements on the measurement of employee benefits are found in IPSAS 25 ~~39~~, *Employee Benefits*. When non-monetary remuneration that is able to be reliably measured has been included in the aggregate amount of remuneration of key management personnel disclosed for the period, disclosure would also be made in the notes to the financial statements of the basis of measurement of the non-monetary remuneration.

IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraph 43 is amended. New text is underlined and deleted text is struck through.

43. Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in IPSAS 25 39, *Employee Benefits*,) and costs associated with reducing or reorganizing a business following the disposal of an asset, are not direct incremental costs to dispose of the asset.

IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraph 2 is amended. New text is underlined and deleted text is struck through.

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:
- (a) ...
 - (g) Assets arising from employee benefits (see IPSAS 25 39, *Employee Benefits*);

IPSAS 28, *Financial Instruments: Presentation*

Paragraph 3 is amended. New text is underlined and deleted text is struck through.

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:
- (a) ...
 - (b) Employers' rights and obligations under employee benefit plans, to which IPSAS 25 39, *Employee Benefits* applies.
 - (c) ...

IPSAS 29, *Financial Instruments: Recognition and Measurement*

Paragraphs 2 and BC19 are amended. New text is underlined and deleted text is struck through.

2. This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) ...
 - (c) Employers' rights and obligations under employee benefit plans, to which IPSAS 25 39, *Employee Benefits* applies.
 - (d) ...

Basis for Conclusions

- BC19. There may be cases where an active market exists for financial guarantee contracts equivalent to or similar to that issued. In such cases a fair value should be estimated through observation of that active market. Where no active market exists, the IPSASB considered whether an entity should be required to move immediately to an approach based on IPSAS 19. The IPSASB noted that many valuation techniques are highly complex and, as noted in paragraphs AG107 and AG108 may give rise to a range of outcomes. It is arguable that the cost of developing such techniques exceeds the benefits to users of the information provided.

An approach based on IPSAS 19 may provide a more reliable and understandable measure of an issuer's risk exposure as a result of entering into a financial guarantee contract. The IPSASB also acknowledged that where an entity does not recognize a liability in accordance with IPSAS 19, the entity makes the disclosures required for contingent liabilities in IPSAS 19 unless an outflow of resources is remote. The information provided to users on risk exposure related to financial guarantees provided at nil or nominal consideration also includes the credit risk disclosures in IPSAS 30, *Financial Instruments: Disclosures*. Conversely, the IPSASB acknowledged that there are current IPSASs that require the use of experts, such as actuaries, to develop valuation techniques that are inherently complex, such as IPSAS 25 ~~39~~, *Employee Benefits*. On balance the IPSASB concluded that, in the absence of an active market, entities should be permitted to use a valuation technique that does not rely on an observable market where they are satisfied that such a technique provides a reliable and understandable method of determining a fair value for a financial guarantee contract entered into by an issuer by means of a non-exchange transaction. This is particularly the case for non-standard guarantees where there is limited data available on defaults and credit risk.

IPSAS 30, *Financial Instruments: Disclosures*

Paragraph 3 is amended. New text is underlined and deleted text is struck through.

3. **This Standard shall be applied by all entities to all types of financial instruments, except:**
- (a) ...
 - (b) **Employers' rights and obligations under employee benefit plans, to which IPSAS 25 ~~39~~, *Employee Benefits* applies.**
 - (d) ...

IPSAS 31, *Intangible Assets*

Paragraphs 6, 35 and 64 are amended. New text is underlined and deleted text is struck through.

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
- (a) ...
 - (c) Assets arising from employee benefits (see IPSAS 25 ~~39~~, *Employee Benefits*);
 - (d) ...
35. Examples of directly attributable costs are:
- (a) Costs of employee benefits (as defined in IPSAS 25 ~~39~~) arising directly from bringing the asset to its working condition;
 - (b) ...
64. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:
- (a) ...

- (b) Costs of employee benefits (as defined in IPSAS 25 39) arising from the generation of the intangible asset;

IPSAS 33, *First-Time Adoption of Accrual Basis IPSASs*

Paragraphs 106, 107 and BC60 are deleted. Paragraphs 36, 102, 104, 105, BC59, BC109, IG50, IG59, IG60, IG61, IG62, IG91, the headings above paragraph 101, BC59 and BC109 and the table in appendix are amended. New text is underlined and deleted text is struck through.

36. Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:

(a) ...

(d) Defined benefit plans and other long-term employee benefits (see IPSAS 25 39, *Employee Benefits*):

(e) ...

IPSAS 25 39, *Employee Benefits*

101. ...

Defined Benefit Plans and Other Long-Term Employee Benefits

102. **On the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:**

(a) **The present value of the obligation at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), by using the Projected Unit Credit Method;**

(b) **Minus the fair value, at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier) of plan assets (if any) out of which the obligations are to be settled directly; and**

~~(c) Minus any past service cost that shall be recognized in later periods as an expense on a straight-line basis over the average period until the benefits become vested.~~

103. ...

104. The effect of the change in the accounting policy to IPSAS 25 39 includes any ~~actuarial gains and losses~~ remeasurements that arose, if any, in earlier periods, ~~even if they fall outside the corridor specified in IPSAS 25.~~ Under its previous basis of accounting, a first-time adopter may not have recognized and/or measured any liability, in which case the increase in the liability

will represent the full amount of the liability minus the fair value, at the date of adoption of IPSASs or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), of any plan assets in accordance with paragraph 102(b) ~~and any past service cost to be recognized in later periods in accordance with paragraph 102(c).~~ This increased liability is recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

105. **A first-time adopter shall recognize not separate the cumulative actuarial gains and losses from the inception of the defined benefit plan(s), until the date of adoption of IPSASs into a recognized and unrecognized portion. All cumulative actuarial gains and losses remeasurements shall be recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.**
106. ~~A first-time adopter is not permitted to separate cumulative actuarial gains and losses into recognized and unrecognized portions on adoption of IPSAS 25. All cumulative actuarial gains and losses remeasurements shall be recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured. This requirement does however not preclude a first-time adopter electing to recognize only parts of its actuarial gains and losses in accordance with paragraphs 105–107 of IPSAS 25 in subsequent reporting periods.~~
107. ~~A first-time adopter shall disclose information on experience adjustments in accordance with paragraph 141(p) of IPSAS 25 prospectively on the date of adoption of IPSASs.~~

Basis for Conclusions

IPSAS 25 39, Employee Benefits

- BC59. The IPSASB acknowledged that the recognition and/or measurement of specific liabilities in IPSAS 25 39, will be challenging for many public sector entities as new systems may be required and/or existing systems may need to be upgraded. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of assets and liabilities related to defined benefit plans and other long-term employee benefits. To avoid a skewed statement of financial position, the IPSASB further agreed that any plan assets should be recognized and/or measured at the same time as the liabilities. All other employee benefits should be recognized and/or measured on the date of adoption of IPSASs.
- BC60. ~~The IPSASB further noted that full retrospective application of IPSAS 25 would require a first-time adopter to determine actuarial gains or losses for each year since the inception of the plan in order to determine the net cumulative unrecognized gains or losses at the date of adoption of IPSASs. It was concluded that this would be costly and would not benefit users. A first-time adopter is therefore not required to separate cumulative actuarial gains and losses into recognized and unrecognized portions. All cumulative actuarial gains and losses should be recognized in opening accumulated surplus or deficit.~~

IPSAS 25 39, Employee Benefits

BC109. The IPSASB also agreed that, where a first-time adopter takes advantage of the exemptions that provide relief for the recognition and/or measurement of liabilities, it should provide information about amounts for the current and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets, and the surplus or deficit in the plan and adjustments as required by IPSAS 25 39 prospectively.

Implementation Guidance

IG50. To illustrate: Entity A's first transitional IPSAS financial statements are for the period ending December 31, 20X5 with the first-time adopter electing to present comparative information. In terms of its previous basis of accounting the following transactions and events are noted in entity A's financial statements for December 31, 20X3 and 20X4:

(a) ...

Application of Requirements

In preparing its opening statement of financial position at January 1, 20X4 and in its comparative statement of financial position at December 31, 20X4, entity A:

(a) ...

(b) Makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan in accordance with IPSAS 25 39, *Employee Benefits*. Entity A's actuarial assumptions at January 1, 20X4 and December 31, 20X4 do not reflect conditions that arose after those dates. For example, entity A's:

(i) ...

IPSAS 25 39 Employee Benefits

IG59.- At the date of adoption of IPSASs, a first-time adopter applies IPSAS 25 39 in measuring defined benefits plans and other long-term employee benefits, and recognizes all cumulative actuarial gains or losses from the inception of the plan until the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 39 (whichever is earlier), ~~even if its accounting policy in accordance with IPSAS 25 will involve leaving some later actuarial gains and losses unrecognized (see paragraph 105 of IPSAS 33).~~

IG60.- A first-time adopter's actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 39 (whichever is earlier), are consistent with actuarial assumptions made at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33) in accordance with its previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 23 of the IPSAS 33). Any later revisions to those

assumptions are an actuarial gain or loss of the period in which the first-time adopter makes the revisions.

IG61.- A first-time adopter may need to make actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 39 (whichever is earlier), that were not necessary in accordance with its basis of accounting. Such actuarial assumptions do not reflect conditions that arose after the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 39 (whichever is earlier). In particular, discount rates and the fair value of plan assets at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the liabilities are recognized and/or measured in accordance with IPSAS 25 39 (whichever is earlier), reflect market conditions at that date. Similarly, the first-time adopter's actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 39 (whichever is earlier), about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 39 (whichever is earlier) (paragraph 23 of IPSAS 33).

IG62. In many cases, a first-time adopter's transitional IPSAS financial statements or its first IPSAS financial statements will reflect measurements of employee benefit obligations at three dates (where a first-time adopter elects to present comparative information in accordance with paragraph 78 of IPSAS 33): the end of the first reporting period, the date of the comparative statement of financial position (where the first-time adopter elects to present comparative information) and the date of adoption of IPSASs, or where the first-time adopter takes advantages of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 39 (whichever is earlier). IPSAS 25 39 encourages the first-time adopter to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimize costs, a first-time adopter may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back

reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (paragraph 68 61 of IPSAS 25 [39](#)).

IG91.- The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs

	<u>Transitional exemption provided</u>							
	<u>NO</u>	<u>YES</u>						
		<u>Deemed cost</u>	<u>3 year transitional relief for recognition</u>	<u>3 year transitional relief for measurement</u>	<u>3 year transitional relief for recognition and/or measurement</u>	<u>3 year transitional relief for disclosure</u>	<u>Elimination of transactions, balances, revenue and expenses</u>	<u>Other</u>
IPSAS 25 39 Employee Benefits			✓ defined benefit plans and other long-term employee benefits not recognized under previous basis of accounting	✓ for defined benefit and other long-term employee benefits recognized under previous basis of accounting				<ul style="list-style-type: none"> • Provisions on how to determine initial liability • Provision to not separate cumulative actuarial gains and losses • Prospective disclosure on experience adjustments

Appendix

<u>Transitional exemption or provision</u>	<u>Transitional exemptions or provisions that have to be applied</u>	<u>Transitional exemptions or provisions that may be applied or elected</u>	
	<u>Do not affect fair presentation and compliance with accrual basis IPSAS</u>	<u>Do not affect fair presentation and compliance with accrual basis IPSAS</u>	<u>Affect fair presentation and compliance with accrual basis IPSAS</u>
<u>IPSAS 25 39</u> <ul style="list-style-type: none"> • <u>Three year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities</u> • <u>Determine initial liability for defined benefit and other long-term employee benefit plans on date of adoption or when relief period expired</u> • <u>Recognize increase/decrease on date of adoption or when relief period expires in opening accumulated surplus/deficit</u> 	✓		✓

IPSAS 35, Consolidated Financial Statements

Paragraph 6 is amended. New text is underlined and deleted text is struck through.

6. This Standard does not apply to post-employment benefit plans or other long-term employee benefit plans to which IPSAS 25 39, Employee Benefits applies.

IPSAS 38, Disclosure of Interests in Other Entities

Paragraph 4 is amended. New text is underlined and deleted text is struck through.

4. This Standard does not apply to:

(a) Post-employment benefit plans or other long-term employee benefit plans to which IPSAS 25 39, Employee Benefits applies.

(b) ...

Basis for Conclusions

This Basis for Conclusions accompanies, but ~~is~~ does not ~~form~~ part of, IPSAS 39.

~~Development of IPSAS 39 based on the IASB's revised version of IAS 19 issued in 2004~~

~~Introduction~~

- ~~BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities.~~
- ~~BC2. The labor-intensive character of the operations of very many public sector entities means that expenses and liabilities related to employee benefits are likely to be particularly significant in evaluating the financial performance and financial position of those entities. It is therefore essential that the general purpose financial statements of public sector entities report expenses and liabilities related to employee benefits, and that these should be determined on a systematic and consistent basis. It is also important that relevant disclosures are provided to users.~~

~~Objective~~

- ~~BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 39. As this Standard is based on IAS 19, *Employee Benefits* (Amended in 2011, including amendments up to December 31, 2015), issued by the International Accounting Standards Board (IASB), the Basis for Conclusions outlines only those areas where IPSAS 39 departs from the main requirements of IAS 19 (Amended in 2011), or where the IPSASB considered such departures.~~

~~Overview~~

- ~~BC2. — In January 2016, the IPSASB issued Exposure Draft 59, *Amendments to IPSAS 25, Employee Benefits* with proposed amendments to converge with the underlying IAS 19, *Employee Benefits* (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 25, *Employee Benefits*.~~
- ~~BC3. Development of a standard on employee benefits has previously been deferred for two reasons. First, the IPSASB decided to prioritize resources on public sector-specific projects, including projects on social benefits provided by public sector entities in non-exchange transactions and revenue from non-exchange transactions. Second, in the earlier part of this decade it appeared possible that there might have been very significant changes to IAS 19. The IPSASB notes that the IASB currently has a project on postretirement benefits under way. The project is being conducted in two phases, which involve a fundamental review of all aspects of post-employment benefit accounting. Phase One is part of the short-term convergence project of the IASB and the Financial Accounting Standards Board. While this project may identify issues that can be resolved relatively quickly, the IPSASB considers that the development of proposals for fundamental changes to accounting for post-employment benefits is not sufficiently advanced to justify deferral of this Standard. The IPSASB will continue to monitor developments in the IASB's project. *Composite Social Security Programs and State Plans*~~

~~Composite Social Security Programs and State Plans~~

~~BC4. In many jurisdictions, post-employment benefits are paid through composite social security programs. Composite social security programs also provide benefits that are not consideration in exchange for service rendered by employees or past employees. The IPSASB concluded that, because they are particularly significant in some jurisdictions, including a number of European countries, composite social security programs should be defined and requirements provided for their treatment. This Standard includes in paragraph 10 a definition of composite social security programs that encompasses both components of such programs.~~

~~BC5. This Standard does not deal with all potential obligations of public sector entities under composite social security programs. As this Standard deals with employee benefits of reporting entities, only benefits payable under composite social security programs as consideration in exchange for service rendered by employees of the reporting entity are within its scope. The IPSASB is addressing certain other benefits payable under composite social security schemes in a separate project dealing with social benefits.~~

BC3. This Standard retains the requirement in IAS 19 that an entity accounts for a state plan in the same way as for a multi-employer plan. The IPSASB concluded that it should provide further commentary to clarify the approach to accounting for state plans by public sector entities [as in IPSAS 25](#). Paragraph 47 provides a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Only where that presumption is rebutted is the state plan accounted for as a defined contribution plan.

Defined Benefit Plans with Participating Entities under Common Control

BC4. In the public sector, there are likely to be many cases where entities under common control participate in defined benefit plans. IAS 19 includes commentary on defined benefit plans that share risks between entities under common control. The IPSASB considered that the requirements in IAS 19 are appropriate in the public sector. The IPSASB also considered it appropriate to emphasize that, unless there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole to an individual entity, it is inappropriate for controlled entities to account on a defined benefit basis [as in IPSAS 25](#). In such cases, the controlling entity should account for such plans on a defined benefit basis in its consolidated financial statements. Controlled entities (a) account on a defined contribution basis, (b) identify the controlling entity, and (c) disclose that the controlling entity is accounting on a defined benefit basis in its consolidated financial statements. This is reflected in paragraph 42. Controlled entities also make the disclosures specified in paragraph 151.

Discount Rates

BC5. IAS 19 requires adoption of a discount rate based on the market yields at the end of the reporting ~~date-period~~ on high quality corporate bonds. The IPSASB decided that the discount rate should reflect the time value of money, and considered that entities should be left to determine the rate that best achieves that objective [in the same way as in IPSAS 25](#). The IPSASB considered that the time value of money may be best reflected by reference to market yields on government bonds, high quality corporate bonds, or any other financial instrument. The discount rate used is not intended to incorporate the risk associated with defined benefit obligations or entity-specific credit risk. There is an additional disclosure

requirement at paragraph 141(d) informing users of the basis on which the discount rate has been determined.

- BC6. The IPSASB considered whether it should provide guidance to assist entities operating in jurisdictions where there is neither a deep market in government bonds nor a deep market in high quality corporate bonds to determine a discount rate that reflects the time value of money. The IPSASB acknowledges that determination of an appropriate discount rate is likely to be a difficult issue for entities operating in such jurisdictions, and that such entities may be in the process of migrating, or have recently migrated, to the accrual basis of accounting. However, the IPSASB concluded that this is not an issue that applies only in the public sector, and that there is an insufficiently clear public sector-specific reason to provide such guidance.

~~Actuarial Gains and Losses—the Corridor~~

- BC10. ~~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 predetermined parameters, related to the fair value of plan assets and the carrying amount 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 deferral of revenue and expenses. However, the IPSASB concluded that there is no public sector-specific reason to remove the corridor provisions 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 three 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 is Outside the Statement of Financial Performance~~

- BC11. ~~When the IPSASB developed ED 31, *Employee Benefits*, IAS 19 (2004) and IAS 1 required “the statement of changes in equity” to be re-termed “the statement of recognized income and expense,” where an entity adopted a policy of recognizing actuarial gains and losses for all its defined benefit plans outside the income statement. The suite of financial statements in IPSAS 1, *Presentation of Financial Statements*, does not include a “statement of recognized revenue 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 revenue and expense” under certain circumstances, or whether entities should be permitted to recognize actuarial gains and losses in the existing “statement of changes in net assets/equity,” which is required by IPSAS 1. The IPSASB initially concluded that, consistent with its objective of promoting convergence with IFRSs, it should effect a consequential amendment to IPSAS 1 to re-term “the statement of net assets/equity” as the “statement of~~

~~recognized revenue and expense” when it only includes certain line items, including actuarial gains and losses. This approach was generally supported at consultation.~~

BC12. ~~The IASB has subsequently issued a revised IAS 1 that includes a consequential amendment to IAS 19. This deletes references to the statement of recognized income and expense, and requires actuarial gains and losses recognized outside profit or loss to be presented as a component of other comprehensive income. The IPSASB has not yet considered the revised IAS 1. Rather than adopt a treatment that aims to converge with an approach in IFRSs that has already been superseded, the IPSASB decided to adopt a requirement that, where actuarial gains and losses are recognized outside the statement of financial performance, they should be presented in the statement of changes in net assets/equity.~~

Reimbursements

BC13. ~~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 considered whether 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. The IPSASB considered that there may be such circumstances. ED 31 therefore included expanded commentary to acknowledge that such circumstances may arise. Some submissions considered that this revised commentary was confusing. Acknowledging this view the IPSASB decided to use the same commentary as in IAS 19, and to put the onus on entities to determine whether they have an asset arising from a right to reimbursement by reference to the definition of an asset in the IPSASB literature.~~

Other Long-Term Employee Benefits: Long-Term Disability Benefits

BC7. IAS 19 lists long-term disability benefits as an example of an “other long-term employee benefit.” IAS 19 states that “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.” ~~and that “the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost.”~~ In the public sector, disability benefits related to certain areas of service provision, such as the military, may be financially highly significant, and related actuarial gains or losses volatile.

BC8. ~~Therefore,~~ IPSAS 25 39 ~~retains the therefore provides a~~ rebuttable presumption included in IPSAS 25 that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for using the same requirements as for post-employment benefits.

Other Long-Term Employee Benefits: Compensation Payable by the Reporting Entity until an Individual Enters New Employment

BC9. Although it does not consider it likely that such circumstances are widespread, the IPSASB acknowledged that there may be cases where a reporting entity is contractually bound to make compensation payments separate from a termination benefit to a past employee until he/she enters new employment. The list of other long-term benefits in paragraph 155 was therefore amended to include such circumstances, as in IPSAS 25.

Implementation Arrangements

- BC17. ~~The IPSASB acknowledged that applying the requirements of this Standard in relation to liabilities relating to obligations arising from defined benefit plans may prove challenging for many public sector entities. Currently, many public sector entities may not be recognizing liabilities related to such obligations, and may therefore not have the systems in place to provide the information required for reporting under the requirements of this Standard. Where entities are recognizing liabilities relating to obligations arising from defined benefit plans, this may be on a different basis to that required by this Standard. In some cases, adoption of this Standard might give rise to tensions with budgetary projections and other prospective information.~~
- BC18. ~~IAS 19 requires entities adopting that Standard to determine a transitional liability. Where the amount of the transitional liability is more than the liability that would have been recognized at the same date under the previous accounting policy, IAS 19 permits entities to expense that difference on a straight-line basis over a period up to five years from the date of adoption.~~
- BC19. ~~The impact on financial performance and financial position of increases in liabilities arising from adoption of this Standard will be an issue for many public sector entities. However, as indicated in paragraph BC17, a more immediate issue may be obtaining the information in the first place. The IPSASB therefore concluded that, in order to give public sector entities the time to develop new systems and upgrade existing systems, this Standard should become effective for reporting periods commencing on or after January 1, 2011. Consistent with this objective, in the first year of adoption comparative information is not required. Earlier adoption is encouraged.~~
- BC20. ~~When IPSAS 25 was issued it had transitional requirements for first time adopters. In paragraph 166, this Standard required~~ed~~ entities to determine an initial liability for defined benefit plans. Because entities do not have~~d~~ to adopt the Standard until reporting periods commencing on or after January 1 2011, the IPSASB concluded that it is ~~was~~ not necessary to introduce a transitional provision permitting entities to expense over a period any difference between the initial liability and the liability that would have been recognized under the previous accounting policy. In order to avoid a potential distortion of financial performance in the first year of adoption, and, for consistency with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, this Standard required~~ed~~ the difference between the initial liability and the liability that would have been recognized at the same date under the previous accounting policy to be taken to opening accumulated surpluses or deficits.~~
- BC21. ~~The IPSASB also considered whether, in the light of possible difficulties for reporting entities in assembling information, it would be appropriate to provide relief from certain disclosure requirements in paragraph 141 of this Standard. These disclosures required~~ed~~ opening balances relating to a number of components of obligations and plan assets or trend information covering the current reporting period and previous four reporting periods. The IPSASB concluded that, because some entities may require the full lead-in period to develop systems, such relief is ~~was~~ appropriate. It is ~~was~~ therefore included in the Standard in paragraphs 173 and 175.~~
- BC21A. ~~When the IPSASB approved IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, it agreed to remove the section on *First Time Adoption of this Standard* (paragraphs 166-176) of IPSAS 25.~~

Revision of IPSAS 25 as a result of the IASB's Improvements to IFRSs issued in 2008

~~BC22. The IPSASB reviewed the revisions to IAS 19 included in the *Improvements to IFRSs* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.~~

Revision of IPSAS 25 based on the IASB's revised version of IAS 19 (issued in 2004, including amendments up to December 31, 2015)

Main Revisions Drawn from IAS 19

~~BC12. In 2011, the IASB amended IAS 19 to eliminate the "corridor approach" and require the immediate recognition of actuarial gains and losses. The IPSASB considered that the immediate recognition of actuarial gains and losses provides information that better meets the qualitative characteristics of information included in general purpose financial reports. The IPSASB concluded that there is no public sector specific reason to maintain the corridor provisions. Therefore, the IPSASB decided to eliminate the "corridor approach" and require the immediate recognition of actuarial gains and losses.~~

~~BC13. In addition to the elimination of the corridor option and in order to maintain convergence with IAS 19, the IPSASB considered other revisions made by the IASB to IAS 19 in 2011 and up to the approval of ED 59, *Amendments to IPSAS 25, Employee Benefits*:~~

- ~~(a) Excluding changes in the defined benefit obligation that result from changes in demographic assumptions from the service cost component;~~
- ~~(b) Remeasurements will comprise (i) actuarial gains and losses on the defined benefit obligation, (ii) return on plan assets, excluding amounts included in net interest on the defined benefit liability (asset) and, (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the defined liability (asset);~~
- ~~(c) Maintaining the recognition of the service cost and net interest components in surplus or deficit;~~
- ~~(d) Recognizing remeasurements in net assets/equity instead of in surplus or deficit;~~
- ~~(e) Recognizing immediately the unvested past service cost, with consequential amendments to the definitions of curtailments, service cost and settlement, instead of the current recognition as an expense on a straight-line basis over the average period until the benefits become vested;~~
- ~~(f) Recognizing termination benefits when the entity has communicated its plan of termination to each of the affected employees, instead of the current requirement when the entity is demonstrably committed to provide those benefits;~~
- ~~(g) Changing the definition of short-term employee benefits (other than termination benefits) to refer to employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, rather than those expected to be settled within twelve months after the end of the period in which the employees render the related service;~~
- ~~(h) Including a new section in IPSAS 25 called "Actuarial assumptions: mortality" with wording making explicit that the mortality assumptions used to determine the defined~~

~~benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment;~~

- ~~(i) Clarifying that taxes related to service and administration costs related to benefit payments are included in the estimate of present value of the defined benefit obligation and that other taxes and administration costs related to the management of plan assets are deducted from the return on plan assets;~~
- ~~(j) Clarifying that contributions from employees or third parties reduce the ultimate cost to the entity of those benefits;~~
- ~~(k) Clarifying that linked service contributions from employees or third parties reduce service cost (if they are linked to service) or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service);~~
- ~~(l) Including requirements on conditional indexation that the measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria; and~~
- ~~(m) Clarifying that the measurement of an entity's defined benefit obligations reflects the limits on the legal and constructive obligation to pay additional contributions.~~

Remeasurements

BC10. IAS 19 (Amended in 2011) recognizes remeasurements of the net defined liability (asset) in other comprehensive income instead of profit or loss. The IPSASB noted that *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* does not have the term of other comprehensive income. The IPSASB considered that recognizing remeasurements in net assets/equity would have the same accounting outcome of IAS 19 in not affecting surplus or deficit with components of defined benefit cost that have different predictive values. Therefore, the IPSASB decided to recognize remeasurements in net assets/equity instead of surplus or deficit.

Requirements of Government Finance Statistics Reporting Guidelines

- BC11. The IPSASB considered the requirements of Government Finance Statistics (GFS) reporting guidelines on the classification, presentation, recognition, measurement and disclosure of employee benefits and identified some differences with both the revised IAS 19 and of IPSAS [2539](#).
- BC12. GFS reporting guidelines do not apply the net interest approach, but rather recognize proceeds on fund assets and interest on fund liabilities according to the economic nature of those revenues and expenses. GFS then attributes the property income and the increase in the liability for benefit entitlements due to the passage of time through an entry in "property expense for investment income disbursements". In IPSAS [25–39](#) equivalent entries are presented in surplus or deficit.
- BC13. For autonomous funds recognized outside the employer's accounts, GFS recognizes a claim of the pension fund on the pension manager for deficits of the pension fund in specific circumstances. In these cases, GFS does not require the recognition of an interest expense in the employers' accounts due to the passage of time of recognizing that claim.
- BC14. In GFS, the plan assets are generally measured on the same basis as other assets, which is normally market values. Therefore, unlike IPSAS [2539](#), no additional calculation to include

the discount rate in the plan assets as a whole is necessary to estimate present value. However, in GFS some assets are not measured at market values. This may give rise to different valuations between IPSAS [25–39](#) and GFS (for example: loans are measured at nominal values in GFS and usually at amortized cost in IPSAS).

- BC15. In GFS, any changes in the volume or value of assets that do not result from transactions are recorded in the Statement of Other Economic Flows, which includes the effect of the passage of time. In GFS, the pension fund only records actual revenue from transactions such as interest, dividends and rents in the Statement of Operations.
- BC16. GFS does not disaggregate employee benefits into short-term and long-term employee benefits and does not require specific disclosures on employee benefits, except for the supplementary table on pension schemes in social insurance specified in the System of National Accounts 2008.
- BC17. The IPSASB concluded that these differences are due to the different objectives and presentational frameworks of IPSASs and GFS. They do not constitute public sector specific reasons that warrant departure from IAS 19.

Comparison with IAS 19

IPSAS ~~25~~ 39 is drawn primarily from IAS 19 (issued in ~~2004~~11, including amendments up to December 31, 2015). The main differences between IPSAS 25 and IAS 19 are as follows:

- IPSAS 25 contains additional guidance on public sector bonus plans.
- ~~IPSAS 25 contains a specific section on Composite Social Security Schemes.~~
- For discounting post-employment obligations, IAS 19 requires entities to apply a discount rate based on yields on high quality corporate bonds consistent with the currency and estimated term of the post-employment benefit obligations. The requirement in IPSAS 25 is that entities apply a rate that reflects the time value of money. IPSAS 25 also contains a requirement that entities disclose the basis on which the discount rate has been determined.
- ~~IPSAS 25–39~~ IPSAS 39 includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in the same way as for post-employment benefits. IAS 19 does not include such a rebuttable presumption.
- IPSAS 39 recognizes remeasurements of the net defined benefit liability (asset) in net assets/equity. IAS 19 recognizes them in other comprehensive income.
- IPSAS ~~25–39~~ 39 uses different terminology, in certain instances, from IAS 19. The most significant examples are the use of the terms “revenue”, “controlling” and “controlled entities”. The equivalent terms in IAS 19 are “income”, “parent” and “subsidiaries”.

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RESPONDENTS' COMMENTS TO EXPOSURE DRAFT 59, *AMENDMENTS TO IPSAS 25, EMPLOYEE BENEFITS*

Response #	Respondent Comments	Staff Comments
Overall Comments		
01	<p>Thank you for the opportunity to comment on ED 59 Amendments to IPSAS 25 Employee Benefits. ED 59 has been exposed in New Zealand and some New Zealand constituents may have made comments directly to you.</p> <p>The NZASB is very supportive of the IPSASB's initiative to align IPSAS 25 with IAS 19 Employee Benefits. In particular, we strongly support the proposal to remove the corridor approach.</p>	
02	Thank you for the opportunity to comment on the proposed amendments to IPSAS 25.	
03	<p>The Federation of European Accountants (the Federation) is pleased to provide you with its comments on ED 59: Amendments to IPSAS 25 Employee Benefits.</p> <p>The Federation supports the approach taken in this ED that aligns, as far as possible, IPSAS 25 with International Accounting Standard 19.</p> <p>In particular, the Federation supports the proposed removal of the 'corridor approach' from IPSAS 25, which will result in all changes in the present value of plan assets being recognised in the period in which they incur. This should help increase consistency in reporting between different public sector entities.</p> <p>The Federation also agrees with the ED in its continued divergence with IAS 19 in respect of determining the rate used to discount the post-employment defined benefit obligations. We believe that entities should be permitted to select the most appropriate discount rate based on their asset profile.</p> <p>Finally, the Federation agrees with the proposed amendments to the components of defined benefit cost, albeit we regard the recognition of changes in fair value of plan assets through net assets/equity as being a temporary measure until a more fundamental review of the accounting of such fair value adjustments can be completed.</p>	
04	This Exposure Draft deals with amendments to IPSAS 25 "Employee benefits". For the DGFIP, this is a major topic, in respect to the need for transparency of public accounts towards all stakeholders.	

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>It is critical to address this concern, given the financial, social and political issues related to short-term and long-term employee benefits, including post employment benefits. In a relevant accounting standard, specific features of public sector pension plans must be taken into account so that the financial statements accurately reflect the rights and obligations, in accordance with IPSAS conceptual framework.</p> <p>In France, public service pension plans are mandatory and contributory schemes. They are operated as “répartition” mechanisms, as social security programs. The “répartition” scheme is characterised, in particular, by the following features:</p> <ul style="list-style-type: none"> • Amounts of contributions are set out by an annual law at the level required to serve the benefits due that same year; • Future benefits vested during the period will be paid by future contributions. <p>Thus, retiree's pensions paid in any given year are financed by resources collected in the same year. The contributions of active members and employers, supplemented by affected tax resources, financial transfers, and possibly by reserves allow to pay current pensions. Through their membership of a scheme and through their contributions, active members acquire future pension rights whose amount is not fixed ex ante. This amount can change, based on legislative or regulatory changes, even after the settlement. As the revenue of the year finance pension expenditures in the same year, they are recognized respectively in revenue and expenses.</p> <p>In public sector, there are two main mandatory and contributory employer plans, which are called special:</p> <ul style="list-style-type: none"> • the central government statutory civil servants plan, managed by a specific budgetary instrument, and • the local authorities and hospital statutory civil servants plan, run by a separate entity. <p>Given the characteristics of “répartition” pension plans, the actuarial and investment risks are not beard by public administrations as employers. Therefore, there is no liability.</p> <p>The central government statutory civil servants plan differs from the local authorities and hospital statutory civil servants plan, because the central government is both employer and manager of the plan. Thus, for transparency,</p>	

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>information is disclosed in the notes to the central government financial statements, using the projected unit credit method.</p> <p>Indeed, as stated previously in our response to CP¹ « social benefits », the notes are fully part of the financial statements. Information disclosed in the notes is as important as information provided by balance sheet or income statement. Regardless its location, information meets the objective of transparency of public accounts towards users. Thus, it ultimately allows to enlighten the public policy choices.</p> <p>Moreover, the notes are of particular importance in public sector. Indeed, the central government is engaged beyond the traditional commitments to cover risks, as "insurer of last resort" or as "economic and social regulator". These two types of commitments have no equivalent in private sector.</p> <p>¹ DGFIP's comments on IPSASB « Recognition and measurement of social benefits » consultation paper, 4 january 2016.</p>	
05	<p>The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IPSASB's Exposure Draft ED 59 Amendments to IPSAS 25 Employee Benefits.</p> <p>[...]</p> <p>Effecting these amendments would further align IPSAS 25 with IAS 19 Employee Benefits. The AASB encourages the IPSASB to continue converging IPSASs with IFRSs where appropriate.</p>	
06	<p>Association of National Accountants of Nigeria is very pleased to comment on the above mentioned Exposure Draft.</p> <p>Association of National Accountants of Nigeria (ANAN) is a statutorily recognized professional accountancy body in Nigeria. The body is charged among others, with the duty of advancing the science of accountancy.</p> <p>The Association was formed on 1st January, 1979 and operate under the ANAN Act 76 of 1993(Cap A26 LFN 2004), working in the public interest. The Association regulates its practising and non-practising members, and is overseen by the Financial Reporting Council of Nigeria.</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>ANAN members are more than 21,000, they are either FCNA OR CNA and are found in business, practice, academic and public sector in all the States of Nigeria and Overseas. The members provide professional services to various users of their services.</p> <p>ANAN is a member of the International Federation of Accountants (IFAC), International Association for Accounting Education & Research (IAAER), The Pan African Federation of Accountants (PAFA), and Associate of Accountancy Bodies in West Africa (ABWA).</p>	
07	<p>The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on Exposure Draft 59: Proposed Amendments to IPSAS 25, Employee Benefits (hereinafter referred to as "the ED").</p> <p>This letter includes general comments. We respond to the two Specific Matters for Comment (SMCs) in the appendix.</p> <p>General comments</p> <p>As previously communicated to the Board, the IDW supports the IPSASB continuing to align its suite of IPSASs to IFRS to the extent appropriate taking into account specific circumstances and particularities of the public sector, and in view of the objectives established in the IPSASB's Conceptual Framework.</p> <p>We agree that pension liabilities are highly significant in the public sector, particularly in regard to defined benefit plans. The general public has a significant interest in receiving transparent information as to employee benefits in the public sector, and pension commitments in particular, and holds the public sector entity accountable for decisions made in this respect.</p> <p>We would like to express our support for the current initiative to align IPSAS 25 to its counterpart standard in IFRS, IAS 19. We comment further on the selected aspects of the ED's proposals in responding to the SMC, and include miscellaneous observations and wording issues in the appendices to this letter.</p>	
08	<p>CIPFA is pleased to present its comments on this Exposure Draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	Respondent Comments	Staff Comments
Overall Comments		
	CIPFA supports the main proposals in the Exposure Draft. Comments are provided in the attached annex. CIPFA has no significant comment to make in connection with Composite Social Security Programs.	
09	The Japanese Institute of Certified Public Accountants (“we”, “our”, and “JICPA”) is pleased to provide you with our comments on Exposure Draft 59 “Amendments to IPSAS 25, Employee Benefits.”	
10	We welcome the opportunity to comment on Exposure Draft 59: <i>Amendments to IPSAS 25, Employee Benefits</i> . Overall, we are supportive of the IPSASB's proposed amendments to IPSAS 25. Minor issues were however identified in some of the Parts. These issues, along with our proposals, are reflected in the responses for comment.	
11	<p>ICAEW welcomes the opportunity to comment on the Amendments to IPSAS 25, Employee Benefits exposure draft published by the International Public Sector Accounting Standards Board (IPSASB) in January 2016, a copy of which is available from this link.</p> <p>This response of 28 April 2016 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. Comments on public sector financial reporting are prepared with the assistance of the Faculty's Public Sector Development Committee. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.</p> <p>MAJOR POINTS</p> <p>Support for the exposure draft</p> <p>1. We welcome the opportunity to comment on IPSASB's exposure draft (ED) on Amendments to IPSAS 25, Employee Benefits. We broadly support the proposals, which further align IPSASs with IFRSs. However, as explained below, this ED highlights the need for further alignment with IFRS more generally, in particular the need to introduce to IPSAS the concept of Other Comprehensive Income (OCI).</p>	

Response #	Respondent Comments	Staff Comments
Overall Comments		
	<p>Further alignment with IFRSs required</p> <p>2. We acknowledge the work carried out by IPSASB in keeping the existing suite of IPSASs up to date and creating new, public sector-specific standards. However, IPSAS 1 – Presentation of Financial Statements is based on a 2003 version of the IFRS equivalent, which predates the use of OCI. The omission of OCI not only prevents the proper segregation of gains and losses from other elements of equity, it also raises broader questions about IPSASB's ability to keep up with IFRS developments as well as create new, public sector-only standards.</p> <p>3. IAS 1 Presentation of Financial Statements was revised in 2007 to make information provided in financial statements more useful. As part of this revision, IAS 1 made the reporting of OCI compulsory for accounting periods starting on or after 1 January 2009. Since the revision of IAS 1 in 2007, the IASB has decided in various projects whether entities should present items of income or expense in profit or loss or in OCI, and the result has been an increased use of OCI.</p> <p>4. The fact that IPSASs do not feature OCI means that some gains and losses remain within equity and are presented less clearly than they would be if they were part of total comprehensive income. We feel that IPSASB should address this lack of alignment with IFRS with some urgency, to increase the transparency of public sector primary financial statements.</p>	
12	<p>The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Exposure Draft (ED 59) - 59: Proposed Amendments to International Public Sector Accounting Standard (IPSAS) 25, Employee Benefits, issued by the International Public Sector Accounting Standards Board (IPSASB) of IFAC.</p> <p>The Institute supports the approach taken in this ED that aligns s, as far as possible, IPSAS 25 with International Accounting Standard (IAS) 19. Since IPSAS 25 was modelled along the earlier IAS 19 which has undergone several amendments since 2004, the current process of amending IPSAS 59 is mainly to align it to the revised IAS 19 and obtain necessary convergence. Those revisions to IAS 19 have made application more clear and linear, and have generally been non-controversial. We support the proposed amendments particularly the proposal to remove the 'corridor approach' from IPSAS 25, which will result in all changes in the present value of plan assets being recognised in the period in which they are incurred.</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	Respondent Comments	Staff Comments
Overall Comments		
	We also noted and support the board's decision in its continued divergence with IAS 19 in respect of determining the rate used to discount the post-employment defined benefit obligations. We believe that entities should be permitted to select the most appropriate discount rate based on their asset profile.	
13	CPA Australia welcomes the opportunity to respond to the above Exposure Draft. CPA Australia represents the diverse interests of more than 155,000 members in 120 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.	
14	<p>The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the ED 59 Comments on the Amendments to IPSAS 25 Employee Benefits.</p> <p>The Swedish National Financial Management Authority is the government agency responsible for financial management and development of GAAP in the Swedish central government. Full accrual accounting was introduced in 1993 and we hope that our experience will be a contribution in your work with various accounting issues.</p> <p>Overall Opinion</p> <p>Our overall opinion is that we support the amendments to IPSAS 25, e.g. removing of the corridor approach from the standard and recognizing remeasurements in net assets/equity in the period in which they occur. This means that changes in actuarial assumptions will be recognized only in the statement of financial position.</p> <p>The standard raises two issues.</p> <p>To what extent should other changes of gains and losses be recognized in net assets/equity? ESV considers that the method to present gains and losses in net assets/equity should not be restricted to changes in actuarial assumptions for employee benefits. In Sweden e.g. we use actuarial assumptions for valuation of student loans that are very similar to valuations of the pension liability.</p>	

Response #	Respondent Comments	Staff Comments
Overall Comments		
	Should the public sector have a report of overall comprehensive income (OCI) like the private sector? ESV's consideration is that if other changes of gains and losses should be recognized in net assets/equity it would probably be more transparent to introduce an OCI also in the public sector.	
15	<p>The Financial Reporting Council (FRC) of Nigeria welcomes the idea of the revision of IPSAS 25, Employee Benefits. In the light of this, the Council sent out letters to various entities especially public sector entities, professional accountancy bodies, audit/accountancy firms and other entities that use IPSASs.</p> <p>The Following entities sent their responses which the Council collated:</p> <ol style="list-style-type: none"> 1. The Institute of Chartered Secretaries and Administrators of Nigeria (ICSAN) 2. KPMG Professional Services, Nigeria 3. Office of the State Auditor-General Lagos State of Nigeria 4. Office of the State Auditor-General Cross River State of Nigeria <p>In view of the responses received from the above entities, the Council agrees that there is need for revision of IPSAS 25 but the following observations should be noted.</p>	
16	The Canadian Institute of Actuaries (CIA) is the national voice of the actuarial profession in Canada. With more than 5,200 members, the Institute puts the public interest ahead of its own, and is dedicated to providing actuarial services and advice of the highest quality.	
17	<ol style="list-style-type: none"> 1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to IPSAS ED59 - 'Amendments to IPSAS 25 – Employee Benefits'. 2. We support the specific changes proposed within ED59 under Comments 1 and 2. 3. However, it is our view that a much more comprehensive revision of IPSAS 25 is required particularly in relation to post-employment benefits. The present IPSAS, even with the amendments proposed in ED59, is not aligned with the issues facing entities in the general government sector (especially sovereign 	Staff notes that this is a limited scope project to address IAS 19 related

Response #	Respondent Comments	Staff Comments
Overall Comments		
	governments) and does not adequately address the requirement for transparency in relation to the inter-generational impact of post-employment benefits. 4. Furthermore, we consider that IPSAS 25 should be restructured to clearly segregate the different types of employee benefits, should in each case move from the general to the particular, and should use language that is meaningful to persons who are not pension experts.	amendments. Therefore, staff recommends the IPSASB only to amend IPSAS 25 requirements that are related to IAS 19 amendments.
18	-	
19	Thank you for the opportunity to comment on ED 59 – Amendments to IPSAS 25 Employee Benefits. The New Zealand Treasury consolidates the Financial Statements of the Government of New Zealand. The New Zealand Government operates the largest defined benefit plan in New Zealand. As at 30 June 2015 the present value of the unfunded defined benefit obligation was NZD10.8 billion. The Treasury is pleased to submit its response to the IPSASB's questions below.	
20	ACCA welcomes the opportunity to comment on the proposals issued by IPSASB. The ACCA Global Forum for Public Sector has considered the matters raised and their views are represented in the following: SUMMARY We agree with the proposed amendments set out in Exposure Draft 59 to IPSAS 25, Employee Benefits to converge it with amendments made to IAS 19.	
21	The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on Exposure Draft 59 Amendments to IPSAS 25, Employee Benefits. HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.	

Response #	Respondent Comments	Staff Comments
Overall Comments		
	HoTARAC strongly supports the proposed alignment with the requirements of International Accounting Standard (IAS) 19. HoTARAC would also recommend that the IPSASB consider the use of longer-term average interest rates as discount rates for long-term employee benefits.	
22	<p>The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft ED59, Amendments to IPSAS 25, Employee Benefits published in January 2016.</p> <p>We support the convergence to IAS 19, IPSAS 25's equivalent for the private sector: for those regulatory systems that are operated in the same manner as employer/employee plans in the private sector, we believe that convergence is the way forward.</p> <p>However, we note that, currently, no IPSAS standard addresses some regulatory systems that operate pensions for the public sector, such as the "répartition" mechanism. We therefore would like to take the opportunity of this comment letter to discuss the "répartition" mechanism further.</p>	
23	<p>We welcome the opportunity to comment on the Exposure Draft 59 (ED 59) on Proposed Amendments to IPSAS 25, Employee Benefits.</p> <p>Overall, we are supportive of the changes proposed in ED 59 as they ensure that there is greater alignment between IPSASs and IFRSs. Our detailed comments are included as Annexure A to this letter.</p> <p>The views expressed in this letter are those of the Secretariat and not the Accounting Standards Board (Board). In formulating our comments, the Secretariat consulted with a range of stakeholders including auditors, preparers, consultants, professional bodies and other interested parties.</p>	
24	<p>1. Introduction</p> <p>The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).</p> <p>The SRS-CSPCP has approved the Comments to <i>ED 59 Amendments to IPSAS 25, Employee Benefits</i> for the attention of the IPSAS Board.</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	Respondent Comments	Staff Comments
Overall Comments		
	2. General Remarks The SRS-CSPCP is of the view that a revision of IPSAS 25 converged with IAS 19 is necessary and sensible.	

SMC #1: Do you agree with the proposals in the Exposure Draft for revision of IPSAS 25? If not, please indicate what proposed amendments you do not agree with and provide reasons.

Table 1: Overview of Responses to SMC #1

View on SMC	Respondent #	Totals	
A. Supported the proposals in the Exposure Draft for revision of IPSAS 25	01, 02, 03, 04, 05, 06, 07, 08, 12, 13, 15, 16, 17, 18, 19, 20, 22		17
B. Partially supported the proposals in the Exposure Draft for revision of IPSAS 25	09, 10, 11, 14, 21, 23, 24		7
B.1. Suggested amendments that are within the scope of the project	09, 10, 23	3	
B.2. Suggested amendments that are outside of the scope of the project	11, 14, 21, 24	4	
C. Disagree with the proposals in the Exposure Draft for revision of IPSAS 25	—		0
Total Respondents			24

Table 2: Table of Responses to SMC #1

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
01	A		The NZASB agrees with the proposals to amend IPSAS 25. As noted in our cover letter, we are particularly supportive of the proposal to remove the corridor approach.	
02	A		We support the proposed revisions to IPSAS 25 to converge with IAS 19, Employee Benefits. We agree that there is no public sector reason for deviation from the amendments made to IAS 19 up to December 31, 2015. We believe that the IPSASB's approach of highlighting the differences between IPSAS 25 and the Government Finance Statistics reporting guidelines in the Basis for Conclusions is appropriate.	
03	A		<p>(1) Overall the Federation agrees with the proposed revisions of IPSAS 25 contained in ED 59. We have provided below further comments on some of the key changes proposed.</p> <p>Removing the 'corridor approach'</p> <p>(2) The Federation supported the removal of the corridor approach from IAS 19 in 2010, so that all changes in the present value of the defined benefit obligation and in the fair value of plan assets should be recognised when they occur. This was primarily on the basis that there did not appear to be a conceptual justification for deferring the recognition of part of the changes in the benefit obligation and plan assets.</p> <p>(3) The Federation also supported the proposed amendments because the option to use the corridor approach impaired comparability between different entities.</p> <p>(4) For the same reasons, we support the removal of the corridor approach from IPSAS 25, albeit we have been made aware that the consequences of removing the corridor approach can have a significant impact on many entities currently applying IPSAS 25.</p> <p>Discount rate</p> <p>(5) The Federation supports the continued divergence between IPSAS 25 and IAS 19 in respect of setting the rate used to discount post-employment defined benefit obligations. We did not support the amendment to IAS 19 that based the discount rate on the market yields at the reporting date of high quality corporate bonds</p>	

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			<p>(HQCBs) (unless there was no such market – in which case the yield on government securities could be substituted).</p> <p>(6) The Federation took this position because, although we recognised concerns regarding the reliability of estimated rates of return in practice, we were not convinced that the return on HQCBs would accurately reflect the actual return on fund assets, except where the fund assets themselves were HQCB's. Consequently, we did not believe that a rate of return based on HQCBs would provide more relevant information than the entity's own expectation about the return of actual plan assets.</p> <p>(7) Consequently, the Federation supports IPSAS 25's approach that the entity should make a judgement whether the discount rate is best approximated by reference to market yields at the reporting date on government bonds, HQCBs or by another financial instrument.</p> <p>New components of defined benefit cost</p> <p>(8) The Federation supports the alignment of IPSAS 25 with IAS 19 in respect of the presentation of the components of defined benefit costs. We welcomed the disaggregation of defined benefit costs into these three components when IAS 19 was revised in 2011 as each of these components of the defined benefit costs had different characteristics and risk profiles. We also considered that the changes to the presentation would improve comparability in the disclosure of such costs between different entities.</p> <p>(9) We also consider that, as IPSASs have no equivalent of the Other Comprehensive Income (OCI) statement, the proposal in the ED to present the remeasurement component in net assets/equity is the best alternative available to the IPSASB in order to keep a consistent treatment with IAS 19.</p> <p>(10) However, in our 2010 response to the proposed amendments to IAS 19 we highlighted conceptual issues with changes in the fair value of the plan assets being recognised through the OCI and asked the IASB to start a fundamental debate on the use of the OCI, including recycling. Consequently, we would regard the current treatment of remeasurements in this ED as being a temporary measure until a more fundamental review of how fair value adjustments should be recognised is completed.</p>	

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
04	A		<p>As previously stated in our general comments, civil servants' pension plans are mandatory and contributory employer plans, operating as "répartition" mechanisms, where the actuarial and investment risks are not beard by public administrations as employers. Therefore, there is no liability in their financial statements.</p> <p>Regarding the objective of convergence of the current provisions of IPSAS 25 with IAS 19, the DGFIP has no comment about accounting treatment of plans in public sector when they are similar to those in private sector. We can only encourage all proposals that would simplify and facilitate the interpretation of financial statements by all stakeholders including non specialists.</p> <p>Moreover, it seems to us important to preserve the financial statements of provisions introducing volatility and procyclicality. They may be stressful, and affect understanding and comparability over time of financial statements.</p>	
05	A		In response to Specific Matter for Comment 1, the AASB agrees with the amendments as proposed in ED 59.	
06	A		The Association of National Accountants of Nigeria (ANAN) agrees with IPSASB proposals in the Exposure Draft for revision of IPSAS 25 because of the amendments are in tandem with what obtains in most jurisdictions today with regards to employee benefits, the purpose of which is to safeguard their future after retirement and to ensure that services rendered pre and post employment is adequately compensated for.	
07	A		<p>We generally support the proposed changes and comment on selected aspects as follows:</p> <p>Removal of the Corridor Approach</p> <p>We agree with the proposed removal of the corridor approach from IPSAS 25, mirroring recent changes to IAS 19. In our view both the lack of comparability allowed by the corridor approach and the diminished informative value as to the impact of pension commitments on an entity's financial position are key factors in this context.</p> <p>The equivalent change made to IAS 19 a few years ago was, however, not without practical consequences. The improved transparency as to the financial impact of defined benefit pension plans, at the time investment returns were generally diminishing, may have been instrumental to many private sector employers questioning the longer-term sustainability of defined benefit schemes.</p>	

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			<p>In Germany the relative drawbacks of defined benefit schemes from the employer perspective are well appreciated, and there appears to be high awareness of this issue within public sector entities. Whilst there remains diversity in practice, we understand that changes are occurring, with less pension entitlements being funded on a pay as you go basis and more reserves being set aside to finance future pension payments.</p> <p>Proposed New Components of Defined Benefit Cost</p> <p>We support the proposed changes and believe that the presentation of net defined benefit costs and liabilities (or assets) is less complex and far easier to understand than the presentation according to the extant IPSAS 25.</p> <p>The IASB uses the construct of other comprehensive income (OCI) in accounting for actuarial changes; OCI does not feature in the IPSASs. We note that conceptual discussions on this and similar issues are ongoing in both Boards, and the ED proposal not to account for remeasurements of net defined benefit liabilities in surplus or deficit, but directly within net assets/ equity (para. 135C) in the statement of financial position, seems to be the most pragmatic approach at the present time, pending Board decisions in these areas.</p> <p>Selection of a Discount Rate in Measuring Employee Benefit Obligations</p> <p>The rate applied to discount defined benefit obligations is a highly sensitive issue because of the propensity for a very small change in the assumed rate to have a highly significant impact on the calculation of an obligation.</p> <p>In order to limit subjectivity, the IASB adopted stringent requirements in IAS 19 as to selection of a discount rate. However, these requirements are proving challenging to apply in practice, since it is currently extremely difficult to find high quality corporate bonds against which to measure rates, and the incidence of negative interest in interbank lending is also difficult from a conceptual level.</p> <p>We note that the IPSASB is not proposing to change the current requirements of paragraph 94 of IPSAS 25, and some public sector entities will continue to have more flexibility in their selection of a discount rate than provided in IAS 19.</p> <p>In our view, the IPSASB's approach may well help to mitigate the practical issues currently being encountered in the private sector. However, from a conceptual viewpoint we are not convinced that there is sufficient justification in the longer term for the private and public sector to apply different discount rates for employee pension obligations. We would encourage both Boards to coordinate their approaches to discount rates going forward.</p>	

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
08	A		<p>CIPFA agrees with the proposals in ED 59 for the revision of IPSAS 25 to align it with changes to IAS 19 since 2004.</p> <p>As explained in the Exposure Draft,</p> <ul style="list-style-type: none"> IPSAS 25, Employee Benefits, is drawn primarily from International Accounting Standard (IAS) 19 (2004), Employee Benefits. Since 2004, the International Accounting Standards Board has made several revisions to IAS 19 removing the “corridor approach”, introducing the net interest approach for defined benefit plans, amending disclosure requirements for defined benefit plans and multi-employer plans; and simplification of certain requirements for contributions from employees or third parties to a defined benefit plan. <p>CIPFA has responded to most of the relevant IASB consultations on IAS 19, and the response was supportive in each case. We see no public sector specific reasons why the improvements to IAS 19 should not be taken into IPSAS. We were particularly strong in our support for the removal of the “corridor approach” from IAS 19; we are therefore correspondingly keen that this option should be removed from IPSAS 25.</p>	
09	B	B.1.	<p>1. Presentation of components of defined benefit cost</p> <p>The International Accounting Standards Board (IASB) revised International Accounting Standard (IAS) 19 in 2011 to introduce “other comprehensive income” that will not be recycled in relation to the components of remeasurements. Consequential amendment was made to IAS 1 Presentation of Financial Statements to require separate presentation of that part that is not recycled in the statement of comprehensive income (paragraph 82A of IAS 1).</p> <p>Although IPSAS 25 does not adopt the concept of “other comprehensive income”, we believe it has the same issue as the IASB in that it requires the remeasurements to be recognized in net assets/equity which substantially will not be recycled. We propose that the IPSASB should consider the presentation of remeasurements in the statement of changes in net assets/equity. This consideration could include IPSAS 1 Presentation of Financial Statements.</p>	Paragraph 118(b) of IPSAS 1 already requires to present on the face of the statement “each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items”.

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			<p>2. Basis for Conclusions</p> <p>(1) Regarding paragraph BC23</p> <p>Paragraph BC23 of ED 59 lists items (a) - (m) as the main revisions to the IPSAS 25 besides the elimination of the corridor option.</p> <p>Since the description of each item is unclear (euphemistic), we had difficulty in identifying to which paragraph in the body of the standard each item corresponds (specifically items (a), (e), (f), (i) and (k)). In order to make the standard more understandable for readers, corresponding paragraphs of the standard should be specified in items (a) to (m).</p> <p>Furthermore, the structure of BC23 is confusing in that it describes the revisions made to IAS 19 and the rationale of accepting (or not accepting) those revisions in IPSAS 25 without any distinction. We therefore believe that they should be separately described.</p> <p>Items (l) and (m) correspond to paragraph 96A, and there seems to be several items that correspond to paragraph 135A. In order to make the standard more understandable for readers, we believe it is necessary to reorganize the paragraph so that each item from (a) to (m) corresponds to a specific paragraph of the body of the standard.</p> <p>(2) Regarding paragraph BC30</p> <p>Paragraphs BC24 to BC30 of ED 59 explain how the IPSASB considered the differences between Government Finance Statistics (GFS) and IPSASs. Paragraphs BC24 - BC29 explain the actual differences between GFS and IPSASs and the last paragraph BC30 describes why the IPSASB did not revise the IPSAS in line with GFS as follows:</p> <p>"The IPSASB concluded that these differences are due to the different objectives and presentational frameworks of IPSASs and GFS. They do not constitute public sector specific reasons that warrant departure from IAS 19."</p> <p>We believe that this description is inadequate for a "basis for conclusion".</p> <p>We think the IPSASB should state the rationale for justifying the differences with GFS for issues addressed in BC24 - BC29. For instance, ED 59 adopts the net interest approach, while GFS applies different measurement</p>	<p>The Basis</p> <p>See staff's response in category 1 of Appendix A– <i>Summary of suggested amendments to IPSASB's literature of Agenda Item 5.1.</i></p> <p>See staff's response in category 1 of Appendix A– <i>Summary of suggested amendments to IPSASB's literature of Agenda Item 5.1.</i></p>

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			basis to interest revenue/expense on plan assets and liabilities (defined benefit obligation). We believe that the IPSASB should explain more clearly the basis for conclusion to take precedence of the IAS over GFS.	
10	B	B.1.	<p>1. Removing the “corridor approach”</p> <p>The ED proposes recognising actuarial gains or losses in full in the year that they arise, and that these gains or losses are recognised in the statement of changes in net assets. By removing the current three options and requiring entities to recognise changes immediately enhances the comparability and understandability of information related to defined benefit plans.</p> <p>We agree with the proposed changes above as this will ensure alignment with IFRS.</p> <p>2. New components of defined benefit cost</p> <p>Changes are proposed in the way in which interest revenue or interest expense is calculated. The proposed revisions require that an entity reflects a net interest expense or net interest revenue in surplus or deficit. It is anticipated that the change will make the measurement of defined benefit obligations easier.</p> <p>Whilst we agree that the proposed revisions will make the measurement of the defined benefit obligations easier, we are concerned that the proposed change will not reflect the substance of the transactions. If an entity reflects a net interest expense or net interest revenue, the users of the financial statements may not fully understand the transactions and conditions that have occurred.</p> <p>Since IPSAS 1, <i>Presentation of Financial Statements</i>, allow for offsetting of expenses and revenue if required or permitted by that IPSAS, the net interest expense/revenue may be reflected and disaggregated information be disclosed by way of a disclosure note to explain the substance of the transaction or other event.</p> <p>3. Amending certain disclosure requirements for defined benefit plans and multi-employer plans</p> <p>The disclosure requirements have been re-structured and refined according to disclosure objectives that explain the characteristics of plans, the risks associated with them, and their relationship with the entity's financial statements.</p> <p>We agree with the proposed changes above.</p>	Paragraph 144G(b) requires disclosure of interest revenue or expense related to plan assets, present value of the defined benefit obligation and the effect of the asset ceiling.

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			<p>4. Simplification of requirements for contributions from employees or third parties to a defined benefit plan, when those contributions are applied to a simple contributory plan that is linked to service</p> <p>The revisions to IPSAS 25 provide guidance on accounting for risk-sharing features of defined benefit plans. For instance if contributions from employees or third parties are linked to service and the amount of the contributions is independent of the number of years of service, the entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered or by being attributed to periods of service.</p> <p>We agree with the proposed changes above.</p> <p>5. Basis for conclusion</p> <p>We agree with the proposed changes to Basis for Conclusion <i>except for the following</i>:</p> <ul style="list-style-type: none"> BC4 under the heading "Composite Social Security Programs and State Plans" suggests that composite social security programs for benefits that are not in consideration for service rendered by employees or past employees is still considered relevant by IPSASB. This is inconsistent with the proposed amendments as the ED proposes to delete the composite social security programs section. Recommendation is to remove/delete this BC should the composite social security programs section be deleted (Page 64). BC10 under the heading "Actuarial Gains and Losses – the Corridor" suggests that the "corridor approach" is still applicable. This is inconsistent with the proposed amendments as the ED proposes to remove the "corridor approach". Recommendation is to remove/delete this BC as the proposed BC10A contradicts this paragraph (Page 65). 	See staff's response in category 1 of Appendix A– <i>Summary of suggested amendments to IPSASB's literature of Agenda Item 5.1.</i>
11	B	B.2.	<p>5. In its response to the IASB's proposed amendments to IAS 19 in 2010, ICAEW strongly supported the removal of the corridor approach on the grounds that there was no good conceptual justification for a method under which recognition of a portion of an asset or liability may be deferred. Actuarial gains and losses should be recognised in full in the period in which they arise.</p> <p>6. We also welcomed the IASB's proposals to bring clarity to the presentation of items in total comprehensive income by streamlining the components of defined benefit costs. We supported the proposed distinction between service cost, net interest expense and remeasurement components, but</p>	

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			<p>noted that there was no clear conceptual basis for where the components of defined benefit costs should be presented within the performance statement.</p> <p>7. In response to the 2010 consultation, we questioned the presentation of some of the detailed components of remeasurements in OCI rather than profit or loss, arguing that items subject to immediate management decisions should be presented in profit or loss rather than OCI. We did agree however that all other items of remeasurement should be presented in OCI and, as such, have reservations about showing these items in net assets/equity under IPSAS 25.</p> <p>8. We believe that the presentation by governments of comprehensive surplus or deficit would provide users with a more holistic view of performance and improve transparency of public sector financial reporting. IFRSs and hence IPSASs are based on a balance sheet approach which looks at the change in taxpayers (owners) equity to determine the surplus or deficit during the period between balance sheets. It is therefore vitally important that changes in equity are presented as transparently as possible. We do not feel that this is achievable without the use of an OCI section in the performance statement.</p> <p>9. We do not agree with the flexibility allowed in determining the discount rate for actuarial assumptions in paragraphs 91 to 94. We see no benefit in simply stating in the initial, bold paragraph (91) that the discount rate shall reflect the time value of money. The bold section of paragraph 91 should require the determination of the discount rate by reference to government bonds, and if there is no market in such bonds, then by reference to corporate bonds. We feel that paragraph 94 contains all the right elements, but that these should be spelt out more prominently in the bold section of paragraph 91.</p> <p>10. Discount rates are a large driver of annual changes in pension scheme values. Basing the discount rate on an observable input such as government or corporate bond rates would lead to less volatility and increase comparability and transparency. The risk of manipulation would also be diminished.</p>	<p>See staff's response in category 2 of Appendix A– <i>Summary of suggested amendments to IPSASB's literature of Agenda Item 5.1.</i></p> <p>Staff notes that the <i>Conceptual Framework</i> does not identify OCI as an element.</p> <p>See staff's response in category 2 of Appendix A– <i>Summary of suggested amendments to IPSASB's literature of Agenda Item 5.1.</i></p>
12	A		Yes. The Institute agrees with the proposed revisions of IPSAS 25 contained in ED 59 as it aligns the standard with IAS 19 and obtain necessary convergence in application of the principles in the public sector.	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
13	A		CPA Australia supports the proposed revisions that seek to converge IPSAS 25 with the current version of IAS 19 Employee Benefits. In particular, we support removal of the "corridor approach" option as we see no conceptual basis for the deferral or smoothing of actuarial gains or losses.	
14	B	B.2.	<p>From Sweden we would also like to question the mandatory use of the PUCM method for calculation of the employee pension plan liabilities. The Swedish pension plans are all based on a paid-up policy technique, meaning that if an employee leaves his employment long before retirement, he will get a pension anyway according to an earned share of a full pension. On the other hand, if a person is employed in the government sector for the first time at the age of 48, he will not get the full pension as if he had been employed for e.g. thirty years if that is the requirement for full pension. Normally he will then have a separate pension from his earlier private sector employment. Our method, consequently, is to record a liability in accordance with the pension earned at the end of each year with a calculated yield on the paid-in premium. Later there can be recalculations due to changes in prices or salaries. The liability will however not be affected by forecasts on expected future salary at the time of retirement. With this background we believe that the PUCM method does not in all cases show the best possible value of the liability. Our opinion is that the PUCM method should not be mandatory for countries or entities where the paid-up policy technique is applied.</p> <p>Especially this is the case for the individual units (agencies) of the government sector, where the effects are more obviously hard to handle. In the private sector in Sweden the PUCM method is only mandatory if you present financial statements according to IASB's standards, not according to the national legislation. If the IPSASB still would decide that the PUCM method should be mandatory for governments applying IPSAS, our opinion is that it should only be mandatory for the consolidated level of local or central government.</p>	See staff's response in category 2 of Appendix A– <i>Summary of suggested amendments to IPSASB's literature of Agenda Item 5.1.</i>
15	A		a) Given that IPSAS does not contain an equivalent of IAS 26 Accounting and Reporting by Retirement Benefit Plans, which states that all retirement plan investment shall be carried at fair value, the amended IPSAS should state clearly that all plan assets shall be carried at fair.	Staff notes that paragraph 118 of IPSAS 25 already states that plan assets are measured at fair value. Therefore, no amendment is needed to IPSAS 25.

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
16	A		Given that the current version of IPSAS 25 is drawn primarily from the 2004 version of International Accounting Standard (IAS) 19, we agree with the proposed amendments to converge IPSAS 25 with recent amendments made to IAS 19.	
17	A		We support the specific changes proposed within ED59 under Comments 1 and 2.	
18	A		<p>Our Comment</p> <p>Yes, we agree with the proposals in the Exposure Draft revision of IPSAS 25.</p> <p>Explanation</p> <p>A thorough review of the proposed amendment reveals improvement in the definition and meaning of the terms associated with IPSAS 25. The definition of terms associated with the proposed standard in paragraph 10 of IPSAS 25 are amplified meanings which are more comprehensive than previously defined under the current IPSAS 25.</p> <p>In addition, the proposed Standard provides further clarity on the various benefits within the scope of the current standard, for example, the definition of "Employee Benefits" now clearly includes consideration given by an entity for the termination of employment, in addition to the consideration given in exchange for service rendered.</p> <p>Equally, the substitution of "wholly before twelve months after the end of the reporting" for "within twelve months after the end of the period" is a further clarification of employee benefits that are short-term. This same clarification applies to "post-employment benefits", "other long-term employee benefits" and "termination benefits" within the same paragraph 10.</p>	
19	A		<p>The Treasury supports these proposals and in particular, we support the removal of the corridor approach.</p> <p>We can see no public sector reasons to warrant departure from the requirements in IAS 19 Employee Benefits so agree with the alignment of IPSAS 25 with IAS 19.</p> <p>However, the Treasury supports the different approach to discount rates continuing between IPSAS 25 and IAS 19 and agrees with the IPSASB's view that the discount rate should reflect the time value of money rather than IAS 19's more rules-based approach</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			Determining the discount rate by reference to market yields on government bonds, high quality corporate bonds, or any other financial instruments is one of the most difficult judgments for valuing pension liabilities, particularly in our jurisdiction, where the pension cash flows have much longer durations than any relevant market instruments that proxy a risk-free rate.	
20	A		We agree with the proposed amendments to converge IPSAS 25 to IAS 19. As IPSAS 25 was originally based on IAS 19, it is sensible to update IPSAS 25 to reflect all amendments made to IAS 19 (from 2004 to 31 Dec 2015.)	
21	B	B.2.	<p>HoTARAC supports a strategy of aligning with the requirements of the International Financial Reporting Standards issued by the International Accounting Standards Board where possible and agrees with the objectives of the proposed amendments.</p> <p>HoTARAC welcomes the decision to retain some flexibility in the selection of discount rates (paragraph 91) and agrees with paragraph BC8 that entities should determine the interest rate that best reflects the time value of money. HoTARAC believes that Step 1 (i) of the "Process for Reviewing and Modifying IASB Documents" warrants a further departure from the requirement to use spot rates in IAS 19. Spot rates are volatile, resulting in significant fluctuations in employee expenses and long-term employee liabilities. This is of particular relevance to the public sector due to:</p> <ul style="list-style-type: none"> the size of employee liabilities, which often include a large proportion of defined benefit superannuation obligations; and the operating surplus being a relatively small proportion of expenses. <p>This can result in users having difficulty in evaluating the performance of a public sector entity as the impact of policy and operating decisions on surpluses or deficits can be overwhelmed by the effects of such spot rate movements. HoTARAC recommends exploring the use of a longer-term average interest rate to smooth these fluctuations. One HoTARAC member believes this longer-term average should be based on published historical bond rates.</p>	

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
22	A		<p>We are fully aware that IPSAS 25 deals with both short-term and long-term employee benefits. Because the proposed amendments mainly address issues that relate to long-term/post-employment employee benefits, we focus on those specific benefits and the way they are operated in France.</p> <p>In the public sector in France, we identified two main post-employment regulatory systems that could at first sight fall within the scope of IPSAS 25, should IPSASs be applicable. Both those regulatory systems are operated as “répartition” mechanisms. That means that they are compulsory and contributory regulatory systems. Contributions received in a period are fully used to pay benefits due on the same period. Amounts of contributions are set out by an annual law at the level required to serve the benefits due that same year. Additionally, contributions paid are independent of the long term risk profile of the beneficiaries. The level of contributions paid during a year is not linked to the level of benefits that will be granted in the future.</p> <p>The two regulatory systems identified and analysed for the purpose of that comment letter are:</p> <ul style="list-style-type: none"> Local authorities and hospital statutory civil servants regulatory system <p>Using IPSAS 25 terminology, that regulatory system could be described as a state plan operating in a similar way as a multi-employer plan: local authorities and hospitals contribute as employers to one entity that belongs to the social security sector and that manages contributions received and benefits due. No contribution accumulates over time.</p> <p>However, we believe that the features of such regulatory system would depart from the description in paragraph 34 (b) of IPSAS 25 in that the regulatory system is set up by legislation (versus an employer/employee contractual relationship) and the entity that manages the regulatory system operates under an annual law that sets the level of contributions to be paid in a period to serve the benefits due on the same period. An employer does not underwrite the actuarial and investment risks; conversely, the employees bear the risk. There is no legal or constructive obligation for the entity to serve future benefits.</p> <ul style="list-style-type: none"> Central government statutory civil servants regulatory system <p>That regulatory system is run by a unit of the central government: it is not a separate entity and it bears no relation in terms of governance to the social security sector. Using IPSAS 25 terminology, we believe that it could possibly fit the description of state plans in paragraphs 43 to 46 of IPSAS 25 though the regulatory system covers a unique employer (the central government). The annual law that sets the level of contributions is specific</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			<p>to the functioning of the central government, therefore different to that voted for the operations of the social security sector. Similarly to local authorities and hospitals' regulatory system, there is no legal or constructive obligation for the central government to serve future benefits.</p> <p>Overall, we believe that those public sector employers/employees regulatory systems are substantially of the same nature as social security programs in France and operate in the same way. Moreover, in addition to the features described above, financial transfers exist between the central government and social security sector entities to ensure that, on a global basis at national level, the regulatory systems well operate the "répartition" mechanism, for instance that individual regulatory systems' demographic specificities do not impair the mechanism. Hence those regulatory systems should all follow the same accounting treatment for consistency purposes. That is, no liability should be recognised for the payment of future benefits. That conclusion does not preclude the need to provide relevant forward-looking information.</p> <p>For the reasons developed above, one key aspect of the concern we have with the principles set out in IPSAS 25 for post-employment employee benefits in the public sector is that our "répartition" mechanism cannot be adequately described using solely the two categories defined in IPSAS 25: defined benefit and defined contribution plans. Therefore, we are of the view that those of our post-employment benefits regulatory systems that are operated under the "répartition" mechanism do not fully fall within the scope of IPSAS 25. In addition, we note that, currently, no IPSAS standard addresses such situations as the "répartition" mechanism.</p> <p>As a result, because the proposed amendments to converge IPSAS 25 toward IAS 19 relate principally to defined benefit plans, we are of the opinion that those amendments would have little effect on the accounting treatments retained for the employers/employees regulatory systems currently operating in the public sector in France.</p> <p>In that line of thoughts, for those regulatory systems that operate in the same manner as private sector plans, we would support the convergence to IAS 19, IPSAS 25's equivalent for the private sector.</p>	
23	B	B.1.	<p>We generally support the proposed amendments to IPSAS 25 as they (a) ensure alignment with IAS 19 Employee Benefits, and (b) are clearer and more precise than the previous requirements. We have identified two key issues which we would like to bring to the Board's attention:</p> <p><u>Rationale for the recognition of remeasurements in the statement of changes in net assets</u></p>	See staff's response in category 1 of Appendix

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			<p>The proposed changes to IPSAS 25 require that all remeasurements are recognised in the Statement of Changes in Net Assets.</p> <p>In the previous version of IPSAS 25, an entity was required to recognise actuarial gains and losses in surplus or deficit if they applied the corridor method. An entity was permitted to recognise actuarial gains and losses in the Statement of Changes in Net Assets if they recognised actuarial gains and losses in full when incurred.</p> <p>While the Basis for Conclusions acknowledges the withdrawal of the corridor method (BC10A), and the change in where remeasurements are recognised (BC23(d)), there is no clear rationale why the IPSASB decided to implement the change to full recognition of remeasurements in the Statement of Changes in Net Assets.</p> <p>As jurisdictions may have recognised actuarial gains and losses in full in the surplus or deficit in prior years (South Africa is an example), we believe there should be a clear explanation why the IPSASB believes this treatment is appropriate for the public sector.</p> <p><u>IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</u></p> <p>The IASB issued IFRIC 14 in July 2007 to outline the accounting principles that should be applied to the measurement of defined benefit assets and any minimum funding requirements that may exist.</p> <p>While we understand that the IPSASB currently does not issue any Interpretations, we question how entities will know that this Interpretation exists and that it provides valuable guidance on a complex issue. For jurisdictions that are familiar with IFRSs, they are likely to be aware of the IFRIC and what issues it addresses. For jurisdictions that are less familiar with IFRSs, this guidance is likely to be ignored.</p> <p>It would be useful for the IPSASB to re-consider its approach to Interpretations, and specifically, the status of IFRICs or SICs issued by the IASB and their effect on the IPSAS as a reporting framework. The approach and the effect on the IPSAS reporting framework should be clearly communicated to users of the IPSASs.</p>	<p><i>A– Summary of suggested amendments to IPSASB's literature of Agenda Item 5.1.</i></p> <p><i>IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors</i> states that "in the absence of an IPSAS that specifically applies to a transaction, other event, or condition" management may consider pronouncements issued by the IASB and interpretations issued by the IASB's International Financial Reporting Interpretations Committee. (paragraphs 12 and 15 of IPSAS 3)</p>

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
24	B	B.2	<p>The SRS-CSPCP is in agreement with the broad lines of the revision of IPSAS 25. The abolition of the corridor method is welcomed in particular. The method is in any case not applied by the Confederation or in the Swiss Federal Institutes of Technology area.</p> <p>The SRS-CSPCP welcomes it if, given the peculiarities of the Swiss pension system, the IPSAS Board could consider the following matters in the new IPSAS 25:</p> <ol style="list-style-type: none"> 1) Occupational pensions are provided in Switzerland mainly through hybrid pension schemes. Currently they are classified as defined benefit plans, although the employer does <u>not guarantee</u> the benefit as such. 2) In the event of a deficit, normally <u>both employers and employees</u> (sometimes even the pensioners) have to make restructuring contributions. A solution should quickly be found for their recognition. The SRS-CSPCP welcomes it, if the IPSAS Board could approach the IASB to conclude the research project as rapidly as possible. 3) In Switzerland pension schemes must be organized either as foundations (<i>Stiftungen</i>) or public law institutions (<i>Einrichtungen des öffentlichen Rechts</i>). They therefore have their own legal personality and keep their own accounts. They are organized with equal representation of management and employees, that is are <u>not</u> controlled by the employer. <p>The comments on the peculiarities of the Swiss pension system can here be only brief. The SRS-CSPCP will be pleased to provide further information and explanations.</p> <p>In addition the SRS-CSPCP draws attention to the following critical points:</p> <ol style="list-style-type: none"> 1) In this ED all the illustrative examples have been deleted. The SRS-CSPCP would welcome the inclusion in the revised standard of examples, as before. Such examples help the better understanding and application of the standard, which is in parts complicated. The SRS-CSPCP is, however, aware that the earlier examples cannot be taken over, because the majority are based on the corridor method. <p>The SRS-CSPCP has noticed that the disclosure requirements will be more extensive with the new standard. If an entity wishes to satisfy all requirements, this means that the notes to the accounts will be bulkier. This is not</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	SMC	Sug- gestion	Respondent Comments	Staff Comments
			necessarily conducive to information. The SRS-CSPCP therefore welcomes it if the IPSAS Board could define as necessary only the most important <i>Disclosures</i> , based on the materiality principle.	

SMC #2: IPSAS 25 currently includes a section on Composite Social Security Programs (paragraphs 47-49). The IPSASB is considering deleting this section because the IPSASB is not aware that it has been applied in any jurisdiction. If you do not agree that this section should be deleted, please provide a reason for your response along with any proposed revisions.

Table 1: Overview of Responses to SMC #2

View on SMC	Respondent #	Totals	
A. Agree with the deletion of section on Composite Social Security Programs	01, 02, 04, 05, 06, 09, 12, 13, 15, 17, 18, 19, 20, 21, 22, 23, 24		17
B. Disagree with the deletion of section on Composite Social Security Programs	03 ¹ , 10, 11		3
C. No view or did not respond	07, 08, 14, 16		4
Total Respondents			24

¹ R03 has no firm views on this matter but suggests to leave the section Composite Social Security Programmes in the standard because it may prove useful in the future should any jurisdiction seek to apply it. Therefore, staff classified this response as “disagree”.

Table 2: Table of Responses to SMC #2

Response #	SMC	Respondent Comments	Staff Comments
01	A	The NZASB agrees with the deletion of the section on Composite Security Programs. We are not aware that this section has been applied in New Zealand.	
02	A	We also support deletion of the current Composite Social Security Programs section in IPSAS 25 because it is not necessary. The definition of “employee benefits” already scoped “in” composite social security programs that provide benefits that are consideration in exchange for service rendered by employees. The accounting treatment of the “in-scope” programs, same as the state plans, would be covered without a section of its own by deleting the phrase “other than composite social security programs” in the definition of state plans.	
03	B	(11) The Federation has no firm views on this matter other than to comment that we believe that it does no harm to leave the section on Composite Social Security Programmes in the standard and it may prove useful in the future should any jurisdiction seek to apply it.	
04	A	The DGFIP could not identify a public sector plan which could be characterized as a composite social security program, as described in paragraphs 47-49. Therefore, we fully agree the proposition of the IPSASB to delete this section.	
05	A	We also agree with the proposal in Specific Matter for Comment 2 to delete paragraphs 47-49 relating to ‘Composite Social Security Programs’.	
06	A	<p>The Association also agrees with the proposed deletion of section on Composite Social Security (paragraphs 47-49) because the application of this provision will normally vary from jurisdiction to jurisdiction due to varying legislative provisions and individual country's history and customs.</p> <p>However, in Nigeria, the government carried out a Pension Reform Act in 2004 that made provision for various safeguard in protection of employees retirement benefit payment such that while their employees are at work they made contribution of 7.5 percent of their salaries while their employers contribute the same proportion to be remitted to their Pension Account managed under Pension Reform Amendment Act, 2004 by Pension Companies.</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	SMC	Respondent Comments	Staff Comments
07	C	<p>We do not have sufficient experience of composite social security plans to form a view.</p> <p>As a matter of principle, it may be useful for the IPSASB to periodically canvass public sector entities in some way, so as to obtain an up-to-date overview of the nature of various schemes in use worldwide. This would enable the IPSASB to ensure that the various types of schemes and plans depicted throughout IPSAS 25 are in line with those currently used in the public sector.</p>	
08	C	<p>CIPFA does not have a view on the retention or deletion of this section.</p> <p>Composite Social Security Programs are not relevant to the United Kingdom or other jurisdictions where CIPFA has significant knowledge and involvement.</p> <p>We are content that IPSASB should canvas views on this matter and act accordingly.</p>	
09	A	<p>We agree with the proposal to delete the relevant paragraphs regarding composite social security programs because we assume that retirement benefits for Japanese national and local public service employees would not fall under composite social security programs based on the current definition of composite social security programs in the ED and we also are not aware of any instances that other jurisdictions operate systems that are composite social security programs.</p> <p>If, however, the IPSASB decides to retain the paragraphs regarding composite social security programs, we prefer to add supplemental explanation in order to clarify the concept of “provide benefits” in (b) of the definition of composite social security programs. The pension plan for Japanese public service employees are composed of the basic pension which is not “consideration in exchange for service” and the employees’ pension which is “consideration in exchange for service.” Both pensions are collected simultaneously and collected funds are managed together. However, when the benefits are paid out, benefits under each pension scheme are calculated separately and paid out by a different body. We therefore ask the IPSASB to clarify at which point (collection, fund management or payment) we should consider when deciding if the programs fall under composite social security programs. The above comment is made on the assumption that the plans are distinguished when benefit payments are made.</p>	

Response #	SMC	Respondent Comments	Staff Comments
10	B	<p>The IPSASB proposes to delete the above mentioned section as is not aware that it has been applied in any jurisdiction. This is a concern because although it may not be known to be currently applied by any jurisdiction, there could possibly be other jurisdictions that could apply this section in future. This would mean that the section would have to be included again, which would be another administrative burden.</p> <p>Under BC4 the IPSASB concluded that such social security programs should be defined and the requirements for their treatment be provided considering their significance in some jurisdictions. IPSAS 25 only addresses obligations in composite social security programs that arise as consideration in exchange for service rendered by employees and past employees of the reporting entity. However, it is not clear whether composite social security programs for benefits that are not consideration in exchange for service rendered by employees are within the scope of Social Benefits and thus recognised and measured in terms of that Consultation Paper.</p> <p>In terms of the Consultation Paper on Social Benefits, social security is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity. Some benefits are mandatory which are regulated by the government while others are voluntarily offered to fulfill the need of a specific employee population which would not limit the entity to social insurance.</p> <p>Taking the above into consideration, we do not agree with the proposed deletion but rather recommend the retention of composite social security programs that arise as consideration in exchange for service rendered by employees and past employees of the reporting entity in the Standard and moving composite social security programs for benefits that are not consideration in exchange for service rendered by employees to be included in the Social Benefits Consultation Paper.</p>	Staff's intention is to scope out of the future standard on Social Benefits social insurance schemes that arises as a result of an employer-employee relationship, as these are within the scope of IPSAS 25, <i>Employee Benefits</i> .
11	B	<p>11. BC4 of IPSAS 25 states that composite social security programs are used in many jurisdictions to pay for post-employment benefits. Therefore, the standard should, in our view, retain the relevant paragraphs. Including these requirements are important because they help readers understand the nature of composite social security programs and that they can provide both benefits that are not consideration in exchange for service rendered by employees or past employees and also benefits that are to pay for post-employment benefits. It also seems odd to suggest that this section should be deleted because, at this</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	SMC	Respondent Comments	Staff Comments
		<p>point in time, you are not aware that any jurisdiction has applied this section. This may not always be the situation.</p> <p>12. It may be a good reason to delete this section if such arrangements are now rare or non-existent; but otherwise the section should remain in place for jurisdictions that do have such arrangements and are likely to or may apply IPSASB standards in future.</p>	
12	A	We agree to the deletion as it does not apply in our jurisdiction and neither have we noted in any jurisdiction we interact with.	
13	A	We note the observation by the IPSASB that it is not aware of any jurisdiction that has applied the requirements set out in the section on Composite Social Security Programs. Accordingly we support the proposal to delete this section.	
14	C	-	
15	A	<p>IPSAS 25 currently includes a section on Composite Social Security Programs (paragraphs 47 – 49). The IPSASB is considering deleting this section because the IPSASB is not aware that it has been applied in any jurisdiction. If you do not agree that this section should be deleted, please provide reason for your response along with any proposed revisions.</p> <p>a) The Council agree that this section on Composite Social Security Programs should be deleted (we are not also aware that it has been applied in any jurisdiction), because the Program provide benefits that are not consideration in exchange for service rendered by employees; which is not consistent with the definition of 'Employee benefits' as contained in paragraph 10 of the ED 59.</p> <p>b) Since Paragraphs 47 -49 are to be deleted, the definition of Composite Social Security Programs in paragraph 10 should also be deleted.</p>	
16	C	No comment.	
17	A	We support the specific changes proposed within ED59 under Comments 1 and 2.	

Response #	SMC	Respondent Comments	Staff Comments
18	A	<p>Our Comment</p> <p>We agree the section on Composite Social Security Programs (paragraphs 47-49) be deleted.</p> <p>Explanation</p> <p>The Nigerian experience does not have any Composite Social Security Program. Rather, there is a Social Security Program which is to operate as unemployment benefits. This however does not qualify as a Composite Social Security Program. Therefore, the intention to delete paragraphs 47-49 covering Composite Social Security Program is supported.</p>	
19	A	We have no objections to the removal of the section on Composite Social Security Programs as we are not aware of such programmes in New Zealand.	
20	A	We agree with the proposed amendments. We are not aware of any jurisdictions that apply composite social security programs however it may be prudent to allow a transition period for where this is applied.	
21	A	HoTARAC has no comment as such schemes do not operate in Australia.	
22	A	<p>We could not identify regulatory systems in the public sector in France that would operate as composite social security programs.</p> <p>Therefore, based on our experience and provided this view is shared by other constituents, we would rather recommend that the IPSASB should delete paragraphs 47-49 from IPSAS 25, Employee Benefits.</p>	
23	A	After consultation with our stakeholders, it was confirmed that no composite social security programs exist in the South African environment. As a result, we support the proposal to delete the section on Composite Social Security Programs.	
24	A	As far as Switzerland is concerned, the SRS-CSPCP is of the opinion that the section on Composite Social Security Programs (Sections 47 – 49) can be deleted, because they are not applied in the country.	

Other suggestions to IPSAS 25: Includes clarifications, additional guidance and editorials

Table 1: Table of Responses to other suggestions to IPSAS 25

Response #	Sug- gestion	Respondent Comments	Staff Comments
06		<p><u>Observations</u></p> <p>The article "to" before "either" on line 3 of paragraph 50 should be removed to remove tautology.</p>	Staff removed "to" before "either" on line 3 of paragraph 50 in the final standard.
07		<p>Lack of an Explanatory Memorandum</p> <p>We note that the ED was accompanied only by an "at a glance" paper and not an explanatory memorandum as has generally been usual practice in the past. On the one hand this newer approach may be preferable in that it requires potential commenters to look at the proposed changes in the ED in its entirety, rather than being focused solely on issues to which they have been directed. However, it may also have drawbacks in terms of the willingness to respond, especially by parties less familiar with existing IPSASs and IFRSs. It will be interesting to learn whether response rates are impacted or not.</p> <p>IPSAS 25, Employee Benefits</p> <p>Paragraphs 13A, 14, 20 of the final document will need to be updated in line with the equivalent paragraph in ED 59, as the version exposed currently lacks the correct number references, when referencing to other appropriate paragraphs.</p> <p>In principle, we would also recommend not changing extant references to specific numbered paragraphs to read "the previous paragraph" as proposed in paragraph 18, as subsequent amendments may lead to confusion.</p> <p>We question whether the wording of paragraph 22 ought to be revised slightly in line with the Conceptual Framework (e.g., ... an entity has an <u>established practice or history</u> of paying bonuses...)</p> <p>We question whether the ordering of certain paragraphs is optimal. In particular, explanations of terms such as those provided in paragraphs 113C, D and E might be better placed immediately before, rather than after, the paragraph of required accounting treatment (113B).</p>	<p>Staff recommends no change to IPSAS 25 because:</p> <ul style="list-style-type: none"> • Paragraph numbering is correct in ED 59 and in the exposed version of full marked up version of IPSAS 25; • The wording matches exactly IAS 19; • The IPSASB has decided not to adopt the Conceptual Framework terminology in this project; and • The paragraph sequencing matches exactly IAS 19.

Response #	Sug- gestion	Respondent Comments	Staff Comments
09		<p>Below are the items that seem to be a simple error, including those in the current IPSAS 25 that were wrong in the first place. The paragraph number shown at the top of each item is a paragraph number in ED 59.</p> <ul style="list-style-type: none"> Paragraph 27 <p>With regard to the corresponding paragraph in IAS 19 (paragraph 26), there is a sentence following (b), but the sentence is omitted in ED 59.</p> <ul style="list-style-type: none"> Paragraph 35 <p>(a) and (b) are in reverse order compared to the corresponding paragraph in IAS 19 (paragraph 36).</p> <ul style="list-style-type: none"> Paragraph 147 <p>Although the first sentence of the paragraph includes the wording “may include”, the corresponding paragraph in IAS 19 (paragraph 153) does not include “may”. In addition, it is not underlined in ED 59 as an amendment.</p> <ul style="list-style-type: none"> Paragraphs 154B, 154C, 159B and 162B <p>While the corresponding paragraphs in IAS 19 (paragraphs 161, 162, 166 and 170) contain the wording “provided in exchange for service”, all the above paragraphs only include “provide for service”. Since this “in exchange” is the wording included in the definition of employee benefits, we believe it should be included in ED 59 as well.</p>	<p>Staff included the missing sentence in the final standard.</p> <p>Staff reversed the order of paragraphs in the final standard to match the order in IAS 19.</p> <p>The term “may” was not underlined because it was not an amendment, as IPSAS 25 already had it in the first place. Staff removed “may” in the final pronouncement to match IAS 19.</p> <p>See staff’s response in category 1 of Appendix A– <i>Summary of suggested amendments to IPSASB’s literature</i> of Agenda Item 5.1.</p>
10		<p>We also noticed inconsistencies in the Exposure Draft. These are highlighted below:</p> <ol style="list-style-type: none"> Inconsistencies in the amendments to wording in IPSAS 25.14(a) - In the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated paid absences (Page 11). IPSAS 25.50 – First paragraph should remove “to” in this sentence “a legal or constructive obligation to either” as subparagraphs also have “to” when starting the sentences (Page 17). 	<p>Staff replaced the term “compensated” with the term “paid” in the final pronouncement.</p> <p>Staff removed “to” before “either” on line 3 of paragraph 50 in the final pronouncement.</p>

Response #	Sug- gestion	Respondent Comments	Staff Comments
		<p>3. Inconsistencies in the amendments to wording in IPSAS 25.86(b)(iv) - Taxes payable by the plan on contributions relating to service before the reporting date. Replace "before the reporting date" with "before the end of the reporting period" (Page 24).</p> <p>4. Inconsistencies in the amendments to wording in BC8 - IAS 19 requires adoption of a discount rate based on the market yields at the reporting date on high quality corporate bonds. Replace "at the reporting date" with "at the end of the reporting period" (Page 64).</p>	<p>Staff notes that "before the reporting date" is the exact wording in IAS 19.76(b)(iv). However, as this wording was replaced with "before the end of the reporting period" throughout IAS 19, staff did the same in the final standard (paras. 86(b)(iv) and AG6), including in paragraphs that were specific to IPSAS 25 (paras. 21, 94 and BC8)</p>
12		<p>Comments on grammar and spelling</p> <ul style="list-style-type: none"> The grammar amendments to paragraph 50 do not sound right. This should be reverted to old text. 	<p>Staff removed "to" before "either" on line 3 of paragraph 50 in the final pronouncement.</p>
17		<p>Overview</p> <p>IPSAS 25 is so complex and the methodology descriptions so abstruse that most accountants will be inclined to regard ED 59 as raising technical issue best left to those with expertise in the pensions area. This is unfortunate, because pension liabilities for government entities are, in many instances, very large in relation to other figures in the balance sheet.</p> <p>Accounting for pension liabilities is very important, but it is our view that by simply replicating most of IAS19 the IPSAS Board is not recognising the special nature of pension liabilities of government entities. In consequence the pension liability disclosure requirements for government entities are inadequate.</p> <p>Comparison of government sector and private sector pension issues</p> <p>Pension issues for the commercial corporate sector</p> <p>Commercial entities' pensions are almost invariably intended to be fully funded. If pensions are based on the returns from pension fund assets (defined contribution), then it follows that there is no risk of any further liability to the entity. However, if the pension is one which defines the benefits without direct</p>	<p>Staff notes that R17 finds IPSAS 25 complex and the methodology descriptions abstruse. Staff recommends IPSASB to issue IPSAS 39, <i>Employee Benefits</i> to address the complexity of amendments to IPSAS 25, <i>Employee Benefits</i> (see Agenda Item 5.3— Approval of IPSAS 39, <i>Employee Benefits</i>).</p>

Response #	Sug- gestion	Respondent Comments	Staff Comments
		<p>reference to contributions (defined benefit pension) then there is the risk that the entity may be liable for pension payments not covered by income from pension fund assets – a pension fund liability.</p> <p>In the latter situation any shortfall will have to be made good from future revenues of the entity, affecting the future profitability, and possibly the solvency, of the entity. The focus of IAS 19 is on identifying such situations, measuring the potential pension fund liability, profit impact and risk to the entity resulting from the pension liability.</p> <p>Pension issues in the government sector</p> <p>In contrast, pensions schemes of government entities are commonly unfunded (or only part funded) defined benefit schemes. Therefore, many government entities have large unfunded pension liabilities. However, in the case of sovereign governments this liability is offset by the ability to raise taxes or other revenues – a major difference to commercial entities. This and the inter-generational responsibility of governments should affect the disclosure of pension liabilities.</p> <p>Until IPSAS 25 (or the application by some government of national standards) the potential liabilities from pension schemes were not recognised in government entity financial statements. However, since IPSAS 25 all government entities reporting on the accrual basis are required to disclose their unfunded pension liability.</p> <p>This has undoubtedly been a step forward in terms of transparency. Where IPSAS 25 has been applied the disclosure of pension liabilities has focused attention on the scale of such potential liabilities to government entities, including sovereign governments.</p> <p>However, despite the benefits of disclosure, there are arguments for not recognising pension liabilities of government sector entities in their financial reports. These arguments against pension liability disclosure are as follows:</p> <ul style="list-style-type: none"> • Since governments have legal authority to raise revenues they are in a very different situation to commercial entities which have no such entitlement to future revenues • Pensions may be paid from such future revenue flows under the control of the entity, and to show a liability without the corresponding asset of such future revenues is misleading 	

Response #	Sug- gestion	Respondent Comments	Staff Comments
		<ul style="list-style-type: none"> • Since there is no concept of profit in the public sector the impact of pension liabilities on future profit is irrelevant – it is the impact on future generations of citizens that is important. • Governments do not cease to exist as a result of insolvency – even if a government defaults on its debts the government continues to exist and is still able to pay future pensions. <p>These arguments require consideration. At the very least they must influence the design of pension disclosure requirements.</p> <p>However, there are compelling reasons in favour of recognising pension and other post-employment liabilities for government entities:</p> <ol style="list-style-type: none"> 1. Unfunded pension liabilities of government entities can be very large (see above) and transparency requires that such liabilities be identified and reported 2. Not all entities within the government sector are guaranteed their future existence or have an automatic right to raise revenues, e.g. educational institutions. For such entities the pension liabilities may threaten their very existence. The need to make good any shortfall may impact, for example, on the fees charged to future students. 3. Pension liabilities represent an inter-generational transfer – to the extent that future pensions cannot be met from employee contributions, they must be met from future revenues, pre-empting the use of such revenues for other purposes. 4. Pension liabilities are a factor taken into account in assessments of credit risk, and may affect the cost of borrowing by the entity. <p>These arguments are implicitly accepted by IPSAS 25 and are the reasons requiring the disclosure of pension liabilities.</p> <p>Conclusions on recognising the pension liabilities of entities within the government sector</p> <p>It is our conclusion that the requirements for transparency require the disclosure of pension and other post-employment liabilities, and particularly the inter-generational impact of such liabilities. Furthermore, that the IPSAS 25 measurement methodology and methodology in IAS19 is appropriate for calculating a</p>	

Response #	Sug- gestion	Respondent Comments	Staff Comments
		<p>single figure value of such liabilities. However, we consider that the presentation and disclosure requirements of IPSAS 25 are inadequate for government entities.</p> <p>Identifying and measuring the pension liability</p> <p>IPSAS 25 sets out a general approach for measuring future pension liabilities that is in essence unchanged by ED 59. This requires an actuarial estimate of future pensions that have accrued from contributions made by employees, discounted to their present value. The liability is reduced by the expected returns from any pension fund assets.</p> <p>In a funded pension scheme the expectation is that the contributions will enable the pension fund to acquire assets that will generate a sufficient cash flow to pay future pensions. However, it is obvious that calculating the level of pension contributions to achieve this outcome involves forecasts of the future that may prove to be inaccurate. This may lead to a shortfall between the pension fund liability to pensioners and the expected revenues from pension fund assets (it may of course also possibly lead to a surplus). The focus of IPSAS 25 is to identify and measure any such funding gap, and then to report this as a single figure pension liability.</p> <p>The measurement methodology in IPSAS 25/ED 59 is equally valid for commercial or government entities. As indicated above, the difference between commercial and government entities is that government pensions are often completely, or mainly, unfunded. There may also be other material unfunded post-employment liabilities, for example health care of former employees in the US public sector.</p> <p>Why IPSAS 25 is so complex</p> <p>There are three reasons why IPSAS 25 is such a complex Standard, as set out below.</p> <p>1 The mechanics of calculating a single figure for the net pension liability or asset</p> <p>As indicated above, the mechanics of reducing pension liabilities to a single figure are complex. It requires calculation of the accrued liability for future pension payments (using assumptions for example about life expectancy, survival within an organisation to pension age, interest rates, etc.) and also the anticipated returns from fund assets. It is inevitably difficult to use words to define the calculations.</p> <p>2. The use of terminology in a manner different to normal usage</p>	

Response #	Sug- gestion	Respondent Comments	Staff Comments
		<p>Terms are used in both IPSAS 25 and ED 59 with a quite different meaning to normal usage. For example, the term “interest cost” does not refer to an interest payment that will ever actually occur or be paid – it is the amount of the notional interest on the defined benefit liability.</p> <p>3. Confused presentation of the standard</p> <p>IPSAS 25 is about employee benefits in general. These include short term benefits and defined contribution pension schemes. None of these issues present any major complexities or differences between the government and corporate sector. Yet the requirements relating to such benefits are interspersed with the more complex requirements relating defined contribution pensions.</p> <p>Even within the part of the IPSAS dealing with defined benefit schemes, the Standard does not follow the principle of moving from the general to the particular. For example, the definition section is immediately followed by a section on schemes with entities under common control, then back to sections on recognition and measurement. This presentation adds to the difficulty of an already complex and long standard.</p> <p>Proposed changes to IPSAS 25 and ED 59</p> <p>The basic measurement and valuation principles set out in IPSAS 25, as amended under the proposals in ED 59, are supported as the basis for providing a single figure estimate of unfunded (or part funded) pension liabilities in the government sector. However, this information alone is inadequate, or even misleading, for government entities. A more comprehensive approach is required that:</p> <ol style="list-style-type: none"> 1. Identifies the unfunded liability for post-employment benefits 2. Identifies and values flows earmarked to meet the cost of such unfunded liabilities 3. Provides an indication of the inter-generational impact of unfunded pension liabilities in future years 4. Makes clear the level of uncertainty in such forecasts and the impact of the more likely variability in the estimates. <p>These concepts are further expanded below.</p>	<p>Staff recommends IPSASB to issue IPSAS 39, <i>Employee Benefits</i> to address the complexity of amendments to IPSAS 25, <i>Employee Benefits</i> (see Agenda Item 5.3— Approval of Draft IPSAS 39, <i>Employee Benefits</i>). Draft IPSAS 39 follows the same sequence of IAS 19, <i>Employee Benefits</i>.</p> <p>Draft IPSAS 39 requires disclosures converged with IAS 19. Paragraph 142(a) requires disclosures of plan assets, present value of the defined benefit obligation and the effect of the asset ceiling.</p>

Response #	Sug- gestion	Respondent Comments	Staff Comments
		<p>1. Amount of any unfunded pension liability</p> <p>No change is proposed in the calculation methodology set out in IPSAS 25 as amended by ED 59.</p> <p>2. Funding of pension liabilities</p> <p>Most government sector entities which have unfunded pension liabilities will (or should) have a plan for funding future pension payments, e.g. future employee and/or employer pension contributions, earmarking of a specific source of revenue, etc. This plan should be described in narrative with a quantification of the anticipated inflows as compared to pension outflows.</p> <p>Consideration could be given to providing a single figure value of such planned future funding arrangements to be offset against the unfunded pension liability.</p> <p>3. Future cash flow impact year by year, taking account of any funding plans</p> <p>Disclosure should involve not just single figure estimates of post-employment benefit liabilities and planned funding flows, but also a year by year estimate of the cash flows. This would clearly indicate the inter-generational impact of employment benefits being incurred by the entity. The information could be presented in a table, possibly also with a graphical representation to make the information clearer as illustrated below.</p> <p>Figure 1: Example of graphical presentation of pension cash flows over time</p> <p>4. Assumptions underlying the above calculations, indicating major uncertainties and possible impact of changed assumptions.</p> <p>Some assumptions underlying the calculation of pension liabilities and future cash flows are subject to particular uncertainty, e.g. life expectancy, interest rates. As well as a central estimate, a range of possible outcomes for both single figure estimates and future cash flows should be provided.</p> <p>Organisation of the IPSAS</p> <p>In order to improve clarity a revised structure for the IPSAS is proposed:</p> <ul style="list-style-type: none"> Part 1: short term employee benefits 	

Response #	Sug- gestion	Respondent Comments	Staff Comments
		<ul style="list-style-type: none"> Part 2: defined contribution pension schemes Part 3: defined benefit pension schemes and other unfunded post-employment benefits <p>Within each section the Standard should be organised to move from the general to the specific, as indicated below for the proposed Section 3:</p> <ol style="list-style-type: none"> Basic principles and objectives Calculation of defined benefit pension liability – it might be best to define the main principles and use an annex to provide detailed examples Disclosure requirements Special situations and exceptions. <p>Pension liabilities of commercial public sector entities</p> <p>The above analysis relates to entities in the general government sector which are required to comply with IPSAS. Commercial public sector entities are required to apply IFRS. If the more extensive disclosures described above are applied to government entities, this will raise problems when commercial public sector entities are consolidated into whole of government financial reports. For consolidation purposes the more comprehensive information indicated above will be required from all consolidated commercial public sector entities.</p> <p>Furthermore, pension liabilities of commercial public sector entities may be a contingent liability of the national government. Even if the pension liabilities of a commercial public sector entity is not expressly guaranteed by central government, it would be a brave government which refused to honour such pension commitments.</p> <p>First time recognition of pension liabilities</p> <p>Many, indeed most, governments and government sector entities have not as yet recognised in their financial reports unfunded pension and other post-employment liabilities. IPSAS 25 should provide guidance on first time recognition of such liabilities. In particular, whether the first time charge should be taken directly net equity or a charge against surplus/deficit in the Statement of Financial Performance?</p>	

Respondents' Comments on SMC in ED 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	Sug- gestion	Respondent Comments	Staff Comments
		<p>Summary and conclusions</p> <p>In summary, it is our view that the proposed changes to IPSAS 25 in ED 59 do not go far enough. What is required is a complete redesign of IPSAS 25 so that it requires financial reports to provide information for full transparency on the post-employment benefit liabilities of entities (including sovereign governments) within the general government sector. This information should include information on unfunded liabilities, revenues to meet such liabilities, and forecast future cash inflows and outflows relating to post-employment benefits.</p>	<p>Staff notes that this is a limited scope project to address IAS 19 related amendments. Therefore, staff recommends the IPSASB only to amend IPSAS 25 requirements that are related to IAS 19 amendments.</p>

**EXPOSURE DRAFT 59, AMENDMENTS TO IPSAS 25, EMPLOYEE BENEFITS
LIST OF RESPONDENTS**

Response #	Respondent Name	Country	Function
01	External Reporting Board (XRB)	New Zealand	Standard Setter/Standards Advisory Body
02	Public Sector Accounting Board (PSAB, from staff)	Canada	Standard Setter/Standards Advisory Body
03	Federation of European Accountants (FEE)	International	Member or Regional Body
04	Direction Générale des Finances Publiques (DGFIP)	France	Preparer
05	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
06	Association of National Accountants of Nigeria	Nigeria	Member or Regional Body
07	Institute of Public Auditors in Germany, Incorporated Association (IDW)	Germany	Member or Regional Body
08	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
09	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
10	KPMG	International	Accountancy Firm
11	The Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Member or Regional Body
12	Institute of Certified Public Accountants of Kenya (ICPAK)	Kenya	Member or Regional Body
13	CPA Australia	Australia	Member or Regional Body
14	The Swedish National Financial Management Authority (ESV)	Sweden	Standard Setter/Standards Advisory Body
15	Financial Reporting Council of Nigeria (FRCN)	Nigeria	Preparer
16	Canadian Institute of Actuaries (CIA)	Canada	Other
17	The International Consortium on Governmental Financial Management (ICGFM)	International	Other
18	The Institute of Chartered Accountants of Nigeria	Nigeria	Member or Regional Body
19	New Zealand Treasury	New Zealand	Preparer

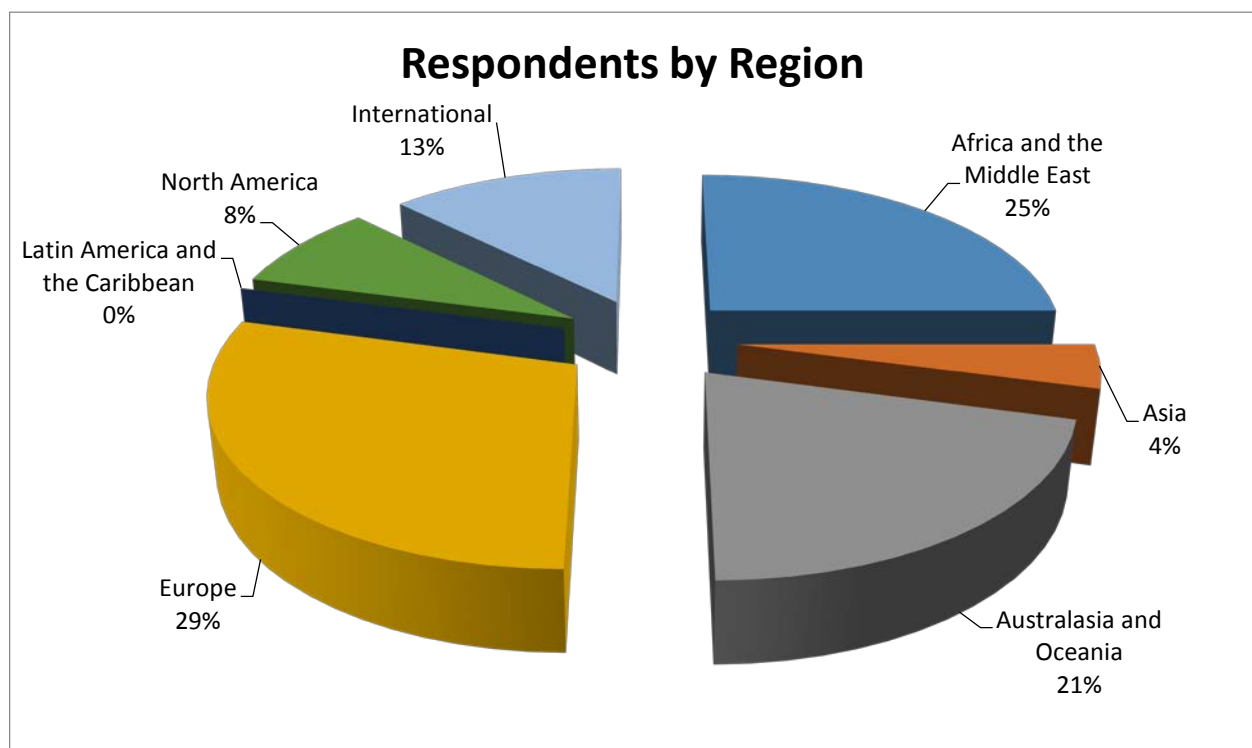
List of Respondents to Exposure Draft 59, *Amendments to IPSAS 25, Employee Benefits*
IPSASB Meeting (June 2016)

Response #	Respondent Name	Country	Function
20	Association of Chartered Certified Accountants (ACCA)	UK	Member or Regional Body
21	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
22	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
23	Accounting Standards Board (ASB)	South Africa	Standard Setter/Standards Advisory Body
24	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body

Analysis of Respondents by Region, Function, and Language

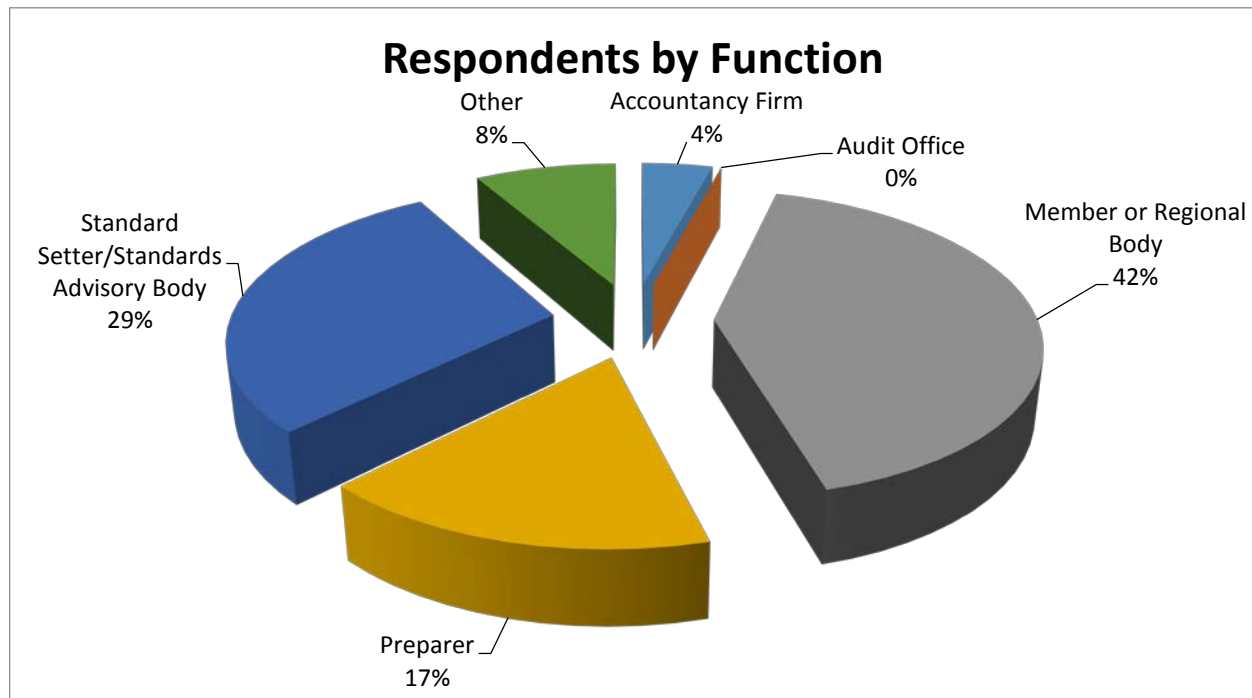
Geographic Breakdown

Region	Respondents	Total
Africa and the Middle East	06, 11, 12, 15, 18, 23	6
Asia	09	1
Australasia and Oceania	01, 05, 13, 19, 21	5
Europe	04, 07, 08, 14, 20, 22, 24	7
Latin America and the Caribbean	-	0
North America	02, 16	2
International	03, 10, 17	3
Total		24



Functional Breakdown

Function	Respondents	Total
Accountancy Firm	10	1
Audit Office	-	0
Member or Regional Body	03, 06, 07, 08, 09, 11, 12, 13, 18, 20	10
Preparer	04, 15, 19, 21	4
Standard Setter/Standards Advisory Body	01, 02, 05, 14, 22, 23, 24	7
Other	16, 17	2
Total		24



Linguistic Breakdown

Language	Respondents	Total
English-Speaking	01, 05, 06, 08, 11, 13, 15, 18, 19, 20, 21	11
Non-English Speaking	04, 07, 09, 14, 22, 24	6
Combination of English and Other	02, 03, 10, 12, 16, 17, 23	7
Total		24

