

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Virtual Meeting

**Meeting Date:** March 16–19, and 23, 2021

## Agenda Item

# 3

For:

- ☒ Approval  
☐ Discussion  
☐ Information

## ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS

<b>Project summary</b>	The objective of this project is to develop an IPSAS aligned with IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i> .	
<b>Task Force members/Board Sponsor</b>	Not yet assigned	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Accounting and Reporting by Retirement Benefit Plans: Project Roadmap</a>	<a href="#">3.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">3.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">3.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Global Use of IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i></a>	<a href="#">3.2.1</a>
	<a href="#">Why Develop an IPSAS Aligned with IAS 26?</a>	<a href="#">3.2.2</a>
	<a href="#">Potential Issues with IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i></a>	<a href="#">3.2.3</a>
	<a href="#">Approval of the Retirement Benefit Plans Project Brief</a>	<a href="#">3.2.4</a>
<b>Other supporting items</b>	<a href="#">Accounting and Reporting by Retirement Benefit Plans – Project Brief and Outline</a>	<a href="#">3.3.1</a>

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

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

**INSTRUCTIONS UP TO PREVIOUS MEETING**

<b>Meeting</b>	<b>Instruction</b>	<b>Actioned</b>
March 2021	1. (None – project brief and outline to be presented at this meeting.)	1. N/A

**DECISIONS UP TO PREVIOUS MEETING**

<b>Meeting</b>	<b>Decision</b>	<b>BC Reference</b>
N/A	1. (None – project brief and outline to be presented at this meeting.)	1. N/A

## **Global Use of IAS 26, *Accounting and Reporting by Retirement Benefit Plans***

### **Purpose**

1. The purpose of this paper is to provide the IPSASB with an overview of the global usage of IAS 26, *Accounting and Reporting by Retirement Benefit Plans*.

### **Background**

2. IAS 26 is part of the International Financial Reporting Standards (IFRS) suite of standards issued by the International Accounting Standards Board (IASB). IAS 26 is a relatively short standard of only 37 paragraphs with no application guidance, implementation guidance or a Basis for Conclusions.
3. Not all jurisdictions that use IFRS adopt IAS 26. The IFRS website has extensive detail about which jurisdictions have adopted IFRS and therefore, IAS 26. However, determining the extent of application of IAS 26 is more difficult. This is because IAS 26 is only applied in the financial statements of retirement benefit plans<sup>1</sup>. Since the financial statements of retirement benefit plans are rarely made available publicly, it is challenging to determine whether IAS 26 is applied.
4. Staff are also aware that the use of IAS 26 in the public sector may be influenced by the types of pensions employees will receive, and the structures of the pension plans. For example, in the UK, defined benefit pensions are still common and pension plans for government employees are separate reporting entities (but not necessarily separate legal entities) within the UK government. In contrast, in other jurisdictions defined benefits pensions are closed for government employees and they now receive a defined contribution pension. As such, these defined contribution pensions are often outsourced to private sector pension plans.

### **Analysis**

5. Using the information on the IFRS website, and using our network of contacts, staff selected several jurisdictions that apply IFRS to determine whether they apply IAS 26. When IAS 26 is not applied, staff performed additional analysis to determine the reason for departure. Staff tried to select jurisdictions where many retirement benefit plans would be impacted.

---

<sup>1</sup> Retirement benefit plans are sometimes referred by other names such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes' – for consistency, this project will use 'retirement benefit plan' unless referring to a specific plan which uses a different term.

Jurisdiction Applying IFRS	Apply IAS 26	Reason for Departure / Other Notes (See Appendix A for details)
New Zealand (Private Sector)	Yes	Jurisdictional Specific Amendments Applied
United Kingdom (Public Sector)	Yes	
United Nations (IPSAS Adopter)	Yes	Via IPSAS 3 Hierarchy
European Union (IPSAS Adopter) <sup>2</sup>	Yes	
South Africa	Yes	Apply by Analogy
Australia	No	Apply Existing National Standard
Canada	No	
European Commission	No	Pension plans are 'virtual plans' and the pension liability is the defined benefit obligation derived from IPSAS 39

## Summary

- As indicated above, from the jurisdictions examined there is mixed usage of IAS 26. There are several large jurisdictions that use IAS 26 either as a direct adopter or via the IPSAS 3 hierarchy. These jurisdictions use IAS 26 either without amendment or if amended the changes are limited to the removal of options and/or requiring further disclosures. Those jurisdictions that have not adopted IAS 26 either have a domestic standard which they consider better suits the information needs for users in their jurisdiction, or a regulator sets the financial reporting requirements for retirement benefit plans.

---

<sup>2</sup> The CERN Pension Fund prepares financial statements in accordance with IPSAS. IAS 26 is applied because there is no equivalent IPSAS. CERN (the Hadron Collider) is based in Europe and is a collaboration of 23 members states.

## **Appendix A**

### *New Zealand - Adopted IAS 26 and Amended the Requirements*

1. Upon transition to IFRS, New Zealand adopted IAS 26 (NZ IAS 26) for use by Tier 1<sup>1</sup> and Tier 2<sup>2</sup> entities. However, some amendments have been made and additional requirements added. These are as follows:
  - (a) NZ IAS 26 does not include the option for defined benefit plans to present the actuarial present value of promised retirement benefits in an accompanying actuarial report;
  - (b) Acknowledges the existence of legislative requirements regarding the frequency for obtaining valuations;
  - (c) Requires all retirement benefit plans to prepare a statement of cash flows; and
  - (d) Includes a number of additional disclosures for both defined contribution and defined benefit plans.

### *United Kingdom Government – User of an Amended IAS 26*

2. Although the UK government is not an official adopter of IFRS, it does use IFRS and adapts them for use by the public sector, in the *Government Financial Reporting Manual* (FREM). IAS 26 is amended for use in the FREM 2020-21 as follows:
  - (a) Pension schemes cited in the FREM<sup>3</sup> are to calculate and report the present value of the expected payments using projected salary levels. IAS 26 allows either current or projected salary levels;

These pension schemes are also to disclose the actuarially determined present value of promised retirement benefits within the statement of financial position. IAS 26 allows this value to be disclosed:

    - (i) On the face of the financial statements;
    - (ii) In a note to the financial statements; or
    - (iii) As a reference to an accompanying actuarial report; and
  - (b) The FREM requires the following which are not specifically addressed in IAS 26:
    - (i) Report of the Scheme's Managers;
    - (ii) Report of the Scheme's Actuary;
    - (iii) Statement of the Accounting Officer's responsibilities;
    - (iv) Governance Statement;
    - (v) Report of the Auditor;
    - (vi) Statement of Parliamentary Supply;

---

<sup>1</sup> A NZ Tier 1 entity has public accountability or is a large for-profit public sector entity with total annual expenses greater than \$30 million.

<sup>2</sup> A NZ Tier 2 entity does not have public accountability and has total annual expenses less than \$30 million.

<sup>3</sup> The FREM 2020-21 at paragraph 12.1.1 cites 16 Public Sector Pension Schemes.

- (vii) [Combined<sup>4</sup>] Statement of Comprehensive Net Expenditure;
- (viii) [Combined] Statement of Financial Position;
- (ix) [Combined] Statement of Changes in Taxpayer's Equity;
- (x) [Combined] Statement of Cash Flows; and
- (xi) Supporting notes.

*United Nations – IPSAS Adopter and User of IAS 26*

3. Although the United Nations (UN) is an IPSAS adopter rather than an IFRS adopter, it uses IAS 26 by way of the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. The UN applies IAS 26 to prepare the financial statements of the United Nations Joint Staff Pension Fund. IAS 26 is used because there is no IPSAS that provides guidance on how retirement benefits plans should report.

*European Union – IPSAS Adopter and User of IAS 26*

4. Staff have identified one IPSAS adopter within the European Union that also uses IAS 26. The CERN Pension Fund Annual Report and Financial Statements 2019 states that the fund prepares financial statements in accordance with IPSAS and as there is no IPSAS with respect to the reporting of the pension plan the Fund conforms with the provisions of IAS 26 in presenting the net assets available for benefits, the actuarial present value of promised retirement benefits and the resulting excess or deficit.

*South Africa – IFRS Adopter but IAS 26 not Used*

5. South Africa is a adopter of IFRS. However, conversations with constituents revealed that IAS 26 is not used for retirement benefit plans within South Africa because it is the regulator that sets the financial reporting requirements for such plans. Therefore, retirement benefit plans are required to prepare financial statements in accordance with the *Regulatory Reporting Requirements for Retirement Funds in South Africa*. However, anecdotally staff have been informed that the regulator uses the requirements of IAS 26.

*European Commission – IPSAS Adopter – Does not use IAS 26*

6. The European Commission has several notional 'virtual' pension funds with defined benefits in which staff's contributions serve to finance their future pensions. The Pension Scheme for EU Officials (PSEO) is the largest of these 'virtual' funds. As a notional 'virtual' fund there is no actual investment fund. The amount that could have been collected by such a fund is considered to have been invested in the Member States' long-term bonds and is reflected in the pension liability that is registered in the annual accounts of the European Union. Member States jointly guarantee the payment of the benefits. The pension liability in the statement of financial position is the defined benefit obligation derived from IPSAS 39, *Employee Benefits*.

---

<sup>4</sup> Statements are described as 'Combined' if the statement reflects transactions relating to both pensions and early departure costs.



*Australia – IFRS Adopter but did not adopt IAS 26*

7. When Australia transitioned to IFRS in 2004 AAS 25, *Financial Reporting by Superannuation Plans* was already in use. The Australian Accounting Standards Board (AASB) considered the merits of IAS 26 and concluded that it should not be adopted. The AASB concluded the existing Australian guidance was more robust than IAS 26 and agreed it was in the best interests of superannuation users to retain the requirements of AAS 25.
8. Reasons cited for not adopting IAS 26 include:
  - (a) IAS 26 permits plan assets to be measured at an amount other than fair value. In contrast AAS 25 required all assets held by a superannuation plan to be measured at a current value, this was consistent with Australian prudential requirements; and
  - (b) IAS 26 permits the actuarial present value of promised retirement benefits to be based on either current or projected salary levels.
9. The AASB has since replaced AAS 25 with AASB 1056, *Superannuation Entities* and consider that the reasons identified for not adopting IAS 26 and retaining AAS 25 remain valid in respect of AASB 1056.

*Canada – Adopted IAS 26 but Prohibited from Use*

10. When Canada transitioned to IFRS, it adopted the full suite of IFRS including IAS 26. Indeed, IAS 26 is reproduced in Part 1 of the CPA Canada Handbook which applies to publicly accountable enterprises. However, the preface to this handbook prohibits pension plans and benefit plans that have characteristics similar to pension plans and provide benefits other than pensions, from applying IAS 26 and requires Section 4600 *Pension Plans* to be applied instead.
11. When Canada was considering the transition to IFRS, the Accounting Standards Board (AcSB) discussed whether pension plans should adopt IAS 26. At that time Canada had a domestic standard, Section 4100 *Pension Plans* and the AcSB concluded the existing requirements were more robust than those required in IAS 26. They did not consider that international convergence would provide significant benefits to pension plans or the users of their financial statements. Further, the AcSB noted that applying IAS 26 would not result in consistent reporting between pension plans because of the number of options available within that standard. Section 4100 has subsequently been updated and replaced by Section 4600.

## **Why Develop an IPSAS Aligned with IAS 26?**

### **Question**

1. Whether the IPSASB should develop an IPSAS aligned with IAS 26, *Accounting and Reporting by Retirement Benefit Plans* to fill the gap in IPSAS literature?

### **Recommendation**

2. Staff recommend an IPSAS aligned with IAS 26 would fill a gap that currently exists in the IPSASB's literature.

### **Background**

3. The purpose of this a paper is to give the Board relevant information to assess whether an IAS 26, alignment project should be added to the IPSASB's work program.

### **Analysis**

#### *What are Retirement Benefit Plans?*

4. Retirement benefit plans are an arrangement by which an entity provides benefits, generally an annual income, to employees as post-employment benefits. Retirement Benefit Plans are not unique to the private sector, they are also prevalent in the public sector.
5. Sometimes these retirement benefit plans are set up within a legal entity that is separate from the entity that employs the plan's participants. The employer funds the retirement benefit plan to provide their employees with an income upon retirement.

#### *Requirements of IAS 26*

6. IAS 26 is applied in the preparation of the financial statements of retirement benefit plans where such financial statements are required. Therefore, this standard is not mandatory but is applied when a retirement benefit plan is required to do so (e.g., by a regulator) or the entity chooses to prepare financial statements.
7. Financial statements prepared under IAS 26 are those that relate only to the retirement benefit plan itself, not the assets, liabilities etc. that relate to the operations of the entity administering the plan. IAS 26 provides guidance for both defined contribution plans and defined benefit plans.
8. These financial statements provide information that allows users to assess:
  - (a) The significant activities for the period and the effect of any changes relating to the plan;
  - (b) The transactions and investment performance for the period and the financial position of the plan;
  - (c) The net assets available to pay benefits; and
  - (d) The actuarial present value of promised retirement benefits.
9. Therefore, the information provided by IAS 26 is useful to users, particularly participants of the plan as it allows them to assess whether the fund has the necessary plan assets that will be required to pay out promised retirement benefits.

*Gap in Literature*

10. Presently there is no IPSAS that provides guidance on how retirement benefit funds should prepare financial statements. While a retirement benefit plan could report to its participants using IPSAS, this would not provide the most useful information to users because for example:
- (a) **Revenue** – IPSAS 1 requires revenue to be presented in the statement of financial performance. Retirement benefit plans receive contributions from the employer (and sometimes the employee) however these contributions are not revenue; and
  - (b) **Presentation** - IPSAS 1 requires entities to prepare several financial statements, some of which are not relevant to retirement benefit plans. (e.g., a statement of financial performance and statement of cash flows). Whereas IAS 26 requires a retirement benefit plan to prepare statements that are tailored to the information needs of users:
    - (i) For defined contribution plans – a statement of net assets available for benefits and a description of the funding policy;
    - (i) For defined benefit plans – a statement that shows the net assets available for benefits and the actuarial present value of promised retirement benefits<sup>1</sup>.
11. Because participants are primarily interested in whether the retirement benefit fund has sufficient assets to fulfill its obligations, IAS 26 has presentation and disclosure requirements that best fits these user needs. Applying the full suite of IPSAS may be onerous and may provide information irrelevant to user needs.

*Applying IAS 26 through the IPSAS Hierarchy?*

12. As IAS 26 addresses the gap identified by constituents, IPSASB adopters can choose to apply IAS 26 through the IPSAS hierarchy identified in IPSAS 3, *Accounting Policies Changes in Accounting Estimates and Errors*. However, based on discussions with constituents, this does not adequately address the gap because they have found using IAS 26 via the hierarchy can create issues, these are discussed below.
13. IAS 26 proposes a financial statement preparation that is not aligned with IAS 1, *Presentation of Financial Statements* (IPSAS 1, *Presentation of Financial Statements* is the IPSAS equivalent). This is not an issue when applying IFRS because the specific guidance in IAS 26 takes precedence over the generic guidance in IFRS 1. However, in order to apply other guidance through the hierarchy in IPSAS 3, the guidance must be consistent with the existing principles in IPSAS. Since IAS 26 considers the unique needs of retirement benefit plan users, it departs from the requirements in IPSAS 1, and is therefore challenging to apply through the hierarchy.

*Improved Public Financial Management*

14. One significant advantage in developing an IPSAS aligned with IAS 26 is that it should result in improving transparency, accountability, and the assessment of fiscal sustainability for governments thus improving public financial management. These benefits are discussed below.

---

<sup>1</sup> IAS 26 allows the actuarial present value of promised retirement benefits to be presented either:

- On the face the statement of net assets;
- As a note disclosure; or
- As a reference to an actuarial report.

### Transparency and Accountability

15. Governments need to be transparent and accountable for public funds which are entrusted to them by the taxpayer. This means they need to know what the actual cost of promised retirement benefits are, so they can be presented in the financial statements. Often employers contribute to a multi-employer plan (i.e., multiple employers pay into a single retirement benefit plan). However, if there is insufficient information for an employer to use defined benefit accounting, IPSAS 39, *Employee Benefits* allows employers to use defined contribution accounting. Therefore, without a standard for retirement benefit plan accounting and reporting (e.g., IAS 26) the actual defined benefit obligation for all participants may be unknown.
16. Staff note that in one jurisdiction, until a government actively sought out what retirement benefit plans existed there was no information about the value of promised retirement benefits to participants. These retirement benefit funds only calculated the cost of providing pensions for one year and were unaware of the total future obligations beyond this period. This is vital information that should be included in a government's whole of government accounts as it allows assessment of future obligations.

### Fiscal Sustainability

17. Identifying and recognizing the level of obligations a government has in respect of promised retirement benefits to participants also provides governments with information on the fiscal sustainability of continuing to provide defined benefit plans to employees. As noted in [Agenda Item 3.2.1](#), some jurisdictions have closed public sector defined benefit plans to new members, often because they were considered unsustainable. Deciding whether to continue to provide defined benefit pensions to employees is sustainable or not is challenging without knowing the expected cost of providing those pensions.

### *Is there a need for an IPSAS equivalent of IAS 26?*

18. Some question a need for an IPSAS aligned with IAS 26, because they consider there are very few public sector retirement benefit plans that are administered by a public sector entity. However, as noted in [Agenda Item 3.2.1](#), the UK Government Financial Reporting Manual (FREM) 2020-21 identifies 16 public sector pension schemes that are required to prepare financial statements using the FREM which includes applying an amended IAS 26. Further, also as noted in [Agenda Item 3.2.1](#), the United Nations and at least one pension plan in Europe uses IPSAS but also applies IAS 26 (via the hierarchy in IPSAS 3) for their staff pension funds.
19. Staff does not consider that the argument that an IPSAS aligned with IAS 26 would be used by few jurisdictions as compelling. The same argument could be used for IPSAS 10, *Financial Reporting in Hyperinflationary Economies* which is not likely to be applied in many jurisdictions, yet this standard, which is aligned with IAS 29, *Financial Reporting in Hyperinflationary Economies* forms part of the IPSAS suite of standards.

### Conclusion

20. Staff have concluded there is a gap in the literature and constituents have requested that this gap be filled. IAS 26 addresses this gap and applying its requirements would result in governments providing better information about the cost of employee's promised retirement benefits which will increase the transparency and accountability of governments and allow those governments to ascertain the fiscal sustainability of pensions for employees.

**Decision Required**

21. Does the IPSASB agree with the Staff recommendation?

**Potential Issues with IAS 26, *Accounting and Reporting by Retirement Benefit Plans***

**Question**

1. Does the IPSASB agree that the issues identified can be addressed in the context of the current IPSAS literature?

**Recommendation**

2. Staff recommend that the issues that need to be addressed when developing an IPSAS aligned with IAS 26, *Accounting and Reporting by Retirement Benefit Plans* are identified below and relate to the:
  - (a) Measurement of the actuarial present value of promised retirement benefits;
  - (b) Valuation of plan assets; and
  - (c) Presentation of actuarial present value of promised retirement benefits.

**Background**

3. The purpose of this paper is to identify any accounting issues with IAS 26 that the IPSASB may need to consider when developing an aligned IPSAS.

**Analysis**

4. When developing an IPSAS aligned with an IFRS, the process involves identifying any public sector issues that may need addressing. While staff do not consider there are any public sector specific issues to be addressed, discussions with constituents and a review of IAS 26, staff have identified the following issues which should be considered when developing an aligned IPSAS.
5. In considering these issues, staff noted in each case the challenge relates primarily to the optionality available in IAS 26. Additional analysis is required should the IPSASB approve the project brief in [Agenda Item 3.3.1](#).

*Measurement*

Actuarial Present Value of Promised Retirement Benefits (relates to defined benefit plans only)

6. IAS 26 allows the actuarial present value of promised retirement benefits to be calculated using either current salary levels or projected salary levels.

Option	IPSAS Literature
Projected Salaries	Consistent with IPSAS 39 as defined benefit obligations in IPSAS 39 are measured considering any estimated future salary increases that effects the benefits payable.
Current Salaries	Inconsistent with IPSAS 39 – see above.

*Valuation of plan assets*

7. IAS 26 requires plan assets to be valued at fair value. When it is not possible to estimate the fair value of plan assets, a disclosure is to be made as to the reason why fair value is not used.

Option	IPSAS Literature
Plan assets valued at fair value	Consistent with existing IPSAS as all assets that staff consider could be plan assets are permitted to be valued at fair value (e.g., financial instruments, property, plant, equipment, investment property). Consistent with ED 77, <i>Measurement</i> .
Plan assets valued at another amount and disclosed	A fair value can be estimated using the requirements of ED 77. ED 77 allows for several techniques when measuring fair value when the value of an equivalent asset is unavailable.

*Presentation of Actuarial Present Value of Promised Retirement Benefits*

8. IAS 26 allows the actuarial present value of promised retirement benefits to be disclosed either:
- (a) As part of the statement of net assets (i.e., on the face of the financial statements);
  - (b) As a note disclosure to the statement of net assets; or
  - (c) By reference to an accompanying actuarial report.

Option	IPSAS Literature
On the face of the financial statements	Consistent with the Conceptual Framework – <i>Information Selected for Display</i> Consistent with IPSAS 39, <i>Employee Benefits</i> .
As a note disclosure to the financial statements	Consistent with the Conceptual Framework – <i>Information Selected for Disclosure</i> .
By reference to an accompanying actuarial report	Precedent in IPSAS 24, <i>Presentation of Budget Information</i> – Allows an explanation of changes between the original and final budget to be presented in a separate report.

9. In performing its analysis, staff noted for each issue identified, at least one option included in IAS 26 was consistent with existing IPSAS. As noted in paragraph 5, some of the challenges in applying IAS 26 may relate to the fact it provides a breadth of options when preparing financial information. Staff consider any issues may be resolved by removing some optionality.

**Decision Required**

10. Does the IPSASB agree with the staff recommendation in paragraph 2?

## **Approval of the Accounting and Reporting by Retirement Benefits Plans Project Brief**

### **Question**

1. The IPSASB is asked to review and approve the project brief and outline for developing an IPSAS aligned with IAS 26, *Accounting and Reporting by Retirement Benefit Plans*.

### **Recommendation**

2. Staff recommend the IPSAS approve the attached project brief and add a project to develop an IPSAS aligned with IAS 26 to the IPSASB's work program.

### **Background**

3. This paper will:
  - (a) Address the Board instruction from December 2020 to develop a project brief and outline; and
  - (b) Outline the key issues identified in the project brief.

### **Analysis**

4. At the December 2020 meeting, during the Program and Technical Director's Report, the Board instructed staff to develop a project brief and outline for an IAS 26 alignment project. The project brief should outline any key issues with the project and illustrate the expected timeline for each stage of the project.
5. The IPSASB is asked to review the attached document ([Agenda Item 3.3.1](#)). Staff would like to highlight the Key Issues section (Section 5 of the project brief). Staff have identified three issues that they consider should be considered when developing an IPSAS aligned with IAS 26.
  - (a) Two issues relate to measurement and these are as follows:
    - (i) Actuarial present value of promised retirement benefits can be determined using either current salaries or project salaries;
    - (ii) Valuation of plan assets – IAS 26 allows plan assets to be valued at amounts other than fair value.
  - (b) The third issue relates to presentation whereby IAS 26 allows the actuarial present value of promised retirement benefits to be disclosed either:
    - (i) As part of the statement of net assets;
    - (ii) As a note disclosure to the statement of net assets; or
    - (iii) By reference to an accompanying actuarial report.
6. Staff note that all these issues arise because of the options in IAS 26. This project will assess whether retaining all the options in IAS 26 is appropriate for the public sector.
7. Staff also ask the IPSASB to review the proposed timeline which is set out in Section 7 of the project brief. As a limited scope alignment project, and as IAS 26 is a relatively short standard, staff consider the project will only take three meetings to develop and approve an exposure draft, and an IPSAS could be issued by October 2022.



**Decision Required**

8. Does the IPSASB approve the attached Accounting and Reporting by Retirement Benefit Plans – Project Brief and Outline?
9. Are there any issues relating to financial reporting by retirement benefit plans that have not been identified?

## **ACCOUNTING FOR REPORTING BY RETIREMENT BENEFIT PLANS**

### **PROJECT BRIEF AND OUTLINE**

#### **1. Introduction**

- 1.1 IAS 26, *Accounting and Reporting by Retirement Benefit Plans* was issued in 1987 by the International Accounting Standards Committee and reformatted by the International Accounting Standards Board (IASB) in 2004. The objective of IAS 26 is to provide the accounting and reporting requirements for arrangements where an entity provides retirement benefits, for example, an annual income, to employees after they terminate from service. The accounting requirements set out in IAS 26 provide participants in the retirement benefit plan with information related to the net assets available for distribution to the plan participants in retirement.
- 1.2 IAS 26 compliments IAS 19, *Employee Benefits*<sup>1</sup>, but reports the information from a different perspective:
  - (a) IAS 19 provides guidance for employers to report retirement benefit obligations or net assets associated with employees' retirement benefits; and
  - (b) IAS 26 provides guidance for retirement benefit plans to report to users of the plan.
- 1.3 Presently there is no IPSAS equivalent to IAS 26, consequently, a gap exists in IPSAS literature. No guidance exists that specifically addresses how retirement benefit plans, that are operated in the public sector, should prepare financial statements. The financial statements prepared under IAS 26 only relate to the retirement benefit plan itself, not the assets, liabilities etc. that relate to the operations of the entity administering the plan.

#### **2. Rationale for Project**

- 2.1 The IPSASB's *Strategy and Work Plan 2019-2023* (Strategy) Theme B 'Maintaining alignment with IFRS, states that maintaining this alignment is important because it:
  - (a) Provides a common approach and language for accounting;
  - (b) Allows easier mixed group consolidations; and
  - (c) Allows the IPSASB to leverage private sector best practice.
- 2.2 Developing an IPSAS aligned with IAS 26 was included in the Strategy as a project to consider when staff and Board resources were available, aiming to reduce unnecessary differences between IPSAS and IFRS.
- 2.3 Constituents have commented that the lack of an equivalent to IAS 26 in the IPSAS literature has compelled them to use IAS 26 via the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. This has caused many challenges, particularly with auditors, because the presentation requirements in IAS 26 are not aligned with those in IPSAS 1, *Presentation*

---

<sup>1</sup> IPSAS 39, *Employee Benefits* is the aligned IPSAS with IAS 19.

*of Financial Statements*. In the IFRS, the specific requirements in IAS 26 take precedence over the general requirements in IAS 1, *Presentation of Financial Statements* presentation.

- 2.4 However, for an IPSAS adopter it is not clear if the requirements of IPSAS 1 (the equivalent of IAS 1) or the requirement of IAS 26 would take precedence. IPSAS 1 requires entities to prepare a set of financial statements, some of which are not relevant to retirement benefit plans – for example, the statement of financial performance. Further, elements within these financial statements may also not be relevant. IPSAS 1 requires revenue to be presented in the statement of financial performance. Retirement benefit plans receive contributions from the employer (and sometimes the employee) however these contributions are not revenue; at the same time pension benefits are not expenses.
- 2.5 In contrast, IAS 26 resolves this issue by requiring a retirement benefit plan to prepare statements that are tailored to meet the information needs of users. For example, for defined benefit plans IAS 26 requires the preparation of a statement of net assets which shows the available benefits and the actuarial present value of promised retirement benefits and a statement of changes in net assets presenting contributions and pensions without any classification as revenue or expense.
- 2.6 With no IAS 26 equivalent in the IPSAS suite of standards, it is unclear if the requirements of IPSAS take precedence which may result in differences in accounting between the public and private sector for similar organizations and transactions.

### **3. Financial Reporting Requirements**

- 3.1 Many government entities provide retirement benefits for their employees by making contributions on behalf of employees into a retirement benefit plan<sup>2,3</sup>. In order to maintain independence of the plan assets, the retirement benefit plan is generally owned and operated by a different legal entity, than the entity funding the plan. For those entities that own and operate the retirement benefit plan, no guidance in the IPSAS suite of standards considers the specific needs of the users of the retirement benefit plan.
- 3.2 Information provided by retirement benefit plans is useful to users because it provides information on:
  - (a) Contributions received or receivable from employers;
  - (b) The value of net assets available to meet obligations to members; and
  - (c) Whether proper control has been exercised to protect the rights of beneficiaries.

### **4. Project Objective**

- 4.1 The project objective is to develop an Exposure Draft (ED) that proposes an IPSAS aligned with IAS 26.
- 4.2 In determining whether this project requires a consultation paper (CP) consideration was given to:
  - (a) Global variation in accounting policies;

---

<sup>2</sup> Retirement benefit plans are sometimes referred to by various other names such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'.

<sup>3</sup> Some plans may also require employees to make contributions.

- (b) Existing requirements and guidance of global and national public sector standard-setters; and
  - (c) Complexity.
- 4.3 Assessing points (a) and (b) in paragraph 4.2, some national standard-setters have not adopted IAS 26 but instead developed their own domestic accounting standard to best suit the needs of retirement benefit plans in their jurisdiction. Two examples are Australia and Canada. The Australian Accounting Standards Board developed AASB 1056, *Superannuation Entities* to replace AAS 25, *Financial Reporting by Superannuation Entities* which was in existence when Australia adopted IFRS and was deemed to be more appropriate for Australia than IAS 26. While Canada has technically adopted IAS 26 (it is in Part I of the CPA Canada Handbook), the preface to this handbook prohibits the use of IAS 26 and requires pension plans, and benefit plans that have characteristics similar to pension plans and provide benefits other than pensions, to use Section 4600, *Pension Plans*.
- 4.4 Despite some jurisdictions developing their own standards for accounting for retirement benefit plans, there is only one global standard and many jurisdictions that have adopted IFRS, including IAS 26. Some jurisdictions which have adopted IAS 26 have made amendments to the standard. Two examples are the United Kingdom (UK) and New Zealand. The UK uses IAS 26 in the Government Financial Reporting Manual (FREM) for use in the public sector. Some options available in IAS 26 are not available in the FREM. New Zealand (NZ) uses IAS 26 for Tier 1<sup>4</sup> and Tier 2<sup>5</sup> entities but has included extra reporting requirements.
- 4.5 Even though some standard setters have either developed their own accounting standard for retirement benefit plans or adapted IAS 26 for use in their jurisdiction, in general it is not expected that there will be a high degree of variation in accounting policies globally.
- 4.6 Regarding the point in paragraph 4.2 (c), developing an IPSAS aligned with IAS 26 is not considered complex, although it will require the IPSASB to consider whether the current optionality in the standard should be retained or not for the public sector.
- 4.7 Therefore, considering these factors above a CP is not deemed necessary.

### **Achieving the Objective**

- 4.8 To achieve the objective, it will be necessary to develop a [draft] IPSAS aligned with IAS 26, including any appropriate consequential amendments to other IPSAS.
- 4.9 The IPSAS document *Process for Reviewing and Modifying IASB Documents* will be followed during this project.

## **5. Outline of the Project**

### **Project Scope**

- 5.1 The scope of this project is to introduce the requirements for accounting for retirement benefit plans from IAS 26 into IPSAS.

---

<sup>4</sup> A NZ Tier 1 entity has public accountability or is a large for-profit public sector entity with total annual expenses greater than \$30 million.

<sup>5</sup> A NZ Tier 2 entity does not have public accountability and has total annual expenses less than \$30 million.

## **Key Issues**

### *Optionality*

- 5.2 Two distinct issues have been identified as part of this project brief. While each issue has unique characteristics, the common challenge identified by constituents relates to the optionality that is provided in the requirements in IAS 26. While there are technical considerations related to the issues outlined below, the ultimate analysis should focus on whether to retain or remove the options permitted in IAS 26.

### *Key Issue #1 – Measurement*

#### Actuarial Present Value of Promised Retirement Benefits

- 5.3 IAS 26, paragraph 18 allows the actuarial present value of promised retirement benefits to be calculated using either:
- (a) Current salary levels; or
  - (b) Projected salary levels up to the time of retirement of participants.
- 5.4 IPSAS 39 requires estimated future salaries be included in the calculation of defined benefit obligations. Although IAS 26 complements and does not mirror IPSAS 39, this project will consider if allowing the above options for the measurement of promised retirement benefits is appropriate for use in the public sector.

#### Valuation of Plan Assets

- 5.5 IAS 26, paragraph 32 states retirement benefit plan investments shall be carried at fair value. However, if a reliable fair value is not possible, disclosure shall be made as to why fair value is not used. In essence, IAS 26 allows plan assets to be measured at a value other than fair value.
- 5.6 ED 77, *Measurement* provides guidance on estimating fair value. Therefore, this project will consider if it is appropriate to retain the option to use a value other than fair value for plan assets.

### *Key Issue #2 – Presentation*

- 5.7 IAS 26, paragraph 17 allows the actuarial present value of promised retirement benefits to be disclosed either:
- (a) As part of the statement of net assets;
  - (b) As a note disclosure to the statement of net assets; or
  - (c) By reference to an accompanying actuarial report.
- 5.8 Options (b) and (c) would result in the member liability obligation being off balance sheet and some would argue that this along with the value of plan assets is the most valuable information to users of the financial statements. Therefore, this project will consider if allowing optional presentation for promised retirement benefits is appropriate for use in the public sector.

## **6. Describe the Implications for any Specific Persons or Groups**

### **Relationship to the IASB**

- 6.1 This IFRS alignment project has no known or projected links with any current IASB project. Staff will monitor the IASB's work plan and upcoming agenda consultation to see if any related project gets added to the work plan or research agenda.

## **Relationship to Other Standards, Projects in Process or Planned Projects**

6.2 The key issues that relate to:

- (a) Measurement will be discussed with the Measurement project team to ensure consistency of guidance.
- (b) Valuation of retirement benefits will be considered in the context of IPSAS 39.
- (c) Presentation of the retirement benefits will be considered in the context of IPSAS 1.

## **Government Finance Statistics**

6.3 The IPSASB supports the reduction of unnecessary differences between GFS and IPSAS in the development of new IPSAS and revisions to existing IPSAS. The IPSASB's policy paper *Process for Considering GFS Reporting Guidelines during the Development of IPSASs (2014)* guides the process.

6.4 This project will assess if any differences arise between GFS and IPSAS.

## **7. Development Process, Project Timeline and Project Output**

### **Development Process**

7.1 The development of any output will be subject to the IPSASB's formal due process, with input from the Consultative Advisory Group (CAG). The approval of an ED will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm that the project timetable remains the most appropriate.

### **Project Timetable**

7.2 The table below outlines the proposed project timetable.

<b>Project Milestones</b>	<b>Expected Completion</b>
<ul style="list-style-type: none"> <li>Review and Approval of Project Brief and Outline</li> <li>Discuss Issues</li> </ul>	March 2021
<ul style="list-style-type: none"> <li>Discuss Issues</li> </ul>	June 2021
<ul style="list-style-type: none"> <li>Review and Approve Exposure Draft</li> </ul>	September 2021
<ul style="list-style-type: none"> <li>Issue Exposure Draft</li> </ul>	October 2021
<ul style="list-style-type: none"> <li>Consultation Period (4 months)</li> </ul>	November 2021-February 2022
<ul style="list-style-type: none"> <li>Review of Comments to Exposure Draft</li> </ul>	March 2022
<ul style="list-style-type: none"> <li>Discuss Issues</li> <li>Review [draft] IPSAS</li> </ul>	June 2022
<ul style="list-style-type: none"> <li>Approve IPSAS</li> </ul>	September 2022
<ul style="list-style-type: none"> <li>Issue IPSAS</li> </ul>	October 2022

### **Project Output**

7.3 The initial output is expected to be an ED with recommendations that this gives rise to an IPSAS.

## **8. Resources Required**

### **Task Force/Board Sponsor**

8.1 It is anticipated that a Board Sponsor will oversee the project and a task force will not be required.

### **Staff**

8.2 It is envisaged that 0.4 FTE Full Time Equivalent (FTE) staff member will be required to resource the project.

### **Factors that Might Add to Complexity and Length**

8.3 There are no anticipated factors which might add to the complexity and length of this project.

## **9. Useful Sources of Information**

9.1 The principal sources of information will be IAS 26 and literature from other standard setters. These include but are not limited to:

- (a) NZ IAS 26, *Accounting and Reporting by Retirement Benefit Plans* – New Zealand;
- (b) The Government Financial Reporting Manual 2020-21 – United Kingdom;
- (c) AASB 1056, *Superannuation Entities* – Australia; and
- (d) CPA Canada Handbook, Part IV, Section 4600, *Accounting Standards for Pension Plans* – Canada.