

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

**Meeting Location:** Virtual Meeting

**Meeting Date:** June 15-18, and 22, 2021

## Agenda Item 9

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 adapted from IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i> .	
<b>Task Force members</b>	<ul style="list-style-type: none"> <li>David Watkins, IPSASB Technical Advisor (Task Force Chair)</li> <li>Mike Blake, IPSASB Member</li> <li>Moushumi Dullabh, South African Treasury</li> <li>Renée Pichard, IPSASB Member</li> <li>Kamira Sanchez Nicosia, IPSASB Member</li> <li>Karl-Ludwig Soll, United Nations</li> </ul>	
<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="#">9.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">9.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">9.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Scope</a>	<a href="#">9.2.1</a>
	<a href="#">Reporting Entity</a>	<a href="#">9.2.2</a>
	<a href="#">Financial Statements - Excluding Cash Flow Statement</a>	<a href="#">9.2.3</a>
	<a href="#">Financial Statements – Cash Flow Statement</a>	<a href="#">9.2.4</a>
<b>Other Supporting Items</b>	<a href="#">Jurisdictional Retirement Benefit Plan Financial Statements</a>	<a href="#">9.3.1</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. Discuss Issues</li> <li>2. Review [draft] Exposure Draft (ED)</li> </ol>
December 2021	<ol style="list-style-type: none"> <li>3. Review [draft] Exposure Draft (ED)</li> <li>4. Approve ED</li> </ol>
January 2022	<ol style="list-style-type: none"> <li>1. Issue Exposure Draft</li> </ol>
February 2022- May 2022	<ol style="list-style-type: none"> <li>1. Consultation Period (4 months)</li> </ol>
June 2022	<ol style="list-style-type: none"> <li>1. Initial Review of Comments to Exposure Draft</li> </ol>
September 2022	<ol style="list-style-type: none"> <li>1. Review of Comments to Exposure Draft</li> <li>2. Discuss Issues</li> <li>3. Review [draft] IPSAS</li> </ol>
December 2022	<ol style="list-style-type: none"> <li>1. Approve IPSAS</li> </ol>
January 2023	<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 to date – Instructions made at the March 2021 meeting were included in the approved Project Brief and Outline.	1. N/A

**DECISIONS UP TO PREVIOUS MEETING**

<b>Meeting</b>	<b>Decision</b>	<b>BC Reference</b>
March 2021	1. The Project Brief and Outline was approved	1. BC to be included in a draft ED.

## Scope

### Question

1. Whether there is no public sector specific reason that the scope of an IPSAS developed from amending IAS 26, *Accounting and Reporting by Retirement Benefit Plans* should be extended beyond retirement benefit plans that are intended to provide an income or a lump sum payment to beneficiaries.

### Recommendation

2. Staff and Task Force recommend that the scope of an IPSAS adapted from IAS 26 is not extended beyond that in IAS 26. Further, the basis for conclusions should suggest that it would be appropriate for other benefit plans that have similar characteristics to retirement benefit plans to apply the requirements by analogy.

### Background

3. This paper will:
  - (a) Address Issue #1 in the Project Brief and Outline for Accounting and Reporting by Retirement Benefit Plans on scope; and
  - (b) Consider the approach taken by other standard-setters and whether there is a public sector specific reason to extend the scope.

### Analysis

4. IAS 26 applies to retirement benefit plans which are defined as:

“Arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income or as a lump sum) where such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity’s practices.”

Therefore, the requirements of IAS 26 are restricted solely to retirement benefit plans that are intended to provide funds, in the way of an income or lump sum, to beneficiaries. IAS 26 does not apply to schemes that provide other benefits.

5. The question whether to extend the scope of an IPSAS amended from IAS 26, came about because the Canadian standard Section 4600, *Pension Plans* includes benefit plans that have characteristics similar to pension plans and provide benefits other than pensions. Examples given are retiree health care and life insurance benefit plans, health and welfare plans and long-term disability plans.
6. When Section 4600 was being developed, a benefit plan was defined as “any arrangement whereby an entity undertakes to provide its employees with benefits after active service in exchange for their services” [emphasis added]. However, constituents suggested that the scope for an accounting standard on pension plans not be limited to “retirement benefit plans” but be expanded to include non-retirement benefit plans that have characteristics similar to pension plans. The argument for expanding the scope to include other benefit plans was to enhance the comparability between financial statements of different benefit plans and between financial statements of pension plans and

benefit plans other than pension plans. The Accounting Standards Board (AcSB) agreed with this suggestion.

*Scope in other jurisdictions*

7. To determine whether other jurisdictions have taken a similar approach to that in Canada, a limited review of the scope of other pensions standards was undertaken to establish whether the scope has been expanded to include other benefit plans beyond retirement benefit plans that are intended to provide an income or lump sum to beneficiaries. These are as follows.

*Australia*

8. AASB 1056, *Superannuation Entities*<sup>1</sup> applies to general purpose financial statements of superannuation entities. A superannuation entity is defined as, “An entity that constitutes one or more superannuation plan(s) or an approved deposit fund<sup>2</sup>”. A superannuation plan is defined as:

“An entity that is:

- (a) regulated under the *Superannuation Industry (Supervision) Act 1993*, or similar legislative requirements in the case of an exempt public sector superannuation plan; and
  - (b) established and maintained:
    - (i) in order to receive superannuation contributions; and
    - (ii) for the primary purpose of providing benefits to members upon their retirement, death, disablement or other event that qualifies as a condition of release for member benefits.”
9. In Australia, some defined contribution plans may also provide insurance to participants in the case of disability or death (whereby the balance of the plan would be paid to beneficiaries). AASB 1056 specifies particular requirements when a superannuation entity is acting in the capacity of an insurer.
10. Staff and Task Force are of the view that the scope of AASB 1056 has not been expanded to benefit plans other than those that are within the scope of IAS 26, because although some plans may provide insurance to participants it is a feature the plan itself and not a separate plan.

*New Zealand*

11. The scope of NZ IAS 26, *Accounting and Reporting by Retirement Benefit Plans*<sup>3</sup> is the same as that in IAS 26, except that superannuation schemes where members can command special purpose financial information that meets their needs are not required to apply the Standard.

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<sup>1</sup> AASB 1056 is not based on IAS 26 but was developed to address the Australian superannuation environment.

<sup>2</sup> An approved deposit fund (ADF) is a fund whereby eligible termination payments (e.g., redundancy payments) can be deposited and are paid out as a lump sum only (not as a pension) when the owner reaches the age of 65. ADFs are similar to a defined contribution fund.

<sup>3</sup> NZ IAS 26 is adapted from IAS 26.

United Kingdom – Government Financial Reporting Manual (FReM)

12. The UK Government uses an adapted version of IAS 26. Staff note that FReM Chapter 8, *Adapting and Interpreting IFRS Standards*, states,

“IAS 26 does not apply to forms of employment benefits other than retirement benefits. However, where schemes currently report separately transactions relating to termination benefits (also known as early departure costs or compensation payments) they should continue to do so.”

Staff and Task Force do not consider this to be an expansion of scope but rather a grandfathering of existing practice.

United Kingdom – Private sector

13. UK private sector entities that are not required to apply IFRS and are not classified as a Micro or Small entity by the Companies Act apply FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. FRS 102 is based on IFRS for SMEs issued by the IASB. Section 34 of FRS 102 provides accounting requirements for Retirement Benefit Plans.
14. FRS 102 states an entity that is a retirement benefit plan shall apply the paragraphs 34.34-34.48. The definition of a retirement benefit plan in FRS 102 is identical to that in IAS 26 (as cited in paragraph 4), and therefore the scope has not been expanded to other benefit plans.

Summary

15. As indicated in the limited review above, only Canada has expanded the scope of their accounting standard for retirement benefit plans to include other benefit plans.

*United Nations Health Schemes*

16. The United Nations (UN) has several health and dental schemes that were established as part of the social security scheme for United Nations active staff and retirees. In general, these plans are unfunded. Income consists of insurance premiums collected from active staff, the monthly pension fund for retired members and a UN subsidy. Members are reimbursed for eligible medical costs up to a certain limit. IPSASB Staff have been asked to consider whether these schemes should be included in an IPSAS adapted from IAS 26.
17. Staff and Task Force are of the view that these schemes have the characteristics of insurance schemes as payments are made on an ‘at need’ basis as a reimbursement for costs incurred, not as a regular payment or lump sum intended to provide a post-employment income. Therefore, it would not be appropriate for these schemes to be accounted for under a standard for retirement benefit plans.

**Public Sector Specific Reason to Depart?**

18. Part of the process in adapting an IFRS to become an IPSAS is to identify if there is any specific public sector reason to depart from the requirements of the source standard. Staff and Task Force are not aware of any reason the scope of an IPSAS adapted from IAS 26 should be expanded.
19. Staff and Task Force consider that if there are other benefits schemes that have similar characteristics to retirement benefit plans then the requirements of an IPSAS adapted from IAS 26

## Agenda Item 9.2.1

could be used by analogy through the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

20. This approach has precedent whereby IPSAS 32, *Service Concession Arrangements: Grantor* paragraph BC 7 states that rather than expanding the scope of IPSAS 32 to include public-to-public service concession arrangements, IPSAS 32 could be applied by analogy via the IPSAS 3 hierarchy. The reason cited was that addressing the accounting for such arrangements was not the primary purpose of that project.
21. Staff and Task Force are of a similar view as that expressed in the basis for conclusions to IPSAS 32 re public -to-public service concession arrangements. The reason for commencing this retirement benefit plans project was to fill a specific gap in IPSAS literature and to improve government transparency and accountability regarding retirement benefit plans. Therefore, a similar basis for conclusions paragraph can be added to suggest that other benefit plans that have similar characteristics to retirement benefit plans could apply the standard by analogy.
22. A draft BC has been provided at the [Appendix A](#) to this agenda paper.

### **Decision Required**

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



## **Appendix A**

BCXX The IPSASB discussed whether the scope of this [draft] Standard should be expanded to include benefit plans that have similar characteristics to retirement benefit plans but provide benefits other than retirement benefits. The IPSASB decided to retain the scope that is in IAS 26 because the primary purpose of the project is to provide guidance for accounting and reporting by retirement benefit plans. The IPSASB noted that application of this [draft] Standard by analogy would be appropriate under paragraph 12-15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* for plans that have characteristics similar to retirement benefit plans but provide benefits other than an annual income or lump sum post termination of service.

## Reporting Entity

### Question

1. Whether the reporting entity for an IPSAS developed from amending IAS 26, *Accounting and Reporting by Retirement Benefit Plans* is the actual plan and not the entity administering the plan as articulated in IAS 26.

### Recommendation

2. Staff and Task Force recommend that the reporting entity is the actual plan and not the entity administering the plan.

### Background

3. This paper will:
  - (a) Address Issue #2 in the Project Brief and Outline for Accounting and Reporting by Retirement Benefit Plans on the reporting entity; and
  - (b) Consider guidance in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (IPSASB Framework)* and the *Conceptual Framework for Financial Reporting (IASB Framework)*, the approach taken by other standard-setters, and whether there is a public sector specific reason to depart from the IAS 26 concept of reporting entity.

### Analysis

4. IAS 26 regards retirement benefit plans as reporting entities in their own right. IAS 26 paragraph 2 states, "Retirement benefit plans are sometimes referred to by various other names, such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'. This Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan. ..." [Emphasis added]. A question was raised at the March 2021 IPSASB meeting and included as Issue #2 of this project's Project Brief and Outline whether the reporting entity was the actual retirement benefit plan or the entity administering the plan (in some jurisdictions the term trustee is used).

*Is there a public sector specific reason to depart from IAS 26 regarding the reporting entity?*

5. The *IPSASB Framework* describes a public sector reporting entity as a government or other public sector organization, program or identifiable area of activity that prepares general purpose financial reports (GPFRs). The *IPSASB Framework* further states the key characteristics of a reporting entity are that:
  - (a) It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
  - (b) There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.
6. The *IASB Framework* also provides guidance on the reporting entity, and paragraph 3.13 suggests that determining the appropriate boundary of a reporting entity can be difficult if the reporting entity:

- (a) Is not a legal entity<sup>1</sup>; and
  - (b) Does not comprise only legal entities linked by a parent-subsidiary relationship.
7. However, this framework further states that determining the boundary of the reporting entity is driven by the information needs of the primary users of the reporting entity's financial statements.
8. Based on the guidance provided in both the *IPSASB Framework* and *IASB Framework*, in relation to retirement benefit plans, the key factors are that a reporting entity can be 'an identifiable area of activity', there are users that are dependent on the information provided by that reporting entity, and the boundary of the reporting entity is determined by the needs of those users.
9. Users of financial statements relating to retirement benefit plans are varied and may depend on whether the retirement benefit plan is unfunded (totally or partially) or fully funded.

#### Unfunded Plans

10. When a plan is unfunded, payment of retirement benefits, payment of pension benefits will be made from government resources. Therefore, potential users of unfunded retirement benefit plans include parliamentarians, journalists, and citizens. These users are interested in the impact of government pensions on future government resources.
11. Users of funded retirement benefit plans are more likely to be limited to participants and contributing employers. Participants of funded plans are interested in:
- (a) For a defined contribution scheme:
    - (i) Whether employer contributions have been received; and
    - (ii) The investment performance of the fund;
  - (b) For a defined benefit scheme:
    - (i) The net assets available to pay benefits;
    - (ii) The actuarial present value of promised benefits;
    - (iii) The investment performance of the fund and
    - (iv) The resulting surplus or deficit.
12. Therefore, considering the needs of users of retirement benefit plans, the information required is all related to the actual plan and not the entity administering the plan.
13. Staff also had discussions with staff from the Canadian Accounting Standards Board Pensions team who considered that it was the plan and not the entity administering the plan that was the reporting entity.
14. Further, from the Australian context, a reporting entity for a not-for-profit entity (including the public sector) is defined as "An entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to

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<sup>1</sup> IAS 26 does not require a retirement benefit plan to have a separate legal identity.

them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.”

15. Both NZ IAS 26, *Accounting and Reporting by Retirement Benefit Plans* and the UK Government Financial Reporting Manual use adapted versions of IAS 26. However, the guidance regarding reporting entity has not been altered. Therefore, the reporting entity remains the same as in IAS 26.
16. Taking the above guidance into account, staff consider that a retirement benefit plan is an identifiable area of activity undertaken by an entity administering that plan. Staff also considers that the information of interest to users is related to retirement benefit plans and not the entities administering these plans.
17. Staff are not aware of any public sector reason to depart from IAS 26 regarding the reporting entity. Therefore, for the purposes of this project, staff and Task Force recommend that the reporting entity should remain as stated in IAS 26 as the actual retirement benefit plan.

**Decision Required**

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

## **Financial Statements – Excluding Cash Flow Statement**

### **Question**

1. Whether the IPSASB agrees with the Task Force view on which financial statements should be required by retirement benefit plans in an IPSAS adapted from IAS 26.

### **Recommendation**

2. Staff and Task Force recommend that an IPSAS adapted from IAS 26 should require and specify that the financial statements and information a retirement benefit plan should prepare are:
  - (a) A statement of financial position (statement of net assets available for benefits);
  - (b) A statement of changes in net assets available for benefits;
  - (c) Changes in pension obligations (either as a financial statement or in the notes – yet to be determined); and
  - (d) Notes to the financial statements.

Note: Discussion of a Cash Flow Statement is in [Agenda Item 9.2.4](#).

### **Background**

3. This paper will:
  - (a) Address part of Issue #5 in the Project Brief and Outline for Accounting and Reporting by Retirement Benefit Plans on which financial statements a retirement benefit plans should prepare; and
  - (b) Propose which financial statements a retirement benefit plan should prepare by considering the:
    - (i) The objective of financial statements;
    - (ii) The user needs of retirement benefit plan financial statements; and
    - (iii) Approaches taken by other standard setters.

### **Analysis**

#### *Objective of financial statements*

4. *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (IPSASB Framework)* states the objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reporting (GPFR) for accountability purposes and decision-making purposes (paragraph 2.1).

#### *Users of Retirement Benefit Plan Financial Statements*

5. The *IPSASB Framework* also indicates the primary users of public sector financial statements are service recipients and their representatives and resource providers and their representatives. This also includes a jurisdiction's citizens. Therefore, the range of users for public sector GPFRs is extremely broad.
6. IAS 26 indicates that users of retirement benefit plan financial statements for defined contribution plans are participants and employers. Yet, IAS 26 was developed for private sector retirement benefit

plans which would generally be fully funded. However, for public sector retirement benefit plans the users of those financial statements may depend on whether the retirement benefit plan is unfunded (either totally or partially) or fully funded.

Unfunded retirement benefit plans

7. For unfunded retirement benefit plans, payment of pension benefits will have a direct impact on future government resources. Therefore, parties that have an interest in fiscal sustainability and uses of government resources would be potential users of retirement benefit plan financial statements. This includes parliamentarians, journalists, and general citizens. Further, unless a government knows the total obligation for public sector pensions it cannot make informed decisions about whether to continue to provide such benefits to employees. The financial statements of a retirement benefit plan provide this information. Because benefit payments for unfunded schemes comes from future government resources, participants of unfunded plans may be less interested in the financial statements of the plan because payment of their benefits is generally assured.

Fully funded retirement benefit plans

8. For fully funded retirement benefit plans the primary users of such financial statements may be somewhat narrower. If a retirement benefit plan is fully funded, benefit payments will not be made from future government resources, but rather from the assets the retirement benefit plan holds. Therefore, users interested in these financial statements may be limited to participants of the plan. Participants have an interest in the financial statements because they want to ensure that the retirement benefit plan has enough assets to fund their benefit payments. Participants are also interested in knowing that the retirement benefit plan has adequate cashflow to make these benefit payments when they fall due.
9. Employers who contribute to defined benefit plans, whether fully funded or partially funded are interested in the investing activities by the retirement benefit plan as this will have a direct impact on the IPSAS 39, *Employee Benefits* defined benefit obligation payable. The greater the investment return from assets held by the retirement benefit plan, the less the employer will have to contribute to meet its obligation.
10. Participants of defined contribution plans are interested in the activities of the plan because they directly impact their future benefits. Further, participants are interested in knowing whether contributions have been received and proper control has been exercised to protect the rights of beneficiaries. Employers are also interested in the efficient and fair operation of plans.

Multi-employer Plans

11. Multi-employer plans are retirement benefit plans where more than one employer contributes to the same plan to provide retirement benefits for their employees. These plans may be funded or unfunded. But what is significant and particularly relevant to the financial statements of a retirement benefit plan is that IPSAS 39 allows contributing employers to recognize their defined benefit obligation on a defined contribution basis. Therefore, in the financial statements of the employer, this obligation may be understated. It is only in the financial statements of the retirement benefit plan for a multi-employer plan that the actual defined benefit obligation will be presented.
12. The Australian standard for pension reporting AASB 1056, *Superannuation Entities* confirms these thoughts on users, stating in the Basis for Conclusions at paragraph BC12 that the AASB concluded the most prominent users of superannuation entities financial reports are:

- (a) Current and potential members and beneficiaries;
  - (b) Parties that act on behalf of members and beneficiaries, such as financial analysts, advisors and unions; and
  - (c) Employer-sponsors.
13. To summarize, users of unfunded plans are interested in knowing the total obligation of future pension benefit payments as this will have a direct impact on future government resources.
14. Users of funded plans are interested in knowing:
- (a) Whether the plan has enough assets to cover benefit obligations;
  - (b) The investment activities of the plan because this will impact:
    - (i) The future benefit for defined contribution participants; and
    - (ii) The future IPSAS 39 defined benefit obligation for employers; and
  - (c) Whether the plan has sufficient cash flow to meet benefit payments when they are due.

*Financial statements required by IAS 26*

15. The requirements for an entity to prepare financial statements is generally set out in that jurisdiction's legislative requirements. As such IAS 1, *Presentation of Financial Statements* (and therefore IPSAS 1, *Presentation of Financial Statements*) does not specifically require an entity to prepare financial statements. However, these Standards state which financial statements comprise a complete set of financial statements and how they should be prepared.
16. A full set of financial statements under IPSAS 1<sup>1</sup> consists of:
- (a) A statement of financial performance
  - (b) A statement of financial position;
  - (c) A statement of changes in net assets/equity;
  - (d) A cash flow statement;
  - (e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional statement or as a budget column in the financial statements;
  - (f) Notes, comprising a summary of significant accounting policies and other explanatory notes; and
  - (g) Comparative information in respect of the preceding period as specified in paragraphs 53 and 53A of IPSAS 1.

Staff and Task Force are of the view that the budget statement noted at paragraph 16(e) might be required where the retirement benefit plan is funded (wholly or partially) through the national budget.

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<sup>1</sup> Because the objective of this project is to develop an IPSAS staff thought it would be more appropriate to refer to IPSAS Standards.

17. Determining which financial statements IAS 26 specifically requires was somewhat challenging due to the structure of that standard. Paragraphs 34-36 of IAS 26 gives details of what should be disclosed in the financial statements of both defined contribution and defined benefit retirement benefit plans. Appendix A provides these paragraphs. Although, this section is labelled 'Disclosures' IAS 26 was written before a distinction between 'presentation on the face of the statements' and 'disclosure in the notes to the statements' was made, therefore some information to be 'disclosed' would actually be presented on the face of the financial statements. Nevertheless, staff and Task Force are of the view that IAS 26 requires the following information.

#### Defined Contribution Plans

18. For defined contribution plans, the financial statements must contain:
- (a) A statement of net assets available for benefits;
  - (b) A statement of changes in net assets available for benefits; and
  - (c) A description of the funding policy.
19. IAS 26 suggests the objective of reporting by defined contribution plans is to provide information about the plan and the performance of its investments. Therefore, the following information should also be provided in the financial statements:
- (a) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;
  - (b) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and
  - (c) A description of the investment policies.

#### Defined Benefit Plans

20. For defined benefit plans the financial statements must contain:
- (a) A statement of net assets available for benefits;
  - (b) The actuarial present value of promised retirement benefits, distinguishing between vested benefits and unvested benefits<sup>2</sup>; and
  - (c) The resulting excess or deficit; and
  - (d) A statement of changes in net assets available for benefits.
21. Further the financial statements for a defined benefit plan shall explain the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.
22. Like defined contribution plans, IAS 26 also suggests the objectives of reporting by defined benefit plans. These objectives being, to periodically provide information about the financial resources and activities of the plan that is useful in assessing the relationships between the accumulation of

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<sup>2</sup> IAS 26 allows the actuarial present value of promised retirement benefits to be presented on the face of the financial statements, as a note to the financial statements or as a reference to another report.



resources and plan benefits over time. This objective is usually achieved by providing financial statements that include the following:

- (a) A description of significant activities for the period and the effect of any changes relating to the plan and its membership terms and conditions;
- (b) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period;
- (c) Actuarial information either as part of the statement or by way of a separate report; and
- (d) A description of the investment policies.

*Requirements of other standard setters*

- 23. To help make an assessment as to which financial statements an IPSAS adapted from IAS 26 should require, the requirements of other standard setters were reviewed. Staff identified ten differently named financial statements<sup>3</sup> required across the following jurisdictions: Australia, Canada, New Zealand, South Africa, and the United Kingdom. However, when reviewing the line items, staff are of the opinion that some statements were essentially the same but just had a different title, which is allowable under IPSAS 1/IAS 1. For example, a statement of net assets available for benefits is analogous to a statement of financial position.
- 24. A graph illustrating how many jurisdictions use which type of financial statement and the details for each jurisdiction's requirements are provided as [Agenda Item 9.3.1](#).
- 25. The most used financial statements for retirement benefit plan reporting are:
  - (a) Statement of net assets available for benefits (see paragraphs 27-36);
  - (b) Statement of changes in net assets available for benefits (see paragraphs 37-41); and
  - (c) Statement of cash flows (see [Agenda Item 9.2.4](#)).

Other statements prepared by on the jurisdictions considered are:

- (d) Income statement and statement of changes in member benefits (see paragraphs 42-43);
  - (e) Statement of changes in pension obligations (see paragraphs 44-50);
  - (f) Statement of changes in equity and reserves (see paragraphs 51-52); and
  - (g) Statement of changes in taxpayers' equity (see paragraphs 53-54).
- 26. When deciding which financial statements an IPSAS adapted from IAS 26 should require it is necessary to take into consideration:
  - (a) Whether there is any public sector reason to depart from IAS 26;
  - (b) Which statements best service the public interest; and

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<sup>3</sup> Statement of Financial Position, Statement of Changes in Net Assets available for benefits, Statement of Changes in Pension Obligations, Income Statement, Statement of changes in equity/reserves, Statement of Cashflows, Statement of changes in Member Benefits, Statement of Net Assets and Funds, Statement of Comprehensive Net Expenditure; and Statement of Changes in Taxpayer's Equity.

- (c) Whether the financial statements are appropriate for all jurisdictions.

Statement of net assets available for benefits

27. As mentioned, IAS 26 already requires a statement of net assets available for benefits. The purpose of this statement is to provide users with information about the assets available to pay pension obligations. Therefore, it has line items relating to the assets of the plan and liabilities owed by the plan.
28. Regarding the liabilities shown in the statement of net assets available for benefits, IAS 26 is specific that these liabilities DO NOT include the actuarial present value of promised retirement benefits. Therefore, the net asset figure illustrates what assets are available to pay these promised retirement benefits.
29. The Task Force discussed whether the actuarial present value of promised retirement benefits should be shown as an additional separate line item below the net assets figure. This would provide information as to whether the plan was in surplus or deficit (i.e., funded or unfunded). The Task Force noted that this presentation of this statement (i.e., including the actuarial present value of promised retirement benefits) is an option in IAS 26 at paragraph 28(a)<sup>4</sup>.
30. The Task Force agreed that this pension obligation should be presented on the face of the financial statements as this is a key piece of information for users. It illustrates whether a retirement benefit plan has a surplus or deficit, if in deficit it is an indication that the fund is not fully funded, which may be of interest to users of unfunded retirement benefit plans as it means pension obligations will be paid from future government resources.
31. The Task Force also noted that, because of the line items to be included in this statement, it does bear some similarity to a statement of financial position and discussed whether the title of this financial statement should be changed to this in an IPSAS adapted from IAS 26.
32. Task Force members that supported using the title statement of financial position argued that with the actuarial present value of promised retirement benefits obligation included, this title better reflects what the statement represents – it is the total financial position of the retirement benefit fund and not just illustrating the net assets available to fund pension benefits. They also suggested that statement of financial position is a more updated name and would provide consistency as users of financial statements are accustomed to certain terminology.
33. Task Force members not supportive of a change in statement title argued that statement of net assets available for benefits is a common statement name used for retirement benefit plan reporting.
34. It should be noted that if the term 'statement of financial position' is to be used some of the line items set out in IPSAS 1 for this statement may not be relevant to retirement benefit plans. However, if this financial statement is to be included in an IPSAS adapted from IAS 26, the requirements of that IPSAS would override that of IPSAS 1. Therefore, more appropriate line items could be specified.
35. To conclude staff and the Task Force agreed that because this statement is already required by IAS 26, and it provides useful information for users, there is no public sector reason to not retain the requirement for retirement benefit plans to prepare this financial statement. Further, the actuarial

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<sup>4</sup> Optionality in IAS 26 is Issue #4 in the Project Brief and Outline and will be discussed at the September 2021 IPSASB meeting.

present value of promised retirement benefits should be shown on the face of this statement, below net assets, thus providing information as to whether the retirement benefit plan is in surplus or deficit.

36. Finally, because the obligation for pension benefits is to be shown on the face of the statement this financial statement should be named as a statement of financial position.

Statement of changes in net assets available for benefits

37. IAS 26 also requires a statement of changes in net assets available for benefits. This statement, as used by the jurisdictions reviewed, provides details on (among other things) contributions received (both employer and employee), benefits paid, investment income and expenses related to those investments. This information is useful to users, because defined contribution participants are interested in confirming that contributions have been received as well as how investment income and related expenses have impacted their benefits. Also, employers who pay into a defined benefit plan are interested in the income earned on investments as this will impact the defined benefit obligation to provide for employee pensions.
38. A Task Force member stated that this is a key statement for retirement benefit plan reporting. It illustrates the flows in and out of the plan and provided useful information for users.
39. The Task Force also noted that the statement of changes to net assets available for benefits has some similarities to a statement of financial performance and discussed whether the name should be changed to that, keeping in line with current terminology. The discussion considered briefly whether contributions and benefit payments were revenue and expenses respectively, because these two elements are generally found in a statement of financial performance.
40. It was noted that classification of contributions and benefit payments is an issue identified in the Project Brief and Outline and has yet to be examined in detail. Therefore, at this stage the name for this statement should be retained.
41. Therefore, staff and Task Force are of the view that because this statement is already required by IAS 26, and it is a key statement that provides useful information to users, there is no public sector reason to change the requirement to provide a statement of changes in net assets available for benefits.

Income statement and statement of changes in member benefits

42. The Task Force noted that an income statement and a statement of changes in member benefits are only required by AASB 1056 for Australian superannuation entities. Reviewing the required line items for these two statements in AASB 1056, in conjunction there are some similarities to the statement of changes in net assets available for benefits. For example, the income statement requires line items for investment revenue and expenses, and the statement of changes in member benefits requires line items on contributions received and benefits paid. The AASB considered whether this information should be presented in one statement but concluded that:
- (a) Contributions are not revenue<sup>5</sup>. For a defined contribution plan they give rise to a liability and for a defined benefit plan they assist in the funding of member obligations. Therefore, the AASB

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<sup>5</sup> The predecessor to AASB 1056, AAS 25, *Financial Reporting by Superannuation Plans* treated contributions as revenue and benefit payments as expenses.

concluded these flows increase the liabilities of superannuation entities and benefit payments reduce those liabilities. Consequently, they are not in the nature of revenue and expenses; and

- (b) Providing the contributions and similar<sup>6</sup> information in separate statement enables users to evaluate their significance in relation to the entity's financial position.
43. This project has yet to determine whether contributions and benefit payments are revenue and expenses or another element (e.g., equity). But at this stage, given that only one jurisdiction has two statements for what appears to be the statement of changes in net assets available for benefits, staff and Task Force are of the view that these two financial statements should not be required in an IPSAS adapted from IAS 26.

Statement of changes in pension obligations

44. The Task Force noted that a statement of changes in pension obligations is only required by Section 4600, *Pension Plans* in the CPA Canada Handbook. This statement includes details on amendments to the plan, interest accrued on benefits, changes in actuarial assumptions, benefits accrued, and benefits paid that altered the pension obligation from the start of the period to reporting date.
45. This standard suggests that changes in pension obligations may affect the adequacy of the plan assets to pay benefits when due and shall be provided to portray the consequences of transactions and events affecting the pension plan.
46. While staff agree that changes to pension obligations have an impact, staff consider that more relevant information is what the actual pension obligation is at the end of the period rather than what created the change from one period to the next. Staff also note that IAS 26 requires the actuarial present value of promised retirement benefits to be included in the financial statements.
47. Staff also note that IAS 26 requires the financial statements of a retirement benefit plan to provide a description of the plan and the effect of any changes in the plan during the period. However, staff consider this information may be provided in the notes to the financial statements rather than as a separate financial statement itself.
48. The Task Force has mixed views on whether this statement is required. Some members strongly suggested that if the actuarial present value of promised retirement benefits was presented on the face of the financial statements (as noted in paragraph 32), then this statement should be provided to explain the changes in the obligation from the beginning and end of the period. They also commented that the first presentation option in IAS 26 paragraph 28(a) which permits this obligation to be on the face of the financial statements also requires the financial statements to contain the changes in the actuarial present value of promised retirement benefits.
49. Other Task Force members considered that this information could be provided in the notes and that this statement was not necessary.
50. Given the tentative decision to present the actuarial present value of promised retirement benefits on the face of the statement of financial position, the Task Force agrees that information detailing the changes to this obligation be provided. However, whether this is an actual financial statement, or a

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<sup>6</sup> Rollovers and transfers from other superannuation plans.

reconciliation provided in the notes has not been decided. Therefore, staff and the Task Force welcome the views of the IPSASB.

Statement of changes in equity and reserves

51. The Task Force noted that a statement of changes in equity and reserves is only required by AASB 1056 for Australian superannuation entities. Staff are of the view that retirement benefit plans do not have equity holders and therefore generally no equity. This assumption is supported by reviewing the financial statements of several retirement benefit plans in various jurisdictions. However, staff also note that in Australia the regulator - Australian Prudential Regulation Authority - requires superannuation entities to maintain an operational risk reserve, to maintain adequate financial resources to address potential losses arising from operational risk. This operational risk reserve is a component of equity and reserves.
52. Because this financial statement appears to be only specific to Australia, staff and Task Force are of the view that it should not be mandated to be prepared by retirement benefit plans in an IPSAS adapted from IAS 26.

Statement of changes in taxpayers' equity

53. The Task Force noted that a statement of changes in taxpayers' equity is only required by the UK Government for reporting by public sector pension plans. This statement provides details of parliamentary funding received by the retirement benefit plan. Staff also note that this type of statement is used by other governments, but its use is not restricted to retirement benefit plans.
54. Therefore, because the use of such a statement for retirement benefit plans is specific to the UK government, staff and Task Force are of the view that this statement should not be mandated to be prepared by retirement benefit plans in an IPSAS adapted from IAS 26.

Other information

55. As noted in [Appendix A](#), IAS 26 requires information which may be more suited to the notes to the financial statements. Staff and Task Force are of the view that this information should be required, but a decision as to whether it is presented on the face of financial statements or in the accompanying notes would be made when a decision about which financial statements should be required is made.

*Summary*

56. As a summary, staff and Task Force are of the view that the following financial statements and information to be required by retirement benefit plans that apply an IPSAS adapted from IAS 26:
  - (a) Statement of financial position;
  - (b) Statement of changes in net asset available for benefits;
  - (c) Changes in pension obligations (either as a financial statement or in the notes – yet to be determined); and
  - (d) Notes to the financial statements.
57. Staff also note that not requiring certain financial statements will not preclude a retirement benefit plan from providing other financial statements if it is deemed to provide useful information for users.

**Decision**

Does the IPSASB agree with the recommendation at Paragraph 2?

## **Appendix A**

### **Disclosure**

- 34 The financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall also contain the following information:**
- (a) a statement of changes in net assets available for benefits;**
  - (b) a summary of significant accounting policies; and**
  - (c) a description of the plan and the effect of any changes in the plan during the period.**
- 35** Financial statements provided by retirement benefit plans include the following, if applicable:
- (a) a statement of net assets available for benefits disclosing:
    - (i) assets at the end of the period suitably classified;
    - (ii) the basis of valuation of assets;
    - (iii) details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security;
    - (iv) details of any investment in the employer; and
    - (v) liabilities other than the actuarial present value of promised retirement benefits;
  - (b) a statement of changes in net assets available for benefits showing the following:
    - (i) employer contributions;
    - (ii) employee contributions;
    - (iii) investment income such as interest and dividends;
    - (iv) other income;
    - (v) benefits paid or payable (analysed, for example, as retirement, death and disability benefits, and lump sum payments);
    - (vi) administrative expenses;
    - (vii) other expenses;
    - (viii) taxes on income;
    - (ix) profits and losses on disposal of investments and changes in value of investments; and
    - (x) transfers from and to other plans;
  - (c) a description of the funding policy;
  - (d) for defined benefit plans, the actuarial present value of promised retirement benefits (which may distinguish between vested benefits and non-vested benefits) based on the benefits promised under the terms of the plan, on service rendered to date and using either current salary levels or projected salary levels; this information may be included in an accompanying actuarial report to be read in conjunction with the related financial statements; and
  - (e) for defined benefit plans, a description of the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits.
- 36** The report of a retirement benefit plan contains a description of the plan, either as part of the financial statements or in a separate report. It may contain the following:
- (a) the names of the employers and the employee groups covered;

## **Agenda Item 9.2.3**

- (b) the number of participants receiving benefits and the number of other participants, classified as appropriate;
- (c) the type of plan—defined contribution or defined benefit;
- (d) a note as to whether participants contribute to the plan;
- (e) a description of the retirement benefits promised to participants;
- (f) a description of any plan termination terms; and
- (g) changes in items (a) to (f) during the period covered by the report.

It is not uncommon to refer to other documents that are readily available to users and in which the plan is described, and to include only information on subsequent changes.

## **Financial Statements – Cash Flow Statement**

### **Question**

1. Whether an IPSAS adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* should require retirement benefit plans to prepare a cash flow statement.

### **Recommendation**

2. Staff and Task Force recommend that an IPSAS adapted from IAS 26 should encourage but not require a retirement benefit plan to prepare a cash flow statement.

### **Background**

3. This paper will address part of Issue #5 in the Project Brief and Outline for Accounting and Reporting by Retirement Benefit Plans regarding which financial statements a retirement benefit plan should prepare.

### **Analysis**

4. This paper continues from [Agenda Item 9.2.3](#) but only discusses whether a cash flow statement should be required by an IPSAS adapted from IAS 26. Therefore, the discussion regarding the 'Objective of Financial Statements' and 'Users of Retirement Benefit Plan Financial Statements' remains relevant for this paper.

#### *Financial statements required by IAS 26*

5. IAS 26 does not specifically state whether retirement benefit plans should prepare a cash flow statement. However, there are mixed views as to whether IAS 26 requires a cash flow statement to be prepared.
6. The argument for requiring a cash flow statement is because IAS 26 paragraph 2 states that all other standards apply to the financial statements of retirement benefit plans to the extent that they are not superseded by the Standard. IAS 7, *Statement of Cash Flows* paragraph 1<sup>1</sup> states "An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented." Therefore, because IAS 26 does not override the requirements of IAS 7, a retirement benefit plan would also be required to prepare a statement of cash flows.
7. This view is supported by the New Zealand Accounting Standards Board who, when developing NZ IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, added paragraph NZ34.1 which specifically states that the financial statements of a retirement benefit plan, whether defined benefit or defined contribution shall also contain a statement of cash flows. Further, the Basis for Conclusions paragraph NZBC18 states that paragraph NZ34.1 was included in NZ IAS 26 to avoid doubt as to whether or not an entity applying NZ IAS 26 is also required to present a statement of cash flows in accordance with NZ IAS 7, *Statement of Cash Flows*.
8. The argument against IAS 26 requiring a cash flow statement is that IAS 26 is quite specific about which statements are to be prepared and what information should be included in those statements.

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<sup>1</sup> IPSAS 2, *Cash Flow Statements* is comparable to IAS 7 and makes the same requirement at Paragraph 1.



Therefore, because IAS 26 is silent on a cash flow statement, this is an indication that one is not required.

*Requirements of other standard setters*

9. As noted in [Agenda Item 9.3.1](#), retirement benefit plans in four jurisdictions prepare a cash flow statement. The Task Force discussed whether a cash flow statement provided useful information for users. Staff initially suggested that a cash flow statement is useful to users to help with accountability and decision making, as it allows users to ascertain where the funding for the retirement benefit plan has come from (e.g., contributions (both employer and employees), investment earnings or the government)). It also provides information on the cash balance at reporting date which is useful to recipients to determine if the retirement benefit plan has the necessary cash available to make pension payments. However, the Task Force commented that much of this information is already provided in the statement of financial position (cash balance) and the statement of changes in net assets available for benefits (contributions received and benefits paid).
10. The Task Force also commented that, particularly for a defined benefit plan a cash flow statement does not provide useful information. There is difficulty in providing a reconciliation of operating cash flows, as encouraged by IPSAS 2, *Cash Flow Statements* paragraph 29, because the income and expenses are not known<sup>2</sup>. Further IPSAS 2 does not provide guidance on how to classify operating, investing, and financing cash flows for retirement benefit funds.
11. As mentioned in paragraph 9, the Task Force noted that much of the information provided in a cash flow statement is provided in other financial statements, however there will be timing differences. For example, while the cash flow records contributions received on a cash basis, the statement of changes in net assets available for benefits will be recorded on an accrual basis and there may be a lag between the contributions to be received and receiving those contributions<sup>3</sup>. However, in general the differences in the amounts would not be considered material.
12. The Task Force also commented that often providing a cash flow statement can raise more questions thus confusing users rather than providing useful information. Consequently, the costs may outweigh the benefits and therefore a retirement benefit plan should not be required to prepare a cash flow statement.
13. Although not discussed by the Task Force, staff are of the view that in unfunded plans, a cash flow statement can provide useful information. This is because a cash flow statement shows the amount of funding that has been provided by a government to pay pensions. Because these are not employer or employee contributions this government funding amount may differ greatly from any contribution figure recognized in the statement of changes in net assets available for benefits. This is useful to users to determine the extent of government resources that need to be allocated yearly to pay for public sector pensions.
14. Staff and Task Force are of the view that the costs of providing a cash flow statement may outweigh the benefits. Therefore, the requirement for retirement benefit plans to prepare a cash flow statement

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<sup>2</sup> The Issue of whether contributions and benefit payments are revenue and expenses will be discussed at the September 2021 IPSASB meeting.

<sup>3</sup> In Australia, employers have 3 months to transfer contributions to a retirement benefit plan.

should not be mandated. However, retirement benefit plans should be encouraged to prepare a cash flow statement if it is deemed to provide useful information to users. Because many government retirement benefit plans are unfunded, this would be a public sector reason to amend the requirements of IAS 26 when developing an IPSAS.

**Decision**

Does the IPSASB agree with the recommendation at paragraph 2?

## Financial Statements required by Jurisdiction

- The following graph illustrates how many jurisdictions use which type of financial statement for retirement benefit plans. For example, six jurisdictions use a statement of net assets available for benefits. Details on what each jurisdiction requires follows the graph.



### Australia

- Australia has not adopted IAS 26 but rather uses a jurisdictionally specific domestic standard, AASB 1056, *Superannuation Entities*. AASB 1056 paragraph 8 specifically states that a superannuation entity<sup>1</sup> shall present:
  - A statement of financial position as at the end of the period;
  - An income statement for the period;
  - A statement of changes in equity/reserves for the period;
  - A statement of cash flows for the period;
  - A statement of changes in member benefits for the period; and
  - Notes to the financial statements.

### Canada

- Like Australia, Canada also has not adopted IAS 26 but instead has a jurisdictionally specific domestic standard, Section 4600, *Pension Plans*. This Standard requires a pension plan to prepare:
  - A statement of financial position;
  - A statement of changes in net assets available for benefits; and

<sup>1</sup> The term 'superannuation entity' is used interchangeably with retirement benefit plan.

- (c) A statement of changes in pension obligations.

New Zealand

4. NZ IAS 26, *Accounting and Reporting by Retirement Benefit Plans* is the New Zealand equivalent to IAS 26. Therefore, this standard requires the same financial statement content as in IAS 26. However, NZ IAS 26 paragraph NZ34.1 also specifies that a retirement benefit plan, whether defined benefit or defined contribution must prepare a statement of cash flows. The Basis for Conclusions paragraphs NZBC18 and NZBC19 explain that even though a cashflow statement is required, IAS 26 does not specifically refer to it, therefore paragraph NZ34.1 was included to ensure there was no doubt.

South Africa

5. Public sector pension fund reporting requirements are set by the Regulatory Reporting Requirements for Retirement Funds in South Africa as issued by the former Financial Services Board.
6. The financial statements prepared by the Government Employees Pension Fund are as follows:
- (a) Statement of Net Assets and Funds;
  - (b) Statement of Changes in Net Assets and Funds;
  - (c) Cash Flow Statement; and
  - (d) Notes to the Financial Statements.

United Kingdom (Govt)

7. The Government Financial Reporting Manual (FRoM) also uses an adapted IAS 26, and states that although not specifically addressed in IAS 26, the financial statements prepared by pension plans shall include:
- (a) Report of the Scheme's Managers;
  - (b) Report of the Scheme's Actuary;
  - (c) Statement of the Accounting Officer's responsibilities;
  - (d) Governance Statement;
  - (e) Report of the Auditor;
  - (f) Statement of Parliamentary Supply;
  - (g) Statement of Comprehensive Net Expenditure;
  - (h) Statement of Financial Position;
  - (i) Statement of Changes in Taxpayers' Equity;
  - (j) Statement of Cash Flows; and
  - (k) Supporting notes.

8. The statements mentioned in paragraphs 6(a)-(f) are related to accountability<sup>2</sup> and perhaps specific to the UK Government. Therefore, for the purpose of this paper staff will only consider the statements mentioned at paragraph 6(g)-(k).

United Kingdom (FRS 102)

9. FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland* specifically excludes retirement benefit plans from preparing a complete set of financial statements<sup>3</sup>. Instead, FRS 102 requires that the financial statements of a retirement benefit plan shall contain:
- (a) A statement of changes in net assets available for benefits (also known as a fund account);
  - (b) A statement of net assets available for benefits; and
  - (c) Notes, comprising its significant accounting policies and other explanatory information.

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<sup>2</sup> [See Magenta Pension Scheme: Illustrative pension scheme statement.](#)

<sup>3</sup> FRS 102 states a complete set of financial statements includes: Statement of Financial Position, Statement of Comprehensive Income/Separate Income Statement, Statement of Changes in Equity, Statement of Cash Flows; and Notes.