

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: December 7–10 and 14–15, 2021

Agenda Item 5

For:

- ☒ Approval
☐ Discussion
☐ Information

RETIREMENT BENEFIT PLANS

Project summary	The objective of this project is to develop an IPSAS adapted from IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i> .	
Task Force members	<ul style="list-style-type: none"> David Watkins, IPSASB Technical Advisor (Task Force Chair) Mike Blake, IPSASB Member Moushumi Dullabh, South African Treasury Renée Pichard, IPSASB Member Kamira Sanchez Nicosia, IPSASB Member Karl-Ludwig Soll, United Nations 	
Meeting objectives	Topic	Agenda Item
Project management	Retirement Benefit Plans: Project Roadmap	5.1.1
	Instructions up to Previous Meeting	5.1.2
	Decisions up to Previous Meeting	5.1.3
Decisions required at this meeting	Definitions – Defined Benefit Plans and Defined Contribution Plans	5.2.1
	Definitions – Actuarial Present Value of Promised Retirement Benefits and Present Value of Defined Benefit Obligations	5.2.2
	Pension Obligation - Expedient	5.2.3
	Specific Matters for Comment	5.2.4
	Approval of ED 82, <i>Retirement Benefit Plans</i>	5.2.5
Other supporting items	[draft] Exposure Draft 82, <i>Retirement Benefit Plans - Clean</i>	5.3.1
	[draft] Exposure Draft 82, <i>Retirement Benefit Plans – Mark up from September 2021 IPSASB meeting</i>	5.3.2

**RETIREMENT BENEFIT PLANS:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2021	<ol style="list-style-type: none"> 1. Approval of Accounting and Reporting by Retirement Benefit Plans Project Brief and Outline 2. Initial identification and discussion of possible issues
June 2021	<ol style="list-style-type: none"> 1. Discuss issues
September 2021	<ol style="list-style-type: none"> 1. Discuss Issues 2. Review [draft] Exposure Draft (ED)
December 2021	<ol style="list-style-type: none"> 3. Review [draft] Exposure Draft (ED) 4. Approve ED
January 2022	<ol style="list-style-type: none"> 1. Issue Exposure Draft
February 2022- May 2022	<ol style="list-style-type: none"> 1. Consultation Period (4 months)
June 2022	<ol style="list-style-type: none"> 1. Initial Review of Comments to Exposure Draft
September 2022	<ol style="list-style-type: none"> 1. Review of Comments to Exposure Draft 2. Discuss Issues 3. Review [draft] IPSAS
December 2022	<ol style="list-style-type: none"> 1. Approve IPSAS
January 2023	<ol style="list-style-type: none"> 1. Issue IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2021	1. Include fact patterns to the illustrative example which shows the different approaches to financial statement presentation and propose any revisions as necessary in the draft ED, or possibly to those in IPSAS 39.	1. See Illustrative Example in [draft] Exposure Draft 82, <i>Retirement Benefit Plans</i>
September 2021	2. Liaise with IASB staff to discuss the different definitions of defined benefit plans and defined contribution plans.	2. See Agenda Item 5.2.1
September 2021	3. Explain the differences between the 'actuarial present value of promised retirement benefits' and 'present value of defined benefit obligations.	3. See Agenda Item 5.2.2
September 2021	4. Check whether the arrangements in France have any potential impacts on the project.	4. See [draft] IPSAS [X] (ED 82) paragraph AG5
June 2021	1. Clarify that the requirements of IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> should be applied in conjunction with this guidance when relevant.	1. See [draft] IPSAS [X] (ED 82) paragraph AG20
June 2021	2. Consider how an IPSAS adapted from IAS 26 would relate to IPSAS 1, and how IPSAS 2 might be integrated for preparing a retirement benefit plan cash flow statement.	2. See [draft] IPSAS [X] (ED 82) paragraph 19 and paragraphs AG29-AG30

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
September 2021	1. The project should be named Retirement Benefit Plans rather than Accounting and Reporting by Retirement Benefit Plans reflecting its status as an adaptation of IAS 26 rather than an alignment project.	1. See [draft] IPSAS [X] (ED 82) paragraph BC5
September 2021	2. Specific Matter for Comments on all key differences from IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i> should be included.	2. See Agenda Item 5.2.4 and [draft] IPSAS [X] (ED 82), Specific Matters for Comment 1-6
September 2021	3. The actuarial present value of promised retirement benefits shall be calculated using projected salaries.	3. See [draft] IPSAS [X] (ED 82) paragraph BC11
September 2021	4. Plan assets shall be measured at fair value.	4. See [draft] IPSAS [X] (ED 82) paragraph BC12
September 2021	5. The actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position.	5. See [draft] IPSAS [X] (ED 82) paragraph BC16
September 2021	6. Classification of contributions and benefits will not be specified, but rather guidance will be included to illustrate different approaches that could be taken.	6. See [draft] IPSAS [X] (ED 82) paragraphs BC13-BC14
September 2021	7. The definitions in IPSAS 39 for, defined benefit plan, defined contribution plan, and present value of defined benefit obligation should not be used but the similar IAS 26 definitions may need amending.	7. See Agenda Item 5.2.1 See [draft] IPSAS [X] (ED 82) paragraphs BC8-BC10
June 2021	1. Retain the same scope as IAS 26, so not including other plans which provide benefits. State in the Basis for Conclusions that the requirements of this guidance may be applied by analogy to benefit plans with similar characteristics.	1. See [draft] IPSAS[X] (ED 82) paragraph BC6
June 2021	2. Confirmed that the reporting entity is the retirement benefit plan.	2. See [draft] IPSAS [X] (ED 82) paragraph BC7

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June 2021	3. Agreed that a retirement benefit plan shall prepare: <ul style="list-style-type: none"> • A statement of financial position; • A statement of changes in net assets available for benefits; • A cash flow statement; • Notes to the financial statements; and • Information on the changes in pension obligations. 	3. See [draft] IPSAS [X] (ED 82) paragraph BC15
June 2021	4. Include a Specific Matter for Comment in the exposure draft on whether retirement benefit plans should prepare a cash flow statement.	4. See [draft] IPSAS [X] Specific Matter for Comment 5
March 2021	1. The Project Brief and Outline was approved	1. See [draft] IPSAS [X] (ED 82) paragraph BC3

Definitions – Defined Benefit Plans and Defined Contribution Plans

Question

1. Does the IPSASB agree with the staff and Task Force recommendation regarding the definitions for:
 - (a) *Defined benefit plans*; and
 - (b) *Defined contribution plans*.

Recommendation

2. The definitions of *Defined Benefit Plans* and *Defined Contribution Plans* should be amended as shown at paragraph 22.

Background

3. This paper will address the Board instructions from the September 2021 IPSAS meeting to:
 - (a) Discuss with IASB staff the different definitions of defined benefit plans and defined contribution plans in IAS 26, *Accounting and Reporting by Retirement Benefit Plans* and IAS 19, *Employee Benefits*; and
 - (b) Consider amending the definition of 'defined benefit plans'.

Analysis

History of the definitions

4. At the September 2021 IPSASB meeting, [Agenda Item 7.2.5](#), staff and Task Force recommended that the definitions for *defined benefit plans* and *defined contribution plans* remain as those in IAS 26, rather than use the definitions in IPSAS 39, *Employee Benefits* (IPSAS 39 is based on IAS 19). The IPSASB agreed that the definitions in IPSAS 39 should not be used in [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*, but that those in IAS 26 may need amending. The IPSASB are aware that this will result in there being two definitions for the same term but acknowledged that this is not without precedent.
5. The Board noted that IAS 26 was an old standard and asked staff to determine if there is a reason for the differences in definitions between IAS 19 and IAS 26. One thought was that IAS 26 has not kept pace with the thinking in IAS 19. To make this determination, staff tracked the history of these definitions.
6. IAS 19 was published in January 1983 under the title *Accounting for Retirement Benefits in the Financial Statements of Employers*. IAS 26 was published in January 1987 under its current title. In 1987 when IAS 26 was published, the definitions in both Standards were the same and as follows:

Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determinable usually by reference to employee's earnings and/or years of service.

Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

7. The definitions of *defined benefit plans* and *defined contribution plans* remained the same between IAS 19¹ and IAS 26 until 1998. In 1998, IAS 19, *Employee Benefits* (new title) became effective, and the definitions in that standard were as follows:

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

Defined contribution plans are post-employment benefit plans under which an entity² pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

These are the definitions that remain in IAS 19 today and are what the definitions in IPSAS 39 are based on.

8. IAS 19, Paragraphs BC 28 - BC29 explain the reasoning for the change in definitions. These paragraphs are shown below.

BC28	IAS 19 before its revision in 1998 defined: (a) defined contribution plans as retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to contributions to a fund together with investment earnings thereon; and (b) defined benefit plans as retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.
BC29	IASC considered these definitions unsatisfactory because they focused on the benefit receivable by the employee, rather than on the cost to the entity. The definitions introduced in 1998 focused on the downside risk that the cost to the entity may increase. The definition of defined contribution plans does not exclude the upside potential that the cost to the entity may be less than expected.

9. Staff and Task Force consider that the reasoning stated in paragraph BC29 for the change of definitions is clear, in that the IASC³ concluded that the pre-1998 definitions were not suited to a standard focused on employee benefits from an employer's perspective.
10. Staff and Task Force made similar comments at the September 2021 IPSASB meeting, noting that the differences in the definitions between IAS 19 and IAS 26 were because of the different perspectives. For example, the definitions in IAS 19 focus on the employer and their relationship to

¹ Note in 1995 the title of IAS 19 was changed to Retirement Benefit Costs. However, no change was made to the definitions in question.

² IPSAS 39 uses 'enterprise' rather than 'entity'.

³ The International Accounting Standards Committee (IASC) was the predecessor to the IASB.

retirement benefit plans. Whereas the definitions in IAS 26 focus on the benefits receivable by participants to either defined benefit plans or defined contribution plans.

Response from the IASB

11. IPSASB staff contacted IASB staff and asked if they could confirm that this thinking was still valid and if the IASB has any plans to change the definitions in IAS 26 to match those in IAS 19.
12. IASB staff responded firstly stating that the board papers that led to the revised IAS 19 were unavailable. However, IASB staff noted that aside from paragraph BC29 in IAS 19 mentioned above, IAS 26 was also changed. This change was made to the lead-in paragraph to the section on definitions. Prior to the change to IAS 19 this sentence in IAS 26 read:

The following terms are used in this Standard with the same meanings as specified in International Accounting Standard IAS 19, Retirement Benefit Costs:

Therefore, there was a definite link to IAS 19 definitions.

13. After the reissuance of IAS 19 in 1998 this lead-in paragraph was changed to read:

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

Thus, the link with IAS 19 definitions was intentionally removed. In fact, the 1999 handbook shows this sentence marked up as follows:

The following terms are used in this Standard with the ~~same~~ meanings as specified ~~in IAS 19, Retirement Benefit Costs~~:

14. IASB staff are of the view that this is an indication that the IASB, as part of their due process, considered that the definitions for defined benefit plans and defined contribution plans should be different in the two standards.
15. As to whether the IASB are intending to change the definitions in IAS 26 to match those in IAS 19, IASB staff responded saying that currently there is no plan to undertake a project to revise IAS 26.

Altering the IAS 26 definitions?

Defined Benefit Plans

16. Although the Board agreed not to use the definitions in IPSAS 39 (as noted above), comments were made that the existing definition of a defined benefit plan in IAS 26 could be amended to ensure that all types of retirement benefit plans were included. It was noted that in IPSAS 39, the definition of defined benefit plans acts as a 'catch all' for plans that do not meet the definition of a defined contribution plan. The Board considered that the same approach could be taken in this [draft] ED particularly in the context of hybrid plans.
17. Staff and Task Force noted that paragraph 6 of the [draft] ED states that hybrid plans are considered to be defined benefit plans for the purposes of this [draft] Standard. While staff and Task Force are of the view that the definition of a defined benefit plan could be amended to state this and to ensure other retirement benefit plans that do not meet the definition of a defined contribution plan are within the scope of the [draft] Standard, they think this may be better addressed in the application guidance.

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18. Therefore, staff and Task Force recommend that the definition of 'defined benefit plans' be amended as follows (shown in marked up text) and application guidance be added – both the definition and the proposed AG paragraph are as follows:

Definition

Defined benefit plans are retirement benefit plans other than defined contribution plans. ~~under which amounts to be paid as retirement benefits are determinable usually by reference to employee's earnings and/or years of service.~~

Application Guidance

- AG18. Defined benefit plans are those plans which do not meet the definition of a defined contribution plan. This includes hybrid plans, which are retirement benefit plans that contain characteristics of both defined benefit plans and defined contribution plans. A defined benefit plan is a retirement benefit plan under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employee's earnings and/or years of service.
- AG19. A defined benefit plan needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels by employers. Therefore, any investment risk falls on the employer.

Defined Contribution Plans

19. The Board noted the slight difference in some wording between the definition of a defined contribution plan in IAS 19 (see paragraph 7) and IAS 26 (see paragraph 6). In particular, IAS 19 uses the term 'fixed contributions' whereas IAS 26 uses the term 'amounts to be paid'. The Board instructed staff to consider amending the IAS 26 to align these terms.
20. Staff and Task Force discussed the difference in wording and agreed that these terms should **not** be aligned because the two standards are written from different perspectives: in IAS 19, the term 'fixed contributions' is a reference to the amount the employer pays into the fund which is, generally, a fixed percentage of salaries; the term 'amounts to be paid' in IAS 26 refers to the retirement benefits payable to the employees which will, generally, be based on the performance of the fund.
21. However, the Task Force asked staff to provide application guidance on *defined contribution plans* to complement the application guidance added for *defined benefit plans*. This application guidance is as follows:
- AG20. Defined contribution plans differ from defined benefit plans in that the amounts to be paid as retirement benefits are determined by the amount of contributions to a participant's plan together with investment earnings.
- AG21. Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's obligation is usually discharged by contributions to the fund. Therefore, any investment risk falls on the participant. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings

Conclusion

22. Staff and Task Force propose that the definitions used in [draft] IPSAS [X] (ED 82) for *defined benefit plans* and *defined contribution plans* be as follows:

Defined Benefit Plans

Defined benefit plans are retirement benefit plans other than defined contribution plans.

Defined Contribution Plans

Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

23. Staff and the Task Force further recommend that the application guidance shown at paragraphs 18 and 21 also be included.

Decision Required

24. Does the IPSASB agree with the Staff and Task Force recommendations?

Definitions – Actuarial Present Value of Promised Retirement Benefits and the Present Value of a Defined Benefit Obligation

Question

1. Whether the IPSASB agrees with retaining the IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, definition for *actuarial present value of promised retirement benefits*.

Recommendation

2. Staff and Task Force recommend retaining the IAS 26 definition of *Actuarial present value of promised retirement benefit plans* for use in an IPSAS adapted from IAS 26.

Background

3. This paper will address the IPSASB instruction from the September 2021 meeting to explain the difference between a *present value of a defined benefit obligation* and an *actuarial present value of promised retirement benefits*.

Analysis

4. At the September 2021 IPSASB meeting, staff presented a paper on definitions, part of which was focused on the IAS 19, *Employee Benefits* (IPSAS 39, *Employee Benefits*) definition for *present value of a defined benefit obligation* and the IAS 26, *Accounting and Reporting by Retirement Benefit Plans* definition of *actuarial present value of promised retirement benefits*. Staff had noted that while these two definitions were similar there were differences between the measurement of these obligations.
5. These definitions are as follows:

IAS 19/IPSAS 39	IAS 26
The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected payments required to settle the obligation resulting from employee service in the current and prior periods.	Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.

6. Like the definitions for defined benefit plans and defined contribution plans, these definitions are written from different perspective. The IAS 19/IPSAS 39 definition of a present value of a defined benefit obligation is written from an employer's perspective about the obligation they need to recognize for employee service. Whereas the IAS 26 definition for an actuarial present value of promised retirement benefits is written from a retirement benefit plans obligation to participants of the plan.
7. To understand the difference between these two definitions staff were given actuarial advice via a Task Force member who provided the following explanation as to the key difference between these two definitions.

8. The *present value of a defined benefit obligation* is calculated assuming 100% certainty that a payment will be made, and then this is discounted for any investment returns expected to be earned on the funds.
9. Whereas the *actuarial present value of promised retirement benefits* involves the payment being contingent on a set of circumstances. For example, the participant must be alive to receive payment. Therefore, this calculation involves uncertainty that the payment will be made.

However, as with the definitions of *defined benefit plans* and *defined contribution plans* (see [Agenda Item 5.2.1](#)), the history of IAS 19 and IAS 26 was reviewed and it was noted that when IAS 19 was issued in 1983 under the title *Accounting for Retirement Benefits in the Financial Statements of Employers* neither definition was used, with only a general reference to using actuarial valuation methods to determine the present value of retirement benefits. However, when IAS 19 was reissued in 1993 as *Retirement Benefit Costs* the term *actuarial present value of promised retirement benefits* is used in the text which the same meaning as that in IAS 26.

10. It is not until 1998 when IAS 19 is reissued as *Employee Benefits* that the term *present value of defined benefit obligation* is used. However, IAS 26 retained the use of the *actuarial present value of promised retirement benefits*.
11. As noted in [Agenda Item 5.2.1](#), staff and Task Force are of the view that the IASC followed due process and considered the use of the different definitions in each standard and this is evidenced by the removal of the reference to IAS 19 in IAS 26.
12. Further, staff and Task Force also note that the national standard setters¹ that have included IAS 26 for use in their jurisdiction have retained the IAS 26 definition for *actuarial present value of promised retirement benefits*.
13. Therefore, staff and Task Force are of the opinion that, although these definitions may appear to be similar, there is no reason not to use the IAS 26 definition and that it should be retained in [draft] IPSAS [X] (ED 82).

Decision

14. Does the IPSASB agree with the staff and Task Force recommendation?

¹ Staff and Task Force are aware the New Zealand and the UK Government both use IAS 26.

Pension Obligations – Expedient

Question

1. Whether [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*, should include an expedient to permit the use of the present value of a defined benefit obligation calculated by the employer sponsors under IPSAS 39, *Employee Benefits* as the *actuarial present value of promised retirement benefits* in this [draft] Standard?

Recommendation

2. Staff and Task Force recommend that an expedient be included in [draft] IPSAS [X] (ED 82) by way of implementation guidance.

Background

3. This paper will consider whether an ‘expedient’ for determining the *actuarial present value of promised retirement benefits* should be included in [draft] IPSAS [X] (ED 82).

Analysis

Expedient

4. [Agenda Item 5.2.2](#) on the IAS 19, *Employee Benefits*, and IAS 26, *Accounting and Reporting for Retirement Benefit Plans* definitions for pension obligation notes the differences between the definitions of a *present value of a defined benefit obligation* and an *actuarial present value of promised retirement benefits* as defined in IAS 19 and IAS 26 respectively.
5. When researching this project staff noted that one national standard setter allows an expedient for retirement benefit plan reporting, whereby retirement benefit plans are able to use as a proxy for the *actuarial present value of promised retirement benefits* presented in the plan’s financial statements the *present value of the defined benefit obligation* determined by the plan sponsor. A Task Force member requested that staff and the Task Force consider whether this expedient should be included in the [draft] IPSAS [X] (ED 82).
6. Staff and Task Force recognized that for some retirement benefit plans the inclusion of such an expedient would be beneficial because it would eliminate the requirement for the retirement benefit plan to engage an actuary to determine the *actuarial present value of promised retirement benefits*.
7. However, staff and Task Force also noted that such an expedient would be limited to single employer retirement benefit plans. This is because under IPSAS 39 (the IPSAS equivalent of IAS 19), employers that contribute to a multi-employer defined benefit plan can use defined contribution accounting if there is insufficient information to use defined benefit accounting. Therefore, for these employers there may not be a *present value of a defined benefit obligation* calculation to use as an expedient.
8. Staff and Task Force were also of the view that some jurisdictions may have a regulatory requirement for retirement benefit plans to obtain an independent actuarial valuation. Therefore, including an expedient in an IPSAS may contradict any such requirements.

9. Finally, staff and Task Force considered that including such an expedient would require a retirement benefit plan's trustees to agree that the *present value of a defined benefit obligation* is the same (or not materially different) as an *actuarial present value of promised retirement benefits* before they can sign off on those financial statements. Therefore, including this expedient may have unintended consequences.

Conclusion

10. The trustees of a retirement benefit plan would need to consider various factors in determining whether to use this expedient for the measurement of the *actuarial present value of promised retirement benefits*, but staff and Task Force considered that including such an expedient in [draft] IPSAS [X] (ED 82) may be useful. However, staff and Task Force agreed that it should not be included as authoritative text but rather as non-authoritative Implementation Guidance. The [Appendix](#) to this paper provides the proposed text for this Implementation Guidance.

Decision

11. Does the IPSASB agree with the staff and Task Force recommendation?

Appendix

Implementation Guidance

Actuarial present value of promised retirement benefits

Can the Trustees of a Retirement Benefit Plan use the plan sponsor's actuarial valuation to measure the actuarial present value of promised retirement benefits in the Plan's Statement of Financial Position?

Scheme sponsors (employers) apply IPSAS 39, *Employee Benefits*, in preparing their financial statements. The Trustees of Retirement Benefit Plans use [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*. In determining whether an actuarial valuation prepared for the plan sponsor under IPSAS 39 can be used for financial statements prepared under [draft] IPSAS [X] (ED 82), the Trustees need to consider the following:

1. Is the membership of the Retirement Benefit Plan limited to employees of one sponsor? If the Retirement Benefit Plan is a multi-employer scheme, the individual sponsors may account for the plan as if it were a defined contribution plan (IPSAS 39.34), with individual sponsors therefore being unlikely to have an actuarial valuation.
2. Where the sponsor has an actuarial valuation, does it cover exactly the same benefits? IPSAS [XX] applies only to pension benefits, whereas the scope of IPSAS 39 covers short-term employee benefits and post-employment benefits including (but not limited to) retirement benefits (pensions) and other post-employment benefits such as post-employment life assurance or post-employment medical care.
3. Where the actuarial valuation covers the same population and is limited to pensions, are the Trustees satisfied that the assumptions made by the sponsor's actuary are appropriate for their purposes? If the Trustees are considering the use of the sponsor's actuarial valuation for their own purposes, they need assurance that the actuarial assumptions and other data inputs are acceptable for their valuation of promised retirement benefits. The Trustees might consider working with the plan sponsor to ensure that the basis of the actuarial valuation is acceptable for both the Trustees and the sponsor.

If the answers to the above questions are 'yes', then it is possible that the Trustees could use the plan sponsor's actuarial valuation for their own purposes.

Specific Matters for Comment

Question

1. Does the IPSASB agree with the Specific Matters for Comment (SMC) proposed to be included in [draft] ED 82, *Retirement Benefit Plans*?

Recommendation

2. Staff and Task Force recommend including the 6 SMCs outlined in paragraph 4.

Background

3. This paper addresses the Board decision from September 2021 to include SMCs on all key differences from IAS 26, *Accounting and Reporting by Retirement Benefit Plans*.

Analysis

4. Staff and Task Force have developed the following SMCs for inclusion in [draft] ED 82.

Specific Matter for Comment 1 – Paragraph 9

The IPSASB decided to amend the definition of ‘defined benefit plans’ to include all retirement benefit plans that are not defined contribution plans. The proposed definition for a defined benefit plan is as follows:
‘Defined benefit plans are retirement benefit plans other than defined contribution plans’.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 2 – Paragraph 10

The IPSASB decided that plan investment assets shall be measured at fair value.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 3 – Paragraph 11

The IPSASB decided that the actuarial present value of promised retirement benefits shall be based on projected salaries. This removes an option available in IAS 26, *Accounting and Reporting by Retirement Benefit Plans* whereby the actuarial present value of promised retirement benefits may be based on either current salaries or projected salaries.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 4 – Paragraph 13

The IPSASB decided that the actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position as an obligation. This removes two options in IAS 26 which also allows the actuarial present value of promised retirement benefits to be disclosed in the notes to the financial statements or in a separate actuarial report.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 5 – Paragraphs 15(c) and 19

The IPSASB decided that a retirement benefit plan shall be required to prepare a cashflow statement. IAS 26 is silent on whether a cash flow statement is required.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 6 – Illustrative Examples

The IPSASB noted that contributions and benefits may be treated differently depending on the jurisdiction and/or the design of a retirement benefit plan as explained in paragraphs AG25-AG28. Because this [draft] IPSAS will need to be able to be applied by many differing retirement benefit plans, the IPSASB decided not to require a retirement benefit plan to treat contribution and benefits in one particular way and has included Illustrative Examples for two options of how the financial statements may be presented depending on how a retirement benefit plan treats contributions and benefits.

Do you agree with the proposal to allow preparers to determine the appropriate treatment for retirement benefit plans? If not, why not?

Decision Required

5. Does the IPSASB agree with the Staff and Task Force recommendation?

Approval: ED 82, *Retirement Benefit Plans*

Question

1. Whether the IPSASB agrees with the recommendation to approve:
 - (a) Exposure Draft (ED) 82, *Retirement Benefit Plans*; and
 - (b) The normal four-month comment period.

Recommendation

2. Staff and Task Force recommend that ED 82 be approved with a four-month comment period.

Due Process

3. The IPSASB approved a project brief for an IPSAS to be developed based on IAS 26, *Accounting and Reporting by Retirement Benefit Plans* in March 2021. In April 2021, the Consultative Advisory Group (CAG) received, via email, *The Accounting and Reporting by Retirement Benefit Plans* Project Brief and Outline and were asked to provide any advice which CAG members thought the IPSASB should consider. Staff provided responses to the issues raised and these were included in the Program and Technical Director's Report which was presented at the June 2021 CAG meeting.

Next Steps

4. ED 82 will be reviewed by an editorial group in January 2022.

Exposure Period

5. ED 82 is scheduled to be issued for comment in January 2022. Staff and Task Force recommend a normal 4-month comment period.

Decision Required

6. Does the IPSAS agree with the recommendation?

Review Instructions

ED 82 – *Retirement Benefit Plans*

REVIEW INSTRUCTIONS FOR ED 82

7. IPSASB member, Technical Advisors, and Observers are asked to note the following when reviewing ED 82:
 - (a) Authoritative Text (Core Text, Application Guidance and Amendments to other IPSAS):
 - (i) Both clean and marked up (from the September 2021 IPSASB meeting) have been provided.
 - (ii) As per the IPSASB convention, numbering of paragraphs is consecutive; and
 - (iii) All paragraph cross-references have been updated to correspond with IPSAS paragraph numbers

Exposure Draft 82
[XXX 2022]
Comments due: [XXX XX, 2022]

IPSAS®

*Proposed International Public Sector Accounting
Standard®*

Retirement Benefit Plans

IPSASB

International Public
Sector Accounting
Standards Board®

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

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

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

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

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REQUEST FOR COMMENTS

This Exposure Draft, *Retirement Benefit Plans* was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [DATE].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose the accounting, presentation, and disclosure requirements for the financial statements of a retirement benefit plan. This should increase the transparency and accountability of public sector entities regarding obligations owed to public sector employees who are members of the retirement benefit plan. The ED is adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, issued by the International Accounting Standards Committee in January 1987.

Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the ED are provided below.

Specific Matter for Comment 1 – Paragraph 9

The IPSASB decided to amend the IAS 26 definition of ‘defined benefit plans’ to include all retirement benefit plans that are not defined contribution plans. The proposed definition for a defined benefit plan is as follows:

‘Defined benefit plans are retirement benefit plans other than defined contribution plans’.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 2 – Paragraph 10

The IPSASB decided that plan investment assets shall be measured at fair value.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 3 – Paragraph 11

The IPSASB decided that the actuarial present value of promised retirement benefits should be based on projected salaries. This removes an option available in IAS 26, *Accounting and Reporting by Retirement Benefit Plans* whereby the actuarial present value of promised retirement benefits may be based on either current salaries or projected salaries.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 4 – Paragraph 13

The IPSASB decided that for defined benefit plans the actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position as an obligation. This removes two options in IAS 26 which permit the actuarial present value of promised retirement benefits to be disclosed in the notes to the financial statements or in a separate actuarial report.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 5 – Paragraphs 15(c) and 19

The IPSASB decided that a retirement benefit plan shall be required to prepare a cash flow statement. IAS 26 is silent on whether a cash flow statement is required.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 6 – Illustrative Examples

The IPSASB noted that contributions and benefits may be treated differently depending on the jurisdiction and/or the design of a retirement benefit plan as paragraphs AG25-AG28. Because this [draft] IPSAS will need to be able to be applied by many differing retirement benefit plans, the IPSASB decided not to require a retirement benefit plan to treat contributions and benefits in one particular way and has included Illustrative Examples for two options of how the financial statements may be presented depending on how a retirement benefit plan treats contributions and benefits.

Do you agree with the proposal to allow preparers to determine the appropriate treatment for retirement benefit plans? If not, why not?

EXPOSURE DRAFT 82, RETIREMENT BENEFIT PLANS

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Objective

1. The objective of this [draft] Standard is to prescribe the accounting and reporting requirements for public sector retirement benefit plans, which provide retirement benefits to retired public sector employees

Scope

2. **A retirement benefit plan that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard.**
3. Retirement benefit plans are sometimes referred to by various other names, such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'. This [draft] Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan.
4. This [draft] Standard deals with accounting and reporting by the plan to all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.
5. Retirement benefit plans are normally described as either defined benefit plans or defined contribution plans, each having their own distinctive characteristics. Occasionally plans exist that contain characteristics of both. Such hybrid plans are considered to be defined benefit plans for the purposes of this [draft] Standard.
6. Many retirement benefit plans require the creation of separate funds, which may or may not have separate legal identity and may or may not have trustees, to which contributions are made and from which retirement benefits are paid. This [draft] Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.
7. Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this [draft] Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company.
8. This [draft] Standard does not deal with other forms of employment benefits, such as employment termination payments, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security arrangements are also excluded from the scope of this [draft] Standard (see IPSAS 42, *Social Benefits*).

Definitions

9. **The following terms are used in this [draft] Standard with the meanings specified:**

Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.

Defined benefit plans are retirement benefit plans other than defined contribution plans.

Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

Funding is the transfer of assets to an entity (the retirement benefit plan) separate from the employer's entity to meet future obligations for the payment of retirement benefits.

Net assets available for benefits are the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits (for defined benefit plans) and/or the defined contribution obligation to participants.

Participants are the members of a retirement benefit plan and others who are entitled to benefits under the plan.

Retirement benefit plans are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income and/or as a lump sum) when 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.

Vested benefits are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

Any other terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately.

Recognition and Measurement

Valuation of Plan Investments

10. **Retirement benefit plan investments shall be measured at fair value.**

Actuarial present value of promised retirement benefits

11. The actuarial present value of promised retirement benefits for defined benefit plans shall be based on the benefits promised under the terms of the plan on service rendered to date using projected salary levels.
12. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent actuarial valuation shall be used and the date of the valuation disclosed.

Presentation and Disclosure

13. **For defined benefit plans, the actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position.**
14. **For defined contribution plans, the defined contribution obligation to participants shall be presented on the face of the statement of financial position.**

Presentation of Financial Statements

15. **A retirement benefit plan, whether defined benefit or defined contribution, shall present the following:**
 - (a) **A statement of financial position;**
 - (b) **A statement of changes in net assets available for benefits;**

- (c) **A cash flow statement; and**
 - (d) **Notes to the financial statements.**
16. **A retirement benefit plan shall also explain the changes in retirement benefit obligations to participants either by:**
- (a) **Presenting a statement of changes in retirement benefit obligations; or**
 - (b) **Disclosing in the notes to the financial statements a reconciliation between the opening and closing retirement benefit obligation balances.**

Financial Statement Content

Statement of Financial Position

17. **The face of the statement of financial position shall include line items that present the following amounts (if applicable and as appropriate, but not limited to):**
- (a) **Plan investments (suitably classified);**
 - (b) **Contributions receivable;**
 - (c) **Other assets;**
 - (d) **Benefits due and payable;**
 - (e) **Any other liabilities excluding retirement benefit obligations to participants;**
 - (f) **Net assets available for benefits;**
 - (g) **Defined benefit obligation to participants⁵;**
 - (h) **Defined contribution obligation to participants; and**
 - (i) **Excess or deficit.**

Statement of Changes in Net Assets Available for Benefits

18. **The statement of changes in net assets available for benefits shall present opening and closing balances and include line items that present the following amounts, (if applicable and as appropriate, but not limited to):**
- (a) **Employer contributions;**
 - (b) **Employee contributions;**
 - (c) **Investment income;**
 - (d) **Other income;**
 - (e) **Benefits paid or payable (analyzed, for example, as retirement, death and disability benefits, or lump sum payments);**
 - (f) **Transfers from and to other plans;**
 - (g) **Administrative expenses;**

⁵ For a defined benefit plan this obligation is the actuarial present value of promised retirement benefits.

- (h) **Other expenses; and**
- (i) **Taxes on income.**

Cash Flow Statement

19. **A retirement benefit plan shall prepare a cash flow statement in accordance with IPSAS 2, *Cash Flow Statements* to the extent that IPSAS is relevant.**

Changes in Retirement Benefit Obligations

20. **Paragraph 16 requires a retirement benefit plan to present information that explains the changes in member obligations either as a financial statement or as a reconciliation in the notes to the financial statements.**
21. **This statement or note shall present opening and closing balances and the following information (if applicable and as appropriate, but not limited to):**
- (a) **Amendments to the plan (e.g., changes in member benefits);**
 - (b) **Changes in the nature of the plan (e.g., a merger with another plan);**
 - (c) **Member benefits allocated to defined contribution member accounts;**
 - (d) **Net changes to defined benefit member accrued benefits (actuarial movements);**
 - (e) **Employer contributions;**
 - (f) **Employee contributions;**
 - (g) **Taxes on contributions;**
 - (h) **Benefits paid; and**
 - (i) **Administration expenses.**

Disclosure

22. The notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall disclose the following:
- (a) A summary of significant accounting policies;
 - (b) A description of the plan and the effect of any changes in the plan during the period;
 - (c) The basis for the valuation of all assets;
 - (d) Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security;
 - (e) Details of any investment in the employer;
 - (f) Liabilities other than the actuarial present value of promised retirement benefits (for defined benefits) or the defined contribution obligation to participants; and
 - (g) A description of the funding policy;
23. For defined benefit plans the following shall also be disclosed in the notes to the financial statements:

- (a) The actuarial present value of promised retirement benefits (distinguishing between vested benefits and non-vested benefits) based on the benefits promised under the terms of the plan, on service rendered to date using projected salary levels;
 - (b) A description of the:
 - (i) Significant actuarial assumptions made; and
 - (ii) Method used to calculate the actuarial present value of promised retirement benefits;
 - (c) The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits;
 - (d) An explanation of 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; and
 - (e) The date of the actuarial valuation and when the next valuation will be undertaken.
24. A retirement benefit plan's financial statements shall contain a description of the plan. It should contain the following:
- (a) The names of the employers and the employee groups covered;
 - (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 financial statements.

Effective Date and Transition

Effective Date

- 25. A retirement benefit plan shall apply this [draft] Standard for annual financial statements beginning on or after [MM] [DD], [YYYY]. Earlier application is permitted. If a retirement benefit plan applies this Standard for a period beginning before [MM] [DD], [YYYY], it shall disclose that fact.
- 26. When a retirement benefit plan adopts the accrual basis IPSAS of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the retirement benefit plan's financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

- 27. This [draft] Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Application Guidance

This appendix is an integral part of [draft] IPSAS [X] (ED 82)

Objective (see paragraph 1)

- AG1. The objective of this [draft] Standard is to prescribe the accounting and reporting requirements for public sector retirement benefit plans which provide benefits to public sector employees. The aim is to improve the transparency and accountability of public sector entities, by providing information that is useful to users about a public sector entity's obligation in respect of employees' promised retirement benefits.
- AG2. The objective of reporting by a defined benefit plan is periodically to provide information about the financial resources and activities of the plan that is useful in assessing the relationship between the accumulation of 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 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;
 - (c) Actuarial information about the retirement benefit obligations, including the measurement basis; and
 - (d) A description of the investment policies.
- AG3. The objective of reporting by a defined contribution plan is periodically to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements that include the following:
- (e) 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;
 - (f) 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
 - (g) A description of the investment policies.
- AG4. To achieve the objective of improved transparency and accountability, this [draft] Standard requires retirement benefit plans to present, on the face of the statement of financial position as liabilities (or obligations), the estimated present value of promised retirement benefits based on the type of plan.
- AG5. This [draft] Standard applies to retirement benefit plans established by public sector employers to provide pensions solely to former employees. It does not apply to old-age pensions provided through welfare or social security programs, nor to social security schemes that provide pensions to all citizens.

Scope (see paragraphs 2–8)

- AG6. Some retirement benefit plans have sponsors other than employers; this [draft] Standard also applies to the financial statements of such plans.

- AG7. Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired obligations as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.
- AG8. Some retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. Those parties are called trustees in some countries. The term trustee is used in this [draft] Standard to describe such parties regardless of whether a trust has been formed. Many public sector retirement benefit plans are unfunded, operating on a pay-as-you-go basis whereby benefits are payable from general taxation.
- AG9. Retirement benefit plans can also be classified as single employer, multi-employer⁶, or state plans⁷. That classification may have an impact on the application of IPSAS 39, *Employee Benefits* but does not alter the application of this [draft] Standard.
- AG10. Many public sector entities provide pensions for their employees by way of a multi-employer plan or state plan. Multi-employer plans, and state plans are defined in IPSAS 39, Multi-employer plans and state plans can be either defined benefit plans or defined contribution plans. However, for entities providing defined benefit pensions for employees using either a multi-employer or state plan, IPSAS 39 allows entities to use defined contribution accounting if there is insufficient information to use defined benefit accounting. This has the potential to underestimate the obligation owed to employees when that entity applies IPSAS 39. Therefore, the full obligation may be unreported in any financial statements.

Definitions (see paragraph 9)

- AG11. Defined benefit plans are those plans which do not meet the definition of a defined contribution plan. This includes hybrid plans, which are retirement benefit plans that contain characteristics of both defined benefit plans and defined contribution plans. A defined benefit plan is a retirement benefit plan under which amounts to be paid as retirement benefits are typically determined by reference to a formula usually based on employee's earnings and/or years of service.
- AG12. A defined benefit plan usually needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels by employers. Because the employer provides for retirement benefits based on these assumptions any investment risk typically falls on the employer.

⁶ Multi-employer plans are defined in IPSAS 39 as defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

- (a) Pool the assets contributed by various entities that are not under common control; and
- (b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

⁷ State plans are defined in IPSAS 39 as plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

- AG13. Defined contribution plans differ from defined benefit plans in that the amounts to be paid as retirement benefits are determined by the amount of contributions to a participant's plan together with investment earnings.
- AG14. Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's obligation is usually discharged by contributions to the fund. Therefore, any investment risk typically falls on the participant. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.

Recognition and Measurement (see paragraphs 10–12)

Valuation of Plan Assets

- AG15. This [draft] Standard requires all plan investments to be measured at fair value. Other plan assets are accounted for in accordance with the applicable IPSAS.
- AG16. Draft IPSAS [X] ED 77, *Measurement* provides guidance on fair value measurement.
- AG17. Any plan investments that are financial instruments would be measured at fair value under IPSAS 41, *Financial Instruments*.

Actuarial Present Value of Promised Retirement Benefits (Defined Benefit Plan Obligations to Participants)

- AG18. The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding.
- AG19. Actuarial valuations are not always obtained annually; some retirement benefit plan regulations might require actuarial valuations every three or five years, for example. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is likely to be suitable as a starting point for the current year's valuation. This requires the most recent actuarial valuation to be updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

Applicability of Other IPSAS

- AG20. Unless specifically overwritten by this [draft] Standard, all other IPSAS apply to the financial statements of retirement benefit plans when applicable. For example, if a retirement benefit plan is required or elects to make their approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* shall also apply.

Presentation and Disclosure (see paragraphs 13–24)

Financial Statements

- AG21. This [draft] Standard overrides the requirements of IPSAS 1, *Presentation of Financial Statements* by setting out in paragraphs 15-16 which financial statements a retirement benefit plan shall present.

Statement of Financial Position

- AG22. Plan investments are to be shown on the face of the statement of financial position and suitably classified. This requires grouping assets of a similar nature – for example, as equities, fixed income securities, and investment funds.
- AG23. The statement of financial position also requires the presentation of the defined benefit obligation to participants and defined contribution obligation to participants below the net assets available for benefits. Inclusion of this obligation(s) addresses the principal objective of this project to increase the transparency and accountability about retirement benefit plan obligations to participants. This line item(s) differs from the presentation of liabilities for benefits due and payable to participants (if applicable). Liabilities for benefits due and payable to participants are shown above the net assets available for benefits and only includes those amounts that are immediately payable. For example, it may represent a monthly defined benefit pension payment yet to be paid or a withdrawal from a defined contribution plan requested by the participant that is yet to be paid.

Statement of Changes in Net Assets Available for Benefits

- AG24. The line items shown in the statement of changes in net assets available for benefits are only those that are directly attributable to the plan. The nature of those items will largely depend on the terms of a plan. For example, some retirement benefit plans may specify that some administrative costs (such as the salaries of plan's investment managers) are paid out of investment income.
- AG25. The structure of a retirement benefit plan – such as whether it is a defined benefit plan or defined contribution plan and whether or not it is funded or pay-as-you-go – may determine how contributions and benefits are accounted for.
- AG26. Some retirement benefit plans account for contributions and benefits as revenue and expenses respectively. In this case, these contributions and benefits are presented as line items on the statement of changes in net assets available for benefits. If contributions and benefits are considered to be revenue or expenses respectively, they form part of the reconciliation of the opening and closing balances of net assets available for benefits.

Statement of Changes in Retirement Benefit Obligations

- AG27. Some retirement benefit plans account for contributions as a liability to participants. In this circumstance, the line item for contributions would be shown on the face of the statement of changes in retirement benefit obligations. Benefits might be considered to be a reduction of those liabilities, in which case benefits would also be presented as a line item on the statement of changes in retirement benefit obligations. Under this approach, contributions and benefits are items that form part of the reconciliation of the opening and closing balances for retirement benefit obligations and would not be presented in the statement of changes in net assets available for benefits.

Mixed approach

- AG28. The structure of some retirement benefit plans might mean that a mixed approach is taken to accounting for contributions and benefits. For example, a retirement benefit plan may account for contributions as revenue and benefits as a reduction in the retirement benefit obligation. In this circumstance, contributions would be presented in the statement of changes of net assets available for benefits, and benefits would be presented in the statement of changes in retirement benefit obligations.

Cash Flow Statement

- AG29. When preparing the cash flow statement, a retirement benefit plan should consider the requirements and guidance in IPSAS 2, *Cash Flow Statements* as much as practical. It is strongly encouraged to report cash flows from operating activities using the direct method because there may be no reported surplus or deficit to adjust for non-cash items. Therefore, the reconciliation required under the indirect method is impractical in these circumstances.
- AG30. Different retirement benefit plans may treat certain transactions differently. For example, contributions may be revenue or a liability to the participant, depending on the terms of the retirement benefit plan. Therefore, the classification of transactions as operating, investing, or financing cash flows may differ between plans. However, the classification adopted should be applied consistently by a retirement benefit plan.

Disclosure

- AG31. This [draft] Standard requires retirement benefit plans to provide a description of the funding policy. This description should include information about how a retirement benefit plan intends to fund the payment of promised benefits.
- AG32. Information about how a plan intends to fund benefit payments may provide useful information to some users about the maturity of the retirement benefit plan. Participants are interested in the activities of the plan since they directly affect the level of their future benefits. Participants are interested in knowing whether contributions have been received and proper control has been exercised to protect their rights. An employer is interested in the efficient and fair operation of the plan.
- AG33. Information provided in disclosures should also reveal whether a retirement benefit plan is sufficiently funded or unfunded. If unfunded, the description of the funding policy should provide information about how amounts due for promised retirement benefits will be satisfied – for example, by employee contributions or as funding from a central government or other entity.

Effective Date and Transition (see paragraphs 25–27)

- AG34. This [draft] Standard shall be applied prospectively. However, when a retirement benefit plan that has used another international or national accounting standard dealing with retirement benefit plans first applies this [draft] Standard, it shall provide restated comparative financial statements in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Appendix B

Amendments to Other IPSAS**Amendments to IPSAS 39, *Employee Benefits***

Paragraph 3 is amended. Paragraph 176D is added. New text is underlined and deleted text is struck through.

Scope

...

- 3 This Standard does not deal with reporting by ~~employee~~ retirement benefit plans (see ~~the relevant international or national accounting standard dealing with employee retirement benefit plans~~ [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*). This Standard does not deal with benefits provided by composite social security programs that are not consideration in exchange for service rendered by employees or past employees of public sector entities.

...

Effective Date

- 176D **Paragraph 3 was amended by [draft] IPSAS [X] [ED 82], *Retirement Benefit Plans* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is permitted. If an entity applies the amendment for a period beginning before [Month] [Day], [Year], it shall disclose that fact.**

Amendments to IPSAS 41, Financial Instruments

Paragraph AG2 is amended. Paragraph 156H is added. New text is underlined and deleted text is struck through.

Scope

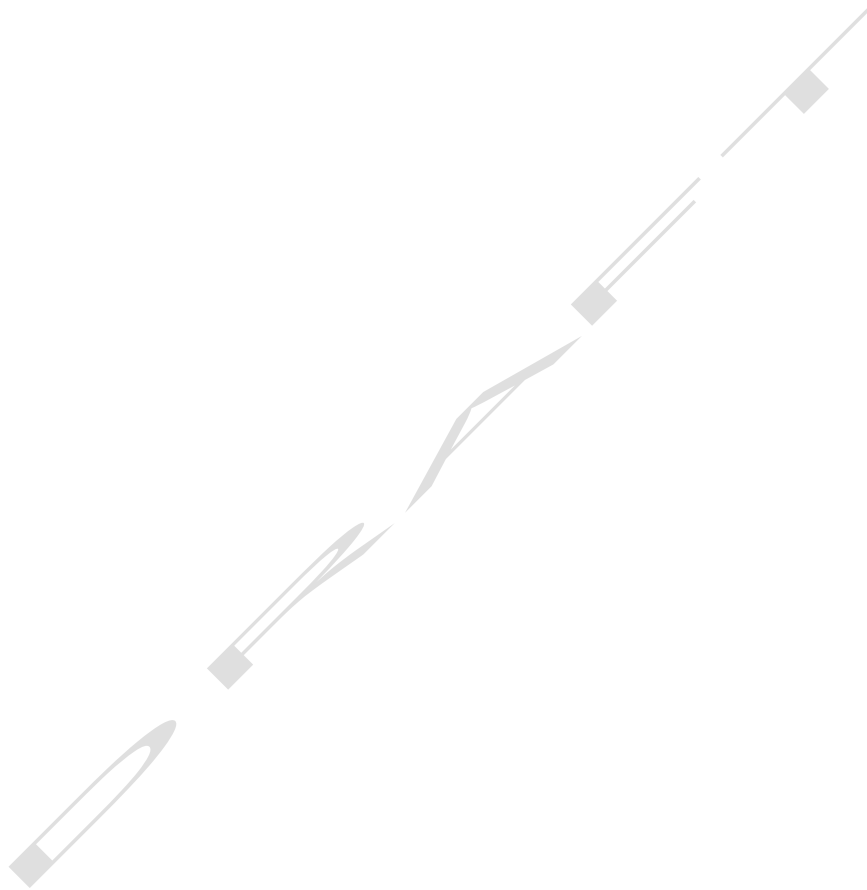
...

- AG2. This Standard does not change the requirements relating to employee benefit plans that comply with ~~the relevant international or national accounting standard on accounting and reporting by retirement benefit plans~~ [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans* and royalty agreements based on the volume of sales or service revenues that are accounted for under IPSAS 9, *Revenue from Exchange Transactions*.

...

Effective Date

- 156H **Paragraph A2 was amended by [draft] IPSAS [ED 82], *Retirement Benefit Plans* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is permitted. If an entity applies the amendment for a period beginning before [Month] [Day], [Year], it shall disclose that fact.**



Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 82)

Objective (see paragraph 1)

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*. This [draft] Standard is adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* issued by the International Accounting Standards Board (IASB). This Basis for Conclusions outlines those areas where the IPSASB decided to propose requirements that differ from those set out in IAS 26.

Background

- BC2. IAS 26 was issued in January 1987 and its objective is to provide the accounting and reporting requirements for arrangements through which an entity provides retirement benefits (for example, an annual income) to employees after they terminate from service. Prior to the issuance of this [draft] Standard there were no corresponding requirements in IPSAS for the accounting by retirement benefit plans.
- BC3. The IPSASB's *Strategy and Work Plan 2019-2023* identified a project to develop an IPSAS aligned with IAS 26 as part of Theme B – 'Maintaining alignment with IFRS' which then led to the development of this [draft] Standard. The IPSASB approved the Project Brief for this [draft] Standard at its March 2021 meeting.
- BC4. When discussing the Project Brief, the IPSASB noted that the age of IAS 26 means it is out of step with some of the developments in financial reporting since 1987. The IPSASB concluded that it was likely that some of the options available in IAS 26 would be inappropriate for public sector financial reporting and decided to proceed on the basis that the project would be an adaptation project rather than an alignment project.
- BC5. The IPSASB also considered whether the title of this [draft] Standard should differ from IAS 26 and decided that the title should be shortened to *Retirement Benefit Plans*.

Scope (see paragraphs 2–8)

- BC6. 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 of 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 paragraphs 12-15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* for plans that have characteristics similar to retirement benefit plans.
- BC7. The IPSASB also agreed that the retirement benefit plan is the reporting entity, this is consistent with IAS 26.

Definitions (see paragraph 9)

- BC8. The IPSASB noted that 'defined benefit plans' and 'defined contribution plans' are already defined in IPSAS 39, *Employee Benefits* but with different definitions to those in IAS 26 and discussed whether the IPSAS 39 definitions should be used in this [draft] Standard. The IPSASB decided that the IPSAS 39 definitions were not appropriate because they were written from the perspective of an employer contributing to a retirement benefit plan, whereas the IAS 26 definitions are written

from a retirement benefit plan's perspective. The IPSASB however, did decide to amend the IAS 26 definition for defined benefit plans from:

“Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service”; to

“Defined benefit plans are retirement benefit plans other than contribution plans”.

- BC9. The IPSASB made this change to ensure that all retirement benefit plans that did not meet the definition of a defined contribution plan would be accounted for as a defined benefit plan. It was also decided to include Application Guidance to help distinguish between a defined benefit plan and a defined contribution plan. For example, the guidance should indicate that for a defined benefit plan it is the employer that bears the principal investment risk.
- BC10. The IPSASB decided to retain the IAS 26 definition for 'defined contribution plans', with additional guidance noting that for a defined contribution plan it is the participants in that plan who bear the principal investment risk.

Recognition and Measurement (see paragraphs 10–12)

Actuarial Present Value of Promised Retirement Benefits

- BC11. The IPSASB noted that IAS 26 allows the actuarial present value of promised retirement benefits to be measured using either current salaries or projected salaries. The IPSASB discussed whether it was appropriate to keep both options in this [draft] Standard. The IPSASB decided that the option to use current salaries should be removed from this [draft] Standard because it has the potential to understate the actuarial present value of promised retirement benefits. It was also noted that using projected salaries is consistent with IPSAS 39, under which the present value of a defined benefit obligation is required to be measured using projected salaries. Further, using projected salaries is consistent with the objective of this project to increase the transparency and accountability of retirement benefit plans for retirement benefit obligations owing to participants.

Valuation of Plan Assets

- BC12. IAS 26 requires plan investments to be measured at fair value, however the IPSASB noted that IAS 26 seems to allow plan investments to be measured at another value if an estimate of fair value is not possible. The IPSASB decided that plan investments should be measured at fair value using the guidance in other IPSAS as relevant to the type of asset. Therefore, the IPSASB decided not to permit a value other than fair value to be used to measure plan investments.

Classification of Contributions and Benefits

- BC13. The IPSASB discussed whether contributions and benefits should be classified as any particular element as defined in the Conceptual Framework. The IPSASB noted that in some jurisdictions contributions are considered to be revenue whereas other jurisdictions are of the view that contributions give rise to a liability. Similarly, benefits may be considered expenses or a reduction in a liability depending on the jurisdiction.
- BC14. The IPSASB decided that classifying contributions and benefits is dependent on the structure and regulations of a particular retirement benefit plan. The IPSASB acknowledged that there are many different types of retirement benefit plans, and each will have their own nuances regarding structure and regulations. Therefore, because this [draft] Standard applies to all types of plans, the IPSASB decided not to classify contributions and benefits as particular elements but instead to leave the

classification in financial statements to the judgement of preparers with knowledge of the plan structure and regulations.

Presentation of Financial Statements (see paragraphs 13–24)

- BC15. The IPSASB noted that IAS 26 is not definitive about which financial statements a retirement benefit plan should present and decided that this [draft] Standard would specify which financial statements are required.
- BC16. The IPSASB also noted that IAS 26 provides three options for defined benefit plans to present information on the actuarial present value of promised retirement benefits; on the face of the financial statements, in the notes to the financial statements, or by reference to an accompanying actuarial report. The IPSASB considers that the actuarial present value of promised retirement benefits is key information and decided that this information shall be presented on the face of the statement of financial position. The IAS 26 options permitting disclosure of this information only in notes to the financial statements, or in a separate actuarial report are therefore not included in this [draft] IPSAS.

Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 82)

Actuarial Present Value of Promised Retirement Benefits

Can the Trustees of a Retirement Benefit Plan use the plan sponsor's actuarial valuation to measure the actuarial present value of promised retirement benefits in the Plan's Statement of Financial Position?

Scheme sponsors (employers) apply IPSAS 39, *Employee Benefits*, in preparing their financial statements. The Trustees of Retirement Benefit Plans use [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*. In determining whether an actuarial valuation prepared for the plan sponsor under IPSAS 39 can be used for financial statements prepared under [draft] IPSAS [X] (ED 82), the Trustees need to consider the following:

1. Is the membership of the Retirement Benefit Plan limited to employees of one sponsor? If the Retirement Benefit Plan is a multi-employer scheme, the individual sponsors may account for the plan as if it were a defined contribution plan (IPSAS 39.34) with individual sponsors therefore being unlikely to have an actuarial valuation.
2. Where the sponsor has an actuarial valuation, does it cover the same benefits? [draft] IPSAS [X] (ED 82) applies only to pension benefits, whereas the scope of IPSAS 39 covers short-term employee benefits and post-employment benefits such as post-employment life assurance or post-employment medical care.
3. Where the actuarial valuation covers the same population and is limited to pensions, are the Trustees satisfied that the assumptions made by the sponsor's actuary are appropriate for their purposes? If the Trustees are considering the use of the sponsor's actuarial valuation for their own purposes, they need assurance that the actuarial assumptions and other data inputs are acceptable for their valuation or promised retirement benefits? The Trustees might consider working with the plan sponsor to ensure that the basis of the actuarial valuation is acceptable for both the Trustees and the sponsor. If the answers to the above questions are 'yes', then it is possible that the Trustees could use the plan sponsor's actuarial valuation for their own purposes.

Illustrative Examples

These examples accompany but are not part of [draft] IPSAS [X] (ED 82).

Illustrative Example 1

Contributions as Revenue and Benefits as an Expense

The Government ABC Retirement Benefit Plan is a Defined Benefit Plan with members paid a retirement pension based on 75% of the average of the last three years' salary. The plan is a multi-employer plan whereby multiple employers (different government agencies) pay into the plan. The plan is funded by these employers' contributions. Employees are also able to make contributions, but it is not compulsory. Investment manager fees and other administrative costs are paid out of the contributions received by the plan from the employers.

The Retirement Benefit Plan considers the contributions paid by employers to be revenue and reflects them in the statement of changes in net assets available for benefits. They also consider the benefits paid to be an expense and these are also reflected in the statement of changes in net assets available for benefits.

This Retirement Benefit Plan considers that its purpose is to manage plan investments to be used for the payment of retirement benefit obligations. Therefore, it classifies all its cash flow transactions as operating activities.

This retirement benefit plan prepares the following financial statements.

Statement of Financial Position

As at December 31, 20X2

(In thousands of currency units)

Assets	20X2	20X1
Cash and cash equivalents	X	X
Plan investments		
Equities	X	X
Fixed income securities	X	X
Investment funds	X	X
	<hr/>	<hr/>
	X	X
Contributions receivable	<hr/>	<hr/>
Other assets	X	X
	<hr/>	<hr/>
	X	X
Total assets	<hr/>	<hr/>
	X	X
Liabilities		

Payables	X	X
Benefits due and payable	X	X
Income tax payable	X	X
Total liabilities excluding benefit obligations to participants	X	X
Net assets available for benefits	X	X
Defined Benefit obligations to participants⁸	X	X
Excess or deficit of funding	X	X

Statement of Changes in Net Assets Available for Benefits

(Contributions as Revenue and Benefits Paid as Expenses)

For year ended December 31, 20X2

(In thousands of currency units)

	20X2	20X1
Net assets available for benefits at the beginning of the year	X	X
Investment income		
Net change in fair value of plan investments	X	X
Interest income	X	X
Dividend income	X	X
Other income	X	X
Contributions		
Employer contributions	X	X
Employee contributions	X	X
Total Increases in net assets available for benefits	X	X

⁸ This is the actuarial present value of promised retirement benefits

Benefits paid	X	X
Administrative expenses	X	X
Investment related expenses	X	X
Other expenses	X	X
Taxes on income	X	X
Total Decreases in Net Assets Available for Benefits	X	X
Transfers to and from other plans	X	X
Net increase/decrease in assets available for benefits	X	X
Net assets available for benefits at the end of the year	X	X

Cash Flow Statement

(Contributions as Revenue, Benefits as Expenses and Plan asset investment activities are classified as Operating Activities)

For year ended December 31, 20X2

(In thousands of currency units)

	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Receipts</i>		
Sale of investment assets	X	X
Interest revenue received	X	X
Dividend revenue received	X	X
Other revenue received	X	X
Employer contributions received	X	X
Employee contributions received	X	X

Payments

Purchase of investment assets	(X)	(X)
Investment related expenses	(X)	(X)
Member benefits paid	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Taxes paid on income	<u>(X)</u>	<u>(X)</u>
Net cash inflows (outflows) from operating activities	X	X

CASH FLOWS FROM FINANCING ACTIVITIES

Funding received from Sponsor	X	X
Net cash inflows (outflows) from financing activities	X	
Net increase (decrease in cash and cash equivalents)	X	X
Cash and cash equivalent at the beginning of the year	<u>X</u>	<u>X</u>
Cash and cash equivalents at the end of the year	X	X

Illustrative Example 2**Contributions as a liability and benefits as a reduction in this liability**

The Government XYZ Retirement Benefit Plan is a Defined Contribution Plan with members paid the balance of their individual account when they retire. The plan is funded by employers' contributions and employees are also able to contribute. Each member pays an annual fee from their individual account to fund the investment manager fees and other administrative costs.

The Retirement Benefit Plan considers all contributions to be a liability to the participant and reflects this in the statement of changes in member obligations. Benefits paid to the participants are a reduction in this liability and are also reflected in the statement of changes in retirement benefit obligations.

This Retirement Benefit Plan considers that returns on investments, administrative expenses and taxes are operating activities, purchases and sales of plan investments are investing activities and because contributions and benefits paid are considered to be a liability and a reduction in that liability respectively, these transactions are financing activities.

This retirement benefit plan prepares the following financial statements.

Statement of Financial Position

As at December 31, 20X2

(In thousands of currency units)

Assets	20X2	20X1
Cash and cash equivalents	X	X
Plan investments		
Equities	X	X
Fixed income securities	X	X
Investment funds	X	X
	<u>X</u>	<u>X</u>
Contributions receivable		
Other assets	X	X
	<u>x</u>	<u>x</u>
Total assets	<u>X</u>	<u>X</u>
Liabilities		
Payables	X	X
Benefits due and payable	X	X

Income tax payable	X	X
Total liabilities excluding benefits obligations to participants	X	X
Net assets available for benefits	X	X
Defined contribution obligations to participants	X	X
Excess or deficit of funding	X	X

Statement of Changes in Net Assets Available for Benefits

(Contributions as a liability and benefits paid as a reduction in that liability)

For year ended December 31, 20X2

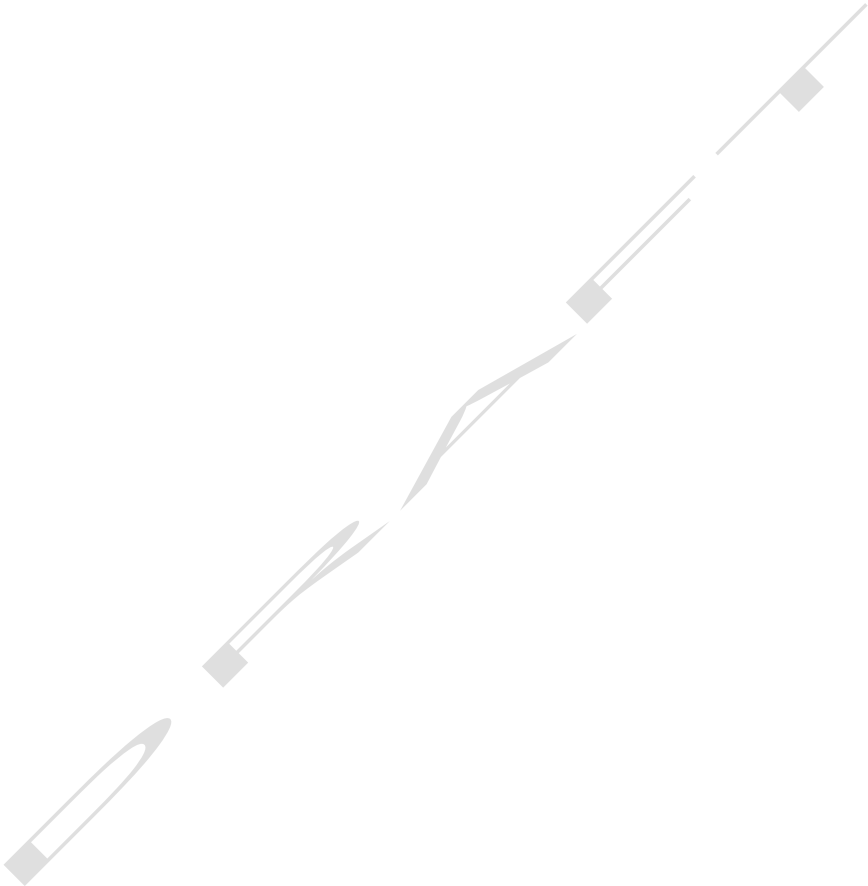
(In thousands of currency units)

	20X2	20X1
Net assets available for benefits at the beginning of the year	X	X
Investment income		
Net change in fair value of investments	X	X
Interest income	X	X
Dividend income	X	X
Other income		
Total increases in net assets available for benefits	X	X
Administrative expenses	X	X
Investment related expenses	X	X
Other expenses	X	X
Taxes on income	X	X
Total decreases in net assets available for benefits	X	X
Transfers to and from other plans	X	X
Net benefits allocated to members accounts	(X)	(X)
Net increase/(decrease) in assets available for benefits	X	X

Net assets available for benefits at the end of the year

X

X



Statement of Changes in Retirement Benefit Obligations**For year ended December 31, 20X2**

(In thousands of currency units)

	20X2	20X1
Retirement benefit obligations at the beginning of the year	X	X
Contributions		
Employer contributions	X	X
Employee contributions	X	X
Transfers from other retirement benefit plans	X	X
Benefits allocated to members accounts		
Net investment revenue	X	X
Administration fees	(X)	(X)
Total Increases in Retirement Benefit Obligations	X	X
Benefits paid	X	X
Taxes on contributions	X	X
Transfers to other retirement benefit plans	X	X
Total Decreases in Retirement Benefit Obligations	X	X
Net increase/decrease in Retirement Benefit Obligations	X	X
Retirement Benefit Obligations at end of year	X	X

Cash Flow Statement

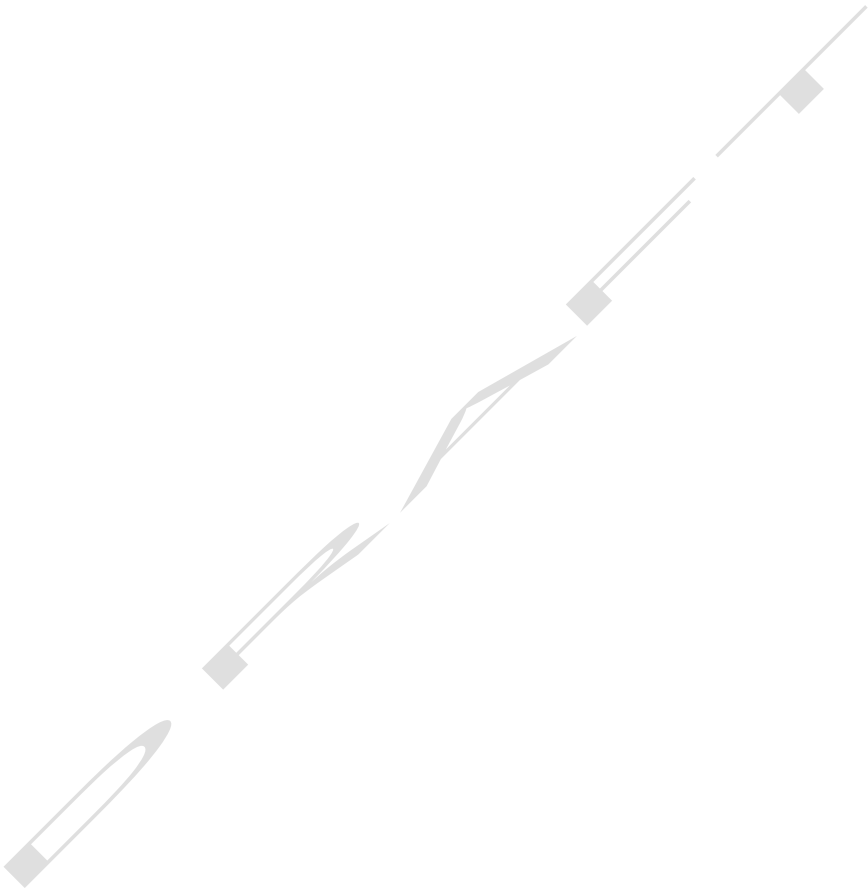
(Contributions as Liabilities and Benefits as Reduction in Liabilities are classified as Financing Activities and Purchase and Sale of Investments classified as Investing activities)

For year ended December 31, 20X2

(In thousands of currency units)

	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Receipts</i>		
Interest revenue received	X	X
Dividend revenue received	X	X
Other revenue received	X	X
<i>Payments</i>		
Investment related expenses	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Taxes paid on income	<u>(X)</u>	<u>(X)</u>
Net cash inflows (outflows) from operating activities	X	X
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investment assets	X	X
Purchase of investment assets	(X)	(X)
Net cash inflows (outflows) from investing activities	X	X
CASH FLOWS FROM FINANCING ACTIVITIES		
Employer contributions received	X	X
Employee contributions received	X	X
Member benefits paid	(X)	(X)
Net cash inflows (outflows) from financing activities		

Net increase (decrease in cash and cash equivalents	X	X
Cash and cash equivalent at the beginning of the year	<u>X</u>	<u>X</u>
Cash and cash equivalents at the end of the year	X	X



Comparison with IAS 26

[draft] IPSAS [X] (ED 82), *Retirement Benefit Plans* is drawn primarily from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* (issued in 1987).

The main differences between [draft] IPSAS [X] (ED 82) and IAS 26 are as follows:

- [draft] IPSAS [X] (ED 82) requires the actuarial present value of promised retirement benefits to be measured using projected salaries;
- [draft] IPSAS [X] (ED 82) requires all plan investments to be measured at fair value;
- [draft] IPSAS [X] (ED 82) specifies a retirement benefit plan must prepare:
 - A statement of financial position:
 - A statement of changes of net assets available for benefits; and
 - A cash flow Statement; and
- [draft] IPSAS [X] requires the actuarial present value of promised retirement benefits to be presented on the face of the statement of financial position.

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DRAFT

Exposure Draft 82

[XXX ~~202X~~2022]

Comments due: [XXX XX, ~~202X~~2022]

IPSAS®

*Proposed International Public Sector Accounting
Standard®*

~~Accounting and Reporting by~~ Retirement Benefit Plans

IPSASB

International Public
Sector Accounting
Standards Board®

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

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

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

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

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REQUEST FOR COMMENTS

This Exposure Draft, ~~Accounting and Reporting by Retirement Benefit Plans~~ was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [DATE].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the [“Submit a Comment”](#) link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

~~SMC's to be developed~~

• ~~SMC on use of projected salaries~~

~~SMC on whether~~ [Objective of the Exposure Draft](#)

[The objective of this Exposure Draft \(ED\) is to propose the accounting, presentation, and disclosure requirements for the financial statements of a retirement benefit plan. This should increase the transparency and accountability of public sector entities regarding obligations owed to public sector employees who are members of the retirement benefit plan. The ED is adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, issued by the International Accounting Standards Committee in January 1987.](#)

[Guide for Respondents](#)

[The IPSASB welcomes comments on all the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.](#)

[The Specific Matters for Comment requested for the ED are provided below.](#)

[Specific Matter for Comment 1 – Paragraph 9](#)

[The IPSASB decided to amend the IAS 26 definition of ‘defined benefit plans’ to include all retirement benefit plans ~~should~~ that are not defined contribution plans. The proposed definition for a defined benefit plan is as follows:](#)

[‘Defined benefit plans are retirement benefit plans other than defined contribution plans’.](#)

[Do you agree with this proposal? If not, why not?](#)

[Specific Matter for Comment 2 – Paragraph 10](#)

[The IPSASB decided that plan investment assets shall be measured at fair value.](#)

[Do you agree with this proposal? If not, why not?](#)

[Specific Matter for Comment 3 – Paragraph 11](#)

[The IPSASB decided that the actuarial present value of promised retirement benefits should be based on projected salaries. This removes an option available in IAS 26, *Accounting and Reporting by Retirement*](#)

Benefit Plans whereby the actuarial present value of promised retirement benefits may be based on either current salaries or projected salaries.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 4 – Paragraph 13

The IPSASB decided that for defined benefit plans the actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position as an obligation. This removes two options in IAS 26 which permit the actuarial present value of promised retirement benefits to be disclosed in the notes to the financial statements or in a separate actuarial report.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 5 – Paragraphs 15(c) and 19

The IPSASB decided that a retirement benefit plan shall be required to prepare a cash flow statement. IAS 26 is silent on whether a cash flow statement is required.

Do you agree with this proposal? If not, why not?

Specific Matter for Comment 6 – Illustrative Examples

The IPSASB noted that contributions and benefits may be treated differently depending on the jurisdiction and/or the design of a retirement benefit plan as paragraphs AG25-AG28. Because this [draft] IPSAS will need to be able to be applied by many differing retirement benefit plans, the IPSASB decided not to require a retirement benefit plan to treat contributions and benefits in one particular way and has included Illustrative Examples for two options of how the financial statements may be presented depending on how a retirement benefit plan treats contributions and benefits.

Do you agree with the proposal to allow preparers to determine the appropriate treatment for retirement benefit plans.? If not, why not?

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EXPOSURE DRAFT 82, RETIREMENT BENEFIT PLANS

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Objective

28. The objective of this [draft] Standard is to prescribe the accounting and reporting requirements for public sector retirement benefit plans, which provide retirement benefits to retired public sector employees

Scope

29. **A retirement benefit plan that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard.**
30. Retirement benefit plans are sometimes referred to by various other names, such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'. This [draft] Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan.
31. This [draft] Standard deals with accounting and reporting by the plan to all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.
- ~~32. IPSAS 39, *Employee Benefits* is concerned with the determination of the cost of retirement benefits in the financial statements of employers having plans. Hence this [draft] Standard complements IPSAS 39.~~
- ~~33.~~32. Retirement benefit plans are normally described as either defined benefit plans or defined contribution plans ~~or defined benefit plans~~, each having their own distinctive characteristics. Occasionally plans exist that contain characteristics of both. Such hybrid plans are considered to be defined benefit plans for the purposes of this [draft] Standard.
- ~~34.~~33. Many retirement benefit plans require the creation of separate funds, which may or may not have separate legal identity and may or may not have trustees, to which contributions are made and from which retirement benefits are paid. This [draft] Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.
- ~~35.~~34. Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this [draft] Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company.
- ~~36.~~35. This [draft] Standard does not deal with other forms of employment benefits, such as employment termination payments, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security arrangements are also excluded from the scope of this [draft] Standard (see IPSAS 42, *Social Benefits*).

Definitions

~~37.~~36. The following terms are used in this [draft] Standard with the meanings specified:

Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.

Defined benefit plans are retirement benefit plans ~~under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service~~ other than defined contribution plans.

Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

Funding is the transfer of assets to an entity (the retirement benefit plan) separate from the employer's entity to meet future obligations for the payment of retirement benefits.

Net assets available for benefits are the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits (for defined benefit plans) and/or the defined contribution obligation to participants.

Participants are the members of a retirement benefit plan and others who are entitled to benefits under the plan.

Retirement benefit plans are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income and/or as a lump sum) when 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.

Vested benefits are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

Terms Any other terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately.

Recognition and Measurement

Valuation of Plan Investments

37. Retirement benefit plan investments shall be measured at fair value.

~~Recognition and Measurement~~

Actuarial present value of promised retirement benefits

38. The actuarial present value of promised retirement benefits for defined benefit plans shall be based on the benefits promised under the terms of the plan on service rendered to date using projected salary levels.
39. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent actuarial valuation shall be used ~~as a base~~ and the date of the valuation disclosed.

Presentation and Disclosure

Valuation of Plan Assets

~~40.1. Retirement benefit plan investments shall be measured at fair value.~~

Presentation and Disclosure

40. For defined benefit plans, the actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position.

41. For defined contribution plans, the defined contribution obligation to participants shall be presented on the face of the statement of financial position.

Presentation of Financial Statements

~~41.~~42. A retirement benefit plan, whether defined benefit or defined contribution, shall present the following:

- (a) A statement of financial position;
- (b) A statement of changes in net assets available for benefits;
- (c) A cash flow statement; and
- (d) Notes to the financial statements.

~~42.~~43. A retirement benefit plan shall also explain the changes in retirement benefit obligations to participants either by:

- (a) Presenting a statement of changes in retirement benefit obligations; or
- (b) Disclosing in the notes to the financial statements a reconciliation between the opening and closing retirement benefit obligation balances.

Financial Statement Content

Statement of Financial Position

~~43.~~44. ~~As a minimum, the~~The face of the statement of financial position shall include line items that present the following amounts (if applicable and as appropriate, but not limited to):

- (a) Plan ~~assets~~investments (suitably classified);
- (b) ~~Employer contributions~~Contributions receivable;
- ~~(c) Employee contributions receivable;~~
- ~~(d)~~(c) Other assets;
- ~~(d)~~ LiabilitiesBenefits due and payable;
- (e) Any other liabilities excluding retirement benefit obligations to participants;
- ~~(f) Liabilities for payments due to participants;~~
- ~~(g)~~(f) Net assets available for benefits ~~((35(a))-(35(f)))~~;

(g) ~~Obligations~~Defined benefit obligation to participants⁹;

(h) Defined contribution obligation to participants¹⁰; and

(i) ~~Excess or deficit-funding ((35(g)-(35(h)))-~~.

44. ~~Notwithstanding the requirements of paragraph 16, for defined benefit plans the actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position.~~

Statement of Changes in Net Assets Available for Benefits

45. ~~As a minimum the~~The statement of changes in net assets available for benefits shall present opening and closing balances and include line items that present the following amounts, (if applicable and as appropriate)~~); but not limited to):~~

(a) ~~employer~~Employer contributions;

(b) ~~employee~~Employee contributions;

(c) ~~investment~~Investment income ~~such as interest and dividends~~;

(d) ~~other~~Other income;

(e) ~~benefits~~Benefits paid or payable (~~analysed~~analyzed, for example, as retirement, death and disability benefits, ~~and/or~~ lump sum payments);

(f) ~~transfers~~Transfers from and to other plans;

(g) ~~administrative~~Administrative expenses;

(h) ~~other~~Other expenses; ~~and~~

~~(i) taxes~~Taxes on income; ~~and~~

~~(j)(i) surplus or deficits on disposal of investments and changes in value of investments.~~

. Cash Flow Statement

46. A retirement benefit plan shall prepare a cash flow statement in accordance with IPSAS 2, Cash Flow Statements to the extent that IPSAS is relevant.

Changes in Retirement Benefit Obligations

47. Paragraph 16 requires a retirement benefit plan to present information that explains the changes in member obligations either as a financial statement or as a reconciliation in the notes to the financial statements.

48. This statement or note shall present opening and closing balances and the following information (if applicable and as appropriate, but not limited to):

(a) Amendments to the plan (e.g., changes in member benefits);

(b) Changes in the nature of cash flows ~~the plan~~ (e.g., a merger with another plan);

⁹ For a defined benefit plan this obligation is the actuarial present value of promised retirement benefits.

¹⁰ ~~For a defined benefit plan this obligation is the actuarial present value of promised retirement benefits.~~

- (c) Member benefits allocated to defined contribution member accounts;
- (d) Net changes to defined benefit member accrued benefits (actuarial movements);
- (e) Employer contributions;
- (f) Employee contributions;
- (g) Taxes on contributions;
- (h) Benefits paid; and
- ~~(k)~~(i) Administration expenses.

Disclosure

~~46~~49. The notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall disclose the following:

- (a) A summary of significant accounting policies;
- (b) A description of the plan and the effect of any changes in the plan during the period;
- (c) The basis for the valuation of all assets;
- (d) Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security;
- (e) Details of any investment in the employer;
- (f) Liabilities other than the actuarial present value of promised retirement benefits (for defined benefits) or the defined contribution obligation to participants; and
- (g) A description of the funding policy;

~~47~~50. For defined benefit plans the following shall also be disclosed in the notes to the financial statements:

- (a) The actuarial present value of promised retirement benefits (~~which may distinguish~~distinguishing between vested benefits and non-vested benefits) based on the benefits promised under the terms of the plan, on service rendered to date using projected salary levels;
- (b) A description of the ~~significant~~:
 - (i) Significant actuarial assumptions made~~;~~; and ~~the method~~
 - ~~(i)~~(ii) Method used to calculate the actuarial present value of promised retirement benefits;
- ~~(b)~~(c) The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits; ~~and~~
- ~~(c)~~(d) An explanation of 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~~;~~ and
- (e) The report of a date of the actuarial valuation and when the next valuation will be undertaken.

~~48~~51. A retirement benefit ~~plan contains~~plan's financial statements shall contain a description of the plan~~as part of the financial statements.~~ It ~~may~~should contain the following:

- (a) The names of the employers and the employee groups covered;
- (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~~ financial statements.

Effective Date and Transition

Effective Date

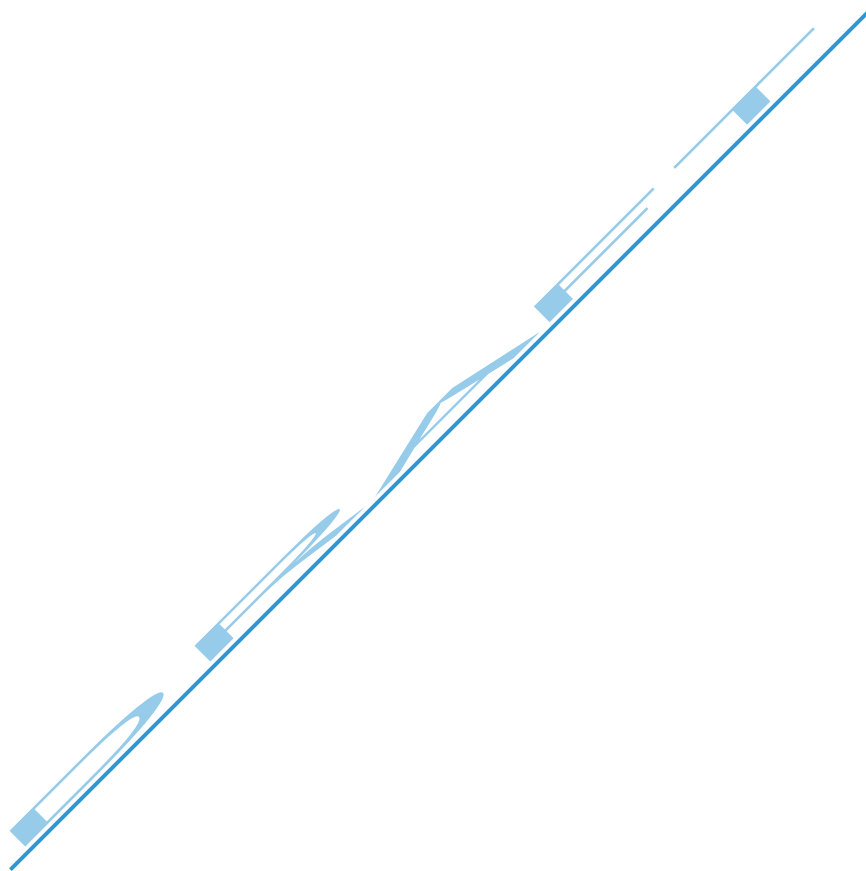
52. ~~This~~ A retirement benefit plan shall apply this [draft] Standard ~~becomes operative~~ for annual financial statements beginning on or after [MM] [DD], [YYYY]. Earlier application is permitted. If a retirement benefit plan applies this Standard for a period beginning before [MM] [DD], [YYYY], it shall disclose that fact.

49.53. When a retirement benefit plan adopts the accrual basis IPSAS of ~~retirement benefit plans~~ accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the retirement benefit plan's financial statements covering periods beginning on or after ~~XX-XXX-20XX~~ the date of adoption of IPSAS.

Transition

50. ~~[TO BE DETERMINED]~~

54. This [draft] Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.



Application Guidance

This appendix is an integral part of [draft] IPSAS [X] (ED ~~XX~~82)

~~AG22-AG18.~~ ~~The objective of reporting by a defined contribution plan is periodically to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements including the following:~~

- ~~(h)(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;~~
- ~~(i)(a) 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~~
- ~~(j)(a) A description of the investment policies.~~

Objective (see paragraph 1)

AG22. The objective of this [draft] Standard is to prescribe the accounting and reporting requirements for public sector retirement benefit plans which provide benefits to public sector employees. The aim is to improve the transparency and accountability of public sector entities, by providing information that is useful to users about a public sector entity's obligation in respect of employees' promised retirement benefits.

AG23. The objective of reporting by a defined benefit plan is periodically to provide information about the financial resources and activities of the plan that is useful in assessing the ~~relationships~~ relationship between the accumulation of resources and plan benefits over time. This objective is usually achieved by providing financial statements ~~including~~ that include the following:

- ~~(k)~~ (h) 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;
- ~~(j)~~ (i) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period;
- ~~(m)~~ (j) Actuarial information about the retirement benefit obligations, including the measurement basis; and
- ~~(n)~~ (k) A description of the investment policies.

AG24. ~~Another~~ The objective of ~~this [draft] Standard reporting by a defined contribution plan~~ is periodically to improve provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements that include the following:

- (l) 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;
- (m) 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
- (n) A description of the investment policies.

AG24-AG25. To achieve the objective of improved transparency and accountability ~~of governments, by providing information that is useful to users about a government's~~, this [draft] Standard requires retirement benefit plans to present, on the face of the statement of financial position as liabilities (or

obligations ~~in respect of employee's~~), the estimated present value of promised retirement benefits, based on the type of plan.

AG26. This [draft] Standard applies to retirement benefit plans established by public sector employers to provide pensions solely to former employees. It does not apply to old-age pensions provided through welfare or social security programs, nor to social security schemes that provide pensions to all citizens.

Scope (see paragraphs 2–8)

AG27. Some retirement benefit plans have sponsors other than employers; this [draft] Standard also applies to the financial statements of such plans.

AG28. Most retirement benefit plans are based on formal agreements. ~~Some plans are informal but have acquired obligations as a result of employers' established practices.~~ While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.

AG29. ~~Some~~ retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. Those parties are called trustees in some countries. The term trustee is used in this [draft] Standard to describe such parties regardless of whether a trust has been formed. ~~Many governments~~ public sector retirement benefit plans are unfunded, operating on a pay-as-you-go basis whereby benefits are payable from general taxation.

AG30. Retirement benefit plans can also be classified as single employer, multi-employer¹¹, or state plans¹². That classification may have an impact on the application of IPSAS 39, *Employee Benefits* but does not alter the application of this [draft] Standard.

~~AG25-AG31.~~ Many public sector entities provide pensions for their employees by way of a multi-employer plan or state plan. Multi-employer plans, and state plans are defined in IPSAS 39¹³¹⁴. Multi-employer plans and state plans can be either defined benefit plans or defined contribution plans.

¹¹ Multi-employer plans are defined in IPSAS 39 as defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) Pool the assets contributed by various entities that are not under common control; and

(b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

¹² State plans are defined in IPSAS 39 as plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

¹³ ~~Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:~~

~~(a) Pool the assets contributed by various entities that are not under common control; and~~

~~(b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.~~

¹⁴ ~~State plans are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.~~

However, for entities providing defined benefit pensions for employees using either a multi-employer or state plan, IPSAS 39, *Employee Benefits* allows entities to use defined contribution accounting if there is insufficient information to use defined benefit accounting. This has the potential to underestimate the ~~actual~~ obligation owed to employees when that entity applies IPSAS 39. Therefore, the full obligation ~~owed by governments~~ may be ~~unknown~~ unreported in any financial statements.

~~AG26. — Therefore, to achieve the objective of improved government transparency and accountability this [draft] Standard] requires retirement benefit plans to present, on the face of the financial statements, the estimated present value of promised retirement benefits based on type of plan. For example, defined benefit plans will present this obligation based on a defined benefit basis and a defined contribution plan will present this obligation on a defined contribution basis.~~

Definitions (see paragraph 9)

AG32. Defined benefit plans are those plans which do not meet the definition of a defined contribution plan. This includes hybrid plans, which are retirement benefit plans that contain characteristics of both defined benefit plans and defined contribution plans. A defined benefit plan is a retirement benefit plan under which amounts to be paid as retirement benefits are typically determined by reference to a formula usually based on employee's earnings and/or years of service.

~~AG27. AG18. — A defined benefit plan usually Some retirement benefit plans have sponsors other than employers; this [draft] Standard also applies to the financial statements of such plans.~~

~~AG28. AG18. — Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired a degree of obligation as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.~~

~~AG29. — Many retirement benefit plans provide for the establishment of separate funds into which contributions are made and out of which benefits are paid. Such funds may be administered by parties who act independently in managing fund assets. These parties are called trustees in some countries. The term trustee is used in this [draft] Standard to describe such parties regardless of whether a trust has been formed.~~

~~AG30. — Retirement benefit plans can also be classified as single employer, multi-employer, or state plans. That classification may have an impact the application of IPSAS 39 but does not alter the application of this [draft] Standard.~~

~~AG31. — All other IPSAS apply to the financial statements of retirement benefit plans to the extent that they are not superseded by this [draft] Standard. For example, any plan assets that are financial instruments would be accounted for under IPSAS 41, *Financial Instruments*.~~

~~AG32. — This [draft] Standard sets out in paragraph (X) which financial statements a retirement benefit plan shall prepare. Therefore, the requirements of this [draft] Standard supersede the requirements of IPSAS 1, *Presentation of Financial Statements*.~~

Definitions

~~AG33. — This [draft] Standard defines the actuarial present value of promised retirement benefits. As noted in paragraph 5, this [draft] Standard complements IPSAS 39, *Employee Benefits*. IPSAS 39 includes a 'definition of the present value of a defined benefit obligation' as being the present value without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. Both defined terms result in arriving~~

at an obligation, in IPSAS 39 the obligation is for the employer to a retirement benefit plan, and in this [draft] Standard the obligation is from the retirement benefit plan to the participants of the plan.

~~AG34. Under a defined benefit plan, the payment of promised retirement benefits depends on the financial position of the plan and the ability of contributors to make future contributions to the plan as well as the investment performance and operating efficiency of the plan.~~

~~AG35-AG33. A defined benefit plan~~ needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels by employers. Because the employer provides for retirement benefits based on these assumptions any investment risk typically falls on the employer.

~~AG36-AG34.~~ Defined ~~contributions~~contribution plans differ from defined benefit plans in that the amounts to be paid as retirement benefits are determined by the amount of contributions to a participant's plan together with investment earnings.

AG35. Under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's obligation is usually discharged by contributions to the fund. Therefore, any investment risk typically falls on the participant. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.

Recognition and Measurement

Recognition and Measurement (see paragraphs 10–12)

Valuation of Plan Assets

AG36. This [draft] Standard requires all plan investments to be measured at fair value. Other plan assets are accounted for in accordance with the applicable IPSAS.

AG37. Draft IPSAS [X] ED 77, *Measurement* provides guidance on fair value measurement.

AG38. Any plan investments that are financial instruments would be measured at fair value under IPSAS 41, *Financial Instruments*.

Actuarial Present Value of Promised Retirement Benefits (Defined Benefit Plan Obligations to Participants)

~~AG37-AG39.~~ The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding. ~~In addition to disclosure of the actuarial present value of promised retirement benefits, sufficient explanation may need to be given so as to indicate clearly the context in which the actuarial present value of promised retirement benefits should be read. Such explanation may be in the form of information about the adequacy of the planned future funding and of the funding policy based on salary projections.~~

~~AG38-AG40.~~ In many countries, Actuarial valuations are not always obtained annually; some retirement benefit plan regulations might require actuarial valuations ~~are not obtained more frequently than~~ every three or five years, for example. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is ~~used as a base and the date of the valuation~~

~~disclosed.~~¹⁵ likely to be suitable as a starting point for the current year's valuation. This requires the most recent actuarial valuation to be updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

Valuation ~~Applicability of Plan Assets~~ Other IPSAS

~~AG39. This [draft] Standard requires all plan assets to be measured at fair value. In the case of marketable securities fair value is usually market value because this is considered the most useful measure of the securities at the report date and of the investment performance for the period. Those securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity. Assets used in the operations of the fund are accounted for in accordance with the applicable IPSAS.~~

Presentation and Disclosure

Financial Statements

~~AG41. Unless specifically overwritten by this [draft] Standard, all other IPSAS apply to the financial statements of retirement benefit plans when applicable. For example, if a retirement benefit plan is required or elects to make their approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* shall also apply.~~

Presentation and Disclosure (see paragraphs 13-24)

Financial Statements

~~AG42. This [draft] Standard overrides the requirements of IPSAS 1, *Presentation of Financial Statements* by setting out in paragraphs 15-16 which financial statements a retirement benefit plan shall present.~~

Statement of Financial Position

~~AG40.~~ AG43. Plan ~~assets~~ investments are to be shown on the face of the statement of financial position and suitably classified. This requires grouping assets of a similar nature. ~~For~~ for example, as equities, ~~short-term deposits~~ fixed income securities, and investment funds.

AG44. The statement of financial position also requires the presentation of the defined benefit obligation to participants and defined contribution obligation to participants below the net assets available for benefits. Inclusion of this obligation(s) addresses the principal objective of this project to increase the transparency and accountability about retirement benefit plan obligations to participants. This line item(s) differs from the presentation of liabilities for benefits due and payable to participants (if applicable). Liabilities for benefits due and payable to participants are shown above the net assets available for benefits and only includes those amounts that are immediately payable. For example, it may represent a monthly defined benefit pension payment yet to be paid or a withdrawal from a defined contribution plan requested by the participant that is yet to be paid.

¹⁵ The requirements for the frequency of actuarial valuation may be established by a jurisdiction's retirement benefit plan regulator.

Statement of Changes in Net Assets Available for Benefits

~~AG41.~~AG45. The line items shown in the statement of changes in net assets available for benefits are only those that are directly attributable to the plan. ~~Whether some amounts are directly attributable to a plan may~~The nature of those items will largely depend on the terms of a plan. For example, some retirement benefit plans may specify that some administrative costs, ~~for example, (such as the salaries of plan's investment managers of the plan)~~ are paid out of ~~administrative fees drawn from~~ investment income.

~~AG42.~~AG46. Line items in the statement ~~The structure~~ of changes in net assets available for benefits may differ depending on how the retirement benefit entity views plan – such as whether it is a defined benefit plan or defined contribution plan and whether or not it is funded or pay-as-you-go – may determine how contributions and benefits ~~paid~~ are accounted for.

~~AG43.~~AG47. Some retirement benefit plans ~~consider~~account for contributions ~~to be receipts/inflows~~ and benefits ~~paid to be payments/outflows, in which~~as revenue and expenses respectively. In this case, these contributions and benefits are presented as line items ~~would be shown on the face of the statement of changes in net assets available for benefits as.~~ If contributions and benefits are considered to be revenue or expenses respectively, they form part of the reconciliation of the opening and closing ~~balance~~balances of net assets available for benefits.

Statement of Changes in Retirement Benefit Obligations

~~AG44.~~AG48. However, otherSome retirement benefit plans ~~may consider~~account for contributions to ~~be as~~ a liability to participants ~~and benefits paid.~~ In this circumstance, the line item for contributions would be shown on the face of the statement of changes in retirement benefit obligations. Benefits might be considered to be a reduction of those liabilities. ~~In these circumstances, the line items for contributions and benefits paid, in which case benefits would be shown~~also be presented as a line item on the ~~face of a~~ statement of changes in retirement benefit obligations ~~as these items.~~ Under this approach, contributions and benefits are items that form part of the reconciliation of the opening and closing balances for ~~member retirement benefit~~ obligations. ~~Under this approach, these items and~~ would not be ~~shown~~presented in the statement of changes in net assets available for benefits.

Mixed approach

AG49. The structure of some retirement benefit plans might mean that a mixed approach is taken to accounting for contributions and benefits. For example, a retirement benefit plan may account for contributions as revenue and benefits as a reduction in the retirement benefit obligation. In this circumstance, contributions would be presented in the statement of changes of net assets available for benefits, and benefits would be presented in the statement of changes in retirement benefit obligations.

Cash Flow Statement (paragraph 20)

~~AG45.~~AG50. When preparing a the cash flow statement, a retirement benefit plan should consider the requirements and guidance in IPSAS 2, *Cash Flow Statements* as much as practical. It is strongly encouraged to report cash flows from operating activities using the direct method because there may be no reported surplus or deficit to adjust for non-cash items. Therefore, the reconciliation required under the indirect method is impractical in these circumstances.

~~AG46.~~AG51. However, differentDifferent retirement benefit plans may treat certain transactions differently. For example, contributions may be ~~receipts/inflows~~revenue or a liability to the participant, depending on the terms of the retirement benefit plan. Therefore, the classification of transactions as

operating, investing, or financing cash flows may differ between plans. However, the classification adopted should be applied consistently by a retirement benefit plan.

Disclosure

AG52. This [draft] Standard requires retirement benefit plans to provide a description of the funding policy. This description should include information about how a retirement benefit plan intends to fund the payment of promised benefits.

~~AG47.AG18. Information about how a plan intends to fund benefit payments may provide useful information to some users about the maturity of the retirement benefit plan. Defined contribution plans are required to provide a description of the funding policy this is because, under a defined contribution plan, the amount of a participant's future benefits is determined by the contributions paid by the employer, the participant, or both, and the operating efficiency and investment earnings of the fund. An employer's obligation is usually discharged by contributions to the fund. An actuary's advice is not normally required although such advice is sometimes used to estimate future benefits that may be achievable based on present contributions and varying levels of future contributions and investment earnings.~~

~~AG48.~~ AG53. Participants are interested in the activities of the plan ~~because~~ since they directly affect the level of their future benefits. Participants are interested in knowing whether contributions have been received and proper control has been exercised to protect ~~the~~ their rights ~~of beneficiaries~~. An employer is interested in the efficient and fair operation of the plan.

~~AG49. This [draft] Standard requires retirement benefit plans to provide a description of the funding policy. This description should include information about how a retirement benefit plan, intends to fund the payment of promised benefits.~~

~~AG50. Information about how a plan intends to fund benefit payments may provide useful information to some users about the maturity of the retirement benefit plan. Funding predominantly from contributions may indicate a young plan whereas funding predominantly from returns on plans assets may indicate a more mature plan.~~

~~AG51.~~ AG54. Information provided in disclosures should also reveal ~~if the~~ whether a retirement benefit plan is sufficiently funded or unfunded. If unfunded, the description of the funding policy should provide information about how amounts due for promised retirement benefits will be satisfied. ~~For – for~~ for example, ~~either~~ by employee contributions or as funding from a central government or ~~another~~ other entity.

XXXXX Effective Date and Transition (see paragraphs 25–27)

AG55. This [draft] Standard shall be applied prospectively. However, when a retirement benefit plan that has used another international or national accounting standard dealing with retirement benefit plans first applies this [draft] Standard, it shall provide restated comparative financial statements in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

Amendments to Other IPSAS

Amendments to IPSAS 39, *Employee Benefits*

Paragraph 3 is amended. Paragraph 176D is added. New text is underlined and deleted text is struck through.

Scope

...

3 This Standard does not deal with reporting by ~~employee~~ retirement benefit plans (see the relevant ~~international or national accounting standard dealing with employee retirement benefit plans~~ [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*). This Standard does not deal with benefits provided by composite social security programs that are not consideration in exchange for service rendered by employees or past employees of public sector entities.

...

Effective Date

176D Paragraph 3 was amended by [draft] IPSAS [X] [ED 82], *Retirement Benefit Plans* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is permitted. If an entity applies the amendment for a period beginning before [Month] [Day], [Year], it shall disclose that fact.

Amendments to IPSAS 41, *Financial Instruments*

Paragraph AG2 is amended. Paragraph 156H is added. New text is underlined and deleted text is struck through.

Scope

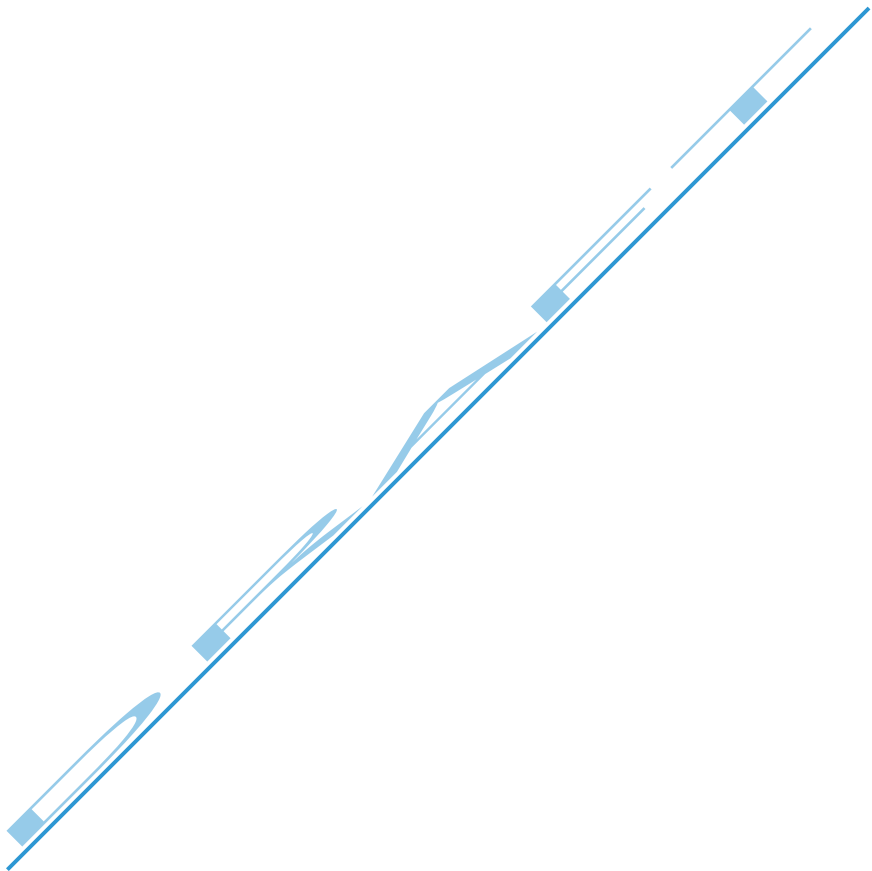
...

AG2. This Standard does not change the requirements relating to employee benefit plans that comply with the relevant international or national accounting standard on accounting and reporting by ~~retirement benefit plans~~ [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans* and royalty agreements based on the volume of sales or service revenues that are accounted for under IPSAS 9, *Revenue from Exchange Transactions*.

...

Effective Date

156H Paragraph A2 was amended by [draft] IPSAS [ED 82], *Retirement Benefit Plans* issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [Month] [Day], [Year]. Earlier application is permitted. If an entity applies the amendment for a period beginning before [Month] [Day], [Year], it shall disclose that fact.



Basis for Conclusions

~~BC about reason~~ *This Basis for ~~doing~~ Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 82)*

Objective (see paragraph 1)

BC17. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*. This [draft] Standard is adapted from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* issued by the International Accounting Standards Board (IASB). This Basis for Conclusions outlines those areas where the IPSASB decided to propose requirements that differ from those set out in IAS 26.

Background

BC18. IAS 26 was issued in January 1987 and its objective is to provide the accounting and reporting requirements for arrangements through which an entity provides retirement benefits (for example, an annual income) to employees after they terminate from service. Prior to the issuance of this [draft] Standard there were no corresponding requirements in IPSAS for the accounting by retirement benefit plans.

~~BC17.~~ BC19. The IPSASB's *Strategy and Work Plan 2019-2023* identified a project to develop an IPSAS aligned with IAS 26 as part of Theme B – 'Maintaining alignment with IFRS' which then led to the development of this [draft] Standard. The IPSASB approved the Project Brief for this [draft] Standard at its March 2021 meeting.

BC20. When discussing the Project Brief, the IPSASB noted that the age of IAS 26 means it is out of step with some of the developments in financial reporting since 1987. The IPSASB concluded that it was likely that some of the options available in IAS 26 would be inappropriate for public sector financial reporting and decided to proceed on the basis that the project would be an adaptation project rather than an alignment project.

BC21. The IPSASB also considered whether the title of this [draft] Standard should differ from IAS 26 and decided that the title should be shortened to *Retirement Benefit Plans*.

Scope (see paragraphs 2–8)

~~BC18.~~ BC22. 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~~ of 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~~ paragraphs 12-15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* for plans that have characteristics similar to retirement benefit plans.

~~BC19.~~ BC23. ~~BC about~~ The IPSASB also agreed that the retirement benefit plan is the reporting entity, ~~this is consistent with IAS 26.~~

~~BC20. BC about not expanding to other plans~~

~~BC21. BC about hybrid plans~~

~~BC22. BC about Multi-employer plans~~

Definitions (see paragraph 9)

~~BC23. The IPSASB discussed whether the definitions in IAS 26 were appropriate for this [draft] Standard. It was noted that the definition for actuarial present value of promised retirement benefit plans was similar to the definition for the present value of defined benefit obligations in IPSAS 39, *Employee Benefits*. It was decided to retain the definition in IAS 26 as the two terms while similar are not the same concept. The key difference is that the actuarial present value of promised retirement benefits involves the payment being contingent on a set of circumstances (e.g., the participant being alive or dead). But the present value of defined benefit obligations is simply the benefit payment being made with 100% certainty. That is the actuarial present value of promised retirement benefits involves uncertainty and probability on the benefits being made. While the present value of defined benefit obligations assumes complete certainty.~~

~~BC24. The IPSASB also noted that IAS 26 also defines~~ The IPSASB noted that 'defined benefit plans' and 'defined contribution plans' ~~and that these terms are already defined in IPSAS 39, *Employee Benefits* but slightly differently. However, the Board decided~~ with different definitions to retain the those in IAS 26 and discussed whether the IPSAS 39 definitions for should be used in this [draft] Standard. The IPSASB decided that the IPSAS 39 definitions were not appropriate because they were written in the context of the from the perspective of an employer contributing to a retirement benefit plan, whereas the IAS 26 definitions are written from a retirement benefit plan's perspective. The IPSASB however, did decide to amend the IAS 26 definition for defined benefit plans from:

~~"Defined benefit plans are retirement plan as the reporting entity and thus describes a defined contribution plan in terms of benefit plans under which amounts to be paid as retirement benefits being are determined by contributions and reference to a formula usually based on employees' earnings and/or years of service"; to~~

~~"Defined benefit plans are retirement benefit plans other than contribution plans".~~

~~BC24-BC25. The IPSASB made this change to ensure that all retirement benefit plans that did not meet the definition of a defined contribution plan would be accounted for as a defined benefit plan. It was also decided to include Application Guidance to help distinguish between a defined benefit plan and a defined contribution plan. For example, the guidance should indicate that for a defined benefit plan it is the employer that bears the principal investment earnings risk.~~

~~BC26. The IPSASB decided to retain the IAS 26 definition for 'defined contribution plans', with additional guidance noting that for a defined contribution plan it is the participants in that plan who bear the principal investment risk.~~

Recognition and Measurement (see paragraphs 10–12)

Actuarial Present Value of Promised Retirement Benefits

~~BC25. BC about why the Board decided for the projected salary approach~~

~~BC26. The reasons given for adopting a current salary approach include:~~

- ~~(e) The IPSASB noted that IAS 26 allows the actuarial present value of promised retirement benefits, being the sum of the amounts presently attributable to each participant in the plan, can be calculated more objectively than with projected salary levels to be measured using either current salaries or projected salaries. The IPSASB discussed whether it was appropriate to keep both options in this [draft] Standard. The IPSASB decided that the~~

option to use current salaries should be removed from this [draft] Standard because it involves fewer assumptions;

~~(p) — increases in benefits attributable to a salary increase become an obligation of the plan at the time of the salary increase; and~~

BC27. ~~the amount of~~ has the potential to understate the actuarial present value of promised retirement benefits ~~using current salary levels is generally more closely related to the amount payable in the event of termination or discontinuance of the plan. It was also noted that using projected salaries is consistent with IPSAS 39, under which the present value of a defined benefit obligation is required to be measured using projected salaries. Further, using projected salaries is consistent with the objective of this project to increase the transparency and accountability of retirement benefit plans for retirement benefit obligations owing to participants.~~

BC28. ~~Reasons given for adopting a projected salary approach include:~~

- ~~(q) — financial information should be prepared on a going concern basis, irrespective of the assumptions and estimates that must be made;~~
- ~~(r) — under final pay plans, benefits are determined by reference to salaries at or near retirement date; hence salaries, contribution levels and rates of return must be projected; and~~
- ~~(s) — failure to incorporate salary projections, when most funding is based on salary projections, may result in the reporting of an apparent overfunding when the plan is not overfunded, or in reporting adequate funding when the plan is underfunded.~~

Valuation of Plan Assets

BC28. IAS 26 requires plan investments to be measured at fair value, however the IPSASB noted that IAS 26 seems to allow plan investments to be measured at another value if an estimate of fair value is not possible. The IPSASB decided that plan investments should be measured at fair value using the guidance in other IPSAS as relevant to the type of asset. Therefore, the IPSASB decided not to permit a value other than fair value to be used to measure plan investments.

Classification of Contributions and Benefits

BC29. The IPSASB discussed whether contributions and benefits should be classified as any particular element as defined in the Conceptual Framework. The IPSASB noted that in some jurisdictions contributions are considered to be revenue whereas other jurisdictions are of the view that contributions give rise to a liability. Similarly, benefits may be considered expenses or a reduction in a liability depending on the jurisdiction.

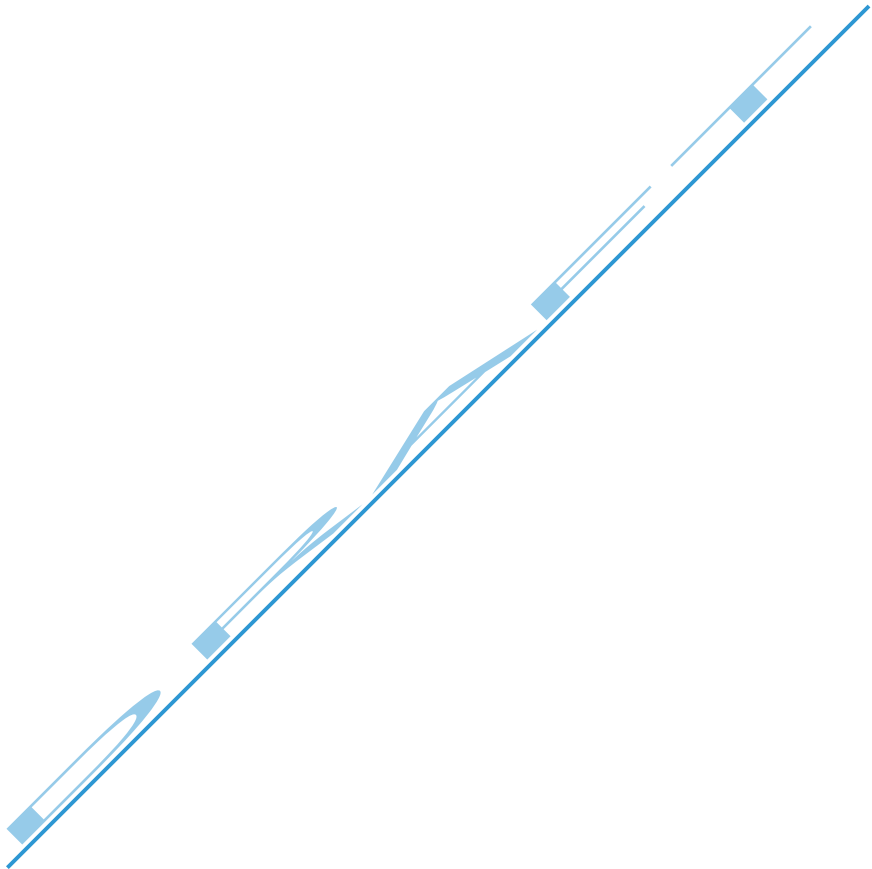
BC30. The IPSASB decided that classifying contributions and benefits is dependent on the structure and regulations of a particular retirement benefit plan. The IPSASB acknowledged that there are many different types of retirement benefit plans, and each will have their own nuances regarding structure and regulations. Therefore, because this [draft] Standard applies to all types of plans, the IPSASB decided not to classify contributions and benefits as particular elements but instead to leave the classification in financial statements to the judgement of preparers with knowledge of the plan structure and regulations.

Presentation of Financial Statements (see paragraphs 13–24)

BC29. ~~The IPSASB discussed the options in IAS 26 for presenting information. IAS 26 permitted~~ noted that ~~for defined benefit plans, information could be presented in one of the following formats~~ IAS 26 is not definitive about which ~~reflect different practices in the disclosure and presentation of actuarial information;~~

- ~~BC30.~~ BC31. ~~a statement is included in the financial statements that shows the net assets available for benefits, the actuarial present value of promised a retirement benefits, and the resulting excess or deficit. The benefit plan should present and decided that this [draft] Standard would specify which financial statements of the plan also contain statements of changes in net assets available for benefits and changes in the actuarial present value of promised retirement benefits. The financial statements may be accompanied by a separate actuary's report supporting the actuarial present value of promised retirement benefits; are required.~~
- ~~(t) financial statements that include a statement of net assets available for benefits and a statement of changes in net assets available for benefits. The actuarial present value of promised retirement benefits is disclosed in a note to the statements. The financial statements may also be accompanied by a report from an actuary supporting~~ The IPSASB also noted that IAS 26 provides three options for defined benefit plans to present information on the actuarial present value of promised retirement benefits; and
- ~~(u) on the face of the financial statements that include a statement of net assets available for benefits and a statement of changes, in net assets available for benefits with the actuarial present value of promised retirement benefits contained in a separate actuarial report.~~
- ~~BC31. In each format a trustees' report in the nature of a management or directors' report and an investment report may also accompany~~ the notes to ~~the financial statements.~~
- ~~BC32. IAS 26 states that those in favor of the formats described in paragraph BC10(a) and BC10(b) believe that the quantification of promised retirement benefits and other information provided under those approaches help users to assess the current status of the plan and the likelihood of the plan's obligations being met. They also believe that financial statements should be complete in themselves and not rely on, or by reference to an accompanying statements. However, some believe that the format described in paragraph BC10(a) could give the impression that a liability exists, whereas the actuarial present value of promised retirement benefits does not in their opinion have all the characteristics of a liability.~~
- ~~BC33. IAS 26 further states that those who favor the format described in paragraph BC10(c) believe~~ report. The IPSASB considers ~~that the actuarial present value of promised retirement benefits should not be included in a statement of net assets available for benefits as in the format described in paragraph BC10(a) or even be disclosed in a note as in paragraph BC10(b), because it will be compared directly with plan assets~~ is key information ~~and such a comparison may not be valid. They contend that actuaries do not necessarily compare actuarial present value of promised retirement benefits with market values of investments but may instead assess the present value of cash flows expected from the investments. Therefore, those in favor of this format believe~~ decided ~~that such a comparison is unlikely to reflect the actuary's overall assessment of the plan and that it may be misunderstood. Also, some believe that, regardless of whether quantified, the information about promised retirement benefits should be contained solely in the separate actuarial report where a proper explanation can be provided.~~
- ~~BC34. The IPSASB rejected~~ this information shall be presented on the face of the statement of financial position. The IAS 26 options ~~permitting disclosure of the this information concerning promised retirement benefits only in notes to the financial statements, or in a separate actuarial report. Accordingly, only the format described are therefore not included in paragraph BC10(a) is acceptable under this [draft] Standard.~~

BC32. IPSAS.



Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 82).

Actuarial Present Value of Promised Retirement Benefits

Can the Trustees of a Retirement Benefit Plan use the plan sponsor's actuarial valuation to measure the actuarial present value of promised retirement benefits in the Plan's Statement of Financial Position?

Scheme sponsors (employers) apply IPSAS 39, *Employee Benefits*, in preparing their financial statements. The Trustees of Retirement Benefit Plans use [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*. In determining whether an actuarial valuation prepared for the plan sponsor under IPSAS 39 can be used for financial statements prepared under [draft] IPSAS [X] (ED 82), the Trustees need to consider the following:

4. Is the membership of the Retirement Benefit Plan limited to employees of one sponsor? If the Retirement Benefit Plan is a multi-employer scheme, the individual sponsors may account for the plan as if it were a defined contribution plan (IPSAS 39.34) with individual sponsors therefore being unlikely to have an actuarial valuation.
5. Where the sponsor has an actuarial valuation, does it cover the same benefits? [draft] IPSAS [X] (ED 82) applies only to pension benefits, whereas the scope of IPSAS 39 covers short-term employee benefits and post-employment benefits such as post-employment life assurance or post-employment medical care.
6. Where the actuarial valuation covers the same population and is limited to pensions, are the Trustees satisfied that the assumptions made by the sponsor's actuary are appropriate for their purposes? If the Trustees are considering the use of the sponsor's actuarial valuation for their own purposes, they need assurance that the actuarial assumptions and other data inputs are acceptable for their valuation or promised retirement benefits? The Trustees might consider working with the plan sponsor to ensure that the basis of the actuarial valuation is acceptable for both the Trustees and the sponsor. If the answers to the above questions are 'yes', then it is possible that the Trustees could use the plan sponsor's actuarial valuation for their own purposes.

Illustrative Examples

These examples accompany but are not part of [draft] IPSAS [X] (ED-~~XX~~ 82).

Illustrative Example 1

Contributions as Revenue and Benefits as an Expense

The Government ABC Retirement Benefit Plan is a Defined Benefit Plan with members paid a retirement pension based on 75% of the average of the last three years' salary. The plan is a multi-employer plan whereby multiple employers (different government agencies) pay into the plan. The plan is funded by these employers' contributions. Employees are also able to make contributions, but it is not compulsory. Investment manager fees and other administrative costs are paid out of the contributions received by the plan from the employers.

The Retirement Benefit Plan considers the contributions paid by employers to be revenue and reflects them in the statement of changes in net assets available for benefits. They also consider the benefits paid to be an expense and these are also reflected in the statement of changes in net assets available for benefits.

This Retirement Benefit Plan considers that its purpose is to manage plan investments to be used for the payment of retirement benefit obligations. Therefore, it classifies all its cash flow transactions as operating activities.

This retirement benefit plan prepares the following financial statements.

Statement of Financial Position

As at December 31, 20X2

(In thousands of currency units)

Assets	20X2	20X1
Cash and cash equivalents	X	X
Plan assets investments		
Equities	X	X
Short-term deposits Fixed income securities	X	X
Investment funds	X	X
	<u>X</u>	<u>X</u>
Contributions receivable	<u>X</u>	X
Employer contributions	X	X
Employee contributions	X	X
Other assets	X	X

	<u>X</u>	<u>X</u>
Total Assetsassets	X	X
Liabilities		
Payables	X	X
<u>Benefits</u> Payments due to participants <u>and payable</u>	X	X X
Income tax payable	X	X X
Total Liabilitiesliabilities excluding benefitsbenefit obligations to participants	X	X X
Net assets available for benefits	X	X X
<u>Defined</u> Benefit obligations to participants ¹⁶	<u>X</u>	<u>X</u>
Excess or deficit of funding	X	X X

¹⁶ This is the actuarial present value of promised retirement benefits

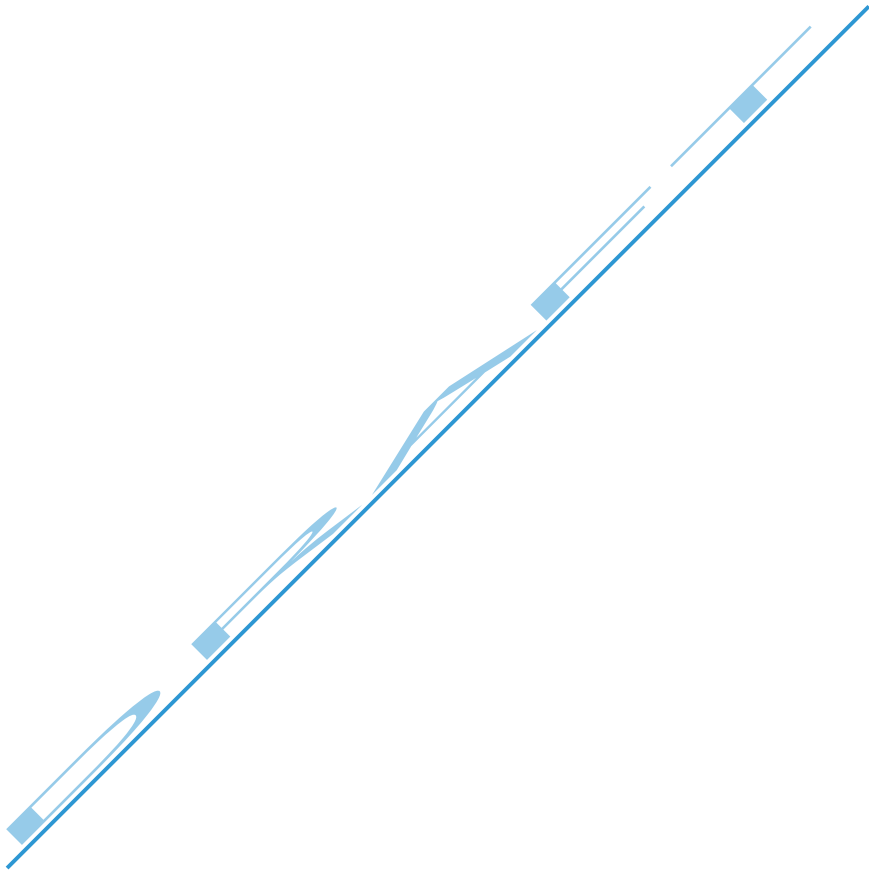
EXAMPLE A**Statement of Changes in Net Assets Available for Benefits**(Contributions as Revenue~~Receipts/Inflows~~ and Benefits Paid as ~~Payments/Outflows~~Expenses)

For year ended December 31, 20X2

(In thousands of currency units)

	20X2	20X1
Net Assets Available<u>assets available</u> for Benefits<u>benefits</u> at the beginning of the year	X	X
Investment Income<u>income</u>		
Net change in fair value of <u>plan</u> investments	X	X
Interest income	X	X
Dividend income	X	X
Other income	<u>X</u>	X
Contributions		
Employer contributions	X	X
Employee contributions	X	X
Total Increases in Net Assets Available<u>net assets available</u> for Benefits<u>benefits</u>	X	X
Benefits paid	X	X
Administrative expenses	X	X
Investment related expenses	X	X
Other expenses	X	X
Taxes on income	X	X
Total Decreases in Net Assets Available for Benefits	X	X

Surplus or deficits on disposal of investments and changes in fair value of investments	X	X	
Transfers to and from other plans	X	X	X
Net increase/decrease in assets available for benefits	X	X	X
Net assets available for benefits at <u>the</u> end of <u>the</u> year	X	X	X



EXAMPLE B**Cash Flow Statement of Changes in Net Assets Available for Benefits**

(Contributions as ~~a liability and benefits paid as a reduction in that liability~~ Revenue, Benefits as Expenses and Plan asset investment activities are classified as Operating Activities)

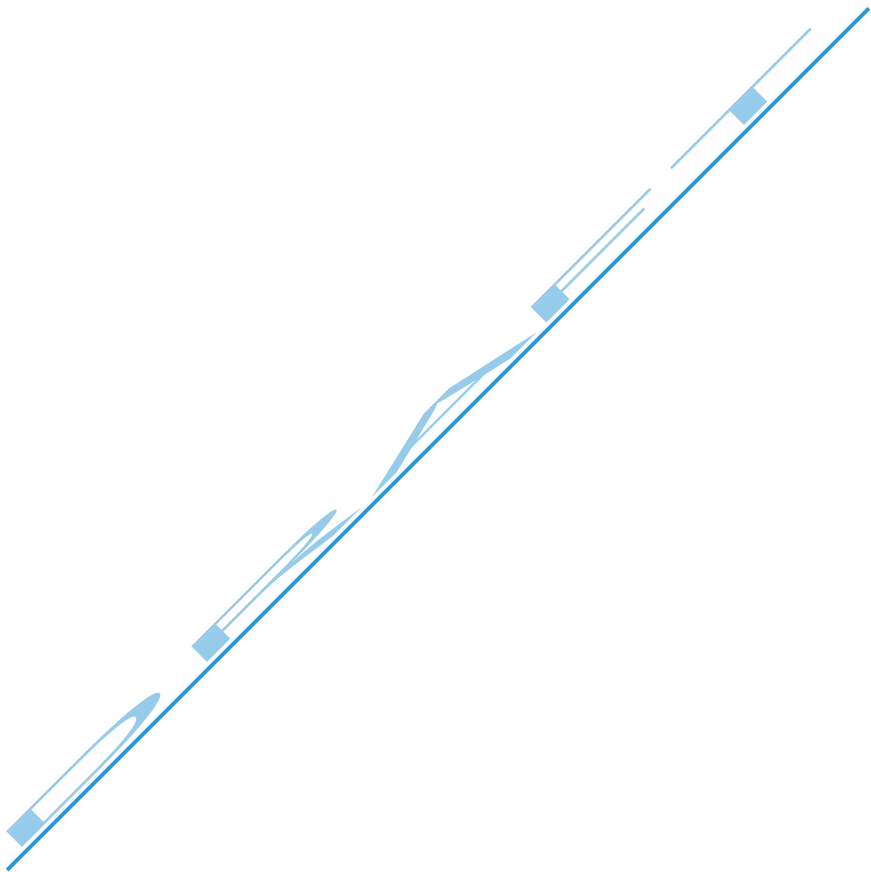
For year ended December 31, 20X2

(In thousands of currency units)

	20X2	20X1
Net Assets Available for Benefits at the beginning of the year	X	X
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
<u>Receipts</u>		
Investment income		
— Net change in fair value of investments	X	X
— Interest income <u>revenue received</u>	X	X
— Dividend income <u>revenue received</u>	X	X
— Other income <u>revenue received</u>	X	X
Total Increases in Net Assets Available for Benefits	X	X
<u>Employer contributions received</u>		
<u>Employee contributions received</u>	X	X
<u>Payments</u>		
Administrative expenses <u>Purchase of investment assets</u>	(X)	(X)
Investment related expenses	(X)	(X)
<u>Member benefits paid</u>	(X)	(X)
<u>Administrative expenses</u>	(X)	(X)
Other expenses	(X)	(X)
Taxes <u>paid</u> on income	(X)	(X)
Total Decreases in Net Assets Available for Benefits	X	X
<u>Net cash inflows (outflows) from operating activities</u>		

Surplus or deficits on disposal of investments and changes in fair value of investments	X	X	
<u>CASH FLOWS FROM FINANCIAL ACTIVITIES</u>			
Transfers to and <u>Funding received</u> from other plans <u>Sponsor</u>	X	X	X
 <u>Net cash inflows (outflows) from financing activities</u>	 <u>X</u>		
 Net increase / (decrease in assets available for benefits <u>cash and cash equivalents</u>	 X	 X	 X
 <u>Cash and cash equivalent at the beginning of the year</u>	 <u>X</u>		 <u>X</u>
 Net assets available for benefits <u>Cash and cash equivalents</u> at the end of the year	 X	 X	 X

EXAMPLE B continued.



Illustrative Example 2**Contributions as a liability and benefits as a reduction in this liability**

The Government XYZ Retirement Benefit Plan is a Defined Contribution Plan with members paid the balance of their individual account when they retire. The plan is funded by employers' contributions and employees are also able to contribute. Each member pays an annual fee from their individual account to fund the investment manager fees and other administrative costs.

The Retirement Benefit Plan considers all contributions to be a liability to the participant and reflects this in the statement of changes in member obligations. Benefits paid to the participants are a reduction in this liability and are also reflected in the statement of changes in retirement benefit obligations.

This Retirement Benefit Plan considers that returns on investments, administrative expenses and taxes are operating activities, purchases and sales of plan investments are investing activities and because contributions and benefits paid are considered to be a liability and a reduction in that liability respectively, these transactions are financing activities.

This retirement benefit plan prepares the following financial statements.

Statement of Financial Position**As at December 31, 20X2**

(In thousands of currency units)

<u>Assets</u>	<u>20X2</u>	<u>20X1</u>
Cash and cash equivalents	<u>X</u>	<u>X</u>
Plan investments		
Equities	<u>X</u>	<u>X</u>
Fixed income securities	<u>X</u>	<u>X</u>
Investment funds	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>
Contributions receivable		
Other assets	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>
<u>Total assets</u>	<u>X</u>	<u>X</u>
 <u>Liabilities</u>		
Payables	<u>X</u>	<u>X</u>
Benefits due and payable	<u>X</u>	<u>X</u>

<u>Income tax payable</u>	<u>X</u>	<u>X</u>
<u>Total liabilities excluding benefits obligations to participants</u>	<u>X</u>	<u>X</u>
<u>Net assets available for benefits</u>	<u>X</u>	<u>X</u>
<u>Defined contribution obligations to participants</u>	<u>X</u>	<u>X</u>
<u>Excess or deficit of funding</u>	<u>X</u>	<u>X</u>

Statement of Changes in ~~Retirement Benefit Obligations~~ Net Assets Available for Benefits

(Contributions as a liability and benefits paid as a reduction in that liability)

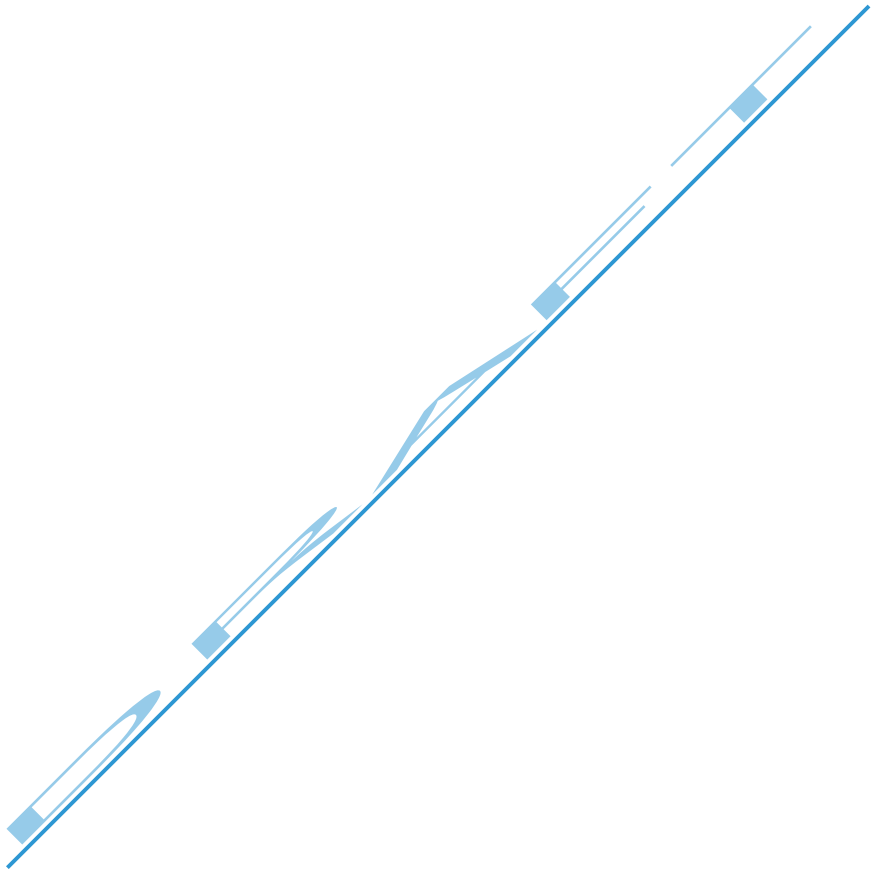
For year ended December 31, 20X2

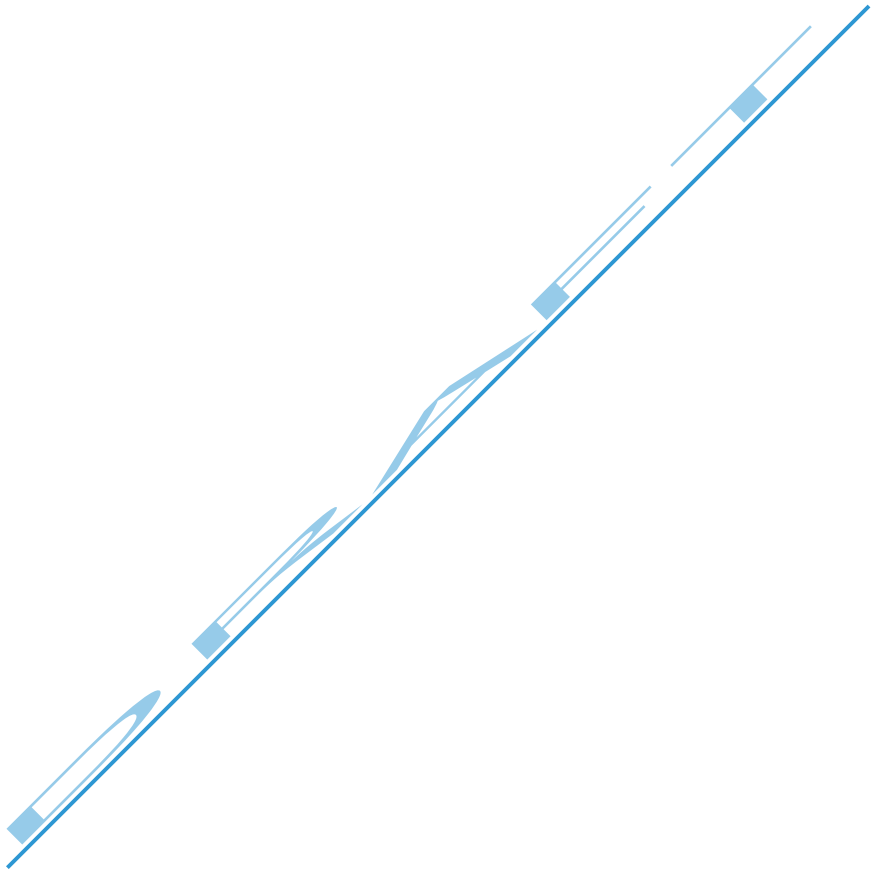
(In thousands of currency units)

	20X2	20X1
Retirement benefit obligations <u>Net assets available for benefits</u> at the beginning of the year	X	X
Contributions <u>Investment income</u>		
—— Employer contributions <u>Net change in fair value of investments</u>	X	X
—— Employee contributions <u>Interest income</u>	X	X
—— Transfers from other retirement benefit plans <u>Dividend income</u>	X	X
<u>Other income</u>		
Total Increases <u>increases</u> in Retirement Benefit Obligations <u>net assets available for benefits</u>	X	X
<u>Administrative expenses</u>	<u>X</u>	X
<u>Investment related expenses</u>	<u>X</u>	X
Benefits paid <u>Other expenses</u>	X	X
Taxes on contributions <u>income</u>	X	X
Transfers to other retirement benefit plans <u>Total decreases in net assets available for benefits</u>	X	X
Total Decreases in Retirement Benefit Obligations	X	X

<u>Transfers to and from other plans</u>	<u>X</u>		X
Changes in actuarial assumptions <u>Net benefits allocated to members accounts</u>	<u>(X)</u>	X	<u>(X)</u>
Net increase/(decrease) in Retirement Benefit Obligations<u>assets available for benefits</u>	X	X	X
Retirement Benefit Obligations<u>Net assets available for benefits</u> at <u>the</u> end of <u>the</u> year	X	X	X

BC35.—





Statement of Changes in Retirement Benefit Obligations**For year ended December 31, 20X2**

(In thousands of currency units)

	<u>20X2</u>	<u>20X1</u>
<u>Retirement benefit obligations at the beginning of the year</u>	<u>X</u>	<u>X</u>
<u>Contributions</u>		
<u>Employer contributions</u>	<u>X</u>	<u>X</u>
<u>Employee contributions</u>	<u>X</u>	<u>X</u>
<u>Transfers from other retirement benefit plans</u>	<u>X</u>	<u>X</u>
<u>Benefits allocated to members accounts</u>		
<u>Net investment revenue</u>	<u>X</u>	<u>X</u>
<u>Administration fees</u>	<u>(X)</u>	<u>(X)</u>
<u>Total Increases in Retirement Benefit Obligations</u>	<u>X</u>	<u>X</u>
<u>Benefits paid</u>	<u>X</u>	<u>X</u>
<u>Taxes on contributions</u>	<u>X</u>	<u>X</u>
<u>Transfers to other retirement benefit plans</u>	<u>X</u>	<u>X</u>
<u>Total Decreases in Retirement Benefit Obligations</u>	<u>X</u>	<u>X</u>
<u>Net increase/decrease in Retirement Benefit Obligations</u>	<u>X</u>	<u>X</u>
<u>Retirement Benefit Obligations at end of year</u>	<u>X</u>	<u>X</u>

Cash Flow Statement

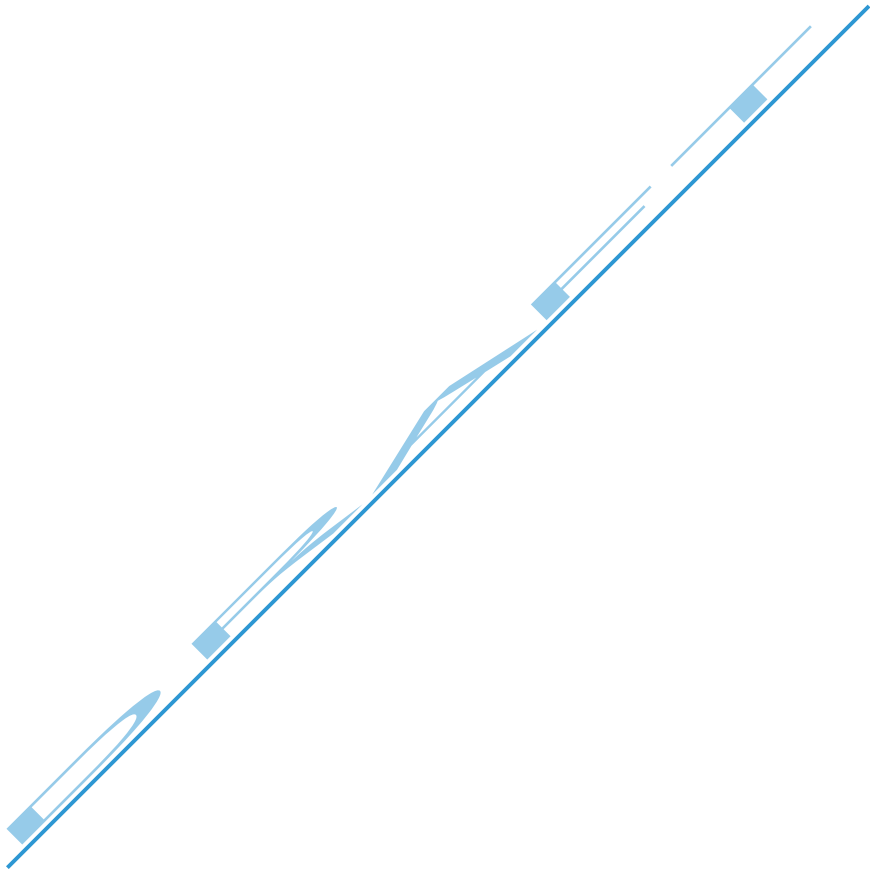
(Contributions as Liabilities and Benefits as Reduction in Liabilities are classified as Financing Activities and Purchase and Sale of Investments classified as Investing activities)

For year ended December 31, 20X2

(In thousands of currency units)

	<u>20X2</u>	<u>20X1</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
<i><u>Receipts</u></i>		
<u>Interest revenue received</u>	<u>X</u>	<u>X</u>
<u>Dividend revenue received</u>	<u>X</u>	<u>X</u>
<u>Other revenue received</u>	<u>X</u>	<u>X</u>
<i><u>Payments</u></i>		
<u>Investment related expenses</u>	<u>(X)</u>	<u>(X)</u>
<u>Administrative expenses</u>	<u>(X)</u>	<u>(X)</u>
<u>Other expenses</u>	<u>(X)</u>	<u>(X)</u>
<u>Taxes paid on income</u>	<u>(X)</u>	<u>(X)</u>
<u>Net cash inflows (outflows) from operating activities</u>	<u>X</u>	<u>X</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
<u>Sale of investment assets</u>	<u>X</u>	<u>X</u>
<u>Purchase of investment assets</u>	<u>(X)</u>	<u>(X)</u>
<u>Net cash inflows (outflows) from investing activities</u>	<u>X</u>	<u>X</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
<u>Employer contributions received</u>	<u>X</u>	<u>X</u>
<u>Employee contributions received</u>	<u>X</u>	<u>X</u>
<u>Member benefits paid</u>	<u>(X)</u>	<u>(X)</u>
<u>Net cash inflows (outflows) from financing activities</u>		

<u>Net increase (decrease in cash and cash equivalents</u>	<u>X</u>	<u>X</u>
<u>Cash and cash equivalent at the beginning of the year</u>	<u>X</u>	<u>X</u>
<u>Cash and cash equivalents at the end of the year</u>	<u>X</u>	<u>X</u>



Comparison with IAS 26

[draft] IPSAS [X] (ED 82), *Retirement Benefit Plans* is drawn primarily from IAS 26, *Accounting and Reporting by Retirement Benefit Plans* (issued in 1987).

The main differences between [draft] IPSAS [X] (ED 82) and IAS 26 are as follows:

- [draft] IPSAS [X] (ED 82) requires the actuarial present value of promised retirement benefits to be measured using projected salaries;
- [draft] IPSAS [X] (ED 82) requires all plan investments to be measured at fair value;
- [draft] IPSAS [X] (ED 82) specifies a retirement benefit plan must prepare:
 - A statement of financial position;
 - A statement of changes of net assets available for benefits; and
 - A cash flow Statement; and
- [draft] IPSAS [X] requires the actuarial present value of promised retirement benefits to be presented on the face of the statement of financial position.

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