

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: February 24, 2022

Agenda Item 1

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	1.1.1
	Instructions up to Previous Meeting	1.1.2
	Decisions up to Previous Meeting	1.1.3
Decisions required at this meeting	Overview of Finalization Process	1.2.1
	Implementation of December 2021 Instructions	1.2.2
Other supporting items	Supporting Documents 1 – Exposure Draft 82, <i>Retirement Benefit Plans</i>	1.3.1

**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"> 1. Review [draft] Exposure Draft (ED) 2. Approve ED
February 2022	<ol style="list-style-type: none"> 1. Final Approval of ED
March 2022	<ol style="list-style-type: none"> 2. Issue Exposure Draft
April 2022-July 2022	<ol style="list-style-type: none"> 1. Consultation Period (4 months)
September 2022	<ol style="list-style-type: none"> 1. Initial Review of Comments to Exposure Draft 2. Discuss Issues
December 2022	<ol style="list-style-type: none"> 1. Discuss Issues 2. Review [draft] IPSAS
March 2023	<ol style="list-style-type: none"> 1. Approve IPSAS
April 2023	<ol style="list-style-type: none"> 1. Issue IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
December 2021	1. Consider how Paragraph 10 can more clearly specify that the definitions are only 'For the purpose of this [draft] Standard'.	1. Now paragraph 9 – the lead paragraph states these terms are used for this Standard, also the definitions for defined benefit plans and defined contribution plans state "For the purposes of this [draft] Standard..."
December 2021	2. Soften the proposed text for the new AG16 paragraph, to allow for shared funding arrangements.	2. See Paragraph AG16.
December 2021	3. Revise the text in AG16 regarding the relationship with the sponsor and make reference to 'rules of the scheme' and/or 'legislation' when determining any funding shortfalls.	3. See Paragraph AG16.
December 2021	4. Revise the text in AG16 to soften the requirement that an actuary should always calculate the actuarial present value of promised retirement benefits.	4. See Paragraph AG16.
December 2021	5. Insert in the Scope paragraph of the ED text to explain that, for the purposes of this Standard, defined benefit plans include hybrid plans (a mixture of defined benefits and defined contributions) and that references to defined benefit plans should be read in that context. Remove the references to 'hybrid plans' elsewhere in the ED and ensure consistency across the ED in this regard, including in the definition of defined benefit plans.	5. See paragraph 6. One reference to hybrid plans remains in AG12.
December 2021	6. Replace paragraphs AG26-AG29 with revised text approved in the meeting.	6. Paragraphs AG26-AG29 have been revised.
December 2021	7. In revised paragraph AG27, make a cross reference to the Illustrative Examples.	7. See paragraph AG29.

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December 2021	8. In revised paragraph AG27, make reference that benefits paid may be considered to be a reduction in liabilities.	8. See paragraph AG29.
December 2021	9. Review the requirements of IAS 26 to consider whether requirement for a defined contribution plan to prepare a statement of financial position and recognize the defined contribution obligation on that statement is a departure from IAS 26, and if so, include a Specific Matters for Comment (SMC).	9. IAS 26 does not require a statement of financial position but rather a statement of net assets available for benefits. IAS 26 does not require nor prohibit recognition of the defined benefit obligation in the financial statements. SMC 6 has been amended slightly.
December 2021	10. Include an SMC about prospective application of the [draft] Standard.	10. See SMC 9.
December 2021	11. Revise the text in BC24 to explain the rationale for not requiring retrospective application. Specifically, users are concerned primarily with the obligations for future retirement benefits and any deficits that will need to be financed by governments. Explain the consequences on the various financial statements.	11. See BC24 and SMC 9.

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
December 2021	1. To give preliminary approval to ED 82 subject to: (a) Implementation of instructions to staff; and (b) Resolution of any significant issued identified during the editorial process.	1. See Agenda Item 1.2.2
September 2021	2. 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.	2. See [draft] IPSAS [X] (ED 82) paragraph BC5
September 2021	3. Specific Matter for Comments on all key differences from IAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i> should be included.	3. See Agenda Item 5.2.4 and [draft] IPSAS [X] (ED 82), Specific Matters for Comment 1-6
September 2021	4. The actuarial present value of promised retirement benefits shall be calculated using projected salaries.	4. See [draft] IPSAS [X] (ED 82) paragraph BC11
September 2021	5. Plan assets shall be measured at fair value.	5. See [draft] IPSAS [X] (ED 82) paragraph BC12
September 2021	6. The actuarial present value of promised retirement benefits shall be presented on the face of the statement of financial position.	6. See [draft] IPSAS [X] (ED 82) paragraph BC16
September 2021	7. Classification of contributions and benefits will not be specified, but rather guidance will be included to illustrate different approaches that could be taken.	7. See [draft] IPSAS [X] (ED 82) paragraphs BC13-BC14
September 2021	8. 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.	8. 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

Overview of Finalization Process

Purpose

1. To provide the IPSASB with an overview of the process followed during Q1 2022 to clear the “subject to” items in ED 82.

Background

2. In December 2021, the IPSASB approved ED 82 subject to:
 - (a) Implementation of instructions to staff; and
 - (b) Resolution of any significant issues identified during the editorial process.

Analysis

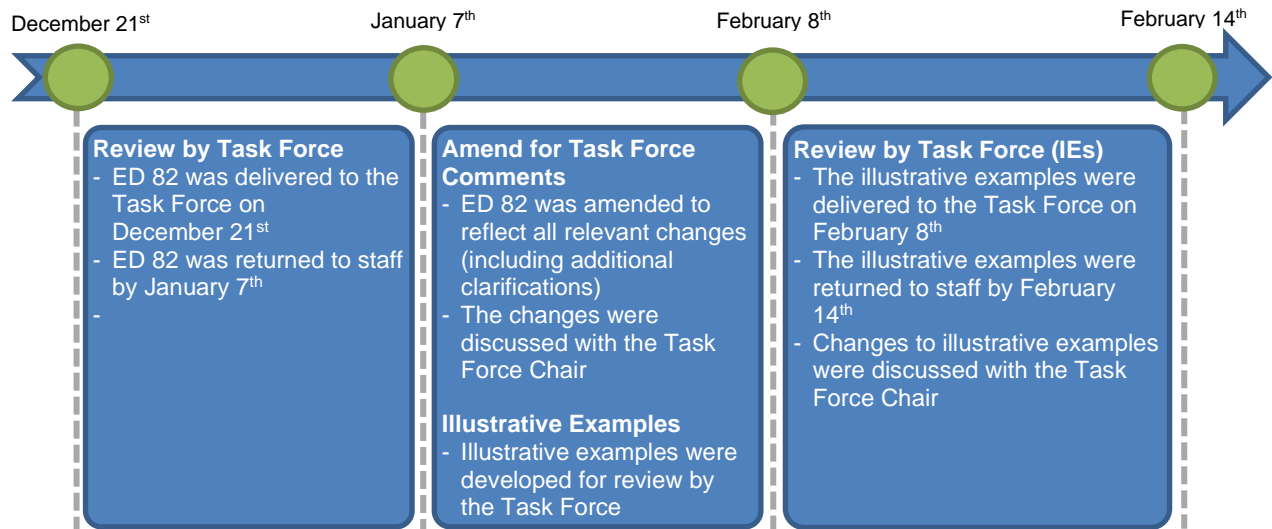
3. The objective of the February Check-In is to clear all remaining ED 82 items. Items in paragraph 2 have been addressed as follows:

Item Subject To Approval	Action
Implementation of instructions to staff	See Agenda Item 1.2.2 Staff and the Task Force cleared all IPSASB instructions from December 2021.
Resolution of any significant issues identified during the editorial process	See Agenda Item 1.2.2 Staff and the Task Force identified clarifications that would facilitate the application of the [draft] Standard. While not significant, the opportunity was taken to clarify.

Process Followed

4. Immediately following the December IPSASB meeting, instructions were addressed and reflected in an updated version of ED 82. This document was provided to the Task Force to allow them to review the changes. This process is overseen by the Task Force Chair.
5. The Task Force included:
 - (a) David Watkins (Task Force Chair);
 - (b) Mike Blake
 - (c) Moushumi Dullabh
 - (d) Renée Pichard
 - (e) Kamira Sanchez Nicosia
 - (f) Karl-Ludwig Soll
6. The process occurred over the following timeline:

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7. The Task Force was asked to:
 - (a) Evaluate whether the instructions had been appropriately addressed; and
 - (b) Ensure the changes proposed were consistent with the principles approved by the IPSASB.
8. Clarifications resulting from the Task Force's review of ED 82 were addressed by IPSASB staff.
9. Following the Task Force's review, staff developed Illustrative Examples based on principles in ED 82. These illustrative examples were reviewed by the Task Force. Staff addresses comments from Task Force members accordingly.
10. The results of the 'subject to' process are as follows:
 - (a) All relevant changes, including changes to enhance consistency, are reflected in the version of ED 82 included in this agenda item (see [Agenda Item 1.3.1](#));
 - (b) Illustrative examples are developed and included in the version of ED 82 included in this agenda item (see [Agenda Item 1.3.1](#));
 - (c) The Task Force Chair reviewed all changes proposed; and
 - (d) No changes or issues beyond editorial changes were proposed by IPSASB staff or the Task Force.

Implementation of December 2021 Instructions

Question

1. Does the IPSASB agree the December instructions have been reflected in ED 82?

Recommendation

2. Staff recommend:
- (a) Actioning the IPSASB's decisions and instructions as noted in ED 82 (see [Agenda Item 1.3.1](#)); and
 - (b) Clarifying specific items as noted in ED 82 (see [Agenda Item 1.3.1](#)).

Background

3. In December 2021, the IPSASB approved ED 82 subject to:
- (a) Implementation of instructions to staff; and
 - (b) Resolution of any significant issues identified during the editorial process.

Analysis

Implementation of instructions to staff

4. Staff has actioned the instructions from the December meeting. The following table summarizes these changes:

	Instruction	Action
a)	Consider how Paragraph 10 can more clearly specify that the definitions are only 'For the purpose of this [draft] Standard'.	Done See paragraph 9.
b)	Soften the proposed text for the new AG16 paragraph, to allow for shared funding arrangements.	Done See AG 16.
c)	Revise the text in AG16 regarding the relationship with the sponsor, and make reference to 'rules of the scheme' and/or 'legislation' when determining any funding shortfalls.	Done See AG 16.
d)	Revise the text in AG16 to soften the requirement that an actuary should always calculate the actuarial present value of promised retirement benefits.	Done See AG 16.
e)	Insert in the Scope paragraph of the ED text to explain that, for the purposes of this Standard, defined benefit plans include hybrid plans (a mixture of defined benefits and defined contributions) and that references to defined benefit plans should be read in that context. Remove the references to 'hybrid plans' elsewhere in the ED and ensure consistency across the ED in this regard, including in the definition of defined benefit plans.	Done See paragraph 6.

	Instruction	Action
f)	Replace paragraphs AG26-AG29 with revised text approved in the meeting.	Done See AG 28 and AG 29.
g)	In revised paragraph AG27, make a cross reference to the Illustrative Examples.	Done See AG 29.
h)	In revised paragraph AG27, make reference that benefits may be considered to be a reduction in liabilities.	
i)	Review the requirements of IAS 26 to consider whether the requirement for a defined contribution plan to prepare a statement of financial position and recognize the defined contribution obligation on that statement is a departure from IAS 26, and if so, include a Specific Matters for Comment.	Done The requirements in IAS 26 are vague. See amendment to SMC 6.
k)	Include an SMC about prospective application of the [draft] Standard.	Done See SMC 9.
l)	Revise the text in BC24 to explain the rationale for not requiring retrospective application. Specifically, users are concerned primarily with the obligations for future retirement benefits and any deficits that will need to be financed by governments. Explain the consequences on the various financial statements.	Done See BC 24 and SMC 9.

Resolution of any significant issues identified during the editorial process

5. As part of the editorial process, staff and the Task Force identified additional clarifications necessary to enhance the understandability of ED 82. None of these clarifications is significant. They clarify existing principles in ED 82. However, staff and the Task Force Chair draw the IPSASB's attention to the newly defined term – retirement benefit obligation.

Clarification	Action
Defining retirement benefit obligation The term 'retirement benefit obligation' is used throughout ED 82. However, it was undefined. This created differences in interpretation and may lead to challenges when applying the guidance in practice and inconsistent application.	Retirement benefit obligation is now a defined term It is split between defined benefit and defined contribution plans to capture the unique characteristics of each obligation. See paragraph 9.
Retirement Benefit Plan Obligations for defined benefit plans are liabilities of the broader public sector As part of implementing the IPSASB's instructions, staff reviewed the Board's December discussion. Members discussed the need for clarification between the risks	Added 'Provision' to clarify the risk associated with defined benefit plan retirement obligations resides with the employer/public sector. Throughout ED 82, an emphasis has been placed on the fact that the actuarial present value of promised retirement benefits of

Clarification	Action
associated with retirement benefit obligations for defined benefit plans as compared with defined contribution plans. Specifically, who bears the risk. This is important because many public sector retirement benefit plans are unfunded, operating on a pay-as-you-go basis whereby benefits are payable from general taxation.	defined benefit plans are provisions. This highlights the uncertainty associated with the timing and amount of the obligation and that risk associated with the obligation resides with the public sector entity. See SMC 5, paragraphs 10, 11, 17, AG5, AG16 and BC15.

Decision Required

6. Does the IPSASB agree with the Staff recommendation?

Supporting Documents 1 – Exposure Draft 82, *Retirement Benefit Plans*

1. Guidance in [draft] IPSAS X, *Retirement Benefit Plans* (ED 82) has been updated to reflect:
 - (a) IPSASB instructions to staff; and
 - (b) Resolution of any significant issues identified during the editorial process.
2. Changes have been tracked.

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®

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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~~ and others who are members of the retirement benefit plan and any deficit in the 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 ~~10~~ BC109 (see paragraphs ~~BC10–BC14~~ BC13)

This Exposure Draft (ED) proposes amending the IAS 26 definition of ‘defined benefit plans’ to include all retirement benefit plans that are not defined contribution plans. The definition proposed for a defined benefit plan is consistent with IPSAS 39, Employee Benefits 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 ~~9~~ BC13 (see paragraph ~~BC14~~)

This ED ~~retains~~ proposes to retain the IAS 26 definition for ‘actuarial present value of promised retirement benefits’ as it addresses the plan perspective rather than to use the IPSAS 39, ~~Employee Benefits~~ definition for ‘present value of ~~promised retirement benefits~~ a defined benefit obligation’.

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

Specific Matter for Comment 3 – Paragraph ~~13~~ 12 ~~(BC16)~~ (see paragraph ~~BC19~~)

~~This ED~~ IAS 26 allows plan assets to be valued at amounts other than fair value. This ED removes the choice in IAS 26 and proposes that plan investments should be measured at fair value.

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

Specific Matter for Comment 4 – Paragraph ~~1413~~ (see paragraph ~~BC14~~BC17)

IAS 26 allows the actuarial present value of promised retirement benefits to be calculated using either current or projected salaries. This ED proposes that only projected salaries should be used.

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

Specific Matter for Comment 5 – Paragraph ~~(BC22)10~~ (see paragraph BC15)

This ED proposes that for defined benefit plans the actuarial present value of promised retirement benefits ~~shall be~~ recognized and presented on the face of the statement of financial position as a ~~provision for that~~ obligation. This removes two options in IAS 26 which permit the actuarial present value of promised retirement benefits to be only 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 6 – Paragraph ~~18~~(~~BC23~~11 (see paragraph BC16)

IAS 26 does not specify whether or where the retirement benefit obligations for defined contribution plans should be recognized and presented. ~~Therefore~~To achieve the objective of increased transparency and accountability, this ED proposes (similar to the actuarial present value of promised retirement benefits), that the defined contribution obligations should ~~also be~~ recognized and presented on the face of the statement of financial position.

~~Specific Matter for Comment 7 – Paragraphs 16(c) and 20, (BC20)~~

~~This ED proposes that a retirement benefit plan should be required to prepare a cash flow statement. Further, this cash flow statement shall be prepared using the direct method. IAS 26 same way as the as the actuarial present value of promised retirement benefits is silent on whether a cash flow statement is required.~~recognized and presented as an obligation.

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

Specific Matter for Comment 7 – Paragraphs 15(c) and 19, (see paragraph BC23)

This ED proposes that a retirement benefit plan be required to prepare a cash flow statement, whereas IAS 26 is silent on this. This ED also proposes the cash flow statement be prepared using the direct method.

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

~~Specific Matter for Comment 8 – Factors to consider to determine whether contributions and benefits are revenue and expenses or liabilities and a reduction of liabilities~~ Paragraphs ~~BC18~~BC20 – ~~BC19~~BC21 and Implementation Guidance

~~The IPSASB recognizes that public~~Public sector retirement benefit plans are structured and/or regulated in many different ways and ~~that any~~ jurisdiction-specific requirements ~~may determine~~on how to account for contributions and benefits ~~should be accounted for. Therefore, this~~may vary. This ED proposes not to require contributions or benefits to be accounted for as any specific element in the financial statements, which is aligned with the approach taken in IAS 26. Instead, Implementation Guidance and Illustrative Examples are provided.

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

Specific Matter for Comment 9 – Paragraph 27 (see paragraph BC24)

This ED proposes prospective application of the requirements of the Standard, which would require an opening and closing statement of financial position in accordance with the Standard but no changes to comparative figures in other financial statements.

Do you agree with this proposal? 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 primarily 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'.
4. This [draft] Standard ~~regardstreats~~ a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan. This [draft] Standard deals with the accounting and reporting requirements for the plan for all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.
5. ~~This [draft] Standard deals only with retirement benefits for retired public sector employees and other participants who are eligible to join the plan.~~ It 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*).
- ~~6. 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.~~
- ~~7.6.~~ 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.~~ For the purposes of this [draft] Standard, defined benefit plans include hybrid plans, which are retirement benefit plans that contain characteristics of both defined benefit plans and defined contribution plans. References in this [draft] Standard to defined benefit plans should be read as encompassing hybrid plans.
- ~~8.7.~~ 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.
- ~~9.8.~~ 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.

Definitions

~~10.9.~~ 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: ~~For the purposes of this [draft] Standard, defined benefit plans~~ are retirement benefit plans other than defined contribution plans.

~~Defined~~ Defined contribution plans: ~~For the purposes of this [draft] Standard, 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 ~~for~~are:

~~(a) For~~ defined benefit plans ~~are~~ the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits and, in a hybrid plan, the defined contribution obligation to participants; and

~~Net assets available for benefits for~~ (b) For defined contribution plans ~~are~~ the assets of a plan less liabilities other than the defined contribution obligations s to participants.

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

Retirement benefit obligations are:

~~(a) For defined benefit plans, the actuarial present value of promised retirement benefits;~~
and

~~(b) For defined contribution plans, the amounts owed to participants.~~

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

~~11.10.~~ For defined benefit plans, retirement benefit obligations owed to participants shall be recognized in the statement of financial position as a provision for the actuarial present value of the actuarial present value of promised retirement benefits are obligations owed to participants and therefore the actuarial present value of those benefits (and, in hybrid plans,

~~the defined contribution obligation to participants) shall be recognized in the statement of financial position.~~

12.11. For defined contribution plans, defined contribution obligations are the amounts are obligations owed to participants under the terms of the scheme and therefore shall be recognized in the statement of financial position.

Measurement

Valuation of Plan Investments

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

Actuarial ~~present value~~ Present Value of ~~promised retirement benefits~~ Promised Retirement Benefits

14.13. 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.

15.14. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent actuarial valuation, updated for any material transactions and material changes in circumstances, shall be used.

Presentation and Disclosure

Presentation of Financial Statements

16.15. 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.

17.16. A retirement benefit plan shall also explain the changes in retirement benefit obligations to participants by 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

18.17. 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) **Provision for Actuarial present value of promised retirement benefits in a defined benefit plan**;
- (h) Defined contribution obligations to participants; and
- (i) Excess or deficit.

Statement of Changes in Net Assets Available for Benefits

19.18. 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;
- (h) Other expenses; and
- (i) Taxes on income.

Cash Flow Statement

20.19. A retirement benefit plan shall prepare a cash flow statement, using the direct method, in accordance with IPSAS 2, *Cash Flow Statements*.

Changes in Retirement Benefit Obligations

21.20. Paragraph **17.16** requires a retirement benefit plan to present information that explains the changes in **retirement benefit member** obligations either as a financial statement or as a reconciliation in the notes to the financial statements.

22.21. This statement or note shall present **a reconciliation of** 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 (**e.g.**, actuarial movements);
- (e) Employer contributions;

- (f) **Employee contributions;**
- (g) **Taxes on contributions;**
- (h) **Benefits paid; and**
- (i) **Administration expenses.**

Disclosure

23.22. 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 (see paragraph 25.24) 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;

24.23. 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;
- (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; and
- (d) The date of the actuarial valuation and when the next valuation will be undertaken.

25.24. A retirement benefit plan's financial statements shall contain a description of the plan. It should contain the following:

- (a) The names of the ~~employer~~employer(s) 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

~~26-25.~~ 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.

~~27-26.~~ 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

Appendix A

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 primarily to public sector employees. Some public sector retirement benefit plans may also be open to participants working in the same field in the private sector (e.g., teachers in private sector schools¹) and are in the scope of this [draft] Standard. 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. This [draft] Standard applies to retirement benefit plans established by public sector employers to provide retirement benefits (either in the form of an annual income and/or as a lump sum) primarily 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.

AG2-AG3. 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 (where the defined benefit plan is funded) and plan benefits over time¹ and, in particular, the extent of any deficits. This objective is usually achieved by providing financial statements that include the following:

- (a) The recognition of the actuarial present value of promised retirement benefits; (and, for hybrid plans, the defined contribution obligation);
- (b) Actuarial information about the retirement benefit obligations, including the measurement basis;
- (c) 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;
- (d) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period¹;
- (e) A description of the investment policies (when the plan is funded); and
- (f) How a pay-as-you-go¹ retirement benefit plan obligation is financed.

AG3-AG4. 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:

- (a) The recognition of the defined contribution obligation;
- (b) 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;

¹ Many public pension systems operate on a pay-as-you-go basis. This means that pensions paid to current pensioners are typically financed from general taxation and from contributions paid by current workers.

- (c) 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
- (d) A description of the investment policies.

AG4-AG5. ~~To~~Given the prevalence and significance of retirement benefit scheme obligations to current and former employees, 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, with defined benefit plan obligations and defined contribution plan obligations presented differently.

~~AG5-AG1.~~ ~~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 ~~2-9~~)8)

AG6. A retirement benefit plan is a reporting entity. That is, it reports separately from the entity that administers the plan. and separately from the employer. For example, where an entity ~~may administer many~~administers more than one separate retirement benefit ~~plans~~plan, this [draft] Standard applies to each of those plans and requires ~~financials statement~~financial statements to be prepared for each retirement benefit plan.

AG7. Retirement benefit plans can also be classified as single employer, multi-employer², or state plans³. That classification may have an impact on the application of IPSAS 39, *Employee Benefits* but does not alter the application of this [draft] Standard.

AG8. Many public sector entities provide retirement benefits 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 not be reported in any employer financial statements.

AG7-AG9. Some retirement benefit plans have sponsors other than employers; (trades unions, for example); this [draft] Standard also applies to the financial statements of such plans.

AG8-AG10. 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

² 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.

³ 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.

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.

AG9-AG11. 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.

~~AG10-AG11. Retirement benefit plans can also be classified as single employer, multi-employer⁴, or state plans⁵. That classification may have an impact on the application of IPSAS 39, *Employee Benefits* but does not alter the application of this [draft] Standard.~~

~~AG11. 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 10)9)

AG12. For the purposes of this [draft] Standard, 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. The extent of the obligation for future retirement benefits is determined by the measurement of the promised retirement benefits and not by the level of the contributions. Defined benefit plans might be funded or **else** established on a pay-as-you-go basis, under which all benefits payable will be financed from, for example, general taxation.

AG13. 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. Because the employer provides for retirement benefits based on these assumptions, any risks inherent in the actuarial assumptions and any investment risk typically fall on the employer.

AG14. 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

⁴—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.

⁵—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.

with investment earnings. The extent of the obligation for future retirement ~~benefit~~benefits is therefore capped by the size of the fund at the reporting date.

- AG15. 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 (see paragraphs 10 and 11)

AG16. This [draft] Standard requires the obligations to participants to be recognized and presented on the face of the Statement of Financial Position. In a defined benefit plan, the obligation is a provision (a liability of uncertain timing or amount) called the actuarial present value of promised retirement benefits; it will generally be calculated by an actuary in accordance with the rules of the plan (qualifying service and salary, for example) using actuarial assumptions. A hybrid plan will also have defined contribution obligations. The responsibility for making good any deficit between the value of any plan assets and the promised retirement benefits may lie with the sponsor of the plan, or with the appropriate level of government, or, in a shared funding arrangement, one of more of the sponsors, depending on the rules of the retirement benefit plan and/or legislation.

AG17. In a defined contribution plan, the obligations to participants equate to the value of the fund less, if required by the rules of the plan or other regulations, any retention for specified purposes (investment risks, for example).

Measurement (see paragraphs ~~13–15~~12–14)

Valuation of Plan Assets

AG18. The term 'plan assets' is an overarching term for all assets of the retirement benefit plan. Plan investments are a subset of plan assets and are those assets that are acquired specifically for their investment potential to fund payment of retirement benefit obligations.

~~AG16.~~AG19. 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.~~

AG17.—

AG18-AG19. ~~Any~~Therefore, any plan investments that are financial instruments would be measured at fair value under IPSAS 41, *Financial Instruments*. ~~Other plan investments would be measured in accordance with the applicable IPSAS (e.g., IPSAS 16, *Investment Property*). Other plan assets are accounted for in accordance with the applicable IPSAS.~~

Actuarial Present Value of Promised Retirement Benefits

AG19-AG20. The actuarial present value of promised retirement benefits based on projected salaries is recognized to indicate the magnitude of the potential obligation on a going concern basis, which is generally the basis for funding.

AG20-AG21. 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

AG21-AG22. Unless specifically overridden 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~~its approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* shall also apply.

Presentation and Disclosure (see paragraphs ~~16–25~~15–24)

Financial Statements

AG22-AG23. This [draft] Standard overrides the requirements of IPSAS 1, *Presentation of Financial Statements* by setting out in paragraphs ~~1615-1716~~ which financial statements a retirement benefit plan shall present.

Statement of Financial Position

AG23-AG24. 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.

AG25. The statement of financial position ~~also requires the presentation of~~is required to present the actuarial present value of promised retirement benefits and defined contribution obligation to plan participants below 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 of governments to participants.

AG24-AG26. 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~~include 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~~a participant that is yet to be paid.

Statement of Changes in Net Assets Available for Benefits

AG25-AG27. 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 the plan's investment managers) are paid out of investment income.

Statement of Changes in Retirement Benefit Obligations

AG26-AG28. 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.

AG27-AG29. 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, while others account for contributions and benefits as changes in liabilities to participants. In some cases, the structure of 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. Mixed approach~~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~~Depending on the circumstances, the line items for contributions ~~as revenue~~ and benefits ~~as a reduction in the retirement benefit obligation. In this circumstance, contributions would~~paid may need to be presented in the statement of changes of ~~net assets available for benefits, and benefits would be presented in~~shown differently on the face of the statement of changes in retirement benefit obligations. ~~(see the Illustrative Examples).~~

Cash Flow Statement

[AG28-AG30.](#) When preparing the cash flow statement, a retirement benefit plan should consider the requirements and guidance in IPSAS 2, *Cash Flow Statements*. This [draft] Standard requires cash flows to be reported using the direct method, because the structure of the other financial statements ~~means makes it unlikely~~ that an annual surplus or deficit ~~is unlikely to will~~ be reported, making the indirect method impracticable.

[AG29-AG31.](#) Different retirement benefit plans may treat certain transactions differently. For example, contributions may be revenue or ~~a liability~~an obligation 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

[AG30-AG32.](#) 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.

[AG31-AG33.](#) 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.

[AG32-AG34.](#) 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 through~~ funding from a central government or other entity.

Effective Date and Transition (see paragraphs ~~26–28~~25–27)

[AG33-AG35.](#) 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~~AG2 was amended by [draft] IPSAS ~~[X] (ED 82)~~[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.**

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. 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.

BC3. Multi-employer plans and state plans are common in the public sector. Because IPSAS 39, *Employee Benefits*, allows employers contributing to these types of plans to report on a defined contribution basis, even if they are a defined benefit plan, the IPSASB was of the view that there may be a lack of transparent reporting of these plans' obligations for retirement benefits. The IPSASB noted that, while IPSAS 39 was aligned with IAS 19, *Employee Benefits*, there was no IPSAS equivalent to IAS 26.

BC2-BC4. 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-BC1. 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. The IPSASB noted that, while IPSAS 39, *Employee Benefits*, was aligned with IAS 19, *Employee Benefits*, there was no IPSAS equivalent to IAS 26. Because multi-employer plans and state plans are common in the public sector, and because IPSAS 39 allows employers contributing to these types of plans to report on a defined contribution basis, even if they are a defined benefit plan, the IPSASB were of the view that there may be a lack of transparent reporting of these plans' obligations for retirement benefits.~~

BC5. Therefore, the IPSASB considered it was important to develop a Standard which would require retirement benefit plans to provide a more complete view of the public sector pension liability retirement benefit obligation for accountability purposes. Further, because governments are often responsible for funding the deficits of defined benefit plans, this information also supports governments in making fiscal decisions about whether continuing to provide defined benefit pensions (in particular) is sustainable; making such decisions is challenging without knowingeasy access to the expected cost of providing these pensionsretirement benefits in the form of an obligation on the plan's statement of financial position.

- BC6. 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.
- BC7. 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–~~98~~)

- BC8. 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.
- BC9. The IPSASB also agreed that the retirement benefit plan is the reporting entity; this is consistent with IAS 26. Therefore, for entities that ~~may~~ administer multiple retirement benefit plans, financial statements must be prepared for each individual plan.

Definitions (see paragraph ~~109~~)

~~BC10.~~ 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 IPSAS 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~~were written from a retirement benefit plan’s perspective.

~~BC11.~~ 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.

~~BC10-BC12.~~ The IPSASB did, 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”.

~~BC11-BC13.~~ 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.

~~BC12.~~ 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.

~~BC13-BC14.~~ The IPSASB considered whether the IAS 26 definition for the 'actuarial present value of promised retirement benefits' should be replaced with the IPSAS 39 definition for the 'present value of defined benefit ~~obligations~~obligations'. The IPSASB noted that the definitions were written from different perspectives and that there may be subtle differences in valuations. Therefore, it was decided to retain the IAS 26 definition.

Recognition (see paragraphs 10-11)

~~BC15.~~ The IPSASB noted that IAS 26 provides three options for defined benefit plans to present information on the actuarial present value of promised retirement benefits: recognition on the face of the financial statements, presentation in the notes to the financial statements, or 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 should be recognized on the face of the statement of financial position as a separate provision. The IAS 26 options permitting only disclosure of this information in notes to the financial statements, or in a separate actuarial report, are therefore not included in this [draft] IPSAS.

~~BC16.~~ The IPSASB also noted that IAS 26 is silent on whether or where ~~the~~ retirement benefit obligation for defined contribution plans should be recognized and presented in the financial statements of a retirement benefit plan. Therefore, to improve the accountability and transparency of ~~retirement benefits~~ such plans, ~~and to maintain consistency with defined benefit plans,~~ the IPSASB decided that amounts owed to participants under the terms of the plan ~~the defined contribution obligation~~ should also be presented on the face of the statement of financial position.

Measurement (see paragraphs ~~13-15~~12-14)

Actuarial Present Value of Promised Retirement Benefits

~~BC14-BC17.~~ 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.

~~BC15-BC18.~~ The IPSASB considered including a practical expedient whereby, under certain circumstances ~~(e.g., for single employer plans), if,~~ the trustees of ~~the~~a retirement benefit plan considered that the liability calculated under IPSAS 39, using the present value of defined benefit obligations, was not materially different from that calculated under the requirements of this [draft] Standard, ~~using the~~could use the plan sponsor's actuarial ~~present value~~valuation to measure the actuarial valuation of promised retirement benefits, ~~then the liability used for IPSAS 39 purposes could be used for~~ for the purpose of this [draft] Standard. The IPSASB noted the use of such a practical expedient in some jurisdictions, but also noted that in other jurisdictions regulatory requirements may result in a different ~~liabilities measurement for the same obligation~~. The IPSASB ~~were~~is also of the view that if the trustees of a retirement benefit plan considered the IPSAS 39 measurement was appropriate for retirement benefit plan purposes, they may use it without ~~there being~~needing a practical expedient in this [draft] Standard. Therefore, it was decided not to include such a practical expedient.

Valuation of Plan Assets

~~BC16. The IPSASB decided that the term 'plan assets' is an overarching term for all assets of the retirement benefit plan. Plan investments are a subset of plan assets and are those assets that are acquired specifically for their investment potential to fund payment of retirement benefit obligations.~~

~~BC17-BC19. 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

~~BC18-BC20. 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-an obligation. Similarly, benefits may be considered expenses or a reduction in a liabilitythat obligation depending on the jurisdiction.~~

~~BC19-BC21. The IPSASB decided that classifying contributions and benefits is dependentdepends on the structure and regulations of a-particularthe 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 ~~1615-25)-24)~~

~~BC20-BC22. 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.~~

~~BC21-BC23. In particular, the IPSASB noted it was unclear whether IAS 26 required a retirement benefit plan to present a cash flow statement. The IPSASB werewas of the view that retirement benefit plans should include a cash flow statement as it provides important information for users. Therefore, the IPSASB decided that this [draft] Standard would specify that a retirement benefit plan should present a cash flow statement. The IPSASB decided thatcash flow statement should be prepared using the direct method according to IPSAS 2, Cash Flow Statements, because this [draft] Standard does not require a statement of financial performance. Therefore, it is not practicalpracticable to prepare a cash flow statement using the indirect method, because there is no surplus or deficit to adjust for non-cash items. Therefore, the cash flow statement should be prepared using the direct method to derive net cash flows from operating activities.~~

~~BC22. 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.~~

~~BC23. The IPSASB noted that IAS 26 is silent on where and whether the retirement benefit obligation for defined contribution plans should be recognized and presented in the financial statements of a retirement benefit plan. Therefore, to help increase the accountability and transparency of retirement benefit plans, and to maintain consistency with defined benefit plans, the IPSASB decide that the defined contribution obligation should also be presented on the face of the statement of financial position.~~

Effective Date and Transition (see paragraphs ~~26–28~~25-27)

BC24. ~~The IPSASB~~ The IPSASB considered that the key information in the General Purpose Financial Statements of a retirement benefit plan comprises the obligation for future benefits, the extent of any deficit, and the change in those figures over the reporting period. The IPSASB concluded that requiring the application of the guidance on a prospective basis would best ~~served~~serve the needs of users of ~~the pension-retirement benefit~~ plan information because it enables the retirement benefit plan to provide that key information sooner than if retrospective application were required. Prospective application will require a retirement benefit plan to prepare an opening and closing Statement of Financial Position, and other Statements only ~~for~~from the year of adoption. This more quickly achieves one of the project objectives, which was to provide users with a more accurate view of the ~~pension obligation~~retirement benefit obligations of public sector entities. Retrospective application would require additional historical information and ~~would likely require a longer transition period.~~ ~~The IPSASB weighed an earlier effective date against more historical information and concluded a financial statement user was most concerned with the current year pension obligation and therefore an early effective date should be prioritized.~~ the key information would not be available as quickly as under prospective application.

Implementation Guidance

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

Factors to consider ~~to determine~~ in determining whether contributions and benefits are revenue and expenses or liabilities and a reduction of liabilities

Q. How do ~~the~~ preparers determine the accounting treatment of contribution and benefits?

~~A. The~~ A. There may be many different retirement benefit plan structures and frameworks even within the same jurisdiction, as well as across jurisdictions. In order to determine the economic substance of the arrangements in each plan, and therefore the most appropriate accounting treatments, the preparers of the retirement benefit plan financial statements should exercise professional judgment in making this determination and consider the following factors:

- (a) Characteristics of the plan;
- (b) Structure of the plan;
- (c) The regulatory environment;
- (d) Legislative environment;
- (e) Purpose of the contributions;
- (f) Type of benefits ~~paid~~ provided; and
- (g) The type of other expenses borne by the plan.

Illustrative Examples

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

The following illustrative examples (IE) provide examples of acceptable styles and formats for retirement benefit plans to present financial statements that are consistent with [draft] IPSAS [X] (ED 82). These IEs are not comprehensive nor mandatory. Other styles and formats are acceptable if they meet the requirements of this draft [IPSAS].

These IEs show three ways that the required financial statements can be presented. The different line items between the IEs are illustrative.

IE1 relates to a *defined benefit plan* where the contributions and benefits are treated as revenue and expenses and all cash flows are treated as operating cash flows

IE2 relates to a *defined benefit plan* where the contributions are treated as a liability and the benefits a reduction in that liability. Regarding cash flows, returns on investments, administrative payments, investment payments, and income taxes paid on investments are operating cash flows. Purchases and sales of plan investments are investing activities. Contributions and benefits, transfers to and from other plans, and income tax on contributions are financing activities.

IE 3 relates to a defined contribution plan where the contributions and benefits are treated as revenue and expenses. Regarding cash flows, returns on investments, administrative payments, contributions received and benefits paid (and associated receipts and payments), and income taxes are operating activities. Purchases and sales of plan investments are investing activities.

Statement of financial position **As at December 31, 20XY**

(In thousands of currency units)

Assets

Cash and cash equivalents

X X X

Plan investments (suitably classified)

X X X

Accrued interest and dividends receivable

X X X

Contributions receivable

X X X

Other assets

X X X

Total Assets

X **X** **X**

Statement of financial position
As at December 31, 20XY

IE1 **IE2** **IE3**
(DB) **(DB)** **(DC)**

(In thousands of currency units)

Liabilities

<u>Payables</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Benefits due and payable</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Income tax payable</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Other liabilities</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Total liabilities excluding benefit obligations to participants</u>	<u>X</u>	<u>X</u>	<u>X</u>
 <u>Net assets available for retirement benefits</u>	 <u>X</u>	 <u>X</u>	 <u>X</u>

<u>A</u>Provision for the actuarial present value of promised retirement benefits	<u>X</u>	<u>X</u>	<u>N/A</u>
<u>Defined contribution obligation</u>	<u>N/A</u> ⁶	<u>N/A</u> ⁷	<u>X</u>
 <u>Other reserves</u>	 <u>X</u>	 <u>X</u>	 <u>X</u>
 <u>Excess or deficit of funding</u>	 <u>X</u>	 <u>X</u>	 <u>X</u>

⁶ If this was a hybrid plan there would also be an amount for defined contribution obligations

⁷ As for footnote 1

Statement of changes in net assets available for benefits For the year ended December 31, 20XY	IE1	IE2	IE3
(In thousands of currency units)	(DB)	(DB)	(DC)
Net assets available for benefits (beginning of the year)	X	X	X
Investment earnings			
Net change in fair value of plan investments	X	X	X
Interest revenue	X	X	X
Investment revenue	X	X	X
Dividend revenue	X	X	X
Other revenue	X	X	X
	X	X	X
Contributions			
Employer	X	X	X
Member	X	X	X
	X	X	X
Funding from sponsor ⁸	X	X	X
Total increase in net assets available for benefits	X	X	X
Benefits paid	X	X	X
Investment related expenses	X	X	X
Operation and administrative expenses	X	X	X
Other expenses	X	X	X
Taxes on income	X	X	X
Total decrease in net assets available for benefits	X	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 (end of the year)	X	X	X

⁸ This funding is generally related to unfunded plans and may be made by made, for example, a central government. It is separate from contributions from the employer

Statement of changes in retirement benefit obligations
For the year ended December 31, 20XY

IE1 IE2 IE3
(DB) (DB) (DC)

(In thousands of currency units)

Retirement benefit obligations (beginning of the year)

X X X

Contributions

Employer

N/A X N/A

Member

N/A X N/A

Transfers from other plans

X X X

Taxes on contributions

N/A X N/A

Changes in actuarial assumptions

X X N/A

Benefits accrued

X X X

Total increase in retirement benefit obligations

X X X

Benefits paid

X X X

Transfers to other plans

X X X

Total decrease in retirement benefit obligations

X X X

Retirement benefit obligations (end of the year)

X X X

NOTE: As an alternative to the statement of changes in retirement benefit obligations, this information can be provided in the notes to the financial statements.

Cash flow statement
For the year ended December 31, 20XY

IE1 **IE2** **IE3**
(DB) **(DB)** **(DC)**

(In thousands of currency units)

Cash flows from operating activities

Receipts

<u>Sale of plan investment</u>	<u>X</u>	<u>N/A</u>	<u>N/A</u>
<u>Interest received</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Dividends received</u>	<u>X</u>	<u>X</u>	<u>N/A</u>
<u>Other receipts</u>	<u>X</u>	<u>X</u>	<u>N/A</u>
<u>Employer contributions received</u>	<u>X</u>	<u>N/A</u>	<u>X</u>
<u>Member contributions received</u>	<u>X</u>	<u>N/A</u>	<u>X</u>
<u>Funding received from sponsor⁹</u>	<u>X</u>	<u>N/A</u>	<u>X</u>

Payments

<u>Purchase of plan investments</u>	<u>X</u>	<u>N/A</u>	<u>N/A</u>
<u>Investment related payments</u>	<u>X</u>	<u>X</u>	<u>N/A</u>
<u>Member benefits paid</u>	<u>X</u>	<u>N/A</u>	<u>X</u>
<u>Administrative payments</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Other payments</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Income tax paid on investments</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Transfers to and from other plans</u>	<u>X</u>	<u>N/A</u>	<u>N/A</u>
<u>Net cash inflows (outflows) from operating activities</u>	<u>X</u>	<u>X</u>	<u>X</u>

Cash flows from investing activities

⁹ This funding is generally related to unfunded plans and may be made by made, for example, a central government. It is separate from contributions from the employer.

<u>Cash flow statement</u>	<u>IE1</u>	<u>IE2</u>	<u>IE3</u>
<u>For the year ended December 31, 20XY</u>	<u>(DB)</u>	<u>(DB)</u>	<u>(DC)</u>
<u>(In thousands of currency units)</u>			
<u>Purchase of plan investments</u>	<u>N/A</u>	<u>(X)</u>	<u>(X)</u>
<u>Sale of plan investments</u>	<u>N/A</u>	<u>X</u>	<u>X</u>
<u>Investment related expenses</u>	<u>N/A</u>	<u>N/A</u>	<u>X</u>
<u>Transfers to and from other plans</u>	<u>N/A</u>	<u>N/A</u>	<u>X</u>
<u>Net cash inflows (outflows) from investing activities</u>	<u>N/A</u>	<u>X</u>	<u>X</u>
 <u>Cash flows from financing activities</u>			
<u>Employer contributions received</u>	<u>N/A</u>	<u>X</u>	<u>N/A</u>
<u>Member contributions received</u>	<u>N/A</u>	<u>X</u>	<u>N/A</u>
<u>Funding received from sponsor¹⁰</u>	<u>N/A</u>	<u>X</u>	<u>N/A</u>
 <u>Transfers to and from other plans</u>	<u>N/A</u>	<u>X</u>	<u>N/A</u>
<u>Income tax on contributions</u>	<u>N/A</u>	<u>(X)</u>	<u>N/A</u>
<u>Net cash inflows (outflows) from financing activities</u>	<u>N/A</u>	<u>X</u>	<u>N/A</u>
 <u>Net increase (decrease) in cash and cash equivalents</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Cash and cash equivalents at the beginning of the year</u>	<u>X</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>	<u>X</u>

¹⁰ This funding is generally related to unfunded plans and may be made by, for example, a central government. It is separate from contributions from the employer.

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) does not allow the actuarial present value of promised retirement benefits to be measured using current salaries and requires the use of projected salaries;
- [draft] IPSAS [X] (ED 82) requires all plan investments to be measured at fair value. This removed the inference that plan investments can be measured at an amount other than fair value;
- [draft] IPSAS [X] (ED 82) specifies a retirement benefit plan must prepare:
 - A statement of financial position;
 - A statement of changes in net assets available for benefits; and
 - A cash flow statement;

IAS 26 does not specify which financial statements a retirement benefit plan should prepare.

- [draft] IPSAS [X] (ED 82) requires the actuarial present value of promised retirement benefits to be presented on the face of the statement of financial position, therefore the IAS 26 options of presenting the actuarial present value of promised retirement benefits in only the notes or a separate actuarial report have been removed; and
- [draft] IPSAS [X] (ED 82) requires the defined contribution obligation to be presented on the face of the statement of financial position, IAS 26 is silent and does not stipulate the presentation of this obligation.

Comparison with GFS

In developing [draft] IPSAS [X] (ED 82), *Retirement Benefit Plans*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and difference with GFS are as follows:

- [draft] IPSAS [X] (ED 82) acknowledges that depending on the circumstances contributions and benefits may be treated differently. Some retirement benefit plans account for contributions and benefits as revenue and expenses, while others account for them as changes in liabilities to participants. GFS specifies that for an autonomous government controlled financial corporation that manages employment-related pension schemes for government employees, the receipt of contributions gives rise to a liability. The liability originates from the obligation to pay future pension benefits – any subsequent payment of the benefits will be recorded as a reduction in this liability.
- [draft] IPSAS [X] (ED 82) requires retirement benefit obligations to be recognized in the statement of financial position. Similarly, GFS also requires pension entitlements to be reported on the balance sheet.

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