AT A GLANCE

January 2016

Exposure Draft 59 Summary—Amendments to IPSAS 25, *Employee Benefits*

This summary provides an overview of Exposure Draft (ED) 59, *Amendments to IPSAS 25, Employee Benefits*.

Project objectives: To issue a revised IPSAS 25 which would be converged with the underlying IAS 19, *Employee Benefits* (issued in 2004, with amendments up to December 31, 2015).

The project and stage: The International Public Sector Accounting Standards Board® (IPSASB®) issued ED 59 in January 2016.

Next steps: The IPSASB seeks feedback on ED 59 to guide it in developing a revised IPSAS 25.

Comment deadline: ED 59 is open for public comment until April 30, 2016.

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Why is the IPSASB Undertaking this Project?

IPSAS 25 is a converged standard based on IAS 19 (2004) that needs to be updated to maintain alignment with the underlying IFRS.

Importance of pension liabilities in the public sector

The requirements for defined benefit pension plans are a key aspect of IPSAS 25. Pension liabilities are highly significant in the public sector. The proposed amendments to recognition, presentation and disclosure requirements will ensure that the financial statements provide useful and transparent information about the liabilities related to defined benefit plans.

IFRS Convergence

In its role as the international standard setter for the public sector, the IPSASB develops IPSASs that are converged with IFRSs by adapting them to the public sector context. Since 2008, the International Accounting Standards Board has made several revisions to IAS 19 that are now addressed in ED 59.

Objectives of financial reporting

The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reporting (GPFRs) for accountability purposes and for decision-making purposes. The accounting for employee benefits proposed in ED 59 helps achieving the objectives of financial reporting.

Main proposed amendments

The amendments improves IPSAS 25 as follows:

Recognition

Currently IPSAS 25 permits public sector entities to defer the recognition of actuarial gains and losses arising from defined benefit plans. This may lead to the recognition of an asset or liability that does not correspond to the plan`s surplus or deficit. This option undermines the understandability of the impact of defined benefit plans on an entity`s financial position.

Presentation

The amendments eliminate different presentational options on actuarial gains and losses and thus enhance comparability between public sector entities.

Disclosure

The amendments structure the disclosures of defined benefit plans according to disclosure objectives that explain the characteristics, risks associated with them and their relationship with the entity`s financial statements.

Overview of Main Amendments to IPSAS 25

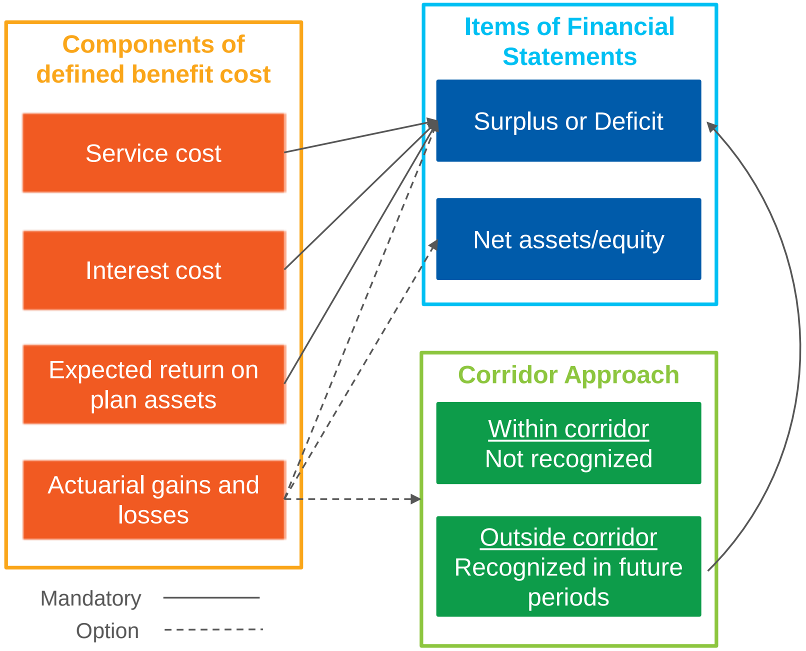
Removing the “corridor approach”.

IPSAS 25

There are currently three options for the recognition of actuarial gains and losses in:

1. Surplus or Deficit in the period in which they occur;
2. Net assets/equity in the period in which they occur; and
3. Future periods (the “corridor approach”).

As a result, a deficit can be recognized as an asset and a surplus can be recognized as a liability and comparability between entities is difficult to achieve.

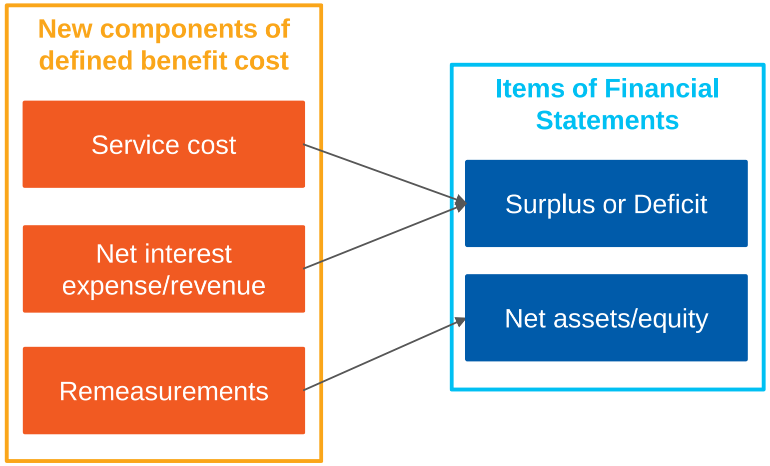


ED 59

New approach:

- Recognizes remeasurements in net assets/equity in the period in which they occur; and
- Recognizes a surplus as a net defined benefit asset and a deficit as a net defined benefit liability.

By removing options and requiring entities to recognize changes immediately, comparability and understandability of information related to defined benefit plans in the period are improved.



Overview of Main Amendments to IPSAS 25

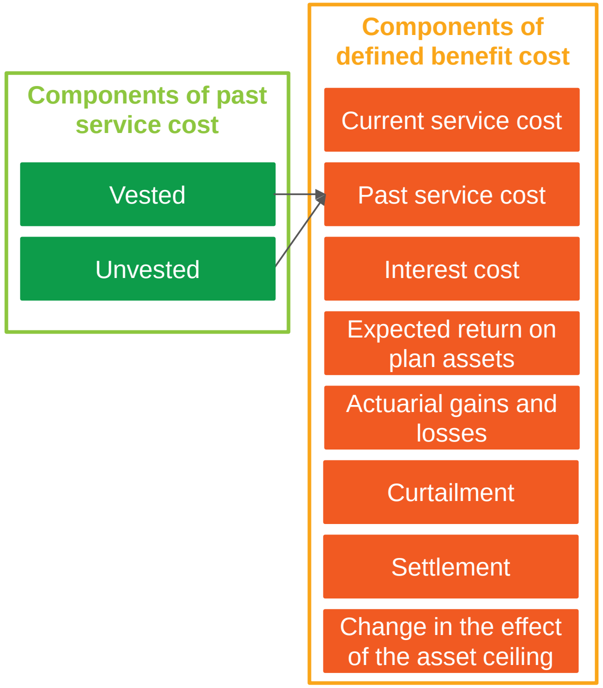
New components of defined benefit cost.

IPSAS 25

Components of defined benefit cost that will be amended in IPSAS 25 are:

- Interest cost and expected return on plan assets – replaced by a single net interest component.
- Curtailments – as one form of past service cost.

The net interest approach results in an entity recognizing interest revenue/expense due to the passage of time when the plan has a surplus/deficit.



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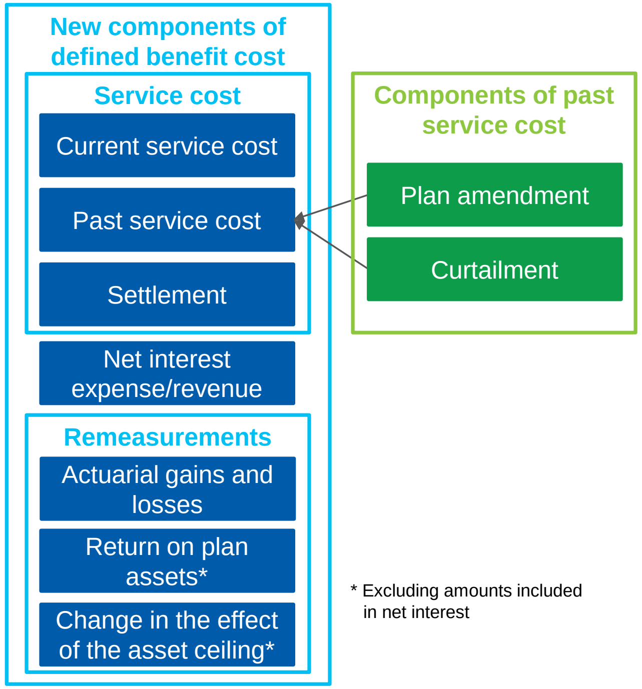
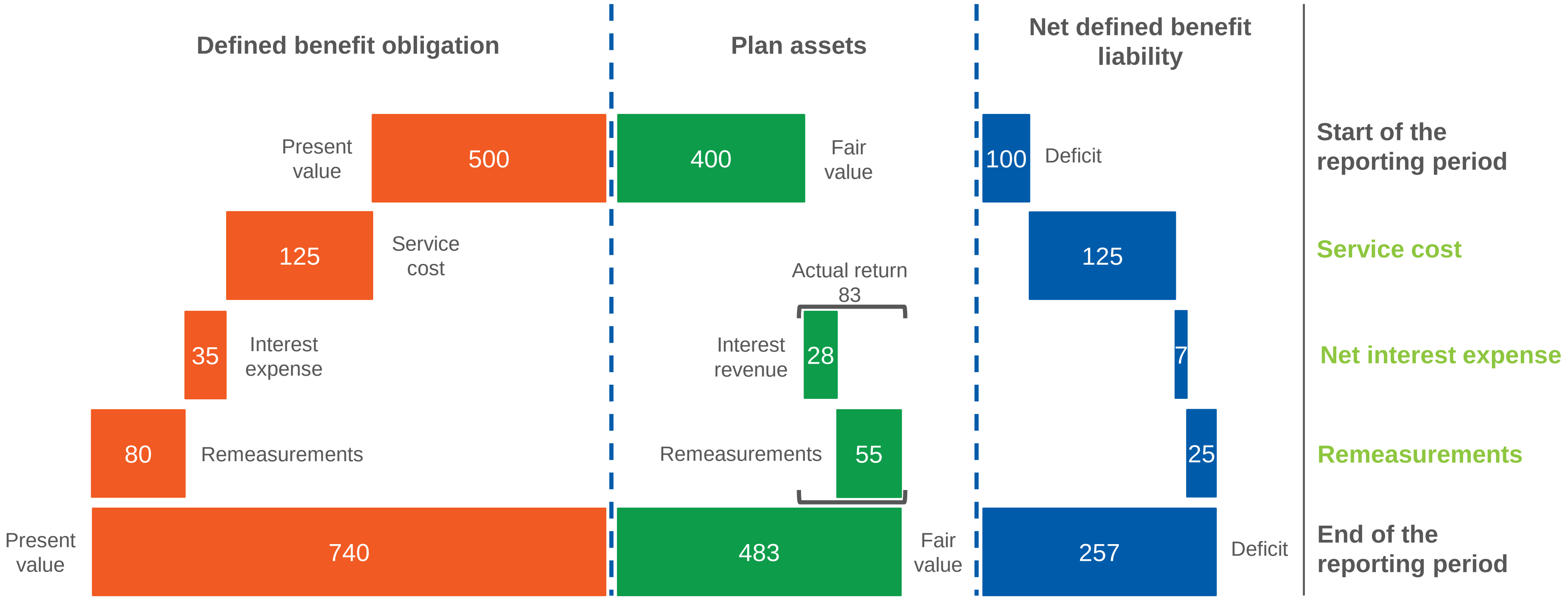
New components:

- Service cost – the liability that arises from employees providing service during the period.
- Net interest – the interest expense/revenue on the net defined benefit liability (asset).
- Remeasurements – other changes in the value of the defined benefit obligation, such as changes in estimates and other changes in the value of plan assets.



* Excluding amounts included in net interest

Illustrative example of the new components



Miscellaneous changes to defined benefit plans

ED 59 addresses a number of other issues related to defined benefit plans.

Settlements

The ED proposes to clarify that a settlement is:

- The difference between the present value of the defined benefit obligation being settled and the settlement price; and
- A payment of benefits that is not set out in the terms of the plan.

As a consequence, any difference between an estimated benefit payment and the actual benefit payment is an actuarial gain or loss.

Disclosures

The ED proposes to introduce explicit objectives for disclosures of defined benefit plans about:

- The characteristics of defined benefit plans and risks associated with them;
- The amounts in the financial statements arising from the plans; and
- The amount, timing and uncertainty of future cash flows.

Actuarial assumptions—Mortality

The ED makes explicit that mortality assumptions used to determine the defined benefit obligation are the best estimate of the mortality of plan members both during and after employment.

Taxes and administration costs

The ED proposes to clarify that:

- Taxes payable by the plan on contributions related to service before the reporting date, or on benefits resulting from that service are included in the estimate of the present value of the defined benefit obligation;
- Other taxes should be deducted to the return on plan assets; and
- Administration costs directly related to the management of plan assets are deducted from the return on plan assets.

Changes to defined benefit cost

The ED proposes:

- Not to distinguish the recognition of vested and unvested past service cost;
- Including curtailments as one form of past service cost; and
- Recognizing unvested past service cost results in the same accounting for past service cost and curtailments.

Presentation

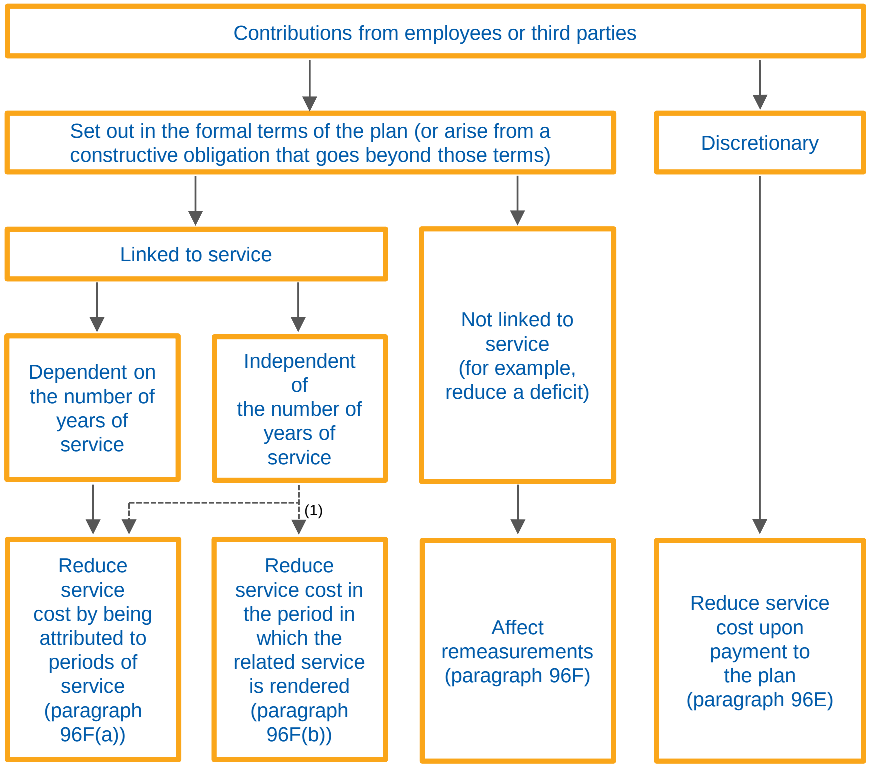
The ED clarifies that the presentation of service cost and net interest on the net defined benefit liability (asset) is made in accordance with IPSAS 1, *Presentation of Financial Statements.*

Defined benefit plans—risk-sharing

ED 59 proposes to clarify the accounting for the risk-sharing features of defined benefit plans in several areas.

Employee and third-party contributions

The ED clarifies the effect of employee and third-party contributions on service cost and remeasurements according to the following decision tree.



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

Conditional indexation

Some defined benefit plans provide benefits contingent on returns on plan assets (conditional indexation). The ED clarifies that any conditional indexation should be reflected in the measurement of the defined benefit obligation.

Limits to employer contributions

The ED clarifies that the measurement of the defined benefit obligation takes account of the effect on contributions by the employer. The effect of such a limit is determined over the shorter of the estimated life of the entity and the estimated life of the plan.

Change to the level of benefit

The ED clarifies that the estimate of the ultimate cost of the benefits reflects the effect of terms of the plan that require or allow a change to the level of benefit.

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Other issues

ED 59 also addresses a number of other issues raised in the private sector.

Classification of employee benefits

ED 59 proposes to clarify that short-term employee benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services.

Multi-employer plan disclosures

The ED proposes to require an entity:

- To provide a description of any agreed allocation of a deficit or surplus on wind-up of the plan or the entity's withdrawal from the plan; and
- To indicate the level of its participation in a multi-employer plan and the expected contributions to the plan for the next reporting period, if the entity accounts for that plan as if it were a defined contribution plan.

Other long-term employee benefits

As a consequence of changes to the accounting of defined benefit plans, the ED proposes changes to the recognition and measurement of other long-term employee benefits.

Termination benefits

IPSAS 25 requires that termination benefits are to be recognized when the entity is demonstrably committed to providing those benefits. The IPSASB is of the view that the factor determining the timing of recognition is the entity's inability to withdraw the offer of termination benefits. Therefore, ED 59 proposes that termination benefits shall be recognized when the entity can no longer withdraw that offer (for example, when the employee accepts the offer).

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Next Steps:

The deadline for comments is April 30, 2016.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

ED 59 requests comments on two Specific Matters for Comment—whether respondents support the proposals for revision of IPSAS 25 and whether respondents support deletion of the current section of IPSAS 25 on Composite Social Security Programs.

Respondents are also welcome to comment on any other matter they think the IPSASB should consider in forming its views.

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 file and a Word file.

Comment letters will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB's website will indicate the meetings at which feedback on the ED will be discussed. The dates, and, where known, the locations of 2016 meetings are available at:

http://www.ipsasb.org/meetings

To stay up to date about the project, please visit:

http://www.ipsasb.org/projects/employee-benefits-limited-scope-project