

ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS

PROJECT BRIEF AND OUTLINE

1. Introduction

- 1.1 IAS 26, *Accounting and Reporting by Retirement Benefit Plans* was issued in 1987 by the International Accounting Standards Committee. It was adopted and reformatted by the International Accounting Standards Board (IASB) in 2004. The objective of IAS 26 is to provide the accounting and reporting requirements for arrangements through which an entity provides retirement benefits (for example, an annual income) to employees after they terminate from service. The accounting requirements set out in IAS 26 provide participants in the retirement benefit plan with information related to the net assets available for distribution to the plan participants in retirement.
- 1.2 IAS 26 complements IAS 19, *Employee Benefits*¹, but reports the information from a different perspective:
 - (a) IAS 19 provides guidance for employers to report retirement benefit obligations or net assets associated with employees' retirement benefits; and
 - (b) IAS 26 provides guidance for retirement benefit plans to report to users of the plan.
- 1.3 The financial statements prepared under IAS 26 only relate to the retirement benefit plan itself, not the assets, liabilities etc. that relate to the operations of the entity administering the plan.
- 1.4 IPSAS 39, *Employee Benefits*, is aligned with IAS 19, but there is presently no IPSAS equivalent to IAS 26. No guidance exists that specifically addresses how retirement benefit plans, that are operated in the public sector should prepare financial statements. This is relevant to single-employer plans, multi-employer plans, and state plans. Consequently, a gap exists in IPSAS literature.

2. Rationale for Project

- 2.1 The IPSASB's *Strategy and Work Plan 2019-2023* (the Strategy) identified developing an IPSAS aligned with IAS 26 as a Theme B 'Maintaining IFRS Alignment' project. The Strategy stated generally that maintaining alignment with IFRS is important because it:
 - (a) Provides a common approach and language for accounting;
 - (b) Allows easier mixed group consolidations²; and
 - (c) Allows the IPSASB to leverage private sector best practice.
- 2.2 Developing an IPSAS based on IAS 26 was included in the Strategy as a limited-scope project to consider when staff and Board resources were available, in order to address a pressing public sector issue, while reducing unnecessary differences between IPSAS and IFRS. While this project was

¹ IPSAS 39, *Employee Benefits* is the IPSAS aligned with IAS 19.

² The issue of mixed group consolidations is not expected to be relevant to this project.

originally identified as a limited-scope alignment project, it is now classified as a broader adaptation project.³

Applying IAS 26 through the IPSAS Hierarchy

- 2.3 Constituents have commented that the lack of an equivalent to IAS 26 in the IPSAS literature has compelled them to use IAS 26 via the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. This has caused many challenges because the presentation requirements in IAS 26 are not aligned with those in IPSAS 1, *Presentation of Financial Statements*. In the IFRS, the specific requirements in IAS 26 take precedence over the general requirements in IAS 1, *Presentation of Financial Statements* presentation.
- 2.4 However, for an IPSAS adopter it is not clear whether the requirements of IPSAS 1 (the equivalent of IAS 1) or the requirements of IAS 26 would take precedence.
- 2.5 In contrast, IAS 26 requires a retirement benefit plan to prepare statements that are tailored to meet the information needs of users. For example, for defined benefit plans IAS 26 requires the preparation of a statement of net assets, which shows the available net assets and (in various ways) the actuarial present value of promised retirement benefits, and a statement of changes in net assets presenting contributions and pensions without any classification as revenue or expense.
- 2.6 With no IAS 26 equivalent in the IPSAS suite of standards, it is unclear whether the requirements of IPSAS 1 takes precedence for public sector plans, which may result in differences in accounting between the public and private sector for similar organizations and transactions. IPSAS 1 (like IAS 1) specifies that a complete set of financial statements includes a statement of financial position, a statement of financial performance, a statement of changes in net assets/equity and a statement of cash flows.

Improved Transparency and Accountability

- 2.7 IPSAS 39 is aligned with IAS 19, but there is presently no IPSAS equivalent to IAS 26. Multi-employer retirement benefit plans and state plans are common in the public sector. Under IPSAS 39, often employers contributing to a multi-employer plan or state plan use defined contribution accounting because they do not have the necessary information to use defined benefit accounting. This can result in a lack of transparent reporting of the multi-employer plan or state plan's obligation for retirement benefit if there are no IPSAS-compliant financial statements prepared for the plan itself.
- 2.8 Therefore, an IPSAS for retirement benefit plans requiring the reporting of the benefit obligation would improve the transparency of and accountability for pensions provided by public sector entities. This information also supports governments making fiscal decisions about whether continuing to provide defined benefit pensions is sustainable. Making such decisions is challenging without knowing the expected cost of providing those pensions.

³ An adaptation project is broader than one which focuses on IFRS alignment. Adaptation has been adopted by the IPSASB for this project due to the age of IAS 26 and the manner in which it has been amended by various jurisdictions by, for example, addressing some or all of the issues referred to in Section 5 of this Project Brief. For further details, refer paragraphs 4.1 and 4.9.

3. Financial Reporting Requirements

- 3.1 Many government entities provide retirement benefits for their employees by making contributions on behalf of employees into a retirement benefit plan^{4,5}. In order to maintain the independence of the plan, the retirement benefit plan is often operated by an entity separate from the entity funding the plan. For those entities that operate a retirement benefit plan, no guidance in the IPSAS suite of standards considers the specific needs of the users of the financial information concerning retirement benefit plans.
- 3.2 Information provided by retirement benefit plans is useful to users because it provides information on at least the following:
- (a) Contributions received or receivable from employers and members; and
 - (b) Net assets available to meet obligations to members.

4. Project Objective

- 4.1 The project objective is to develop an IPSAS on reporting by retirement benefit plans adapted from IAS 26. An adaptation project uses the IFRS as a starting point in developing the public sector standard. Guidance and requirements in the IFRS are modified and supplemented when necessary to reflect the unique aspects of the public sector, provide clarity, and address underlying issues. See paragraph 4.9 for details on adaptation.
- 4.2 In determining whether this project requires a consultation paper (CP) prior to the development of an Exposure Draft, consideration was given to:
- (a) Global variation in accounting policies;
 - (b) Existing requirements and guidance of global and national public sector standard-setters; and
 - (c) Complexity, in particular in determining pension obligations many years into the future.
- 4.3 Regarding points (a) and (b) in paragraph 4.2, some national standard-setters have not adopted IAS 26 but instead developed their own domestic accounting standard to best suit the needs of retirement benefit plans in their jurisdiction. Two examples are Australia and Canada. The Australian Accounting Standards Board developed AASB 1056, *Superannuation Entities* to replace AAS 25, *Financial Reporting by Superannuation Plans* which was in existence when Australia adopted IFRS and was deemed to be more appropriate for Australia than IAS 26. While Canada has technically adopted IAS 26 (it is in Part I of the CPA Canada Handbook), the preface to this handbook prohibits the use of IAS 26 and requires pension plans, and benefit plans that have characteristics similar to pension plans and provide benefits other than pensions, to use Section 4600, *Pension Plans*.
- 4.4 Despite some jurisdictions developing their own standards for accounting for retirement benefit plans, there is only one global standard and many jurisdictions have adopted IFRS, including IAS 26. Some jurisdictions which adopted IAS 26 made amendments to the standard. Two examples are the United Kingdom (UK) and New Zealand (NZ). The UK lists IAS 26 in the Government Financial Reporting

⁴ Retirement benefit plans are sometimes referred to by various other names such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'.

⁵ Some plans may also require employees to make contributions.

Manual (FREM) for use in the public sector. Some options available in IAS 26 are not available in the FREM. NZ uses IAS 26 for Tier 1 and Tier 2 entities⁶ but has included extra reporting requirements.

- 4.5 Paragraphs 4.1 to 4.4 indicate that, when developing an IPSAS adapted from IAS 26, the IPSASB will need to consider actions taken by multiple jurisdictions and whether the optionality in IAS 26 should be retained for the public sector.
- 4.6 Therefore, taking all of these matters into account, the IPSASB decided that a CP is not necessary.

Achieving the Objective

- 4.7 To achieve the project objective, it will be necessary to develop a [draft] IPSAS adapted from IAS 26, including any appropriate consequential amendments to other IPSAS.
- 4.8 As the [draft] IPSAS will be based on IAS 26, the IPSAS policy document *Process for Reviewing and Modifying IASB Documents* will be used to guide during this project.
- 4.9 In developing an IPSAS adapted from an IASB document, the guidance in the underlying IFRS is used as the basis for the IPSAS. It is modified to address the specific aspects of the public sector, provide clarity, and address underlying issues where the IFRS principles may not be appropriate. The guidance that exists in comparable public sector standards issued by National Standard Setters will be helpful in identifying matters particularly relevant to the public sector, and in considering how best to address them. The following specific issues will be evaluated in the public sector:
- (a) How the scope of IAS 26 should be modified for the public sector;
 - (b) Which options in IAS 26 to remove;
 - (c) The consistency of the standard in the context of existing IPSAS and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*; and
 - (d) How and why National Standard Setters have adapted IAS 26 for use in their jurisdictions.
- 4.10 In developing an IPSAS adapted from IAS 26 and considering paragraph 4.9(c), this project will specifically consider the interaction with IPSAS 39, *Employee Benefits*.

5. Outline of the Project

Project Scope

- 5.1 The scope of this project is to develop an IPSAS on accounting and reporting by retirement benefit plans by adapting the requirements in IAS 26.

Key Issues

- 5.2 This project will consider the key issues listed below.

Key Issue # 1 – Scope

- 5.3 The scope of IAS 26 is restricted to arrangements where a retirement benefit plan provides an employee with a benefit, either as income or a lump sum upon retirement. The limited scope of IAS 26 may impact the comparability of financial information between retirement benefit plans that are within

⁶ A NZ Tier 1 entity has public accountability or is a large for-profit public sector entity with total annual expenses greater than \$30 million. A NZ Tier 2 entity does not have public accountability and has total annual expenses less than \$30 million.

the scope of IAS 26 and those that are not. Some jurisdictions have developed standards with a broader scope to include other benefit plans that have similar characteristics to pension plans. This project will consider whether these other benefits plans should be included within the scope of an IPSAS adapted from IAS 26, including the extent to which they have already been addressed in IPSAS 42, *Social Benefits*.

Key Issue #2 – Reporting Entity

- 5.4 IAS 26 defines a ‘retirement benefit plan’ as a reporting entity that is separate from the employers of the participants of the plan. However, it is unclear if the reporting entity is the actual ‘plan’ or the entity administering the ‘plan’. This project will consider this in the context of public sector arrangements and/or structures and whether additional guidance is required to articulate the reporting entity.

Key Issue #3 – Classification of Contributions and Distributions

- 5.5 Guidance in IAS 26 is limited on how contributions and distributions should be classified. This impacts comparability because, for example, some National Standard Setters have developed guidance on classifying contributions as revenue, liabilities, or equity. Therefore, this project will consider whether, in the context of adapting IAS 26 to develop an IPSAS, it is necessary to provide additional guidance on how to classify contributions and distributions.

Key Issue #4 – Optionality

- 5.6 IAS 26 contains three areas where a preparer can choose between several reporting options. Two relate to measurement and one relates to presentation. While each issue has unique characteristics, the common challenges identified by constituents relate to the existence of the options provided in the requirements in IAS 26. While the technical matters referred to below need to be addressed, the important decision is likely to be whether to retain or remove the options permitted in IAS 26.

Issue #4(a) Measurement – Actuarial Present Value of Promised Retirement Benefits

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

Issue #4(b) Measurement – Valuation of Plan Assets

- 5.9 IAS 26, paragraph 32 states retirement benefit plan investments shall be carried at fair value. However, if a reliable fair value is not possible, IAS 26 allows plan assets to be measured at a value other than fair value, with disclosures made as to why fair value has not been used.
- 5.10 ED 77, *Measurement* provides guidance on estimating fair value. Therefore, this project will consider whether it is appropriate to retain the option to use a value other than fair value for plan assets.
- 5.11 Further, in relation to Issues #4(a) and 4(b) this project will consider existing guidance in IPSAS on the measurement of assets and liabilities, in particular the guidance in IPSAS 39.

Issue #4(c) – Presentation of Actuarial Present Value of Promised Retirement Benefits

5.12 IAS 26, paragraph 17 allows the actuarial present value of promised retirement benefits to be disclosed either:

- (a) As part of the statement of net assets;
- (b) As a note disclosure to the statement of net assets; or
- (c) By reference to an accompanying actuarial report.

5.13 Options (b) and (c) would result in the member liability obligation being 'off balance sheet', and some would argue that this, along with the value of plan assets, is the most valuable piece of information to users of the financial statements. Therefore, this project will consider whether allowing optional presentation for promised retirement benefits is appropriate for the public sector.

Key Issue #5 – Financial Statements to be Prepared

5.14 The financial statements required to be prepared under IAS 26 do not align with those in IPSAS 1. For example, there is no requirement for a cash flow statement. However, some jurisdictions that have either adapted IAS 26 or developed their own domestic standard for retirement benefit plans require such plans to prepare a cash flow statement. Therefore, this project will consider which financial statements a retirement benefit plan should prepare to provide the information for users that best satisfies the qualitative characteristics in the Conceptual Framework.

Other Issues

5.15 In addition to the key issues identified above, this project will consider alternative approaches in comparable national standards to determine whether any additional issues require consideration by the IPSASB. As IAS 26 is an old standard, limited modification of the text to improve consistency with more recent IPSAS will be considered.

6. Describe the Implications for any Specific Persons or Groups

Relationship to the IASB

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

Relationship to Other Standards, Projects in Process or Planned Projects

6.2 The key issues that need to be addressed in the context of other IPSASB projects or pronouncements include:

- (a) Reporting entity and classifications of contributions and distributions will be considered in the context of the Conceptual Framework.
- (b) Measurement will be discussed with the Measurement project team to ensure consistency of guidance.
- (c) Valuation of retirement benefits will be considered in the context of IPSAS 39.
- (d) Presentation of the retirement benefits will be considered in the context of IPSAS 1.

Government Finance Statistics

- 6.3 The IPSASB supports the reduction of unnecessary differences between GFS and IPSAS in the development of new IPSAS and revisions to existing IPSAS. The IPSASB’s policy paper *Process for Considering GFS Reporting Guidelines during the Development of IPSASs (2014)* guides the process.
- 6.4 This project will assess how GFS requires pension plans to be accounted for and the extent to which any differences arising between GFS and IPSAS can be addressed.

7. Development Process, Project Timeline and Project Output

Development Process

- 7.1 The development of the project outputs will be subject to the IPSASB’s formal due process, with input from the Consultative Advisory Group (CAG). The approval of the ED and final IPSAS will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm that the project addresses all matters identified in this Project Brief and that the timetable remains appropriate.

Project Timetable

- 7.2 The table below outlines the proposed project timetable.

Project Milestones	Expected Completion
<ul style="list-style-type: none"> • Review and Approval of Project Brief and Outline • Discuss Issues 	March 2021
<ul style="list-style-type: none"> • Discuss Issues 	June 2021
<ul style="list-style-type: none"> • Review Exposure Draft 	September 2021
<ul style="list-style-type: none"> • Approve Exposure Draft 	December 2021
<ul style="list-style-type: none"> • Issue Exposure Draft 	January 2022
<ul style="list-style-type: none"> • Consultation Period (4 months) 	January 2022-May 2022
<ul style="list-style-type: none"> • Review of Comments to Exposure Draft 	June 2022
<ul style="list-style-type: none"> • Discuss Issues • Review [draft] IPSAS 	September 2022
<ul style="list-style-type: none"> • Approve IPSAS 	December 2022
<ul style="list-style-type: none"> • Issue IPSAS 	January 2023

Project Output

- 7.3 The initial output is expected to be an ED.

8. Resources Required

Task Force/Board Sponsor

- 8.1 It is anticipated that a Task Force will oversee the project.

Staff

8.2 It is envisaged that 0.5 Full Time Equivalent staff member will be required to resource the project.

Factors that Might Add to Complexity and Length

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

9. Useful Sources of Information

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

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