

International Accounting Standard 19

Employee Benefits

This version includes amendments resulting from IFRSs issued up to 31 December 2009.

IAS 19 *Employee Benefits* was issued by the International Accounting Standards Committee in February 1998. In May 1999 IAS 19 was amended by IAS 10 (revised 1999) *Events After the Balance Sheet Date*, and it was again amended in 2000.

In April 2001 the International Accounting Standards Board (IASB) resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

The IASB has issued the following amendments to IAS 19:

- *Employee Benefits: The Asset Ceiling* (issued May 2002)
- *Actuarial Gains and Losses, Group Plans and Disclosures* (issued December 2004).

IAS 19 and its accompanying documents have also been amended by the following IFRSs:

- IAS 1 *Presentation of Financial Statements* (as revised in December 2003)
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (issued December 2003)
- IAS 39 *Financial Instruments: Recognition and Measurement* (as revised in December 2003)
- IFRS 2 *Share-based Payment* (issued February 2004)
- IFRS 3 *Business Combinations* (issued March 2004)
- IFRS 4 *Insurance Contracts* (issued March 2004)
- IFRS 8 *Operating Segments* (issued November 2006)*
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007)*
- *Improvements to IFRSs* (issued May 2008)*
- IFRS 9 *Financial Instruments* (issued November 2009).†

The following Interpretations refer to IAS 19:

- SIC-12 *Consolidation—Special Purpose Entities* (issued December 1998 and subsequently amended)
- IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (issued July 2007 and subsequently amended).

* effective date 1 January 2009

† effective date 1 January 2013 (earlier application permitted)

CONTENTS

paragraphs

INTRODUCTION	IN1–IN12
INTERNATIONAL ACCOUNTING STANDARD 19 EMPLOYEE BENEFITS	
OBJECTIVE	
SCOPE	1–6
DEFINITIONS	7
SHORT-TERM EMPLOYEE BENEFITS	8–23
Recognition and measurement	10–22
All short-term employee benefits	10
Short-term compensated absences	11–16
Profit-sharing and bonus plans	17–22
Disclosure	23
POST-EMPLOYMENT BENEFITS: DISTINCTION BETWEEN DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS	24–42
Multi-employer plans	29–33
Defined benefit plans that share risks between various entities under common control	34–34B
State plans	36–38
Insured benefits	39–42
POST-EMPLOYMENT BENEFITS: DEFINED CONTRIBUTION PLANS	43–47
Recognition and measurement	44–45
Disclosure	46–47
POST-EMPLOYMENT BENEFITS: DEFINED BENEFIT PLANS	48–119
Recognition and measurement	49–62
Accounting for the constructive obligation	52–53
Statement of financial position	54–60
Profit or loss	61–62
Recognition and measurement: present value of defined benefit obligations and current service cost	63–101
Actuarial valuation method	64–66
Attributing benefit to periods of service	67–71
Actuarial assumptions	72–77
Actuarial assumptions: discount rate	78–82
Actuarial assumptions: salaries, benefits and medical costs	83–91
Actuarial gains and losses	92–95
Past service cost	96–101

Recognition and measurement: plan assets	102–107
Fair value of plan assets	102–104
Reimbursements	104A–104D
Return on plan assets	105–107
Business combinations	108
Curtailments and settlements	109–115
Presentation	116–119
Offset	116–117
Current/non-current distinction	118
Financial components of post-employment benefit costs	119
Disclosure	120–125
OTHER LONG-TERM EMPLOYEE BENEFITS	126–131
Recognition and measurement	128–130
Disclosure	131
TERMINATION BENEFITS	132–143
Recognition	133–138
Measurement	139–140
Disclosure	141–143
TRANSITIONAL PROVISIONS	153–156
EFFECTIVE DATE	157–161
APPENDIX	
Amendments to other standards	

FOR THE ACCOMPANYING DOCUMENTS LISTED BELOW, SEE PART B OF THIS EDITION

APPROVAL BY THE BOARD OF AMENDMENTS TO IAS 19:

Employee Benefits: The Asset Ceiling
issued in May 2002

Actuarial Gains and Losses, Group Plans and Disclosures
issued in December 2004

BASIS FOR CONCLUSIONS

DISSENTING OPINIONS

IMPLEMENTATION GUIDANCE

A Illustrative example

B Illustrative disclosures

C Illustration of the application of paragraph 58A

IAS 19

International Accounting Standard 19 *Employee Benefits* (IAS 19) is set out in paragraphs 1–161 and the Appendix. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 19 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

- IN1 The Standard prescribes the accounting and disclosure by employers for employee benefits. It replaces IAS 19 *Retirement Benefit Costs* which was approved in 1993. The major changes from the old IAS 19 are set out in the Basis for Conclusions. The Standard does not deal with reporting by employee benefit plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).
- IN2 The Standard identifies four categories of employee benefits:
- (a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
 - (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
 - (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are payable twelve months or more after the end of the period, profit-sharing, bonuses and deferred compensation; and
 - (d) termination benefits.
- IN3 The Standard requires an entity to recognise short-term employee benefits when an employee has rendered service in exchange for those benefits.
- IN4 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. The Standard gives specific guidance on the classification of multi-employer plans, state plans and plans with insured benefits.
- IN5 Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Standard requires an entity to recognise contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions.
- IN6 All other post-employment benefit plans are defined benefit plans. Defined benefit plans may be unfunded, or they may be wholly or partly funded. The Standard requires an entity to:
- (a) account not only for its legal obligation, but also for any constructive obligation that arises from the entity's practices;
 - (b) determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period;

- (c) use the Projected Unit Credit Method to measure its obligations and costs;
- (d) attribute benefit to periods of service under the plan's benefit formula, unless an employee's service in later years will lead to a materially higher level of benefit than in earlier years;
- (e) use unbiased and mutually compatible actuarial assumptions about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries, changes in medical costs and certain changes in state benefits). Financial assumptions should be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled;
- (f) determine the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds (or, in countries where there is no deep market in such bonds, government bonds) of a currency and term consistent with the currency and term of the post-employment benefit obligations;
- (g) deduct the fair value of any plan assets from the carrying amount of the obligation. Certain reimbursement rights that do not qualify as plan assets are treated in the same way as plan assets, except that they are presented as a separate asset, rather than as a deduction from the obligation;
- (h) limit the carrying amount of an asset so that it does not exceed the net total of:
 - (i) any unrecognised past service cost and actuarial losses; plus
 - (ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan;
- (i) recognise past service cost on a straight-line basis over the average period until the amended benefits become vested;
- (j) recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss should comprise any resulting change in the present value of the defined benefit obligation and of the fair value of the plan assets and the unrecognised part of any related actuarial gains and losses and past service cost; and
- (k) recognise a specified portion of the net cumulative actuarial gains and losses that exceed the greater of:
 - (i) 10% of the present value of the defined benefit obligation (before deducting plan assets); and
 - (ii) 10% of the fair value of any plan assets.

The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess that fell outside the 10% 'corridor' at the end of the previous reporting period, divided by the expected average remaining working lives of the employees participating in that plan.

The Standard also permits systematic methods of faster recognition, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. Such permitted methods include immediate recognition of all actuarial gains and losses in profit or loss. In addition, the Standard permits an entity to recognise all actuarial gains and losses in the period in which they occur in other comprehensive income.

- IN7 The Standard requires a simpler method of accounting for other long-term employee benefits than for post-employment benefits: actuarial gains and losses and past service cost are recognised immediately.
- IN8 Termination benefits are employee benefits payable as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. The event which gives rise to an obligation is the termination rather than employee service. Therefore, an entity should recognise termination benefits when, and only when, the entity is demonstrably committed to either:
- (a) terminate the employment of an employee or group of employees before the normal retirement date; or
 - (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.
- IN9 An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan (with specified minimum contents) for the termination and is without realistic possibility of withdrawal.
- IN10 Where termination benefits fall due more than 12 months after the reporting period, they should be discounted. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.
- IN11 [Deleted]
- IN12 The Standard is effective for accounting periods beginning on or after 1 January 1999. Earlier application is encouraged. On first adopting the Standard, an entity is permitted to recognise any resulting increase in its liability for post-employment benefits over not more than five years. If the adoption of the standard decreases the liability, an entity is required to recognise the decrease immediately.
- IN13 [Deleted]

International Accounting Standard 19

Employee Benefits

Objective

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

- 1 **This Standard shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment* applies.**
- 2 This Standard does not deal with reporting by employee benefit plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).
- 3 The employee benefits to which this Standard applies include those provided:
 - (a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;
 - (b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry or other multi-employer plans; or
 - (c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.
- 4 Employee benefits include:
 - (a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
 - (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
 - (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and
 - (d) termination benefits.

Because each category identified in (a)–(d) above has different characteristics, this Standard establishes separate requirements for each category.

- 5 Employee benefits include benefits provided to either employees or their dependants and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.
- 6 An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include directors and other management personnel.

Definitions

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

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

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

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

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

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

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Termination benefits are employee benefits payable as a result of either:

- (a) an entity's decision to terminate an employee's employment before the normal retirement date; or
- (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Vested employee benefits are employee benefits that are not conditional on future employment.

The *present value of a defined benefit obligation* is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Current service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Plan assets comprise:

- (a) assets held by a long-term employee benefit fund; and
- (b) qualifying insurance policies.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

- (a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
- (b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:
 - (i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
 - (ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

A *qualifying insurance policy* is an insurance policy^{*} issued by an insurer that is not a related party (as defined in IAS 24 *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:

- (a) can be used only to pay or fund employee benefits under a defined benefit plan; and
- (b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:
 - (i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or

^{*} A qualifying insurance policy is not necessarily an insurance contract, as defined in IFRS 4 *Insurance Contracts*.

- (ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The *return on plan assets* is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

Actuarial gains and losses comprise:

- (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases).

Short-term employee benefits

- 8 Short-term employee benefits include items such as:
 - (a) wages, salaries and social security contributions;
 - (b) short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the period in which the employees render the related employee service;
 - (c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and
 - (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.
- 9 Accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

Recognition and measurement

All short-term employee benefits

- 10** When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- (a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
 - (b) as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*).

Paragraphs 11, 14 and 17 explain how an entity shall apply this requirement to short-term employee benefits in the form of compensated absences and profit-sharing and bonus plans.

Short-term compensated absences

- 11** An entity shall recognise the expected cost of short-term employee benefits in the form of compensated absences under paragraph 10 as follows:
- (a) in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and
 - (b) in the case of non-accumulating compensated absences, when the absences occur.
- 12** An entity may compensate employees for absence for various reasons including vacation, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to compensated absences falls into two categories:
- (a) accumulating; and
 - (b) non-accumulating.
- 13** Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recognised, even if the compensated absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

- 14 **An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.**
- 15 The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused compensated absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid vacation.

Example illustrating paragraphs 14 and 15

An entity has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 30 December 20X1, the average unused entitlement is two days per employee. The entity expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X2 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional 12 days of sick pay as a result of the unused entitlement that has accumulated at 31 December 20X1 (one and a half days each, for eight employees). Therefore, the entity recognises a liability equal to 12 days of sick pay.

- 16 Non-accumulating compensated absences do not carry forward: they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave and compensated absences for jury service or military service. An entity recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-sharing and bonus plans

- 17 **An entity shall recognise the expected cost of profit-sharing and bonus payments under paragraph 10 when, and only when:**
- (a) **the entity has a present legal or constructive obligation to make such payments as a result of past events; and**
 - (b) **a reliable estimate of the obligation can be made.**

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

IAS 19

- 18 Under some profit-sharing plans, employees receive a share of the profit only if they remain with the entity for a specified period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments.

Example illustrating paragraph 18
A profit-sharing plan requires an entity to pay a specified proportion of its profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3% of profit. The entity estimates that staff turnover will reduce the payments to 2.5% of profit. <i>The entity recognises a liability and an expense of 2.5% of profit.</i>

- 19 An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.
- 20 An entity can make a reliable estimate of its legal or constructive obligation under a profit-sharing or bonus plan when, and only when:
- (a) the formal terms of the plan contain a formula for determining the amount of the benefit;
 - (b) the entity determines the amounts to be paid before the financial statements are authorised for issue; or
 - (c) past practice gives clear evidence of the amount of the entity's constructive obligation.
- 21 An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.
- 22 If profit-sharing and bonus payments are not due wholly within twelve months after the end of the period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 126–131).

Disclosure

- 23 Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, IAS 24 requires disclosures about employee benefits for key management personnel. IAS 1 *Presentation of Financial Statements* requires disclosure of employee benefits expense.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

- 24 Post-employment benefits include, for example:
- (a) retirement benefits, such as pensions; and
 - (b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.
- Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.
- 25 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions. Under defined contribution plans:
- (a) the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and
 - (b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.
- 26 Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:
- (a) a plan benefit formula that is not linked solely to the amount of contributions;
 - (b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or
 - (c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.
- 27 Under defined benefit plans:
- (a) the entity's obligation is to provide the agreed benefits to current and former employees; and
 - (b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

- 28 Paragraphs 29–42 below explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, state plans and insured benefits.

Multi-employer plans

- 29 **An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:**
- (a) **account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**
 - (b) **disclose the information required by paragraph 120A.**
- 30 **When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:**
- (a) **account for the plan under paragraphs 44–46 as if it were a defined contribution plan;**
 - (b) **disclose:**
 - (i) **the fact that the plan is a defined benefit plan; and**
 - (ii) **the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and**
 - (c) **to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:**
 - (i) **any available information about that surplus or deficit;**
 - (ii) **the basis used to determine that surplus or deficit; and**
 - (iii) **the implications, if any, for the entity.**
- 31 One example of a defined benefit multi-employer plan is one where:
- (a) the plan is financed on a pay-as-you-go basis such that: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and
 - (b) employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

- 32 Where sufficient information is available about a multi-employer plan which is a defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, in some cases, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

- (a) the entity does not have access to information about the plan that satisfies the requirements of this Standard; or
- (b) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the additional information required by paragraph 30.

- 32A There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 30 shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

Example illustrating paragraph 32A

An entity participates in a multi-employer defined benefit plan that does not prepare plan valuations on an IAS 19 basis. It therefore accounts for the plan as if it were a defined contribution plan. A non-IAS 19 funding valuation shows a deficit of 100 million in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. The entity's total contributions under the contract are 8 million.

The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.

- 32B IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires an entity to disclose information about some contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

- (a) actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or
- (b) any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

- 33 Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Defined benefit plans that share risks between various entities under common control

- 34 Defined benefit plans that share risks between various entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.
- 34A An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with IAS 19 on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual group entities, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.
- 34B Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:
- (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.
 - (b) the policy for determining the contribution to be paid by the entity.
 - (c) if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 34A, all the information about the plan as a whole in accordance with paragraphs 120–121.
 - (d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole required in accordance with paragraphs 120A(b)–(e), (j), (n), (o), (q) and 121. The other disclosures required by paragraph 120A do not apply.
- 35 [Deleted]

State plans

- 36 **An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 29 and 30).**
- 37 State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity. Some plans established by an entity provide both compulsory benefits which substitute for benefits that would otherwise be covered under a state plan and additional voluntary benefits. Such plans are not state plans.
- 38 State plans are characterised as defined benefit or defined contribution in nature based on the entity's obligation under the plan. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Nevertheless, in most state plans, the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans. However, in the rare cases when a state plan is a defined benefit plan, an entity applies the treatment prescribed in paragraphs 29 and 30.

Insured benefits

- 39 **An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation to either:**
- (a) **pay the employee benefits directly when they fall due; or**
 - (b) **pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.**
- If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.**
- 40 The benefits insured by an insurance contract need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance contracts are subject to the same distinction between accounting and funding as other funded plans.

- 41 Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:
- (a) accounts for a qualifying insurance policy as a plan asset (see paragraph 7); and
 - (b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 104A).
- 42 Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-employment benefits: defined contribution plans

- 43 Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

Recognition and measurement

- 44 **When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:**
- (a) **as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and**
 - (b) **as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*).**

- 45 **Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 78.**

Disclosure

- 46 **An entity shall disclose the amount recognised as an expense for defined contribution plans.**
- 47 Where required by IAS 24 an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment benefits: defined benefit plans

- 48 Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Recognition and measurement

- 49 Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability (and willingness) to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.
- 50 Accounting by an entity for defined benefit plans involves the following steps:
- (a) using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 67–71) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit (see paragraphs 72–91);
 - (b) discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 64–66);
 - (c) determining the fair value of any plan assets (see paragraphs 102–104);
 - (d) determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognised (see paragraphs 92–95);

- (e) where a plan has been introduced or changed, determining the resulting past service cost (see paragraphs 96–101); and
- (f) where a plan has been curtailed or settled, determining the resulting gain or loss (see paragraphs 109–115).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

- 51 In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the constructive obligation

- 52 **An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.**
- 53 The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to cancel a plan if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity which is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of financial position

- 54 **The amount recognised as a defined benefit liability shall be the net total of the following amounts:**
- (a) **the present value of the defined benefit obligation at the end of the reporting period (see paragraph 64);**
 - (b) **plus any actuarial gains (less any actuarial losses) not recognised because of the treatment set out in paragraphs 92 and 93;**
 - (c) **minus any past service cost not yet recognised (see paragraph 96);**
 - (d) **minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102–104).**
- 55 The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets.
- 56 **An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.**
- 57 This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a

detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are 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.

58 The amount determined under paragraph 54 may be negative (an asset). An entity shall measure the resulting asset at the lower of:

- (a) the amount determined under paragraph 54; and**
- (b) the total of:**
 - (i) any cumulative unrecognised net actuarial losses and past service cost (see paragraphs 92, 93 and 96); and**
 - (ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph 78.**

58A The application of paragraph 58 shall not result in a gain being recognised solely as a result of an actuarial loss or past service cost in the current period or in a loss being recognised solely as a result of an actuarial gain in the current period. The entity shall therefore recognise immediately under paragraph 54 the following, to the extent that they arise while the defined benefit asset is determined in accordance with paragraph 58(b):

- (a) net actuarial losses of the current period and past service cost of the current period to the extent that they exceed any reduction in the present value of the economic benefits specified in paragraph 58(b)(ii). If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period shall be recognised immediately under paragraph 54.**
- (b) net actuarial gains of the current period after the deduction of past service cost of the current period to the extent that they exceed any increase in the present value of the economic benefits specified in paragraph 58(b)(ii). If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period shall be recognised immediately under paragraph 54.**

58B Paragraph 58A applies to an entity only if it has, at the beginning or end of the accounting period, a surplus^{*} in a defined benefit plan and cannot, based on the current terms of the plan, recover that surplus fully through refunds or reductions in future contributions. In such cases, past service cost and actuarial losses that arise in the period, the recognition of which is deferred under paragraph 54, will increase the amount specified in paragraph 58(b)(i). If that increase is not offset by an equal decrease in the present value of economic benefits that qualify for recognition under paragraph 58(b)(ii), there will be an increase in the net total specified by paragraph 58(b) and, hence, a recognised gain. Paragraph 58A prohibits the recognition of a gain in these circumstances.

^{*} A surplus is an excess of the fair value of the plan assets over the present value of the defined benefit obligation.

The opposite effect arises with actuarial gains that arise in the period, the recognition of which is deferred under paragraph 54, to the extent that the actuarial gains reduce cumulative unrecognised actuarial losses. Paragraph 58A prohibits the recognition of a loss in these circumstances. For examples of the application of this paragraph, see part C of the implementation guidance accompanying this Standard.

- 59 An asset may arise where a defined benefit plan has been overfunded or in certain cases where actuarial gains are recognised. An entity recognises an asset in such cases because:
- (a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;
 - (b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and
 - (c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit.
- 60 The limit in paragraph 58(b) does not override the delayed recognition of certain actuarial losses (see paragraphs 92 and 93) and certain past service cost (see paragraph 96), other than as specified in paragraph 58A. However, that limit does override the transitional option in paragraph 155(b). Paragraph 120A(f)(iii) requires an entity to disclose any amount not recognised as an asset because of the limit in paragraph 58(b).

Example illustrating paragraph 60

A defined benefit plan has the following characteristics:

Present value of the obligation	1,100
Fair value of plan assets	(1,190)
	(90)
Unrecognised actuarial losses	(110)
Unrecognised past service cost	(70)
Unrecognised increase in the liability on initial adoption of the Standard under paragraph 155(b)	(50)
Negative amount determined under paragraph 54	(320)
Present value of available future refunds and reductions in future contributions	90

The limit under paragraph 58(b) is computed as follows:

<i>Unrecognised actuarial losses</i>	<i>110</i>
<i>Unrecognised past service cost</i>	<i>70</i>
<i>Present value of available future refunds and reductions in future contributions</i>	<i>90</i>
<i>Limit</i>	<i>270</i>

270 is less than 320. Therefore, the entity recognises an asset of 270 and discloses that the limit reduced the carrying amount of the asset by 50 (see paragraph 120A(f)(iii)).

Profit or loss

- 61 An entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- (a) current service cost (see paragraphs 63–91);
 - (b) interest cost (see paragraph 82);
 - (c) the expected return on any plan assets (see paragraphs 105–107) and on any reimbursement rights (see paragraph 104A);
 - (d) actuarial gains and losses, as required in accordance with the entity's accounting policy (see paragraphs 92–93D);
 - (e) past service cost (see paragraph 96);
 - (f) the effect of any curtailments or settlements (see paragraphs 109 and 110); and
 - (g) the effect of the limit in paragraph 58(b), unless it is recognised outside profit or loss in accordance with paragraph 93C.
- 62 Other Standards require the inclusion of certain employee benefit costs within the cost of assets such as inventories or property, plant and equipment (see IAS 2 and IAS 16). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 61.

Recognition and measurement: present value of defined benefit obligations and current service cost

- 63 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:
- (a) apply an actuarial valuation method (see paragraphs 64–66);
 - (b) attribute benefit to periods of service (see paragraphs 67–71); and
 - (c) make actuarial assumptions (see paragraphs 72–91).

Actuarial valuation method

- 64 An entity shall use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

- 65 The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 67–71) and measures each unit separately to build up the final obligation (see paragraphs 72–91).

Example illustrating paragraph 65

A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is 10,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per year. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	1	2	3	4	5
<i>Benefit attributed to:</i>					
– prior years	0	131	262	393	524
– current year (1% of final salary)	131	131	131	131	131
– current and prior years	<u>131</u>	<u>262</u>	<u>393</u>	<u>524</u>	<u>655</u>
Opening obligation	–	89	196	324	476
Interest at 10%	–	9	20	33	48
Current service cost	89	98	108	119	131
Closing obligation	<u>89</u>	<u>196</u>	<u>324</u>	<u>476</u>	<u>655</u>

Note:

1. The opening obligation is the present value of benefit attributed to prior years.
2. The current service cost is the present value of benefit attributed to the current year.
3. The closing obligation is the present value of benefit attributed to current and prior years.

- 66 An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation falls due within twelve months after the reporting period.

Attributing benefit to periods of service

- 67 **In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:**
- (a) **the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until**
 - (b) **the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.**
- 68 The Projected Unit Credit Method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits which an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

Examples illustrating paragraph 68

1. A defined benefit plan provides a lump-sum benefit of 100 payable on retirement for each year of service.

A benefit of 100 is attributed to each year. The current service cost is the present value of 100. The present value of the defined benefit obligation is the present value of 100, multiplied by the number of years of service up to the end of the reporting period.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

2. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

- 69 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although certain post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

Examples illustrating paragraph 69

1. A plan pays a benefit of 100 for each year of service. The benefits vest after ten years of service.

A benefit of 100 is attributed to each year. In each of the first ten years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete ten years of service.

2. A plan pays a benefit of 100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of 100 is attributed to each subsequent year.

- 70 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

Examples illustrating paragraph 70

1. A plan pays a lump-sum benefit of 1,000 that vests after ten years of service. The plan provides no further benefit for subsequent service.

A benefit of 100 (1,000 divided by ten) is attributed to each of the first ten years. The current service cost in each of the first ten years reflects the probability that the employee may not complete ten years of service. No benefit is attributed to subsequent years.

continued...

...continued

Examples illustrating paragraph 70

2. A plan pays a lump-sum retirement benefit of 2,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2,000 divided by 20) to each of the first twenty years.

For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of 200 (2,000 divided by 10) to each of the first ten years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

3. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50% of those costs if the employee leaves after twenty or more years of service.

Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by ten) to each of the first ten years and 1% (10% divided by ten) to each of the second ten years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within ten years, no benefit is attributed.

4. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50% of those costs if the employee leaves after twenty or more years of service.

Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity attributes benefit on a straight-line basis under paragraph 68. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2.5% of the present value of the expected medical costs (50% divided by twenty).

For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 1% of the present value of the expected medical costs.

For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within ten years, no benefit is attributed.

- 71 Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

- (a) for the purpose of paragraph 67(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and
- (b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Example illustrating paragraph 71
--

Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

<i>Benefit of 3% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.</i>

Actuarial assumptions

- 72 **Actuarial assumptions shall be unbiased and mutually compatible.**

- 73 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

- (a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:
 - (i) mortality, both during and after employment;
 - (ii) rates of employee turnover, disability and early retirement;
 - (iii) the proportion of plan members with dependants who will be eligible for benefits; and
 - (iv) claim rates under medical plans; and
- (b) financial assumptions, dealing with items such as:
 - (i) the discount rate (see paragraphs 78–82);
 - (ii) future salary and benefit levels (see paragraphs 83–87);
 - (iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments (see paragraphs 88–91); and
 - (iv) the expected rate of return on plan assets (see paragraphs 105–107).

- 74 Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

- 75 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.
- 76 An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyperinflationary economy (see IAS 29 *Financial Reporting in Hyperinflationary Economies*), or where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.
- 77 **Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.**

Actuarial assumptions: discount rate

- 78 **The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.**
- 79 One actuarial assumption which has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.
- 80 The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.
- 81 In some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds.
- 82 Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation. The present value of the obligation will differ from the liability recognised in the statement of financial position because the liability is recognised after deducting

the fair value of any plan assets and because some actuarial gains and losses, and some past service cost, are not recognised immediately. [Part A of the implementation guidance accompanying this Standard illustrates the computation of interest cost, among other things.]

Actuarial assumptions: salaries, benefits and medical costs

- 83 Post-employment benefit obligations shall be measured on a basis that reflects:**
- (a) estimated future salary increases;**
 - (b) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period; and**
 - (c) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:**
 - (i) those changes were enacted before the end of the reporting period; or**
 - (ii) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.**
- 84** Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.
- 85** If the formal terms of a plan (or a constructive obligation that goes beyond those terms) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example:
- (a) the entity has a past history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future; or**
 - (b) actuarial gains have already been recognised in the financial statements and the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 98(c)).**
- 86** Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:
- (a) past service cost, to the extent that they change benefits for service before the change; and**
 - (b) current service cost for periods after the change, to the extent that they change benefits for service after the change.**
- 87** Some post-employment benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence.

- 88 **Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.**
- 89 Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.
- 90 The level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Therefore, historical data is adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the historical data. It is also adjusted where there is reliable evidence that historical trends will not continue.
- 91 Some post-employment health care plans require employees to contribute to the medical costs covered by the plan. Estimates of future medical costs take account of any such contributions, based on the terms of the plan at the end of the reporting period (or based on any constructive obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments. The cost of meeting claims may be reduced by benefits from state or other medical providers (see paragraphs 83(c) and 87).

Actuarial gains and losses

- 92 **In measuring its defined benefit liability in accordance with paragraph 54, an entity shall, subject to paragraph 58A, recognise a portion (as specified in paragraph 93) of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:**
- (a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
 - (b) 10% of the fair value of any plan assets at that date.
- These limits shall be calculated and applied separately for each defined benefit plan.**
- 93 **The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined in accordance with paragraph 92, divided by the expected average remaining working lives of the employees participating in that plan. However, an entity may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. An entity may apply such systematic methods to actuarial gains and losses even if they are within the limits specified in paragraph 92.**

- 93A** If, as permitted by paragraph 93, an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them in other comprehensive income, in accordance with paragraphs 93B–93D, providing it does so for:
- (a)** all of its defined benefit plans; and
 - (b)** all of its actuarial gains and losses.
- 93B** Actuarial gains and losses recognised in other comprehensive income as permitted by paragraph 93A shall be presented in the statement of comprehensive income.
- 93C** An entity that recognises actuarial gains and losses in accordance with paragraph 93A shall also recognise any adjustments arising from the limit in paragraph 58(b) in other comprehensive income.
- 93D** Actuarial gains and losses and adjustments arising from the limit in paragraph 58(b) that have been recognised in other comprehensive income shall be recognised immediately in retained earnings. They shall not be reclassified to profit or loss in a subsequent period.
- 94** Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses include, for example:
- (a)** unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;
 - (b)** the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;
 - (c)** the effect of changes in the discount rate; and
 - (d)** differences between the actual return on plan assets and the expected return on plan assets (see paragraphs 105–107).
- 95** In the long term, actuarial gains and losses may offset one another. Therefore, estimates of post-employment benefit obligations may be viewed as a range (or ‘corridor’) around the best estimate. An entity is permitted, but not required, to recognise actuarial gains and losses that fall within that range. This Standard requires an entity to recognise, as a minimum, a specified portion of the actuarial gains and losses that fall outside a ‘corridor’ of plus or minus 10%. [Part A of the implementation guidance accompanying this Standard illustrates the treatment of actuarial gains and losses, among other things.] The Standard also permits systematic methods of faster recognition, provided that those methods satisfy the conditions set out in paragraph 93. Such permitted methods include, for example, immediate recognition of all actuarial gains and losses, both within and outside the ‘corridor’. Paragraph 155(b)(iii) explains the need to consider any unrecognised part of the transitional liability in accounting for subsequent actuarial gains.

Past service cost

- 96 **In measuring its defined benefit liability under paragraph 54, an entity shall, subject to paragraph 58A, recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an entity shall recognise past service cost immediately.**
- 97 Past service cost arises when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, the entity recognises past service cost over that period, regardless of the fact that the cost refers to employee service in previous periods. The entity measures past service cost as the change in the liability resulting from the amendment (see paragraph 64). Negative past service cost arises when an entity changes the benefits attributable to past service so that the present value of the defined benefit obligation decreases.

Example illustrating paragraph 97

An entity operates a pension plan that provides a pension of 2% of final salary for each year of service. The benefits become vested after five years of service. On 1 January 20X5 the entity improves the pension to 2.5% of final salary for each year of service starting from 1 January 20X1. At the date of the improvement, the present value of the additional benefits for service from 1 January 20X1 to 1 January 20X5 is as follows:

Employees with more than five years' service at 1/1/X5	150
Employees with less than five years' service at 1/1/X5 (average period until vesting: three years)	120
	<u>270</u>

The entity recognises 150 immediately because those benefits are already vested. The entity recognises 120 on a straight-line basis over three years from 1 January 20X5.

- 98 Past service cost excludes:
- (a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);
 - (b) underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);
 - (c) estimates of benefit improvements that result from actuarial gains that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been

formally awarded (the resulting increase in the obligation is an actuarial loss and not past service cost, see paragraph 85(b));

- (d) the increase in vested benefits when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered); and
 - (e) the effect of plan amendments that reduce benefits for future service (a curtailment).
- 99 An entity establishes the amortisation schedule for past service cost when the benefits are introduced or changed. It would be impracticable to maintain the detailed records needed to identify and implement subsequent changes in that amortisation schedule. Moreover, the effect is likely to be material only where there is a curtailment or settlement. Therefore, an entity amends the amortisation schedule for past service cost only if there is a curtailment or settlement.
- 100 Where an entity reduces benefits payable under an existing defined benefit plan, the resulting reduction in the defined benefit liability is recognised as (negative) past service cost over the average period until the reduced portion of the benefits becomes vested.
- 101 Where an entity reduces certain benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

Recognition and measurement: plan assets

Fair value of plan assets

- 102 The fair value of any plan assets is deducted in determining the amount recognised in the statement of financial position under paragraph 54. When no market price is available, the fair value of plan assets is estimated; for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation).
- 103 Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.
- 104 Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations, as described in paragraph 54 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

- 104A** When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In all other respects, an entity shall treat that asset in the same way as plan assets. In the statement of comprehensive income, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.
- 104B** Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 7, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 104A does not apply (see paragraphs 39–42 and 104).
- 104C** When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 104A deals with such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit liability recognised under paragraph 54; in all other respects, the entity treats that asset in the same way as plan assets. In particular, the defined benefit liability recognised under paragraph 54 is increased (reduced) to the extent that net cumulative actuarial gains (losses) on the defined benefit obligation and on the related reimbursement right remain unrecognised under paragraphs 92 and 93. Paragraph 120A(f)(iv) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

Example illustrating paragraphs 104A–104C	
Present value of obligation	1,241
Unrecognised actuarial gains	17
Liability recognised in statement of financial position	<u>1,258</u>
Rights under insurance policies that exactly match the amount and timing of some of the benefits payable under the plan. Those benefits have a present value of 1,092.	<u>1,092</u>
The unrecognised actuarial gains of 17 are the net cumulative actuarial gains on the obligation and on the reimbursement rights.	

- 104D** If the right to reimbursement arises under an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation, as described in paragraph 54 (subject to any reduction required if the reimbursement is not recoverable in full).

Return on plan assets

- 105 The expected return on plan assets is one component of the expense recognised in profit or loss. The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss; it is included with the actuarial gains and losses on the defined benefit obligation in determining the net amount that is compared with the limits of the 10% 'corridor' specified in paragraph 92.
- 106 The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The expected return on plan assets reflects changes in the fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

Example illustrating paragraph 106

At 1 January 20X1, the fair value of plan assets was 10,000 and net cumulative unrecognised actuarial gains were 760. On 30 June 20X1, the plan paid benefits of 1,900 and received contributions of 4,900. At 31 December 20X1, the fair value of plan assets was 15,000 and the present value of the defined benefit obligation was 14,792. Actuarial losses on the obligation for 20X1 were 60.

At 1 January 20X1, the reporting entity made the following estimates, based on market prices at that date:

	%
Interest and dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Administration costs	(1.00)
Expected rate of return	<u>10.25</u>

For 20X1, the expected and actual return on plan assets are as follows:

<i>Return on 10,000 held for 12 months at 10.25%</i>	<i>1,025</i>
<i>Return on 3,000 held for six months at 5% (equivalent to 10.25% annually, compounded every six months)</i>	<i>150</i>
<i>Expected return on plan assets for 20X1</i>	<u><i>1,175</i></u>

<i>Fair value of plan assets at 31 December 20X1</i>	<i>15,000</i>
<i>Less fair value of plan assets at 1 January 20X1</i>	<i>(10,000)</i>
<i>Less contributions received</i>	<i>(4,900)</i>
<i>Add benefits paid</i>	<u><i>1,900</i></u>
<i>Actual return on plan assets</i>	<u><i>2,000</i></u>

continued...

...continued

Example illustrating paragraph 106

The difference between the expected return on plan assets (1,175) and the actual return on plan assets (2,000) is an actuarial gain of 825. Therefore, the cumulative net unrecognised actuarial gains are 1,525 (760 plus 825 less 60). Under paragraph 92, the limits of the corridor are set at 1,500 (greater of: (i) 10% of 15,000 and (ii) 10% of 14,792). In the following year (20X2), the entity recognises in profit or loss an actuarial gain of 25 (1,525 less 1,500) divided by the expected average remaining working life of the employees concerned.

The expected return on plan assets for 20X2 will be based on market expectations at 1/1/X2 for returns over the entire life of the obligation.

- 107 In determining the expected and actual return on plan assets, an entity deducts expected administration costs, other than those included in the actuarial assumptions used to measure the obligation.

Business combinations

- 108 In a business combination, an entity recognises assets and liabilities arising from post-employment benefits at the present value of the obligation less the fair value of any plan assets (see IFRS 3 *Business Combinations*). The present value of the obligation includes all of the following, even if the acquiree had not yet recognised them at the acquisition date:
- (a) actuarial gains and losses that arose before the acquisition date (whether or not they fell inside the 10% 'corridor');
 - (b) past service cost that arose from benefit changes, or the introduction of a plan, before the acquisition date; and
 - (c) amounts that, under the transitional provisions of paragraph 155(b), the acquiree had not recognised.

Curtailments and settlements

- 109 **An entity shall recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement shall comprise:**
- (a) **any resulting change in the present value of the defined benefit obligation;**
 - (b) **any resulting change in the fair value of the plan assets;**
 - (c) **any related actuarial gains and losses and past service cost that, under paragraphs 92 and 96, had not previously been recognised.**
- 110 **Before determining the effect of a curtailment or settlement, an entity shall remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).**

- 111 A curtailment occurs when an entity either:
- (a) is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or
 - (b) amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case, an entity accounts for a curtailment at the same time as for a related restructuring.

- 111A When a plan amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.
- 112 A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.
- 113 In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 39) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 104A–104D deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.
- 114 A settlement occurs together with a curtailment if a plan is terminated such that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a curtailment or settlement if the plan is replaced by a new plan that offers benefits that are, in substance, identical.
- 115 Where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of the previously unrecognised past service cost and actuarial gains and losses (and of transitional amounts remaining unrecognised under paragraph 155(b)). The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement, unless another basis is more rational in the circumstances. For example, it may be appropriate to apply any gain arising on a curtailment or settlement of the same plan to first eliminate any unrecognised past service cost relating to the same plan.

Example illustrating paragraph 115

An entity discontinues an operating segment and employees of the discontinued segment will earn no further benefits. This is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the entity has a defined benefit obligation with a net present value of 1,000, plan assets with a fair value of 820 and net cumulative unrecognised actuarial gains of 50. The entity had first adopted the Standard one year before. This increased the net liability by 100, which the entity chose to recognise over five years (see paragraph 155(b)). The curtailment reduces the net present value of the obligation by 100 to 900.

Of the previously unrecognised actuarial gains and transitional amounts, 10% (100/1,000) relates to the part of the obligation that was eliminated through the curtailment. Therefore, the effect of the curtailment is as follows:

	<i>Before curtailment</i>	<i>Curtailment gain</i>	<i>After curtailment</i>
<i>Net present value of obligation</i>	1,000	(100)	900
<i>Fair value of plan assets</i>	(820)	–	(820)
	<u>180</u>	<u>(100)</u>	<u>80</u>
 <i>Unrecognised actuarial gains</i>	 50	 (5)	 45
<i>Unrecognised transitional amount (100 × 4/5)</i>	<u>(80)</u>	<u>8</u>	<u>(72)</u>
<i>Net liability recognised in statement of financial position</i>	<u>150</u>	<u>(97)</u>	<u>53</u>

Presentation**Offset**

- 116 **An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:**
- (a) **has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and**
 - (b) **intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.**
- 117 The offsetting criteria are similar to those established for financial instruments in IAS 32 *Financial Instruments: Presentation*.

Current/non-current distinction

- 118 Some entities distinguish current assets and liabilities from non-current assets and liabilities. This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

Financial components of post-employment benefit costs

- 119 This Standard does not specify whether an entity should present current service cost, interest cost and the expected return on plan assets as components of a single item of income or expense in the statement of comprehensive income.

Disclosure

- 120 **An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.**
- 120A **An entity shall disclose the following information about defined benefit plans:**
- (a) the entity's accounting policy for recognising actuarial gains and losses.
 - (b) a general description of the type of plan.
 - (c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:
 - (i) current service cost,
 - (ii) interest cost,
 - (iii) contributions by plan participants,
 - (iv) actuarial gains and losses,
 - (v) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,
 - (vi) benefits paid,
 - (vii) past service cost,
 - (viii) business combinations,
 - (ix) curtailments and
 - (x) settlements.
 - (d) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.

- (e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 104A showing separately, if applicable, the effects during the period attributable to each of the following:
 - (i) expected return on plan assets,
 - (ii) actuarial gains and losses,
 - (iii) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,
 - (iv) contributions by the employer,
 - (v) contributions by plan participants,
 - (vi) benefits paid,
 - (vii) business combinations and
 - (viii) settlements.
- (f) a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the statement of financial position, showing at least:
 - (i) the net actuarial gains or losses not recognised in the statement of financial position (see paragraph 92);
 - (ii) the past service cost not recognised in the statement of financial position (see paragraph 96);
 - (iii) any amount not recognised as an asset, because of the limit in paragraph 58(b);
 - (iv) the fair value at the end of the reporting period of any reimbursement right recognised as an asset in accordance with paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation); and
 - (v) the other amounts recognised in the statement of financial position.
- (g) the total expense recognised in profit or loss for each of the following, and the line item(s) in which they are included:
 - (i) current service cost;
 - (ii) interest cost;
 - (iii) expected return on plan assets;
 - (iv) expected return on any reimbursement right recognised as an asset in accordance with paragraph 104A;
 - (v) actuarial gains and losses;
 - (vi) past service cost;

- (vii) the effect of any curtailment or settlement; and
- (viii) the effect of the limit in paragraph 58(b).
- (h) the total amount recognised in other comprehensive income for each of the following:
 - (i) actuarial gains and losses; and
 - (ii) the effect of the limit in paragraph 58(b).
- (i) for entities that recognise actuarial gains and losses in other comprehensive income in accordance with paragraph 93A, the cumulative amount of actuarial gains and losses recognised in other comprehensive income.
- (j) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.
- (k) the amounts included in the fair value of plan assets for:
 - (i) each category of the entity's own financial instruments; and
 - (ii) any property occupied by, or other assets used by, the entity.
- (l) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.
- (m) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 104A.
- (n) the principal actuarial assumptions used as at the end of the reporting period, including, when applicable:
 - (i) the discount rates;
 - (ii) the expected rates of return on any plan assets for the periods presented in the financial statements;
 - (iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 104A;
 - (iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
 - (v) medical cost trend rates; and
 - (vi) any other material actuarial assumptions used.

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

- (o) the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:
 - (i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and
 - (ii) the accumulated post-employment benefit obligation for medical costs.

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

- (p) the amounts for the current annual period and previous four annual periods of:
 - (i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
 - (ii) the experience adjustments arising on:
 - (A) the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the end of the reporting period and
 - (B) the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the end of the reporting period.
- (q) the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting period.

121 Paragraph 120A(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan shall include informal practices that give rise to constructive obligations included in the measurement of the defined benefit obligation in accordance with paragraph 52. Further detail is not required.

122 When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:

- (a) the geographical location of the plans, for example, by distinguishing domestic plans from foreign plans; or
- (b) whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans.

When an entity provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

- 123 Paragraph 30 requires additional disclosures about multi-employer defined benefit plans that are treated as if they were defined contribution plans.
- 124 Where required by IAS 24 an entity discloses information about:
- (a) related party transactions with post-employment benefit plans; and
 - (b) post-employment benefits for key management personnel.
- 125 Where required by IAS 37 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long-term employee benefits

- 126 Other long-term employee benefits include, for example:
- (a) long-term compensated absences such as long-service or sabbatical leave;
 - (b) jubilee or other long-service benefits;
 - (c) long-term disability benefits;
 - (d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service; and
 - (e) deferred compensation paid twelve months or more after the end of the period in which it is earned.
- 127 The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Furthermore, the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost. For these reasons, this Standard requires a simplified method of accounting for other long-term employee benefits. This method differs from the accounting required for post-employment benefits as follows:
- (a) actuarial gains and losses are recognised immediately and no 'corridor' is applied; and
 - (b) all past service cost is recognised immediately.

Recognition and measurement

- 128 **The amount recognised as a liability for other long-term employee benefits shall be the net total of the following amounts:**
- (a) **the present value of the defined benefit obligation at the end of the reporting period (see paragraph 64);**
 - (b) **minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102–104).**

In measuring the liability, an entity shall apply paragraphs 49–91, excluding paragraphs 54 and 61. An entity shall apply paragraph 104A in recognising and measuring any reimbursement right.

- 129 For other long-term employee benefits, an entity shall recognise the net total of the following amounts as expense or (subject to paragraph 58) income, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- (a) current service cost (see paragraphs 63–91);
 - (b) interest cost (see paragraph 82);
 - (c) the expected return on any plan assets (see paragraphs 105–107) and on any reimbursement right recognised as an asset (see paragraph 104A);
 - (d) actuarial gains and losses, which shall all be recognised immediately;
 - (e) past service cost, which shall all be recognised immediately; and
 - (f) the effect of any curtailments or settlements (see paragraphs 109 and 110).
- 130 One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

Disclosure

- 131 Although this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures, for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with IAS 1. When required by IAS 24, an entity discloses information about other long-term employee benefits for key management personnel.

Termination benefits

- 132 This Standard deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

- 133 An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:
- (a) terminate the employment of an employee or group of employees before the normal retirement date; or
 - (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.
- 134 An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan shall include, as a minimum:

- (a) **the location, function, and approximate number of employees whose services are to be terminated;**
- (b) **the termination benefits for each job classification or function; and**
- (c) **the time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.**

135 An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:

- (a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and
- (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

136 Some employee benefits are payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some countries as termination indemnities, or termination gratuities, they are post-employment benefits, rather than termination benefits and an entity accounts for them as post-employment benefits. Some entities provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination is a termination benefit.

137 Termination benefits do not provide an entity with future economic benefits and are recognised as an expense immediately.

138 Where an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits (see paragraph 109).

Measurement

139 **Where termination benefits fall due more than 12 months after the reporting period, they shall be discounted using the discount rate specified in paragraph 78.**

140 **In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.**

Disclosure

- 141 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by IAS 37 an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.
- 142 As required by IAS 1, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.
- 143 Where required by IAS 24 an entity discloses information about termination benefits for key management personnel.
- 144–152 [Deleted]

Transitional provisions

- 153 This section specifies the transitional treatment for defined benefit plans. Where an entity first adopts this Standard for other employee benefits, the entity applies IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 154 **On first adopting this Standard, an entity shall determine its transitional liability for defined benefit plans at that date as:**
- (a) the present value of the obligation (see paragraph 64) at the date of adoption;
 - (b) minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102–104);
 - (c) minus any past service cost that, under paragraph 96, shall be recognised in later periods.
- 155 **If the transitional liability is more than the liability that would have been recognised at the same date under the entity's previous accounting policy, the entity shall make an irrevocable choice to recognise that increase as part of its defined benefit liability under paragraph 54:**
- (a) immediately, under IAS 8; or
 - (b) as an expense on a straight-line basis over up to five years from the date of adoption. If an entity chooses (b), the entity shall:
 - (i) apply the limit described in paragraph 58(b) in measuring any asset recognised in the statement of financial position;
 - (ii) disclose at the end of each reporting period: (1) the amount of the increase that remains unrecognised; and (2) the amount recognised in the current period;
 - (iii) limit the recognition of subsequent actuarial gains (but not negative past service cost) as follows. If an actuarial gain is to be recognised under paragraphs 92 and 93, an entity shall recognise that actuarial gain only to the extent that the net cumulative unrecognised actuarial

gains (before recognition of that actuarial gain) exceed the unrecognised part of the transitional liability; and

- (iv) include the related part of the unrecognised transitional liability in determining any subsequent gain or loss on settlement or curtailment.

If the transitional liability is less than the liability that would have been recognised at the same date under the entity's previous accounting policy, the entity shall recognise that decrease immediately under IAS 8.

- 156 On the initial adoption of the Standard, the effect of the change in accounting policy includes all actuarial gains and losses that arose in earlier periods even if they fall inside the 10% 'corridor' specified in paragraph 92.

Example illustrating paragraphs 154 to 156

At 31 December 1998, an entity's statement of financial position includes a pension liability of 100. The entity adopts the Standard as of 1 January 1999, when the present value of the obligation under the Standard is 1,300 and the fair value of plan assets is 1,000. On 1 January 1993, the entity had improved pensions (cost for non-vested benefits: 160; and average remaining period at that date until vesting: 10 years).

The transitional effect is as follows:

Present value of the obligation	1,300
Fair value of plan assets	(1,000)
Less: past service cost to be recognised in later periods ($160 \times 4/10$)	(64)
Transitional liability	236
Liability already recognised	100
Increase in liability	136

The entity may choose to recognise the increase of 136 either immediately or over up to 5 years. The choice is irrevocable.

At 31 December 1999, the present value of the obligation under the Standard is 1,400 and the fair value of plan assets is 1,050. Net cumulative unrecognised actuarial gains since the date of adopting the Standard are 120.

The expected average remaining working life of the employees participating in the plan was eight years. The entity has adopted a policy of recognising all actuarial gains and losses immediately, as permitted by paragraph 93.

The effect of the limit in paragraph 155(b)(iii) is as follows.

Net cumulative unrecognised actuarial gains	120
Unrecognised part of transitional liability ($136 \times 4/5$)	(109)
Maximum gain to be recognised (paragraph 155(b)(iii))	11

Effective date

- 157 This Standard becomes operative for financial statements covering periods beginning on or after 1 January 1999, except as specified in paragraphs 159–159C. Earlier adoption is encouraged. If an entity applies this Standard to retirement benefit costs for financial statements covering periods beginning before 1 January 1999, the entity shall disclose the fact that it has applied this Standard instead of IAS 19 *Retirement Benefit Costs* approved in 1993.
- 158 This Standard supersedes IAS 19 *Retirement Benefit Costs* approved in 1993.
- 159 The following become operative for annual financial statements* covering periods beginning on or after 1 January 2001:
- (a) the revised definition of plan assets in paragraph 7 and the related definitions of assets held by a long-term employee benefit fund and qualifying insurance policy; and
 - (b) the recognition and measurement requirements for reimbursements in paragraphs 104A, 128 and 129 and related disclosures in paragraphs 120A(f)(iv), 120A(g)(iv), 120A(m) and 120A(n)(iii).
- Earlier adoption is encouraged. If earlier adoption affects the financial statements, an entity shall disclose that fact.
- 159A The amendment in paragraph 58A becomes operative for annual financial statements covering periods ending on or after 31 May 2002. Earlier adoption is encouraged. If earlier adoption affects the financial statements, an entity shall disclose that fact.
- 159B An entity shall apply the amendments in paragraphs 32A, 34–34B, 61 and 120–121 for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 January 2006, it shall disclose that fact.
- 159C The option in paragraphs 93A–93D may be used for annual periods ending on or after 16 December 2004. An entity using the option for annual periods beginning before 1 January 2006 shall also apply the amendments in paragraphs 32A, 34–34B, 61 and 120–121.
- 159D Paragraphs 7, 8(b), 32B, 97, 98 and 111 were amended and paragraph 111A was added by *Improvements to IFRSs* issued in May 2008. An entity shall apply the amendments in paragraphs 7, 8(b) and 32B for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. An entity shall apply the amendments in paragraphs 97, 98, 111 and 111A to changes in benefits that occur on or after 1 January 2009.

* Paragraphs 159 and 159A refer to ‘annual financial statements’ in line with more explicit language for writing effective dates adopted in 1998. Paragraph 157 refers to ‘financial statements’.

IAS 19

- 160 IAS 8 applies when an entity changes its accounting policies to reflect the changes specified in paragraphs 159–159D. In applying those changes retrospectively, as required by IAS 8, the entity treats those changes as if they had been applied at the same time as the rest of this Standard. The exception is that an entity may disclose the amounts required by paragraph 120A(p) as the amounts are determined for each annual period prospectively from the first annual period presented in the financial statements in which the entity first applies the amendments in paragraph 120A.
- 161 IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 93A–93D, 106 (Example) and 120A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

Appendix

Amendments to other Standards

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies the amendments to IAS 19 for an earlier period, these amendments shall be applied for that earlier period.

* * * * *

The amendments contained in this appendix when this amended Standard was issued in 2004 have been incorporated into the text of IFRS 1 and IASs 1 and 24 published in this volume.

