Department for Business & Trade

UKEB
UK Endorsement Board

UK-Adopted International Accounting Standards

International Accounting Standard 19

Employee Benefits

Accounting Standards issued at 1 January 2026

UK-adopted international accounting standards contain copyright material of the IFRS® Foundation (Foundation) in respect of which all rights are reserved.

Reproduced and distributed by the UK Endorsement Board ("UKEB"), pursuant to the delegation by the Secretary of State in the International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609, with the permission of the Foundation within the United Kingdom only. No rights granted to third parties other than as permitted by the Terms of Use (see below) without the prior written permission of the UKEB, and the Foundation.

'UK-adopted international accounting standards' are issued by the UKEB in respect of their application in the United Kingdom and have not been prepared or endorsed by the International Accounting Standards Board.

Terms of Use for Users

1 The IFRS Foundation and the UK Endorsement Board ("UKEB") (pursuant to the delegation by the Secretary of State in the International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609), grant users of the UK-adopted international accounting standards' (Users) the permission to reproduce the 'UK-adopted international accounting standards' for

i. the User's Professional Use, or

ii. private study and education

Professional Use: means use of 'UK-adopted international accounting standards' in the User's professional capacity in connection with the business of providing accounting services for the purpose of application of IFRS as adopted by the UK for preparation of financial statements and/or financial statement analysis to the User's clients or to the business in which the User is engaged as an accountant.

For the avoidance of doubt, the abovementioned usage does not include any kind of activities that make (commercial) use of the 'UK-adopted international accounting standards' other than direct or indirect application of the 'UK-adopted international accounting standards' such as but not limited to commercial seminars, conferences, commercial training or similar events.

2 For any application that falls outside Professional Use, Users shall be obliged to contact the UKEB and the IFRS Foundation for a separate individual licence under terms and conditions to be mutually agreed.

3 Except as otherwise expressly permitted in this notice, Users shall not, without prior written permission of the UKEB and the Foundation, have the right to license, sublicense, transmit, transfer, sell, rent, or otherwise distribute any portion of the 'UK-adopted international accounting standards' to third parties in any form or by

any means, whether electronic, mechanical or otherwise either currently known or yet to be invented.

4 Users are not permitted to modify or make alterations, additions or amendments to or create any derivative works from the 'UK-adopted international accounting standards' save as otherwise expressly permitted in this notice.

For further details about licensing the IFRS Foundation's intellectual property please contact permissions@ifrs.org.

International Accounting Standard 19

Employee Benefits

Objective

1 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

2 This Standard shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment* applies.

3 This Standard does not deal with reporting by employee benefit plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).

4 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.

5 Employee benefits include:

(a) short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:

(i) wages, salaries and social security contributions;

(ii) paid annual leave and paid sick leave;

(iii) profit-sharing and bonuses; and

(iv) 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 the following:

(i) retirement benefits (eg pensions and lump sum payments on retirement); and

(ii) other post-employment benefits, such as post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, such as the following:

(i) long-term paid absences such as long-service leave or sabbatical leave;

(ii) jubilee or other long-service benefits; and

(iii) long-term disability benefits; and

(d) termination benefits.

6 Employee benefits include benefits provided either to employees or to their dependants or beneficiaries 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.

7 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

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

Definitions of employee benefits

Employee benefits **are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.**

Short-term employee benefits **are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after**

the end of the annual reporting period in which the employees render the related service.

Post-employment benefits **are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.**

Other long-term employee benefits **are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.**

Termination benefits **are employee benefits provided in exchange for the termination of an employee's employment 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 an offer of benefits in exchange for the termination of employment.

Definitions relating to classification of plans

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.

Definitions relating to the net defined benefit liability (asset)

The *net defined benefit liability* (asset) is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The *deficit or surplus* is:

(a) the present value of the defined benefit obligation less

(b) the fair value of plan assets (if any).

The *asset ceiling* is 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 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.

***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[1] 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

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

***Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 *Fair Value Measurement*.)**

Definitions relating to defined benefit cost

***Service cost* comprises:**

(a) *current service cost*, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;

(b) *past service cost*, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and

(c) any gain or loss on settlement.

***Net interest on the net defined benefit liability (asset)* is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.**

***Remeasurements of the net defined benefit liability (asset)* comprise:**

[1] A qualifying insurance policy is not necessarily an insurance contract, as defined in IFRS 17 *Insurance Contracts*.

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Actuarial gains and losses **are changes in the present value of the defined benefit obligation resulting from:**

(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.

The *return on plan assets* is interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

(a) any costs of managing plan assets; and

(b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

A *settlement* is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-term employee benefits

9 Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:

(a) wages, salaries and social security contributions;

(b) paid annual leave and paid sick leave;

(c) profit-sharing and bonuses; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

10 An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the

characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and measurement

All short-term employee benefits

11 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.

(b) as an expense, unless another IFRS 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*).

12 Paragraphs 13, 16 and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.

Short-term paid absences

13 An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

14 An entity may pay employees for absence for various reasons including holidays, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to paid absences falls into two categories:

(a) accumulating; and

(b) non-accumulating.

15 Accumulating paid 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 paid 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 paid absences. The obligation exists, and is recognised, even if the paid 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.

16 An entity shall measure the expected cost of accumulating paid 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.

17 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 paid 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 annual leave.

Example illustrating paragraphs 16 and 17
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 31 December 20X1 the average unused entitlement is two days per employee. The entity expects, on the basis of experience that 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 twelve 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 twelve days of sick pay.*

18 Non-accumulating paid 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 paid 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

19 An entity shall recognise the expected cost of profit-sharing and bonus payments under paragraph 11 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.

20 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 20
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 per cent of profit. The entity estimates that staff turnover will reduce the payments to 2.5 per cent of profit. *The entity recognises a liability and an expense of 2.5 per cent of profit.*

21 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.

22 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.

23 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.

24 If profit-sharing and bonus payments are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 153–158).

Disclosure

25 Although this Standard does not require specific disclosures about short-term employee benefits, other IFRSs 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

26 Post-employment benefits include items such as the following:

(a) retirement benefits (eg pensions and lump sum payments on retirement); 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.

27 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.

28 Under defined contribution plans 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. 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, in substance, on the employee.

29 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 and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

(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.

30 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.

31 Paragraphs 32–49 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans and insured benefits.

Multi-employer plans

32 **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).**

33 **If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it 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 paragraphs 135–148 (excluding paragraph 148(d)).**

34 **When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:**

(a) **account for the plan in accordance with paragraphs 51 and 52 as if it were a defined contribution plan; and**

(b) **disclose the information required by paragraph 148.**

35 One example of a multi-employer defined benefit plan is one where:

(a) the plan is financed on a pay-as-you-go basis: 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 either to increase its contributions or to persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

36 Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment cost associated with the plan in the same way as for any other defined benefit plan. However, 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 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; or

(b) the entity does not have access to sufficient information about the plan to satisfy the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the information required by paragraph 148.

37 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 34 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 37
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 CU100 million[(a)] 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 CU8 million. *The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.*
(a) In this Standard monetary amounts are denominated in 'currency units (CU)'.

38 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).

39 **In determining when to recognise, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.**

Defined benefit plans that share risks between entities under common control

40 Defined benefit plans that share risks between entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.

41 An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan as a whole measured in accordance with this Standard, 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.

42 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, disclose the information required by paragraph 149.

State plans

43 **An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 32–39).**

44 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) that is not subject to control or influence by the reporting entity. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.

45 State plans are characterised as defined benefit or defined contribution, depending 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, when a state plan is a defined benefit plan an entity applies paragraphs 32–39.

Insured benefits

46 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 either:

(a) to pay the employee benefits directly when they fall due; or

(b) to 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.

47 The benefits insured by an insurance policy need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance policies are subject to the same distinction between accounting and funding as other funded plans.

48 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 8); and

(b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criterion in paragraph 116).

49 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

50 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 are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

Recognition and measurement

51 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.

(b) as an expense, unless another IFRS requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IAS 2 and IAS 16).

52 When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the annual reporting

period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 83.

Disclosure

53 An entity shall disclose the amount recognised as an expense for defined contribution plans.

54 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

55 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

56 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.

57 Accounting by an entity for defined benefit plans involves the following steps:

(a) determining the deficit or surplus. This involves:

(i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 67–69). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70–74) 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 affect the cost of the benefit (see paragraphs 75–98).

(ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 67–69 and 83–86).

(iii) deducting the fair value of any plan assets (see paragraphs 113–115) from the present value of the defined benefit obligation.

(b) determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 64).

(c) determining amounts to be recognised in profit or loss:

(i) current service cost (see paragraphs 70–74 and paragraph 122A).

(ii) any past service cost and gain or loss on settlement (see paragraphs 99–112).

(iii) net interest on the net defined benefit liability (asset) (see paragraphs 123–126).

(d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) actuarial gains and losses (see paragraphs 128 and 129);

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 130); and

(iii) any change in the effect of the asset ceiling (see paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

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

58 An entity shall determine the net defined benefit liability (asset) 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.

59 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.

60 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

61 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.

62 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 terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of financial position

63 An entity shall recognise the net defined benefit liability (asset) in the statement of financial position.

64 When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

(a) the surplus in the defined benefit plan; and

(b) the asset ceiling, determined using the discount rate specified in paragraph 83.

65 A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognises a net defined benefit 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. The asset ceiling is the present value of those future benefits.

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

66 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. 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:

(a) to apply an actuarial valuation method (see paragraphs 67–69);

(b) to attribute benefit to periods of service (see paragraphs 70–74); and

(c) to make actuarial assumptions (see paragraphs 75–98).

Actuarial valuation method

67 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.

68 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 70–74) and measures each unit separately to build up the final obligation (see paragraphs 75–98).

Example illustrating paragraph 68
A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is CU10,000 and is assumed to increase at 7 per cent (compound) each year. The discount rate used is 10 per cent per year. The following table

Example illustrating paragraph 68

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*
	CU	*CU*	*CU*	*CU*	*CU*
Benefit attributed to:					
– prior years	*0*	*131*	*262*	*393*	*524*
– current year (1% of final salary)	*131*	*131*	*131*	*131*	*131*
– current and prior years	*131*	*262*	*393*	*524*	*655*
Opening obligation	*–*	*89*	*196*	*324*	*476*
Interest at 10%	*–*	*9*	*20*	*33*	*48*
Current service cost	*89*	*98*	*108*	*119*	*131*
Closing obligation	*89*	*196*	*324*	*476*	*655*

Note:

1 *The opening obligation is the present value of the benefit attributed to prior years.*

2 *The current service cost is the present value of the benefit attributed to the current year.*

3 *The closing obligation is the present value of the benefit attributed to current and prior years.*

69 An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing benefit to periods of service

70 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.

71 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 that 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 71
1 A defined benefit plan provides a lump sum benefit of CU100 payable on retirement for each year of service. *A benefit of CU100 is attributed to each year. The current service cost is the present value of CU100. The present value of the defined benefit obligation is the present value of CU100, 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*

Examples illustrating paragraph 71
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 per cent 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 per cent 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 per cent 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.*

72 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 some 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 72
1 A plan pays a benefit of CU100 for each year of service. The benefits vest after ten years of service. *A benefit of CU100 is attributed to each year. In each of the first ten years, the current service cost and the present value of the obligation*

Examples illustrating paragraph 72

reflect the probability that the employee may not complete ten years of service.

2 A plan pays a benefit of CU100 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 CU100 is attributed to each subsequent year.

73 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 73

1 A plan pays a lump sum benefit of CU1,000 that vests after ten years of service. The plan provides no further benefit for subsequent service.

A benefit of CU100 (CU1,000 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.

2 A plan pays a lump sum retirement benefit of CU2,000 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

Examples illustrating paragraph 73

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 CU100 (CU2,000 divided by twenty) 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 twenty) 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 CU200 (CU2,000 divided by ten) 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 per cent 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 per cent of those costs if the employee leaves after twenty or more years of service.

Under the plan's benefit formula, the entity attributes 4 per cent of the present value of the expected medical costs (40 per cent divided by ten) to each of the first ten years and 1 per cent (10 per cent 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 per cent 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 per cent 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 71. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed

Examples illustrating paragraph 73
to each of the first twenty years is 2.5 per cent of the present value of the expected medical costs (50 per cent 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 per cent 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.*

74 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 70(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 74
Employees are entitled to a benefit of 3 per cent of final salary for each year of service before the age of 55. *Benefit of 3 per cent 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.*

Actuarial assumptions

75 Actuarial assumptions shall be unbiased and mutually compatible.

76 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 (see paragraphs 81 and 82);

(ii) rates of employee turnover, disability and early retirement;

(iii) the proportion of plan members with dependants who will be eligible for benefits;

(iv) the proportion of plan members who will select each form of payment option available under the plan terms; and

(v) claim rates under medical plans.

(b) financial assumptions, dealing with items such as:

(i) the discount rate (see paragraphs 83–86);

(ii) benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 87–95);

(iii) in the case of medical benefits, future medical costs, including claim handling costs (ie the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs 96–98); and

(iv) taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service.

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

78 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase and discount rates. For example, all assumptions that 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.

79 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.

80 **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: mortality

81 **An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.**

82 In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial assumptions: discount rate

83 **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. For currencies for which there is no deep market in such high quality corporate bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency 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.**

84 One actuarial assumption that 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.

85 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.

86 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.

Actuarial assumptions: salaries, benefits and medical costs

87 An entity shall measure its defined benefit obligations on a basis that reflects:

(a) 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;

(b) any estimated future salary increases that affect the benefits payable;

(c) the effect of any limit on the employer's share of the cost of the future benefits;

(d) contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and

(e) 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) historical data, or other reliable evidence, indicate 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.

88 Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

(a) the entity has a 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;

(b) 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 108(c)); or

(c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

89 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.

90 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

91 Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

(a) the estimated life of the entity; and

(b) the estimated life of the plan.

92 Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 116. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

93 Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:

(a) if the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method required by paragraph 70 for the gross benefit (ie either using the plan's contribution formula or on a straight-line basis); or

(b) if the amount of the contributions is independent of the number of years of service, the entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

Paragraph A1 provides related application guidance.

94 For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph 93(a), changes in the contributions result in:

(a) current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a constructive obligation); or

(b) actuarial gains and losses (if those changes are set out in the formal terms of a plan, or arise from a constructive obligation).

95 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 the best estimate of such variables, based on historical data and other reliable evidence.

96 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.

97 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.

98 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 are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Past service cost and gains and losses on settlement

99 **When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions, including current market interest rates and other current market prices, reflecting:**

(a) **the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and**

(b) **the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.**

100 An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognises past service cost before any gain or loss on settlement.

101 A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

101A When a plan amendment, curtailment or settlement occurs, an entity shall recognise and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs 99–101 and paragraphs 102–112. In doing so, an entity shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognise any change in that effect in accordance with paragraph 57(d).

Past service cost

102 Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

103 **An entity shall recognise past service cost as an expense at the earlier of the following dates:**

(a) **when the plan amendment or curtailment occurs; and**

(b) **when the entity recognises related restructuring costs (see IAS 37) or termination benefits (see paragraph 165).**

104 A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

105 A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. 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.

106 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 benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

107 Where an entity reduces 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.

108 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 or from the return on plan assets 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 (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 88); and

(d) the increase in vested benefits (ie benefits that are not conditional on future employment, see paragraph 72) 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).

Gains and losses on settlement

109 The gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

110 An entity shall recognise a gain or loss on the settlement of a defined benefit plan when the settlement occurs.

111 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 (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

112 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 46) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 116–119 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and measurement: plan assets

Fair value of plan assets

113 The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.

114 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.

115 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 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

116 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:

(a) recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.

(b) disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 124 and 125). The components of defined benefit cost recognised in accordance with paragraph 120 may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.

117 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 8, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 116 is not relevant (see paragraphs 46–49 and 115).

118 When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 116 is relevant to 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 deficit or surplus. Paragraph 140(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

119 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 (subject to any reduction required if the reimbursement is not recoverable in full).

Components of defined benefit cost

120 An entity shall recognise the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:

(a) service cost (see paragraphs 66–112 and paragraph 122A) in profit or loss;

(b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126) in profit or loss; and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130) in other comprehensive income.

121 Other IFRSs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and 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 120.

122 Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.

Current service cost

122A An entity shall determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, it shall determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b).

Net interest on the net defined benefit liability (asset)

123 An entity shall determine net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83.

123A To determine net interest in accordance with paragraph 123, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using:

(a) the net defined benefit liability (asset) determined in accordance with paragraph 99(b); and

(b) the discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b).

In applying paragraph 123A, the entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.

124 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 64.

125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 123A. An entity shall determine the fair value of the plan assets at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine interest income for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b). In applying paragraph 125, the entity shall also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

126 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 123A. An entity shall determine the effect of the asset ceiling at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99, the entity shall determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph 101A. The difference between interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset)

127 Remeasurements of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses (see paragraphs 128 and 129);

(b) the return on plan assets (see paragraph 130), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 125); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 126).

128 Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. 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 to assumptions concerning benefit payment options;

(c) 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; and

(d) the effect of changes in the discount rate.

129 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

130 In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 76). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

131 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.

132 The offsetting criteria are similar to those established for financial instruments in IAS 32 *Financial Instruments: Presentation*.

Current/non-current distinction

133 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.

Components of defined benefit cost

134 Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with IAS 1.

Disclosure

135 An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139);

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144); and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 145–147).

136 To meet the objectives in paragraph 135, an entity shall consider all the following:

(a) the level of detail necessary to satisfy the disclosure requirements;

(b) how much emphasis to place on each of the various requirements;

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

137 If the disclosures provided in accordance with the requirements in this Standard and other IFRSs are insufficient to meet the objectives in paragraph 135, an entity shall disclose additional information necessary to meet those objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) between amounts owing to active members, deferred members, and pensioners.

(b) between vested benefits and accrued but not vested benefits.

(c) between conditional benefits, amounts attributable to future salary increases and other benefits.

138 An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:

(a) different geographical locations.

(b) different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.

(c) different regulatory environments.

(d) different reporting segments.

(e) different funding arrangements (eg wholly unfunded, wholly or partly funded).

Characteristics of defined benefit plans and risks associated with them

139 An entity shall disclose:

(a) information about the characteristics of its defined benefit plans, including:

(i) the nature of the benefits provided by the plan (eg final salary defined benefit plan or contribution-based plan with guarantee).

(ii) a description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 64).

(iii) a description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of board members of the plan.

(b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, eg property, the plan may expose the entity to a concentration of property market risk.

(c) a description of any plan amendments, curtailments and settlements.

Explanation of amounts in the financial statements

140 An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) the net defined benefit liability (asset), showing separate reconciliations for:

(i) plan assets.

(ii) the present value of the defined benefit obligation.

(iii) the effect of the asset ceiling.

(b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

141 Each reconciliation listed in paragraph 140 shall show each of the following, if applicable:

(a) current service cost.

(b) interest income or expense.

(c) remeasurements of the net defined benefit liability (asset), showing separately:

(i) the return on plan assets, excluding amounts included in interest in (b).

(ii) actuarial gains and losses arising from changes in demographic assumptions (see paragraph 76(a)).

(iii) actuarial gains and losses arising from changes in financial assumptions (see paragraph 76(b)).

(iv) changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, ie whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.

(d) past service cost and gains and losses arising from settlements. As permitted by paragraph 100, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.

(e) the effect of changes in foreign exchange rates.

(f) contributions to the plan, showing separately those by the employer and by plan participants.

(g) payments from the plan, showing separately the amount paid in respect of any settlements.

(h) the effects of business combinations and disposals.

142 An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in IFRS 13 *Fair Value Measurement*) and those that do not. For example, and considering the level of disclosure discussed in paragraph 136, an entity could distinguish between:

(a) cash and cash equivalents;

(b) equity instruments (segregated by industry type, company size, geography etc);

(c) debt instruments (segregated by type of issuer, credit quality, geography etc);

(d) real estate (segregated by geography etc);

(e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc);

(f) investment funds (segregated by type of fund);

(g) asset-backed securities; and

(h) structured debt.

143 An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.

144 An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 76). Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows

145 An entity shall disclose:

(a) a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 144) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.

(b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

146 An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

147 To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

(a) a description of any funding arrangements and funding policy that affect future contributions.

(b) the expected contributions to the plan for the next annual reporting period.

(c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-employer plans

148 If an entity participates in a multi-employer defined benefit plan, it shall disclose:

(a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

(b) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

(c) a description of any agreed allocation of a deficit or surplus on:

(i) wind-up of the plan; or

(ii) the entity's withdrawal from the plan.

(d) if the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 139–147:

(i) the fact that the plan is a defined benefit plan.

(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.

(iii) the expected contributions to the plan for the next annual reporting period.

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

(v) an indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members,

retired members, and former members entitled to benefits, if that information is available.

Defined benefit plans that share risks between entities under common control

149 If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

(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 as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 135–147.

(d) if the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 135–137, 139, 142–144 and 147(a) and (b).

150 The information required by paragraph 149(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

(a) that group entity's financial statements separately identify and disclose the information required about the plan; and

(b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure requirements in other IFRSs

151 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.

152 Where required by IAS 37 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long-term employee benefits

153 Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service:

(a) long-term paid 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; and

(e) deferred remuneration.

154 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. For this reason, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognise remeasurements in other comprehensive income.

Recognition and measurement

155 In recognising and measuring the surplus or deficit in an other long-term employee benefit plan, an entity shall apply paragraphs 56–98 and 113–115. An entity shall apply paragraphs 116–119 in recognising and measuring any reimbursement right.

156 For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset:

(a) service cost (see paragraphs 66–112 and paragraph 122A);

(b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126); and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130).

157 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

158 Although this Standard does not require specific disclosures about other long-term employee benefits, other IFRSs may require disclosures. For example, IAS 24 requires disclosures about employee benefits for key management personnel. IAS 1 requires disclosure of employee benefits expense.

Termination benefits

159 This Standard deals with termination benefits separately from other employee benefits because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

160 Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

161 The form of the employee benefit does not determine whether it is provided in exchange for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

(a) enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.

(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

162 Indicators that an employee benefit is provided in exchange for services include the following:

(a) the benefit is conditional on future service being provided (including benefits that increase if further service is provided).

(b) the benefit is provided in accordance with the terms of an employee benefit plan.

163 Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.

164 Some employee benefits are provided 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 jurisdictions 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.

Recognition

165 An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

166 For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) when the employee accepts the offer; and

(b) when a restriction (eg a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

167 For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

(b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.

(c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

168 When an entity recognises termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 103).

Measurement

169 An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

(a) if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.

(b) if the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long-term employee benefits.

170 Because termination benefits are not provided in exchange for service, paragraphs 70–74 relating to the attribution of the benefit to periods of service are not relevant.

Example illustrating paragraphs 159–170

Background

As a result of a recent acquisition, an entity plans to close a factory in ten months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of CU30,000. Employees leaving before closure of the factory will receive CU10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are CU3,200,000 (ie 20 × CU10,000 + 100 × CU30,000). As required by paragraph 160, the entity accounts for benefits provided in exchange for termination of employment as termination benefits and accounts for benefits provided in exchange for services as short-term employee benefits.

Termination benefits

The benefit provided in exchange for termination of employment is CU10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (ie all employees will leave employment when the factory closes). Therefore the entity recognises a liability of CU1,200,000 (ie 120 × CU10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the factory.

Benefits provided in exchange for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are in exchange for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the annual reporting period. In this example, discounting is not required, so an expense of CU200,000 (ie CU2,000,000 ÷ 10) is recognised in each month during the service period of ten

Example illustrating paragraphs 159–170
months, with a corresponding increase in the carrying amount of the liability.

Disclosure

171 Although this Standard does not require specific disclosures about termination benefits, other IFRSs may require disclosures. For example, IAS 24 requires disclosures about employee benefits for key management personnel. IAS 1 requires disclosure of employee benefits expense.

Transition and effective date

172 An entity shall apply this Standard for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact.

173 An entity shall apply this Standard retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except that:

(a) an entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts this Standard.

(b) in financial statements for periods beginning before 1 January 2014, an entity need not present comparative information for the disclosures required by paragraph 145 about the sensitivity of the defined benefit obligation.

174 IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 8 and amended paragraph 113. An entity shall apply those amendments when it applies IFRS 13.

175 *Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19), issued in November 2013, amended paragraphs 93–94. An entity shall apply those amendments for annual periods beginning on or after 1 July 2014 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

176 *Annual Improvements to IFRSs 2012–2014 Cycle*, issued in September 2014, amended paragraph 83 and added paragraph 177. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

177 An entity shall apply the amendment in paragraph 176 from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies the amendment. Any initial adjustment arising from the application of the amendment shall be recognised in retained earnings at the beginning of that period.

178 IFRS 17, issued in May 2017, amended the footnote to paragraph 8. An entity shall apply that amendment when it applies IFRS 17.

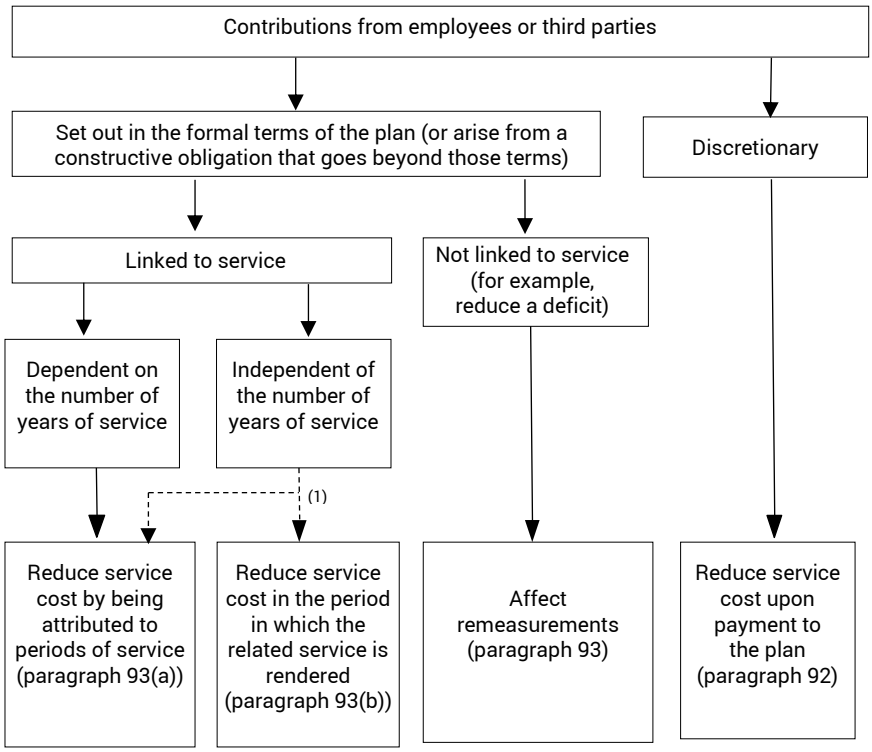
179 *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19), issued in February 2018, added paragraphs 101A, 122A and 123A, and amended paragraphs 57, 99, 120, 123, 125, 126 and 156. An entity shall apply these amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments earlier, it shall disclose that fact.

180 *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

Appendix A
Application Guidance

This appendix is an integral part of the IFRS. It describes the application of paragraphs 92–93 and has the same authority as the other parts of the IFRS.

A1 The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



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