



HM TREASURY

Financial Reporting Advisory Board Paper

IAS 19 – EMPLOYEE BENEFITS

Issue:	The application of IAS 19 <i>Employee Benefits</i> to entities and other funds, accounts and flows covered by the requirements of the IFRS-based Government Financial Reporting Manual.
Impact on guidance:	The proposed text in Annex A relates to the shadow FReM.
IAS/IFRS adaptation?	Yes – to apply IAS19 to the resource accounts of the major schemes within central government, and the treatment of contributions.
IPSAS compliant?	N/A – there is no IPSAS on the subject.
Impact on budgetary regime?	To be discussed with GEP, but any impact on the budgetary regime is expected to be minimal.
Recommendation:	The FRAB is invited to consider the points made in the following paragraphs and, subject to their comments, to approve the proposed wording for the IFRS FReM.
Timing:	Not yet known: depends on future decision on date for moving to EU-adopted IFRS.

DETAIL

Background

1. IAS 19 *Employee benefits* prescribes the accounting and disclosure by employers for employee benefits (ie all forms of consideration given by an entity in exchange for service rendered by an employee.) Such consideration will include wages and salaries and other forms of remuneration as well as pension benefits, and termination benefits.

2. Although IAS 19 applies to the accounts of employing entities, we intend to apply its requirements in respect of pension and termination benefits to the resource accounts prepared by the major pension schemes in central government (as we currently do with FRS 17).

3. Like FRS17, IAS19 contains simplified arrangements for accounting by employers where they are members of a multi-employer pension schemes, and, as far as accounting for pension costs is concerned, it is not expected that the application of IAS 19 will have significant implications for the entities and other funds, accounts and flows covered by the requirements of the IFRS-based Government Financial Reporting Manual.

4. The major difference between IAS19 (as amended in December 2004) and FRS17 as regards pension costs is in the treatment of actuarial gains and losses. IAS19 allows alternative treatments, ie recognition through reserves, or partial recognition in the performance statement. The amendments to the FreM will clarify that actuarial gains and losses are to be recognised through reserves.

Impact on disclosures in resource and other accounts

5. Amendments to the disclosure requirements of the current FRS17 are proposed in an Exposure Draft issued in June 2006. As these will align the disclosure requirements of IAS19 and FRS17, the implementation of IAS19 will potentially have no impact on the disclosures in resource and other accounts. If approved, the amended disclosures will be implemented for the 2006-07 accounts. However, the Exposure Draft includes a controversial suggestion, which is not included in IAS19, that the buy-out obligation (ie the amount that would be paid to another party in exchange for his taking on the liability) should be disclosed. Were this suggestion to be adopted, we would need to consider the implications for resource accounts as it is not clear what relevance such information would be in a public sector context.

IAS/IFRS compliance

6. The proposal is to adapt IAS 19 by applying its requirements to the resource accounts prepared by the pension schemes in central government.

IPSAS compliance

7. Not applicable, as there is no IPSAS on the subject.

Proposed text for the shadow Government Financial Reporting Manual

8. See Annex A for the proposed amendments to the shadow FReM.

Impact on the budgetary regime

9. To be discussed with GEP, but any impact on the budgetary regime is expected to be minimal.

Summary and recommendation

10. This paper proposes the implementation of IAS 19 subject to some adaptations and interpretations for the public sector. The FRAB is invited to agree to this proposal and to the suggested wording for the new FreM.

HM Treasury
29 June 2006

PROPOSED TEXT FOR THE SHADOW GOVERNMENT FINANCIAL REPORTING MANUAL

IAS 19 Employee Benefits

Applicability

0.0.0 IAS 19 applies as adapted in paragraph 0.0.0.

Objectives of IAS 19

0.0.0 The objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits, including termination benefits (eg early departure costs) and pension benefits. It 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.

In other words, the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.

Scope of IAS 19

0.0.0 IAS 19 applies to (among other kinds of employee benefits):

- Wages and salaries
- Compensated absences (such as paid holidays and sick leave)
- Profit sharing plans and bonuses
- Medical and life insurance benefits both during and post-employment
- Housing benefits
- Free or subsidised goods or services given to employees
- Pension benefits
- Long service or sabbatical leave
- Deferred compensation programmes

- Termination benefits

(not all of these are relevant in a public service context.)

0.0.0 **Termination benefits** may be “involuntary” (ie where the employer decides to terminate the employment of an employee or group of employees) or “voluntary” where an employee offers to terminate his or her service.

0.0.0 Where there is a scheme which offers agreed terms in the case of voluntary early retirement, benefits payable under such a scheme are to be treated as post-retirement benefits rather than as termination benefits. In other words, “termination benefits” are defined as benefits relating to involuntary termination, or voluntary termination where the benefits are available for only a short time.

0.0.0 As most termination benefits in central government are likely to be determined in accordance with an agreed compensation scheme, the presumption is that they should be treated as post-retirement benefits. The significance is that the provision for termination benefits will be discounted using the rate for provisions, whereas the provision for those benefits falling within the definition of post-retirement benefits will be discounted using the rate applicable to pensions.

Adaptation of IAS 19 for the public sector context

0.0.0 For most of the employee benefits falling within the scope of IAS19, the standard can be implemented without adaptation. However, as regards pension benefits, the following general adaptations apply to entities required to prepare their financial statements in accordance with the guidance in this Manual.

Measurement

- a) the requirements of IAS19 are to apply to the accounts of the pension schemes themselves as well as to entities and other funds, accounts and flows covered by the requirements of the Government Financial Reporting Manual.
- a) in the financial statements of the pension schemes (see 0.0.0), contributions from employers and employees are to be shown as income in the performance statement rather than as, respectively, a credit to the pension provision or a deduction from the current service cost. As a consequence, the pension provision will not reflect contributions.

Interpretations of IAS 19 for the public sector context

The following interpretations of IAS 19 for the public sector context apply.

Measurement

- a) Following the amendments to IAS 19 introduced in December 2004, alternative approaches to the recognition of actuarial gains and losses are permitted. The first is that only those actuarial gains and losses falling outside an agreed corridor are recognised in the performance statement; the second is that all actuarial gains and losses are recognised in reserves (ie in the statement of total recognised gains and losses). Only the second of these alternatives is permitted.

- b) IAS 19 requires the present value of defined benefit obligations (and, if applicable) the fair value of the plan's assets to be determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from those determined at the balance sheet date. This shall be interpreted to mean that the period between formal actuarial valuations shall be four years, with interim valuations in the intervening years.