

IAS 19 - Employee Benefits A closer look at the amendments made by IAS 19R



1. Introduction

On 16 June 2011, the International Accounting Standards Board (IASB) published a revised version of IAS 19 Employee Benefits. The revised IAS 19 ('IAS 19R') represents the final output from the IASB's project to improve the accounting for post-employment employee benefits.

International Accounting Standard 19 – Employee Benefits

The objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits by employers. The Standard identifies four categories of employee benefits with distinct requirements for each of:

- short-term employee benefits;
- post-employment benefits;
- other long-term employee benefits; and
- termination benefits.

IAS 19 was initially issued in February 1998 and had already been amended several times before the publication of the revised Standard in 2011.

Chronology IASB project 'Post-Employment Benefits, including Pensions'

In July 2006, the IASB added a project on post-employment benefits to its agenda with the goal of revising a number of aspects of accounting for post-employment benefits. In March 2008, the IASB published a discussion paper ('Views on Amendments to IAS 19 Employee Benefits'). The discussion paper considered several elements of the accounting model of IAS 19 and contained several proposals for amendments.

Extensive feedback on the discussion paper led to the publication of the exposure draft 'Defined Benefit Plans (Proposed amendments to IAS 19 Employee Benefits)' on 29 April 2010. Further feedback on the exposure draft (227 comment letters) has been considered in finalising the revised Standard.

In addition to this public consultation, the IASB sought expert advice from an Employee Benefits Working Group, which was established in March 2007 and of which Ralph ter Hoeven, Partner within Deloitte Netherlands, is a member.

Structure

In this brochure the changes made by IAS 19R to the requirements of IAS 19 are described, starting with a generic description of the changes in the executive summary. Furthermore, the most important changes made by IAS 19R are discussed in more detail. In one chapter, the changes for which the impact is expected to be significant in the Netherlands are presented. Finally, overviews are presented which contain the most significant differences between IAS 19 and IAS 19R as well as the disclosure requirements included in IAS 19R.

We hope that you will find this brochure useful in understanding the implications of the revisions to IAS 19. You can keep up-to-date on future IFRS and IASB developments via our IAS Plus Website at www.iasplus.com. We hope that IAS Plus and this brochure, as well as other Deloitte publications will continue to assist you in navigating the ever-changing IFRS landscape.

2. Executive summary

IAS 19R will be applicable for reporting periods starting on or after 1 January 2013. The most significant changes required on application of the Standard are highlighted below.

General changes made by IAS 19

Full recognition of deficit (surplus) on the balance sheet

Under IAS 19, some of the effect of actuarial gains and losses can be excluded from the net defined benefit liability (asset) by using the 'corridor approach', and the effect of unvested past service costs is recognised over the average vesting period. IAS 19R requires all such items to be recognised immediately (actuarial gains and losses in other comprehensive income (OCI) for retirement benefits and in profit or loss for other long-term employee benefits and past service cost in profit or loss within service cost). Therefore, the net defined benefit (liability) recognised on the balance sheet will equal the actual deficit (surplus) in an entity's defined benefit plan.

Introduction of net interest on the net defined benefit liability (asset)

Under IAS 19, the expected return on plan assets recognised in profit or loss is determined based on the expected rate of return on investments over the entire life of the underlying obligation. Under IAS 19R, the net interest income is introduced as the equivalent of the expected return on plan assets under IAS 19. The net interest income is included in the net interest on the defined benefit liability (asset), which is the counterpart under IAS 19R of the interest cost and the expected return on plan assets (IAS 19).

The expected return under IAS 19 depends on the actual investment portfolio and is typically not equal to the discount rate applied for the determination of scheme liabilities. The net interest income under IAS 19R is determined based on this discount rate rather than the expected rate of return. When the discount rate is lower than the expected return, application of IAS 19R will increase the defined benefit cost recognised in profit or loss. The difference between the (expected) net interest income and the actual return is recognised in OCI.

Change in the presentation of the defined benefit cost

Under IAS 19R, the defined benefit cost comprises service cost, net interest and remeasurements. Service cost (current and past service cost and gains and losses on curtailments and settlements) and net interest are recognised in profit or loss, while remeasurements (actuarial gains and losses, any changes in the effect of the asset ceiling and the difference between the (expected) net interest income and the actual return) are recognised in OCI for retirement benefits and in profit or loss for other long-term employee benefits.

Introduction of more extensive disclosure requirements in the financial statements

IAS 19R introduces more extensive disclosure requirements relating to the characteristics, risks and amounts in the financial statements regarding defined benefit plans, as well as the effect of defined benefit plans on the amount, timing and uncertainty of the entity's future cash flows.

Changes made by IAS 19 with significant impact in the Netherlands

Inclusion of risk sharing elements in the determination of the defined benefit liability

Risks relating to pensions are typically shared between the employer (i.e. plan sponsor) and the (former) employees (i.e. plan participants) in the Netherlands. Examples of these risks are the risk that indexation is not granted or even accrued pension rights are decreased due to underfunding of the pension fund.

IAS 19 does not take this risk sharing into account properly. IAS 19R acknowledges that part of the pension related risks can be shared between the employer and the plan participants. Under IAS 19R, the ultimate cost for the entity should be reflected in the financial statements, due to which these risk sharing aspects should be taken into account. Typical examples of pension related risk sharing items are employee contributions, premium caps and conditional indexation.

Clarification regarding the classification of defined benefit plans

Under IAS 19, any risk run by the entity of additional cash flow streams between the entity and the pension administrator relating to past service time of the participants was sufficient to frustrate for a classification as defined contribution. In order to have the plan classified as defined contribution plan, none of the actuarial risk and investment risk relating to the plan could fall on the entity. Due to the definition of defined contribution plans, in general plans for which the benefits are linked to a benefit formula (such as an average pay plan) were classified as defined benefit.

Under IAS 19R the classification of a pension plan as defined contribution plan is clarified to a certain extent. In paragraph 28 of IAS 19R is stated that, when 'actuarial risk (...) and investment risk (...) fall, in substance, on the employee', the plan has to be classified as defined contribution. Due to this requirement made by IAS 19R relating to the risk run by the entity, it is expected that in the Netherlands more plans will classify as defined contribution after application of IAS 19R.

A change of the classification might typically be observed in the Netherlands, due to the fact that the afore mentioned risks are in general shared with employees and third parties.

Recommendations to management

Re-examine the classification of defined benefit plans

Due to the clarification made by IAS 19R relating to the classification of employee benefit plans, it is expected that specifically in the Netherlands the classification of a number of employee benefit plans can change from defined benefit plan to defined contribution plan. More specifically, this is expected for pension plans executed by industry-wide pension funds and insurance companies, depending on whether or not a substantial part of the risk is transferred away from the entity. Management should therefore re-examine the classification of defined benefit plans, in order to anticipate on the potential impact of IAS 19R.

For defined benefit plans: be prepared for presenting comparative figures in the 2013 Financial Statements

IAS 19R will be applicable for reporting periods starting on or after 1 January 2013 with retrospective application, meaning that the comparative figures should be based on IAS 19R in the financial statements for FY 2013. In order to prepare these comparative figures and assuming an one year comparative period, the IAS 19R position as at 1 January 2012 should be known. When the reporting period of the entity ends as at 31 December 2011, the impact of IAS 19R on the financial statements can already be determined by having an additional (IAS 19R) valuation performed besides the IAS 19 valuation. This allows entities to anticipate the potential impact of IAS 19R on the financial statements when defined benefit plans are in place and to prevent a duplication of effort by the actuary when preparing the 2013 financial statements.

3. General changes made by IAS 19R

In this chapter, the general changes made by IAS 19R – Employee Benefits as stated in the executive summary are discussed in more detail.

The changes discussed in this chapter are:

- Full recognition of deficit (surplus) on the balance sheet;
- Introduction of net interest on the net defined benefit liability (asset);
- Change in the presentation of the defined benefit cost;
- Introduction of more extensive disclosure requirements in the financial statements.

Full recognition of deficit (surplus) on the balance sheet

The deficit (surplus) in an entity's defined benefit plan under IAS 19 is comprised of the present value of the defined benefit obligation ('DBO') and the fair value of plan assets. Under IAS 19R, the net defined benefit liability (asset) recorded on the balance sheet is equal to the deficit (surplus) in the defined benefit plan and the possible effect of the asset ceiling. Under IAS 19, this is not necessarily the case due to the possibility of deferring actuarial gains and losses using the 'corridor approach' and the requirement to recognise unvested past service costs over the average vesting period rather than immediately in the reporting period in which these occur. Deferred recognition leads to less volatile financial statements, which is the main reason why this treatment is permitted in IAS 19.

Deferred recognition of actuarial gains and losses

Actuarial gains and losses arise due to differences between expectations and realisation during the reporting period. As actuarial gains and losses can be either positive or negative and depend on market conditions as well as entity specific developments, the impact on the net defined benefit liability (asset) can change from year to year. In order to decrease volatility in profit or loss, IAS 19 permits deferred recognition through the 'corridor approach'. Under the corridor approach, the cumulative unrecognised amount at the start of the reporting period is tested against a certain limit (corridor). Only the amount exceeding this limit is recognised in profit or loss, amortised over (at most) the expected future service years of the active participants. Therefore, a two-step deferral mechanism is in place when using the corridor approach, decreasing impact on profit or loss but therefore also distorting the balance sheet position.

IAS 19 also permits direct recognition either in profit or loss or in OCI, as a result of which all actuarial gains and losses are included in the net defined benefit liability (asset). Under IAS 19R, all actuarial gains and losses shall be recognised in OCI in the reporting period in which they occur. Therefore, recognition of actuarial gains and losses in profit or loss, either on a deferred or immediate basis, will not be possible under IAS 19R.

The application of IAS 19R will impact the current equity position and future profit or loss of entities currently using the corridor approach. Due to declining financial markets, decreasing discount rates and changing mortality rates in recent years, in general most companies using the corridor approach have disclosed unrecognised actuarial losses. These entities therefore present a smaller balance sheet liability (or larger balance sheet asset) than the actual deficit or surplus in the defined benefit plan. On application of IAS 19R, all cumulative unrecognised actuarial gains and losses at the start of the earliest comparative period will be recognised in retained earnings. If unrecognised actuarial losses are in place, application of IAS 19R will decrease the equity position of the entity, leading to possible knock on effects such as issues with loan covenants or potential credit granting to the entity. Also, OCI will become more volatile in future years, as all changes of market-related assumptions (such as the discount rate) will be recognised in OCI.

The balance sheet will however reflect the actual net defined benefit liability (asset) based on IAS 19R, which increases comparability between entities.

Example

An example of the impact of the first application of IAS 19R on the balance sheet is presented below. Under IAS 19, the entity applied the 'corridor method' and records equity of CU600 and a net defined benefit liability of CU400, which is determined by the unfunded status of CU700 and unrecognised actuarial losses of CU300. Upon recognition of the cumulative unrecognised actuarial losses in retained earnings (equity) due to the application of IAS 19R, the net defined benefit liability increases by CU300 (to CU700) and the entity's equity decreases by the same amount (to CU300).

Assets	Balance sheet (in red based on IAS 19R)		Liabilities		
Total assets	1,000	1,000	Equity	600	300
			Net defined benefit liability	400	700
			<i>Unfunded status</i>	700	700
			<i>Unrecognised actuarial losses</i>	(300)	
	1,000	1,000		1,000	1,000

Deferred recognition of past service cost

Past service costs arise in case of a change of the employee benefit plan. Under IAS 19, when vesting requirements are in place with regard to the change of the defined benefit plan, (part of the) past service cost should be deferred when unvested. This results in an unrecognised amount which is amortised in profit or loss over the vesting period, typically based on a fixed amortisation schedule.

Under IAS 19R, all past service costs are recognised in profit or loss as they occur. Therefore, no unrecognised amount will exist relating to (unvested) past service cost after application of IAS 19R.

Concluding

IAS 19R prohibits delayed recognition of actuarial gains and losses and past service cost. Therefore, the actual net defined benefit liability (asset) is reflected on the balance sheet. Also, OCI and profit or loss will become more volatile due to immediate recognition of actuarial gains and losses and past service cost when compared to IAS 19.

Introduction of net interest on the net defined benefit liability (asset)

Under IAS 19, the financing cost of defined benefit plans recognised in profit or loss are determined by the interest cost on the DBO and the expected return on plan assets. The discount rate by which the interest cost is determined is based on market yields on high quality corporate bonds (or on government bonds in countries where there is no deep market in such bonds), while the expected return on plan assets is determined based on the expected rate of returns on investments over the entire life of the underlying obligation. The rate of return depends on the actual investment portfolio and is typically not equal to the discount rate, except for insured contracts where pooled investments are in place. In general, the expected return on plan assets exceeds the discount rate due to investments in assets with a higher level of risk than high quality corporate bonds (e.g. equities or property).

IAS 19R introduces the net interest on the net defined benefit liability (asset), which will be recognised in profit or loss. The net interest on the net defined benefit liability (asset) is defined as the change of the net defined benefit liability (asset) during the reporting period that arises from passage of time and determined by multiplying the net defined benefit liability (asset) by the discount rate, taking into account actual contributions and benefits paid during the reporting period. Effectively, this means that the DBO as well as the plan assets are both multiplied by the same discount rate. With regard to IAS 19, the fact that the plan assets will be multiplied by the discount rate rather than the expected rate of return can have a significant impact on profit or loss.

Example

Discount rate	4.0%	Defined benefit obligation	1,500
Expected return	5.0%	Fair value of plan assets	(1,000)
Actual return	5.0%	Net defined benefit liability	500

IAS 19		IAS 19R	
Interest cost	60	Interest expense	60
Expected return	(50)	Interest income	(40)
Financing cost (P&L)	10	Net interest on net defined benefit liability (P&L)	20

Expected return	(50)	Interest income	(40)
Actual return	(50)	Actual return	(50)
Actuarial result on plan assets	-	Return on plan assets excluding interest income (OCI)	(10)

In the example above, the discount rate (4.0%) is lower than the expected return (5.0%). As a result, the net interest on the net defined benefit liability (asset) based on IAS 19R (CU20) will exceed the financing cost based on IAS 19 (CU10). The total pension cost recognised in profit or loss for the entity will therefore increase by CU10 when applying IAS 19R.

When the actual return is equal to the expected return, based on IAS 19 this has no impact on either profit or loss or OCI, as the actuarial gains or losses on plan assets equals zero. Based on IAS 19R however, the return on plan assets excluding the amount included in interest income (an income of CU10) will be recognised in OCI as part of remeasurements. In this example, the application of IAS 19R therefore increases the net interest (IAS 19: financing cost) recognised in profit or loss and leads to the recognition of a remeasurement gain in OCI.

Although this change gives less room for interpretation by entities of the expected return assumption and will therefore improve comparability, in general the employee benefit cost of the entity will increase. Also, effective asset management is not reflected in profit or loss but rather in OCI, which might be regarded by companies as a negative effect of IAS 19R. This change is implemented in order to exclude the reward for asset management risks run by entities from profit or loss.

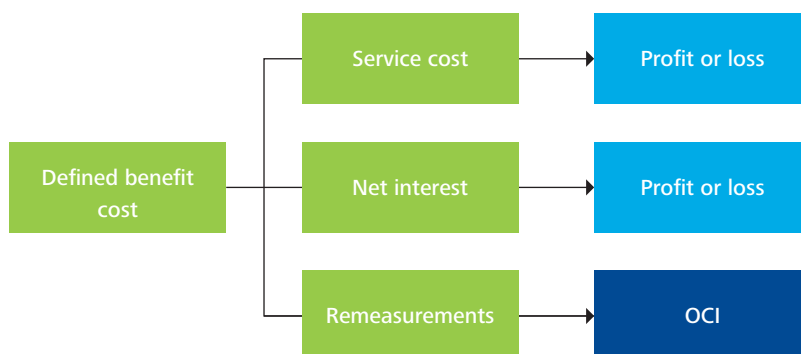
In addition, while under IAS 19 all administration costs were deducted from the expected return (in profit or loss), under IAS 19R only the (administration) costs relating to managing plan assets are deducted from the actual return (in OCI) and all other administration costs should be recognised in profit or loss when they occur.

Change in the presentation of the defined benefit cost

Under IAS 19, the pension expense recognised in profit or loss consists of several components, such as current service cost, interest cost and expected return on plan assets, as well as (depending on the entity's accounting policy) the recognition of actuarial gains and losses. IAS 19 had little guidance on the presentation of these items within profit or loss and in practice a number of presentations were used. IAS 19R is more prescriptive and introduces the term 'defined benefit cost'. The defined benefit cost comprises all cost (income) during a reporting period that lead to the development of the net defined liability (asset), excluding contributions paid.

As shown in the diagram below, the defined benefit cost is disaggregated in the following components:

- Service cost, which comprises
 - Current service cost
 - Past service cost
 - Curtailment and settlement gains and losses
- Net interest on the net defined liability (asset)
- Remeasurements of the net defined benefit liability (asset), which comprise
 - Actuarial gains and losses on the DBO
 - The return on plan assets excluding amounts included in net interest on the net defined liability (asset)
 - Any change in the effect of asset ceiling excluding amounts included in net interest on the net defined liability (asset)



Under IAS 19, actuarial gains and losses and any changes in the effect of the asset ceiling could be recognised in profit or loss. Under IAS 19R, these items must be recognised in OCI, as well as the difference between the (expected) net interest income and the actual return (IAS 19: actuarial gains and losses on plan assets). Profit or loss based on IAS 19R will therefore only include service cost and net interest.

Introduction of more extensive disclosure requirements in the financial statements

According to IAS 19R reporting entities should disclose information that:

- explains the characteristics of and risks associated with its defined benefit plans;
- identifies and explains the amounts in its financial statements arising from its defined benefit plans; and
- describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

These disclosure requirements are more extensive than the disclosure requirements in IAS 19 and will provide additional insight into the pension situation at the entity. Narrative descriptions of e.g. the regulatory framework, funding arrangements, potential (non-) financial risks and / or asset ceiling tests should be included in the financial statements according to IAS 19R.

Examples of these more extensive disclosure requirements are:

- the disclosure of the nature of the benefits;
- a description of the risks to which the employee benefit plan exposes the entity;
- the results of a sensitivity analysis that indicates the influence of certain assumptions on the outcome of the pension valuation;
- a narrative description of funding arrangements;
- information about the maturity profile including the duration of the pension liabilities;
- entities that participate in a multi-employer defined benefit plan should for example disclose:
 - The extent to which the entity is liable for other entities' obligations;
 - Qualitative information about agreed deficit / surplus allocation on wind-up or withdrawal.

Based on this information, users of the financial statements should be provided with additional insight of the entity's obligations regarding employee benefits. The additional disclosure requirements will on the other hand most likely lead to higher costs for the entity in gathering information to meet the disclosure requirements of defined benefit plans in the financial statements.

4. Changes in IAS 19R with significant impact in the Netherlands

In this chapter, the changes in IAS 19R - Employee Benefits that are expected to have a significant impact in the Netherlands are discussed in more detail.

The changes discussed in this chapter are:

- Inclusion of risk sharing elements in the determination of the defined benefit liability;
- Clarification regarding the classification of defined benefit plans.

Inclusion of risk sharing elements in the determination of the defined benefit liability

Risks relating to pensions are typically shared between the employer (i.e. plan sponsor) and the (former) employees (i.e. plan participants) in most countries. IAS 19 does not take this risk sharing into account properly. IAS 19R acknowledges that part of the pension related risks are shared between the employer and the plan participants. Important aspects of risk sharing for the pension situation in the Netherlands include employee contributions and liability ceiling, which are discussed in more detail below, as well as conditional indexation.

Employee contributions

It is not uncommon that employees contribute to the pension accrual in their pension plans, usually by contributing a percentage of their pensionable salary. Under IAS 19 the expected future employee contributions are not taken into account in the determination of the present value of the defined benefit obligation. IAS 19R clarifies that an entity should take mandatory employee contributions into account in the valuation of the present value of the defined benefit obligation. These contributions are regarded as a 'negative benefit'. The net benefit (the total benefit excluding future employee contributions) and should therefore be attributed over the service period under the projected unit credit method. The service cost therefore only represents the increase of the defined benefit obligation funded by the employer. Given the nature of most Dutch pension plans, this will better reflect the best estimate of the ultimate cost of the benefits to the entity.

When the employee contributions are actually paid, both the present value of the defined benefit obligation and the fair value of the plan assets are increased with the amount contributed. By accounting for employee contributions in this way, there will be no impact on the funded status and the profit or loss when contributions are paid.

Example

In the example below, the employees contribute 8% of their pensionable salary to the pension plan they participate in.

Present value of the defined benefit obligation (in red based on IAS 19R)

Defined benefit obligation (before effect of employee contributions)	1,000	1,000
Present value of future employee contributions		(150)
Defined benefit obligation (after effect of employee contributions)	1,000	850

The present value of the future employee contributions amounts to CU150. Based on IAS 19R, the defined benefit obligation will be adjusted to CU850.

Liability ceiling

In the Netherlands, the risks of pension fund's deficits are usually shared between the plan sponsor and the plan participants. Under IAS 19, these deficits are mainly attributed to the employer. The financial effect for the (deferred) employees and pensioners as a result of a possible pension fund's deficit are only partly taken into account in the valuation of the present value of the defined benefit obligation. This type of risk sharing is incorporated in IAS 19R by the possibility of using actuarial assumptions that include varying benefits. These benefits could vary in response to certain performance targets.

To account for this type of risk sharing, IAS 19R introduces the 'liability ceiling' in the determination of the present value of the defined benefit obligation. This liability ceiling is determined by the maximum amount an employer is obliged to pay according to the terms of the pension plan and the underlying funding agreement. For example, when the employer contributions are maximised at 25% of the pensionable base according to the funding agreement, the limit on the defined benefit obligation (liability ceiling) is determined by the difference between the present value of the expected future service cost and the present value of the expected future stream of maximised employer contributions.

The determination of the liability ceiling shows close resemblance to the determination of the asset ceiling based on IFRIC 14.

Example

Due to financial distress, a recovery plan is in place based on which the pension fund would need the maximum contributions of 25% of the pensionable base for at least the coming 15 years. During the period of a deficit in the pension fund the indexation of accrued pension benefits won't be granted.

In the example below, the DBO under IAS 19R is determined in line with the underlying benefit formula and the suspended indexation in the future years and amounts to CU850. Subsequently, the liability ceiling needs to be determined to verify whether the DBO should be capped. Since the funding agreement specifies a maximum employer contribution of 25%, the impact of the liability ceiling is determined as the difference between the present value of the expected future service cost and the present value of the stream of the maximum employer contributions. In case the present value of the service cost exceeds the present value of the maximized employer contribution (by e.g. CU100), the defined benefit obligation should be decreased (by CU100) due to the application of the liability ceiling.

Present value of the defined benefit obligation (in red based on IAS 19R)

Defined benefit obligation (before effect of liability ceiling)	850	850
Effect of the liability ceiling		(100)
Defined benefit obligation (after effect of liability ceiling)	850	750

Clarification regarding the classification of defined benefit plans

Under IAS 19R the classification of a pension plan as defined contribution plan is clarified to certain extent. The existence of a benefit formula can no longer solely frustrate a classification of a pension plan as defined contribution plan. In addition to this benefit formula the entity should be required to 'provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula' in order to frustrate a classification as defined contribution, according to paragraph 29a of IAS 19R.

Besides the afore mentioned clarification, all actuarial risk and investment risk should fall, in substance, on the entity in order for the pension plan to be classified as a defined benefit plan, according to paragraph 28 of IAS 19R.

In the Netherlands, these types of risks are typically shared between the entity, (former) participants and the executer of the plan. Based on the interpretation of 'in substance' it is therefore expected that the classification of certain defined benefit plans in the Netherlands might change to defined contribution plans.

This clarification might have important implications for pension plans executed by industry-wide multi-employer pension funds. Plans classified as defined benefit plan under IAS 19 may be classified as defined contribution plan under IAS 19R. This better reflects the actual arrangement between entities and such pension funds, as in general in the Netherlands the entity is only required to pay an agreed contribution relating to current service and does not run any risk of additional contributions due to e.g. deficits in the pension fund. A change of classification for these pension plans results in less (strict) disclosure requirements for the financial statements of the affiliated entities.

This clarification also might have far stretching consequences for the classification of pension plans executed by insurance companies. Due to the insurance arrangement for these pension plans, most likely the actuarial risk and the investment risk will not fall, in substance, on the entity. Therefore, insured defined benefit plans might be reclassified as defined contribution plans.

For example, in case the only risk of additional cash flow streams between the entity and the insurance company relates to potential value transfers, under IAS 19 this risk would be sufficient to have the plan classified defined benefit plan, while under IAS 19R the classification might change to defined contribution plan depending on the substance of the risk run by the entity.

For company pension funds, the clarification of the classification of defined benefit plans under IAS 19R is expected to have less impact. Most company pension funds in the Netherlands are required to make additional contributions due to e.g. deficits in the pension funds. Therefore, it could be argued that the actuarial risk and the investment risk fall, in substance, on the entity. However, a key document in the assessment of the classification of a company pension plan, is the administration agreement (in Dutch: uitvoeringsovereenkomst) between the employer and the company pension fund. If in this agreement it is stipulated that the employer is not liable to compensate for any short fall in the pension fund's assets and the possibility to increase (or decrease in case of surpluses) premiums is not available or limited, it could be argued that the fund's participants bear in substance the actuarial and the investment risk of the plan.

5. Changes in IAS 19R with less impact in the Netherlands

In this chapter, changes in IAS 19R – Employee Benefits that are expected to have less impact in the Netherlands are discussed in more detail. The impact of these changes is however expected to be significant in several other countries.

The changes discussed in this chapter are:

- Change in the definition of short-term employee benefits;
- Clarification of the definition and recognition of termination benefits.

Change in the definition of short-term employee benefits

IAS 19R changes the definition of short-term employee benefits. Short-term employee benefits under IAS 19 are benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service.

In contrast, under IAS 19R only benefits that are expected to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related service are classified as short-term employee benefits. The inclusion of 'expected' and 'wholly' in the definition of short-term employee benefits might lead to a change of classification.

For example for annual leave (paid leave which is accumulated by employees over time), it is in general not required (or 'expected') that the accrued annual leave is wholly used (settled) before the end of the next annual reporting period. Due to the adjusted definition, similar benefits classified as short-term employee benefits under IAS 19 might be classified as long-term employee benefits under IAS 19R.

Short-term employee benefits are accounted for on an undiscounted basis in the period in which the service is rendered. For employee benefits that classify as other long-term employee benefits discounting is required and e.g. salary increases should be incorporated. The change of the definition might therefore have an impact on the (net) balance sheet liability regarding those employee benefits and therefore on the financial statements of an entity.

The impact of the change of the definition of short-term employee benefits is expected to be significant for e.g. Australia, where annual leave is typically treated as a short-term employee benefit under IAS 19. The change of the definition of short-term employee benefits under IAS 19R would therefore lead to a reclassification as other long-term employee benefits. For the Netherlands, due to new legislation, reclassification to other long-term employee benefits will not be applicable for annual leave. The effect of the change of the definition is therefore expected to be limited in the Netherlands.

Clarification of the definition and recognition of termination benefits

The definition of termination benefits in IAS 19 includes employee benefits that are payable as a result of an employee's decision to accept voluntary redundancy in exchange for those benefits. In IAS 19R the definition has been amended to clarify that an employee should accept an offer of benefits in exchange for the termination of employment. Employee benefits resulting from termination of employment without an employer's offer or as a result of mandatory retirement requirements are therefore not termination benefits but are post-employment benefits.

Recognition of termination benefits

IAS 19 states that termination benefits should be recognised when the entity is demonstrably committed either to terminating the employment of employees before the normal retirement date or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. The Board clarified in IAS 19R that termination benefits should be recognised at the earlier of the following dates:

- (a) when the entity recognises costs for a restructuring within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets that included the payment of termination benefits; and
- (b) when the entity can no longer withdraw the offer of those benefits.

Further guidance is given in IAS 19R as to when an entity is no longer able to withdraw an offer of benefits in exchange for termination of employment.

The impact of the clarification of the definition and recognition of termination benefits is expected to be significant for e.g. Italy and France, where termination benefits are commonly part of the terms of employment between entities and their employees. For the Netherlands, this type of termination benefits is not commonly applicable and therefore the impact is expected to be limited.

6. Comparison of IAS 19R with IAS 19

In this chapter, the content of IAS 19R will be compared with the content of IAS 19 in more detail. The first table below contains the more significant differences between IAS 19R and IAS 19. The second table contains several areas in which IAS 19R attempts to offer clarification.

In the table below the more significant differences between IAS 19 and IAS 19R are presented.

Issue	IAS 19R	IAS 19
Presentation of net defined benefit liability (asset)	The net defined liability or asset will reflect the full amount of the deficit / surplus of the long-term employee benefit plans.	The net defined liability or asset will reflect the amount of the deficit / surplus of the long-term employee benefit plans excluding (when applicable) actuarial gains and losses and past service cost.
Presentation of defined benefit cost components	The defined benefit cost comprises service cost recognised in profit or loss, net interest on the net defined benefit liability (asset) recognised in profit or loss and remeasurements recognised in OCI.	An entity should recognise current service cost, interest cost, expected return on assets and / or reimbursement rights, amortisation of past service cost, the effect of curtailments and settlements in profit or loss. Actuarial gains and losses and changes in the effect of the asset ceiling are recognised either in profit or loss or OCI depending on the entity's accounting policy choices.
Service cost – composition	Service cost comprises current service cost, past service cost and gains or losses on curtailments and settlements.	Service cost comprises current service cost.
Net interest on the net defined benefit liability (asset) / interest cost and expected return on plan assets	Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) over the reporting period by the discount rate.	Expected return on plan assets is based on market expectations for returns over the entire lifetime of the underlying obligation. Interest cost is calculated by multiplying the discount rate by the DBO over the reporting period.
Recognition of actuarial gains and losses	Deferral of the recognition of actuarial gains and losses is not permitted. Actuarial gains and losses are recognised immediately in OCI, reclassification to profit or loss is not permitted.	Actuarial gains and losses can be recognised directly in profit or loss or deferred via the corridor approach. Immediate recognition in OCI is permitted as alternative treatment.
Past service cost – recognition	All changes in the net defined benefit liability (asset) which arise from changes in the defined benefit plan are included in service cost and recognised fully in profit or loss when they occur.	Past service cost is recognised in profit or loss on a straight line basis over the average period until the benefits become vested.

Issue	IAS 19R	IAS 19
Taxes payable	Financial assumptions should deal with taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service.	Taxes payable are not separately included in the (financial) assumptions.
Risk sharing – employee contributions	Non-discretionary contributions (set out in the formal terms of the plan) from employees in respect of service are attributed to periods of service as a negative benefit in accordance with the projected unit credit method.	Contributions by employees to the on-going cost of the plan reduce the current service cost to the entity on a cash basis.
Risk sharing – liability ceiling	The present value of the DBO is maximised based on the maximum amount an employer is obliged to pay according to the funding agreement.	In determining the present value of the DBO, no ceiling is taken into account.
Conditional indexation	Actuarial assumptions should reflect future benefit changes set out in formal terms or based on a constructive obligation regarding conditional indexation.	Conditional indexation is not explicitly included in the actuarial assumptions.
Settlement – recognition and timing	An entity should recognise gains and losses on a settlement in profit or loss when the settlement occurs. The gain or loss consists of the difference between the present value of the DBO that is settled and the settlement price, including any plan assets transferred and any payments made directly by the entity.	An entity should recognise gains or losses on a settlement when the settlement occurs. This gain or loss is the difference between the present value of the DBO that is settled, the settlement price and any relating actuarial gains and losses and past service cost that had not been previously recognised.

IAS 19R also contains clarifications on several areas in IAS 19. In the table below the most interesting clarifications are presented.

Issue	IAS 19R	IAS 19
Past service cost –timing	Past service cost should be recognised fully in profit or loss at the earlier of the date on which the related restructuring cost or termination benefits are recognised and the date on which a plan amendment occurs.	Past service cost should be recognised in profit or loss when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan.
Settlement – definition	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 envisaged in the terms of the plan and included in the actuarial assumptions.	A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, on or behalf of plan participants in exchange for their rights to receive specified post-employment benefits.
Mortality assumption – determination	Mortality assumptions should be based on the entity's best estimate of the mortality of plan members during and after employment and should include expected changes in mortality for example using estimates of mortality improvements.	Mortality assumptions should be based on the entity's best estimate of the mortality of plan members during and after employment.
Return on plan assets – cost deduction	In determining the return on plan assets, an entity should only deduct the cost of managing the plan assets.	In determining the expected return on plan assets, an entity should deduct the cost of administering the plan (other than included in the actuarial assumptions used to measure the DBO).
Termination benefits – definition	Termination benefits are benefits that arise from the termination of employment rather than employee service. Termination benefits can 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.	Termination benefits are benefits that arise from the termination of employment rather than employee service.
Termination benefits – timing	An entity shall recognise a liability and expense at the earlier of the date when the entity recognises related restructuring costs and the date when the entity can no longer withdraw the offer of the benefits related to voluntary redundancy.	An entity shall recognise a liability and expense when the entity is demonstrably committed to either terminate the employment of (an) employee(s) before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Issue	IAS 19R	IAS 19
Defined contribution plans – classification	A legal or constructive obligation that frustrates a DC classification arises due to a plan formula that is not solely linked 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.	A legal or constructive obligation that frustrates a DC classification arises due to a plan formula that is not solely linked to the amount of contributions.
Multi-employer plans – exit	An entity recognises and measures a liability that arises from the wind-up of a multi-employer defined benefit plans, or the entity’s withdrawal from a multi-employer defined benefit plan in accordance with IAS 37.	There are no requirements incorporated in the accounting standard.

Appendix I - Disclosure requirements

In the table below, a summary of the disclosure requirements for defined benefit post-employment benefit plans under IAS 19R is presented.

Paragraph Disclosure requirement

General disclosure requirements

135 a) Explanation of characteristics and risks associated with all defined benefit plans
b) Identification and explanation of amounts in the financial statements
c) How defined benefit plans may affect the amount, timing and uncertainty of future cash flows

136 In meeting the objectives of paragraph 135, consider:
a) level of detail necessary
b) emphasis on each of the various requirements
c) how much aggregation or disaggregation to undertake, and
a) whether users need additional information to evaluate quantitative information

137 If the detailed disclosures are not sufficient to meet the requirements of paragraph 135, additional information should be provided.

138 Disaggregation of disclosures should be based on materially different risks

Characteristics of defined benefit plans and risks associated with them

139 a) Disclosure of the characteristics of the plan, including
i) the nature of the benefits
ii) a description of the regulatory framework, and
iii) governance responsibilities
b) Description of the risks to which the plan exposes the entity
d) Description of plan amendments, curtailments and settlements

Explanation of amounts in the financial statements

140 Reconciliation from the opening balance to the closing balance for
a) The net defined benefit liability, showing separately:
i) plan assets
ii) present value of the defined benefit obligation, and
iii) the effect of the asset ceiling
b) reimbursement rights

Paragraph Disclosure requirement

Explanation of amounts in the financial statements

- 141 Reconciliations as determined should include:
- a) current service cost
 - b) interest income or expense
 - c) remeasurements, showing separately:
 - i) return on plan assets excluding interest income
 - ii) actuarial gains or losses and experience gains or losses from demographic assumptions
 - iii) actuarial gains or losses and experience gains or losses from financial assumptions
 - iv) the effect of the asset ceiling
 - d) past service cost and gains or losses arising from curtailments and settlements
 - e) foreign exchange rate effects
 - f) employer and employee contributions
 - g) benefit payments from the plan
 - h) the effect of business combinations and disposals
-

- 142 Disaggregation of plan assets into different asset classes distinguished on the nature and risks of the plan assets
-

- 143 Disclosure of the entity's own transferable financial instruments held as plan assets
-

- 144 Disclosure of significant actuarial assumptions in absolute terms
-

Amount, timing and uncertainty of future cash flows

- 145 Indication of sensitivity of measurement of defined benefit obligation:
- a) sensitivity analysis
 - b) methods and assumptions used to perform the sensitivity analysis
 - c) changes in preparing the sensitivity analysis
-

- 146 Description of asset liability matching strategies
-

- 147 Indication of the effect of the defined benefit plan on the entity's future cash flows
- a) description of any funding agreements and funding policy
 - b) expected contributions in the next reporting period
 - c) information about the maturity profile of the defined benefit plan, e.g. the weighted average duration of the plan
-

Paragraph Disclosure requirement

Multi-employer plans

- 148** Entities that participate in multi-employer defined benefit plans, should disclose:
- a) a description of funding arrangements
 - b) a description of the extent to which entity is liable for other entities' obligations
 - c) a description of any agreed deficit / surplus allocation on
 - i) wind-up or
 - ii) entity's withdrawal from the plan
 - d) when defined benefit plan is accounted as defined contribution plan (according to IAS19.34):
 - i) the fact that the plan is a defined benefit plan
 - ii) the reason why sufficient information is not available
 - iii) information concerning future contributions
 - iv) information about the deficit / surplus that may affect future contributions
 - v) indication of the level of participation compared to other participating entities. Examples of measures that might provide an indication:
 - 1. The entity's proportion of the total contributions to the plan
 - 2. The entity's proportion of the total number of participants
-

Defined benefit plans that share risks between entities under common control

- 149** Entities that participate in a defined benefit plan that shares risks between entities under common control should 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
 - a) 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 that may be applicable

- 151** IAS 24 – Related Party Disclosures
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- 152** IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
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Appendix II - Contacts

Contacts

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