



International Public Sector Accounting Standard 39 Employee Benefits

IPSASB Basis for Conclusions

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 39.

Objective

- BC1. IPSAS 25 (2008), *Employee Benefits*, was drawn primarily from International Accounting Standard (IAS) 19 (2004), *Employee Benefits*, issued by the International Accounting Standards Board (IASB). The IASB made a number of amendments to IAS 19 in the 2011–2015 period.
- BC2. In order to update IPSAS 25, the IPSASB approved a limited scope review of IPSAS 25 to converge with the revised IAS 19. The IPSASB decided not to reopen the public sector specific requirements in IPSAS 25, except for the section on Composite Social Security Programs (see paragraphs BC5 and BC6 below).
- BC3. In January 2016, the IPSASB issued Exposure Draft (ED) 59, *Amendments to IPSAS 25, Employee Benefits*. ED 59 proposed amendments to maintain convergence with IAS 19. The proposed amendments made a large number of changes to the text of IPSAS 25. A number of respondents expressed reservations that the scale of these changes impaired the understandability of IPSAS 25. The IPSASB therefore decided to issue a new IPSAS 39, *Employee Benefits*, rather than a revised IPSAS 25, in order to help preparers.
- BC4. This Basis for Conclusions summarizes the IPSASB’s considerations in reaching the conclusions in IPSAS 39, *Employee Benefits*. With the exception of Composite Social Security Programs, the Basis for Conclusions only considers those areas where IPSAS 39 departs from the main requirements of IAS 19 (amended in 2011 onwards), or where the IPSASB considered such departures.

Composite Social Security Programs

- BC5. ED 59 indicated that the IPSASB was considering the deletion of the section on Composite Social Security Programs, because the IPSASB was not aware that it had been applied in any jurisdiction. The IPSASB specifically asked for comments on this issue.
- BC6. No respondent to ED 59 identified a jurisdiction where entities applied these requirements. The majority of respondents supported the deletion of the section on Composite Social Security Programs. As the IPSASB did not identify a new and compelling reason to retain the section, the IPSASB decided not to include it in IPSAS 39.

State Plans

- BC7. This Standard retains the requirement in IAS 19 that an entity accounts for a state plan in the same way as for a multi-employer plan. The IPSASB concluded that it should provide further commentary to clarify the approach to accounting for state plans by public sector entities as in IPSAS 25. Paragraph 47 provides a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Only where that presumption is rebutted is the state plan accounted for as a defined contribution plan.

Defined Benefit Plans with Participating Entities under Common Control

- BC8. In the public sector, there are likely to be many cases where entities under common control participate in defined benefit plans. IAS 19 includes commentary on defined benefit plans that share risks between entities under common control. The IPSASB considered that the requirements in IAS 19 are appropriate in the public sector. The IPSASB also considered it appropriate to emphasize that, unless there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole to an individual entity, it is inappropriate for controlled entities to account on a defined benefit basis as in IPSAS 25. In such cases, the controlling entity should account for such plans on a defined benefit basis in its consolidated financial statements. Controlled entities (a) account on a defined contribution basis, (b) identify the controlling entity, and (c) disclose that the controlling entity is accounting on a defined benefit basis in its consolidated financial statements. This is reflected in paragraph 42. Controlled entities also make the disclosures specified in paragraph 151.

Discount Rates

- BC9. IAS 19 requires adoption of a discount rate based on the market yields at the end of the reporting period on high quality corporate bonds. The IPSASB decided that the discount rate should reflect the time value of money, and considered that entities should be left to determine the rate that best achieves that objective in the same way as in IPSAS 25. The IPSASB considered that the time value of money may be best reflected by reference to market yields on government bonds, high quality corporate bonds, or any other financial instrument. The discount rate used is not intended to incorporate the risk associated with defined benefit obligations or entity-specific credit risk. There is an additional disclosure requirement at paragraph 141(d) informing users of the basis on which the discount rate has been determined.
- BC10. The IPSASB considered whether it should provide guidance to assist entities operating in jurisdictions where there is neither a deep market in government bonds nor a deep market in high quality corporate bonds to determine a discount rate that reflects the time value of money. The IPSASB acknowledges that determination of an appropriate discount rate is likely to be a difficult issue for entities operating in such jurisdictions, and that such entities may be in the process of migrating, or have recently migrated, to the accrual basis of accounting. However, the IPSASB concluded that this is not an issue that applies only in the public sector, and that there is an insufficiently clear public sector-specific reason to provide such guidance.

Other Long-Term Employee Benefits: Long-Term Disability Benefits

- BC11. IAS 19 lists long-term disability benefits as an example of an “other long-term employee benefit.” IAS 19 states that “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.” In the public sector, disability benefits related to certain areas of service provision, such as the military, may be financially highly significant, and related actuarial gains or losses volatile.
- BC12. Therefore, IPSAS 39 retains the rebuttable presumption included in IPSAS 25 that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for using the same requirements as for post-employment benefits.

Other Long-Term Employee Benefits: Compensation Payable by the Reporting Entity until an Individual Enters New Employment

- BC13. Although it does not consider it likely that such circumstances are widespread, the IPSASB acknowledged that there may be cases where a reporting entity is contractually bound to make compensation payments separate from a termination benefit to a past employee until he/she enters new employment. The list of other long-term benefits in paragraph 155 was therefore amended to include such circumstances, as in IPSAS 25.

Remeasurements

- BC14. IAS 19 (amended in 2011) recognizes remeasurements of the net defined liability (asset) in other comprehensive income rather than in profit or loss. The IPSASB noted that *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* does not acknowledge “other comprehensive income”, and that “other comprehensive income” is not a defined term in IPSAS 1, *Presentation of Financial Statements*. The IPSASB considered that recognizing remeasurements in net assets/equity would have the same accounting outcome as IAS 19 in not impacting surplus or deficit with components of defined benefit cost that have different predictive values. Therefore, the IPSASB decided to recognize remeasurements in net assets/equity rather than surplus or deficit.
- BC15. The IPSASB noted that paragraph 45 of IPSAS 1 requires an entity to present each material class of similar items separately in the financial statements. Items of a dissimilar nature or function are presented separately, unless they are immaterial. Therefore, the IPSASB considered that a separate presentation of remeasurements of post-employment benefits may be required in the statement of changes in net assets/equity, if it is material.

Requirements of Government Finance Statistics Reporting Guidelines

- BC16. The IPSASB considered the requirements of Government Finance Statistics (GFS) reporting guidelines on the classification, presentation, recognition, measurement and disclosure of employee benefits and identified some differences with both the revised IAS 19 and with IPSAS 39.
- BC17. GFS reporting guidelines do not apply the net interest approach, but rather recognize the proceeds of fund assets and interest on fund liabilities according to the economic nature of these revenues and expenses. GFS then attributes the property income and the increase in the liability for benefit entitlements due to the passage of time through an entry in “property expense for investment income disbursements”. In IPSAS 39 equivalent entries are presented in surplus or deficit.
- BC18. For autonomous funds recognized outside the employer’s accounts, GFS recognizes a claim of the pension fund on the pension manager for deficits of the pension fund in specific circumstances. In these cases, GFS does not require the recognition of an interest expense in the employers’ accounts due to the passage of time in recognizing that claim.
- BC19. In GFS, the plan assets are generally measured on the same basis as other assets, which is normally market value. Therefore, unlike IPSAS 39, no additional calculation to include the discount rate in the plan assets as a whole is necessary to estimate present value. However, in GFS some assets are not measured at market value. This may give rise to different valuations between IPSAS 39 and GFS (for example: loans are measured at nominal value in GFS and usually at amortized cost in IPSAS).
- BC20. In GFS, any changes in the volume or value of assets that do not result from transactions are recorded in the Statement of Other Economic Flows, which includes the effect of the passage of time. In GFS, the pension fund only records actual revenue from transactions such as interest, dividends and rents in the Statement of Operations.
- BC21. GFS does not disaggregate employee benefits into short-term and long-term employee benefits and does not require specific disclosures on employee benefits, except for the supplementary table on pension schemes in social insurance specified in the System of National Accounts 2008.
- BC22. The IPSASB concluded that these differences are due to the different objectives and presentational frameworks of IPSAS and GFS. They do not constitute public sector specific reasons that warrant departure from IAS 19.