

# IFRS news

## **In this issue:**

### **1 Investor survey**

Impact on corporate reporting

### **3 IFRS 15 and the insurance industry**

An overview

### **5 IFRS 9 Financial Instruments**

Questions and answers

### **6 Cannon Street Press**

Agenda Consultation  
Insurance and IFRS 9  
IFRS 2 Share-based payments

Conceptual Framework  
Disclosure Initiative

### **8 Leases lab**

How to implement the new guidance?

### **9 IC rejections**

IAS 19

### **13 The bit at the back...**

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## **Investors vs CEOs: the definition of business success is changing**

PwC's recent global investor survey highlights a number of areas where companies could do a better job of both measuring and communicating their impact and the value they are generating. Jennifer Sisson from the Investor Engagement Team looks at what companies could be doing in response.

In April 2016 we published a global investor survey, *Redefining business success in a changing world*. The survey compares the views of 438 investment professionals globally with responses from 1,409 CEOs in our [CEO Survey](#). The results show that investment professionals and CEOs see many risks and barriers to change with geopolitical uncertainty, over-regulation and technological advances being particular areas of concern.

But, unsurprisingly, CEOs and investment professionals do not always see the world the same way. The contrasting views in some areas show where CEOs might want to look again at how they could enhance their shareholder engagement, as well as how they might better communicate their strategic priorities to investors and analysts.

### ***The definition of business success is changing***

There was a broad consensus amongst the investment professionals and CEOs that business success in the 21st century will be redefined by more than financial profit. If the measure of business success goes beyond the financials and a value (and a

cost) is calculated for the societal, environmental and economic impact of a company's activities, businesses can see the total impact they are making and measure success in a far more holistic way.

One equity investor commented, "We invest to generate a financial return, but the context in which that return is generated and the corresponding impact on the sustainability of that would be important. The ability to generate a dollar today isn't necessarily as important as the ability to generate dollars in the future."

Are you measuring and communicating impact and value in relation to both hard and soft drivers of success, in order to meet your investors' information needs? Is your reporting team at ease with navigating the multiple (and sometimes complex) standards around the world for wider non-financial reporting requirements?

### ***Investors call for more measurement and better communication***

A number of the key findings from the survey present opportunities for companies to enhance their reporting:

#### ***More quantitative detail***

Investors and CEOs agreed that many areas of reporting, including business strategy,



innovation and environmental impact need not just better communication but also more measurement. One investor told us, *“Strategy needs to be defined and reported in a much more concrete way. I need to see as much detail as possible: What are the key milestones? What are you doing to reach them?”*

#### **Non-Statutory information**

Investment professionals and CEOs agreed that more measurement and better communication of non-statutory information, for example EBITDA forecasts, would be helpful. Interestingly, investment professionals were more focused on measurement, and CEOs more likely to say these measures need more communication. Companies should communicate the relevance and importance of these measures more effectively in order for investors to feel more comfortable with the measurement basis used.

#### **Traditional financial statements**

As investors and CEOs begin to look beyond traditional measures of success, it is important that financial statements keep pace to ensure that they stay fit for purpose. About a third of CEOs and investment professionals agreed that traditional financial statements needed to improve in terms of both measurement and communication.

This improvement could come from a variety of changes, for example better quality voluntary disclosures, focusing the financial statements on the material issues for the company or enhanced management commentary.

#### ***Be clear about the changes being made to respond to changing stakeholder needs***

Companies could also do more to explain the changes they are making for stakeholders and the financial impact of those changes. Companies often present non-financial information separately, rather than linking it to financial performance, so better linkage is important to tell a cohesive and consistent story.

#### ***Risk reporting***

Risk reporting emerged as another area for improvement. In fact, CEOs are even more supportive of better quantitative risk reporting than investment professionals. Investment professionals were more likely to request better communication of risks, which has long been a common theme in our discussions with investors and analysts around the world. Their point is not on the volume of risk reporting, but on the quality: making the information reported more tangible and meaningful.

One investor said, *“I often have to delve into the depths of the annual report to find anything remotely useful on risk. A summary of the material risks, possible impacts and what is being done about them should be easy to find, and much clearer than it is today.”*

#### ***Quality not quantity***

What investment professionals really value is better quality, not just more information. They are looking for information that focuses on concrete issues material to individual companies.

#### ***Strengthening engagement between investors and companies is critical***

Our survey showed that investment professionals clearly think that providers of capital should have a higher impact on company strategy than CEOs say they do in practice. As shareholder activism continues to increase around the world, this is a critical area for CEOs and also CFOs to consider. How are you maintaining communication channels so that investors can play the role they should in terms of helping to shape business strategy? Are you engaging with your investors effectively?

#### ***Next steps***

Does your corporate reporting deliver what investment professionals really want? Or is it high time to have a closer look at how disclosures can be made more meaningful? Further information on what investors really want is available in the **2016 Global Investor Survey** and PwC's **Investor View**.



## IFRS 15 and the insurance industry

**The new revenue standard, IFRS 15, explicitly excludes revenue from insurance contracts. However, insurance entities may find their non-insurance contracts with customers, or components of their insurance contracts, to be in scope of IFRS 15. Sam King-Jayawardana from Accounting Consulting Services explores areas for insurers to lookout for.**

The IASB and FASB jointly issued the new revenue standard in May 2014. The standard contains five steps that determine the timing and amount of revenue recognition for all contracts with customers:

1. Identify the contract with the customer;
2. Identify the performance obligations (POs) in the contract;
3. Determine the total transaction price;
4. Allocate the total transaction price to each PO in the contract; and
5. Recognise as revenue when (or as) each PO is satisfied.

IFRS 15 is effective from 1 January 2018.

### How does the scope of IFRS 15 apply to insurers and insurance contracts?

The new revenue standard is a catch-all standard, applying to all contracts with customers unless specifically excluded. Insurance contracts and financial instruments within the scope of IFRS 4 *Insurance contracts* and IFRS 9 *Financial Instruments*, respectively, are out of scope of IFRS 15 *Revenue from contracts with customers*.

As part of their overall business, however, insurers may provide other services that fall in scope of the new revenue standard, for example, asset management and claims management.

### How does IFRS 15 apply to non-insurance components with insurance contracts?

The new revenue standard states that a contract with a customer may be partially in scope, and partially in scope of another standard.

Where this situation applies to an insurance contract, the separation and/or measurement guidance in other applicable

standards need to be considered to determine whether all or part of the contract is within the scope of another standard. The guidance in the new revenue standard is then applied to any remaining components. An insurance entity will apply the separation and/or measurement guidance of the new revenue standard only if the other standard does not include respective guidance. In other words, any guidance on separation contained within IFRS 4 *Insurance contracts* is applied first, before looking to guidance in IFRS 15.

### Expected impact from unbundling

Insurers are not currently required to unbundle non-insurance components from insurance contracts, except for embedded derivatives and deposit components in certain circumstances. As IFRS 15 refers to the separation rules in other standards if available, there is no change to the unbundling rules at present.

While it is anticipated that Phase II of the new insurance standard will explicitly address the unbundling of non-insurance goods and services, we do not expect integrated or interrelated service components within an insurance contract to be separated under the new insurance standard. A component is interrelated if it can be measured independently from other components of a contract, or if a policyholder can benefit from it without the presence of other components.

### Key takeaway

We do not expect integrated service components, such as claims handling within a property/casualty contract or asset management services within a life insurance contract, to be separated from their host insurance contract. However, insurers should monitor developments of the new insurance standard.

**What are the key considerations for arrangements in scope of the new revenue standard?**

**Identify distinct performance obligations**

A performance obligation is a promise in a contract with a customer to transfer a distinct good or service to the customer. A good or service is distinct when

- (i) a customer can benefit from that good or service on its own, or with other readily available resources, and
- (ii) is separately identifiable from other promises in a contract.

Distinct performance obligations are fundamental, as they are the units of account to which the transaction price is allocated, and for which satisfaction of these separate performance obligations determines the timing of revenue recognition.

Where insurance entities provide other services under contracts separate from insurance and asset management contracts, the fees from these services are subject to the revenue recognition standard, and therefore must be analysed to determine whether services therein are distinct from one another. Common services include claims administration, complex claims management, risk mitigation, financial planning, asset reviews and valuations, financial analysis, and health and safety management. Such services may be considered distinct as they can be provided on a stand-alone basis to customers rather than as an integrated component of insurance coverage.

Where a contract with a customer contains more than one performance obligation, an insurance entity is required to determine the allocation of consideration and revenue recognition patterns for each performance obligation identified.

**Including variable consideration in the transaction price**

Currently, insurers recognise revenue from contracts other than insurance, based on the transfer of risks and rewards, or stage of completion. Under IFRS 15, at contract inception, insurers will be required to determine the transaction price for any non-insurance contracts (or non-insurance

components within an insurance contract), allocate this to performance obligations, and then recognise revenue as those obligations are satisfied.

Insurance entities may have contracts that contain elements of consideration that are variable or contingent on the outcome of future events. Such consideration is known as variable consideration, for which IFRS 15 requires it to be included in the transaction price but constrained by the amount for which it is highly probable that there will not be a significant reversal.

Life insurance entities might receive fees for asset management services related to investment contracts. These fees are often a fixed percentage of the fund's net assets, paid daily or monthly, and are recognised as determined. Recognition of these fees are not expected to change under IFRS 15, as the services have been provided and the uncertainty (that is, the quantum of funds under management) related to the variable consideration is resolved at the end of each reporting period. However, to the extent such contracts allow for claw-back, or where insurers are front-loading fee recognition for which uncertainty continues to exist at the end of the reporting period, consideration will need to be given as to whether or not such amounts recognised are at risk of significant reversal in future reporting periods.

Insurance entities might provide other services that have variable consideration, such as performance fees for claim management services. The recognition of revenue for these services might need to change, depending on an insurance entity's current practice compared to the new requirement to determine whether the revenue is subject to significant reversal.

As noted above, if the provision of such services is an integral part of an insurance contract, it will not be in scope of IFRS 15.

**Next steps**

The finalisation and release of the new insurance standard continues to be a moving target. We recommend insurers remain up to date on ongoing developments through PwC *IFRS news*, or engaging with your audit team

## **IFRS 9: Corporate Treasury questions and answers**



**Are you looking for an answer to a hedge accounting question under IFRS 9 Financial Instruments? Akos Szabo from Corporate Treasury summarises the key points from recent additions to our IFRS 9 Q&As.**

IFRS 9 *Financial Instruments* is applicable for reporting periods starting on or after 1 January 2018, subject to endorsement by the EU. As the corresponding comparative period starts on 1 January 2017, in less than 7 months, it is not too early to start analysing the impacts of the new standard in more detail.

Early adopters (not bound by EU endorsement) have struggled with the lack of established practical application and the absence of comprehensive interpretations as to how they should or indeed could implement the rules in practice.

The significant changes to the hedge accounting will certainly be (and have been) one of the key areas of focus on adoption.

### **The Q&As**

We continue to develop guidance on the practical application of IFRS 9 in the form of a series of Q&A. There are currently 60 Q&A to aid practical implementation in the following categories:

- Cash flow hedge,
- Hedge effectiveness,
- Hedging instruments,
- Hedged items, and
- Risk management documentation.

Here is an overview of what you might find under each main heading.

#### **Cash flow hedge**

The main focus is considering established practice under IAS 39 and provides answers as to how and if these apply under IFRS 9. Basis adjustment is now not an option, but an obligation. Companies may still hedge future business combinations in foreign currencies, but need to make sure it is in line with their risk management strategy and future debt issuances.

#### **Hedge effectiveness**

Hedge ratio and rebalancing are two of the new terms introduced by the standard. The hedge effectiveness section provides clarity to what they mean in practice.

This section also deals with the treatment of the cross currency basis spread and how time value of money should be considered when hedging spot currency rates, two of the significant application changes.

The Q&As also help interpret how concepts familiar from IAS 39 hedging (such as determination of hypothetical derivatives and hedging with non-zero fair value derivatives) should be interpreted under IFRS 9.

#### **Hedging instruments**

Hedging with options was one of the more complicated and evolving areas of hedge accounting, even under IAS 39. In addition to existing complexity, IFRS 9 changed the treatment of the time value of options. This section offers solutions to address:

- Issues present under the old standard (such as the treatment of knock in knock out features or the use of three way options in hedge accounting); and
- Solutions for questions arising on the application of rules introduced by the new standard (such as aligned time value or the treatment of time value and cross currency basis spread).

It is not all about options though. Inter-company instruments, derivatives on own equity instruments, non-derivative instruments, inflation swaps and hedging more than one risk also feature.

#### **Hedged item**

One of the few new rules in this area is that companies may now combine a derivative with a non-derivative instrument and

include it in a hedge relationship as part of the hedged item.

The other notable change in this area is the ability to hedge reliably identifiable risk components separately (highly anticipated by those hedging commodity exposures). Three questions are dedicated to the interpretation of the new rules.

The rest of the questions address situations that have already arisen under IAS 39.

#### *Risk management documentation*

The changes to de-designation rules (no voluntary de-designation) and the increased emphasis to link risk management strategy and risk management objective to the hedge designation are discussed under this heading.

#### *The most recent update*

The most recent additions to the Q&A took place in April 2016. Some of the questions addressed are as follows:

- Treatment of fixed duty or delivery charges in hedge designation;
- Transfer of firm commitments;
- Hedging a net investment with an inter-company borrowing;

- Can goodwill be included in a net investment hedge;
- Cash flow hedging of future interest flows - future issuance of fixed or floating rate debt;
- Cash flow hedging of future interest flows - fixed rate debt issued subsequent to designation;
- Replacing the underlying hedged item in a cash flow hedge relationship;
- Fair Value Hedge of inflation linked debt using a basis swap;
- Using a basis swap in a cash flow hedge of more than one risk;
- Using a basis swap in a fair value hedge;
- Can a cap spread strategy qualify for hedge accounting;
- Hedge of the foreign currency risk of a highly probable forecast foreign currency debt issuance with a foreign currency forward; and
- Three-way options – no net written option.

#### *Next steps*

Are you ready for the transition to IFRS 9?

If the answer is 'not quite yet', perhaps the **Q&As** (behind paywall) can help to navigate some of the practical pitfalls of transition.

## **Cannon Street Press**

#### *Agenda Consultation*

The IASB discussed the draft work plan strategy and draft work plan for 2017-2021. In summary, the Board's activities should now switch from standards-level projects to show a greater emphasis on:

- Implementation and the support of consistent application,
- Increased consistency between individual standards and the *Conceptual Framework*,
- Promoting more effective communication of relevant financial information from preparers to users of financial statements, and
- A realistic and achievable research programme.

The active research section should include the following topics:

- Disclosure Initiative, including Principles of Disclosure,

- Primary Financial Statements,
- Financial Instruments with Characteristics of Equity,
- Goodwill and Impairment,
- Dynamic Risk Management, and
- Business Combinations under Common Control.

The research pipeline comprises the following topics:

- Equity Method of Accounting,
- Extractive Activities,
- Pollutant Pricing Mechanisms,
- Provisions, Contingent Liabilities and Contingent Assets,
- Variable and contingent consideration,
- Feasibility studies on SMEs that are subsidiaries, post-employment benefits that depend on asset returns, and high inflation.

The Board decided not to plan any further work on the following topics:

- Post-employment benefits,
- Income Taxes,
- Foreign currency translation, and
- High inflation.

Work on the research projects on share-

based payments and discount rates is likely to be completed by the end of 2016.

The Board tentatively decided to confirm the interval between completion of one agenda consultation and the commencement of the next should be extended from three to, at the latest, five years.

### **Insurance and IFRS 9**

The IASB agreed to grant the staff permission to begin the balloting process for the proposed amendments to IFRS 4 *Insurance Contracts* (IFRS 4), *Applying IFRS 9 Financial Instruments* (IFRS 9) *with IFRS 4*. The Board expects to issue final amendments to IFRS 4 in September 2016.

The Board made a number of decisions relating to the reassessment of eligibility for the temporary exemption from applying IFRS 9.

For the temporary exemption, the Board confirmed the fixed expiry date of 1 January 2021 and for the overlay approach the Board confirmed having no fixed expiry date.

The Board decided to permit first-time adopters of IFRS to apply both the temporary exemption and the overlay approach. The Board also decided to permit relief from applying consistent accounting policies in relation to the temporary exemption for investors and investees when the equity method is used.

### **IFRS 2 Share-based payments**

The IASB received an update on feedback obtained on the research of application issues since November 2015. The IASB decided not to perform any further research on this topic and not to publish a

formal research paper or discussion paper summarising the research work performed in this project. The staff will consider how best to make the work performed visible and retrievable.

### **Conceptual Framework**

The Board tentatively decided to include an explicit statement that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form.

The IASB tentatively decided to continue using the term 'stewardship' and explain what it means and how it related to 'accountability' and to clarify the link between the objective of financial reporting and stewardship.

The Board further confirmed that the revised CF should include a reference to prudence described as the exercise of caution when making judgements under conditions of uncertainty. Additionally, the Board directed the staff to further explore whether and how the CF should acknowledge that asymmetric treatment of gains (assets) and losses (liabilities) could be selected if such selection is intended to result in relevant information that faithfully represents what it purports to represent.

### **Disclosure Initiative**

The IASB tentatively decided to develop its proposals for the disclosure of restrictions that affect the decisions of an entity to use cash and cash equivalents as part of a narrow-scope project.

The Board decided not to proceed with a broader liquidity project.

## The pwc leases lab

IFRS 16 gives rise to a multitude of intriguing questions, so Professor Lee Singh begins a new experiment – this time with his assistant Doctor Holger Meurer.



### Hypothesis

IFRS 16 will adversely affect a lessee's Key Performance Indicators (KPIs).

### Testing and analysis

Lessees have to recognise a right-of-use asset and a corresponding lease liability for almost every lease contract under the new standard. This will obviously result in an increase in debt and, therefore, in the debt to equity ratio for lessees that have a significant number of lease contracts that were classified as operating leases under IAS 17.

This is only the first part of the analysis. Professor Lee Singh considers all relevant source data, and now takes a closer look at other KPI's.

- For those lease contracts that now have to be accounted for on balance sheet, lease payments are presented in **profit or loss** as finance cost and depreciation. Earnings before interest and tax (EBIT) and earnings before interest, tax and amortisation (EBITDA) will increase.
- Lease payments that relate to contracts previously classified as operating leases will no longer be shown in full within operating cash flow in the cash flow statement. The part of the lease payments that reflects the repayment of the principal portion of the lease liability will instead be included in financing activities. Therefore, operating cash flow will increase for many lessees.

IFRS 16 also contains two important recognition exemptions. Short term leases (leases with a lease term of 12 months or less) and leases of low-value assets (USD 5,000) can still be accounted for similar to current operating leases, that is, the lessee does not have to recognise a right-of-use asset and a lease liability. This will soften the effect IFRS 16 has on the debt to equity ratio.



Analysts have traditionally used operating lease disclosures to estimate lease liabilities for an entity. That estimated lease liability would be a rough estimate and likely to overstate liabilities. The actual lease liability under the new standard might be lower and as a result may even decrease the debt to equity ratio – at least compared to previous analyst expectations.

### Conclusion

IFRS 16 will impact a number of lessee's KPI's. However, changes often go in both directions. Whereas in most cases balance sheet related ratios will worsen, KPI's that relate to the income statement and the cash flow statement might actually improve.

### Practical application

Lessees have to analyse how IFRS 16 changes KPI's and ensure that investors and other stakeholders are aware of the changes and – even more important – why they change. Effective communication of the impact of these changes will therefore be a key element of the process of adopting the new standard.

More of the Professor's analysis of the impact of IFRS 16 Leases on lessees can be seen in our **In Depth**.



## IFRIC Rejections in short - IAS 19

**Ernesto Mendez of Accounting Consulting Services examines the practical implications of IC rejections related to IAS 19.**

**Looking for an answer? Maybe it was already addressed by the experts.**

The Interpretations Committee (IC) regularly considers anywhere up to 20 issues at its periodic meetings. A very small percentage of the issues discussed result in an interpretation. Many issues are rejected; some go on to become an improvement or a narrow scope amendment. The issues that are not taken on to the agenda end up as 'IFRIC rejections', known in the accounting trade as 'not an IFRIC' or NIFRICs. The NIFRICs are codified (since 2002) and included in the 'green book' of standards published by the IASB although they technically have no standing in the authoritative literature. This series covers what you need to know about issues that have been 'rejected' by the IC. We go standard by standard and continue with IAS 19 as per below.

IAS 19 covers all employee benefits. Over the years the IC has rejected 22 issues related to IAS 19, making this one of the most intensively discussed standards. We will focus on discount rates as it is one of the most controversial issues.

### **Discount rate**

***Synthetically constructed equivalent to high quality corporate bonds ("HQCB") (June 2005)***

The IC was asked whether instead of using the yield on government bonds in countries where there is no deep market in HQCB, the discount rate could be determined by reference to a synthetically constructed equivalent using currency swaps and corporate bond yields in another currency.

The IC's view is that IAS 19 is clear that a synthetically constructed equivalent cannot be used to determine the discount rate. The IC also observed that the reference to 'in a country' could reasonably be read as including HQCB that are available in a regional market to which the entity has access, provided that the currency of the regional market and the country were the same (for example, the Euro). This would not apply if the country currency differed from that of the regional market.

### ***HQCB (Nov 2013)***

The IC received a request on whether corporate bonds with a rating lower than 'AA' can be considered to be HQCB. The submitter stated that:

- a) IAS 19 does not specify which corporate bonds qualify to be HQCB;
- b) according to prevailing past practice, listed corporate bonds have usually been assessed HQCB if they receive one of the two highest ratings given by a recognised rating agency (for example 'AAA' and 'AA'); and
- c) because of the financial crisis, the number of corporate bonds rated 'AAA' or 'AA' has decreased.

In light of the above, the IC observed that IAS 19 does not specify how to determine the market yields on HQCB, and in particular, what grade of bonds should be designated as HQ. The IC considers that the discount rate should reflect appropriately the time value of money and the estimated timing of benefit payments, but not entity-specific credit risk, actuarial or investment risk, or the risk that future experience may differ from actuarial assumptions.

The IC further noted that 'high quality' as used in paragraph 83 of IAS 19 reflects an absolute concept of credit quality and not a concept of credit quality that is relative to a given population of corporate bonds.

Consequently, the IC observed that the concept of high quality should not change over time. Accordingly, a reduction in the number of HQCB should not result in a change to the concept of high quality.

The IC also noted that:

- a) significant actuarial assumptions used to determine the present value of the

defined benefit obligation should be disclosed;

- b) the discount rate is typically a significant actuarial assumption; and
- c) an entity shall disclose the judgements that management has made in the process of applying the entity's accounting policies (typically the identification of the HQCB population requires the use of judgement).

*Pre-tax or post-tax discount rate (Jul 2013)*

The IC received a request to clarify whether the discount rate used to calculate a defined benefit obligation should be a pre-tax or post-tax rate.

The tax regime in the jurisdiction of the submitter can be summarised as follows:

- (a) the entity receives a tax deduction for contributions that are made to the plan;

- (b) the plan pays tax on the contributions received and on the investment income earned;
- (c) the plan does not receive a tax deduction for the benefits paid.

The IC noted that:

- (a) only taxes on contributions and benefits payable are mentioned as examples in the guidance on measurement of defined benefit obligations;
- (b) 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 and
- (c) the measurement of the obligation should be independent of the measurement of any plan assets actually held by a plan.

Consequently, the IC observed that the discount rate used to calculate a defined benefit obligation should be a pre-tax discount rate.

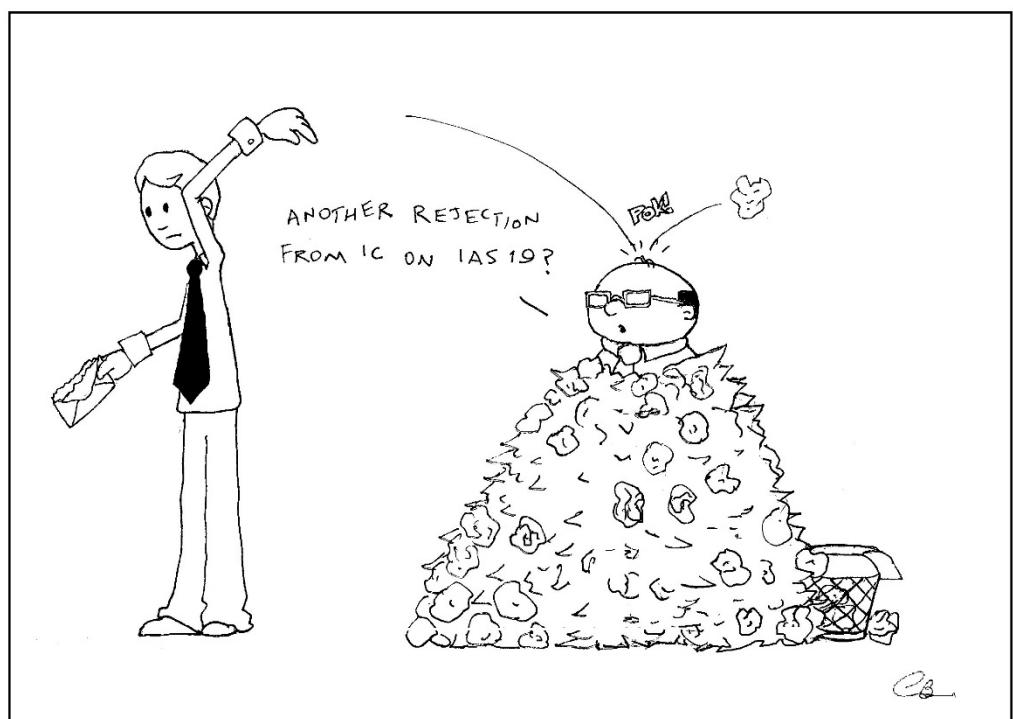
*Summary of IAS 19 rejections*

Topic	Summary conclusion
Calculation of discount rates (February 2002)	The IC considered addressing how to determine the discount rate when there is no deep market in HQCB and the terms of government bonds are much shorter than the benefit obligations. Rejected as IAS 19 provides sufficient guidance.
Undiscounted vested employee benefits (April 2002)	The IC considered issuing guidance on whether vested benefits that are payable when an employee left service could be recognised at an undiscounted amount. IAS 19 states that the measurement of the liability for the vested benefits must reflect the expected date of employees leaving service, and that the liability is discounted to a present value.
Classification of an insurance plan (August 2002)	The IC considered whether to provide guidance relating to a particular insured plan found in Sweden. IAS 19 is clear that the particular plan considered is a defined benefit plan.
Synthetically constructed equivalent to HQCB (June 2005)	A synthetically constructed equivalent to a HQCB by reference to the bond market in another country may not be used to determine the discount rate.
Employee long service leave (November 2005)	IC agreed that it was clear that the exclusion of employee benefit plans from IAS 32 includes all employee benefits covered by IAS 19, comprising a potentially wide range of formal and informal arrangements.
Special wage tax (March 2007)	The IC was asked to consider whether taxes related to defined benefits should be treated as part of the defined benefit obligation. A wide variety of taxes on pension costs could exist worldwide, and it is a matter of judgement whether they are income taxes (IAS 12), costs of employee benefits (IAS 19), or other costs (IAS 37).
Curtailments and negative past service costs (May 2007)	The IC was asked whether plan amendments that reduce benefits should be accounted for as curtailments or as negative past service costs. The IC noted that ambiguity existed in distinguishing between negative past service costs and

	<p>curtailments, but decided to recommend to the IASB that they include this issue in its project to amend IAS 19.</p> <p>This has been clarified by the 2011 amendments to IAS 19, therefore this agenda decision has been made irrelevant.</p>
Post-employment benefits—Benefit allocation for defined benefit plans (DBP) (September 2007)	<p>IAS 19 requires entities to attribute the benefit in DBP to periods of service in accordance with the benefit formula, unless the benefit formula would result in a materially higher level of benefit allocated to future years. In that case, the entity allocates the benefit on a straight-line basis. The IC had previously considered whether entities should take into account expected increases in salary in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years. The IC decided to remove this issue from its agenda as the board had an ongoing project that addressed some DBP. This has not been addressed in the 2011 amendments. In the basis of conclusions to IFRIC D9, 'Employee benefit plans with a promised return on contributions or notional contributions', the IC concluded that expected increases in salary <i>should</i> be taken into account in determining whether a benefit formula expressed in terms of <i>current</i> salary (such as a career average plan) allocates a materially higher level of benefit to later years of service. This would mean that if salary increases do not lead to a materially higher benefit in later years, then benefits are allocated to periods of service according to the benefit formula, but if salary increases are significant, then a straight-line allocation should be made.</p>
Changes to a plan caused by government (November 2007)	<p>The accounting for changes caused by government should be the same as for changes made by an employer.</p>
Treatment of employee contributions (November 2007)	<p>The IC received a request to clarify how employee contributions should be accounted for in general and how to account for a pension plan in which the cost of providing the benefits is shared between the employees and the employer. Contributions by employees to the ongoing cost of the plan reduce the current service cost to the entity. Employee contributions payable when benefits are paid, are to be taken into account in determining the defined benefit obligation. Secondly, if the formal terms of a plan (or a constructive obligation) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes.</p>
Death in service benefits (January 2008)	<p>The IC received a request for guidance on how an entity should attribute payments to employees if they die while employed ('death in service' benefits) to periods of service. IAS 19 requires attribution of the cost of the benefits until 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.'</p>
Definition of plan assets (January 2008)	<p>The IC received a request for guidance on the accounting for investment or insurance policies that are issued by an entity to a pension plan covering its own employees. If a policy was issued by a group company to the employee benefit fund then the treatment would depend upon whether the policy was a 'non-transferable financial instrument issued by the reporting entity'. Since the policy was issued by a related party, it could not meet the definition of a qualifying insurance policy.</p>
Pension promises based on performance hurdles (January 2008)	<p>Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Performance targets are variables that will affect the ultimate cost of providing the post-employment benefits. They should therefore be included in the determination of the benefit. Further, when performance hurdles affect benefits, the effect on the attribution of benefits must also be considered.</p>

Settlements (May 2008)	Events that are covered by the actuarial assumptions underlying the measurement of the defined benefit obligation are not treated as settlements under IAS 19.
Accounting for a statutory employee profit sharing arrangement (November 2010)	The IC received a request for clarification of the accounting for a statutory employee profit-sharing (EPS) arrangement that requires an entity to share 10 per cent of profit, calculated in accordance with tax law, with employees. Although such an EPS arrangement calculates amounts to be payable to employees in accordance with tax law, it meets the definition of an employee benefit (IAS 19). Consequently, an entity should not recognise an asset or liability related to future expected reversals of differences between taxable profit and accounting profit in connection with such an employee profit-sharing arrangement.
Defined contribution plans with vesting conditions (July 2011)	Vesting conditions do not affect the classification of a plan as a defined contribution plan if the employer is not required to make additional contributions to cover shortfalls because of these vesting conditions. In addition, the accounting for defined contribution plans under IAS 19 focuses on the employer's obligation to make a contribution to the separate entity that runs the plan. Consequently, each contribution to a defined contribution plan is to be recognised as an expense or recognised as a liability (accrued expense) over the period of service that obliges the employer to pay this contribution to the defined contribution plan. This period of service is distinguished from the period of service that entitles an employee to receive the benefit from the defined contribution plan. Refunds are recognised as an asset and as income when the employer becomes entitled to the refunds.
Applying the definition of termination benefits to 'Altersteilzeit' plans (January 2012)	The IC received a request for guidance regarding the application of IAS 19 to 'Altersteilzeit' plans in Germany. In the fact pattern, consistently with paragraph 162(a) of IAS 19 (2011), the fact that the bonus payments are wholly conditional upon completion of an employee service over a period indicates that the benefits are in exchange for that service. They therefore do not meet the definition of termination benefits.
Accounting for contribution-based promises: impact of the 2011 amendments to IAS 19 (September 2012)	The 2011 amendments to IAS 19 clarified the treatment of risk-sharing features. The IASB did not intend to address elements specific to contribution-based promises in the amendments. Accordingly, the 2011 amendments are not expected to cause changes to the accounting for contribution-based promises unless such promises also include elements of risk sharing arrangements between employees and employers.
Actuarial assumptions: discount rate (November 2013)	The IC received a request on whether corporate bonds with a rating lower than 'AA' can be considered to be HQCB. 'High quality' reflects an absolute concept of credit quality and not a concept of credit quality that is relative to a given population of corporate bonds.
Pre-tax or post-tax discount rate (July 2013)	The discount rate used to calculate a defined benefit obligation should be a pre-tax discount rate and hence decided not to add this issue to its agenda.
Employee benefit plans with a guaranteed return on contributions (May 2014)	Developing accounting requirements for these plans would be better addressed by the research agenda of the IASB.
Longevity swaps held under a defined benefit plan (March 2015)	The IC received a request to consider whether longevity swaps held under a defined benefit plan should be measured as a plan asset at fair value or on another basis as a 'qualifying insurance policy'. The predominant practice is to account for a longevity swap as a single instrument, and measure it at fair value as part of plan assets.

## ***The bit at the back....***



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