

Second Comprehensive Review of the *IFRS for SMEs* Standard

Agenda Paper 5
Section 28 *Employee Benefits*

SME Implementation Group meeting
September 2021

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Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> Standard	
Paper topic	<i>Section 28 Employee Benefits</i>	
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Purpose

- To obtain SMEIG members' views on staff's proposal in relation to aligning Section 28 *Employee Benefits* of the *IFRS for SMEs* Standard with IAS 19 *Employee Benefits* (2011) (question S8 in the Request for Information)
- To share SMEIG members' experience on how paragraph 28.19 of the *IFRS for SMEs* Standard is applied and if there is diversity in practice (question N3 in the Request for Information)

Aligning with IAS 19 (2011)

- Q1 Do SMEIG members have any comments on the staff proposal in slide 10?
- Q2 What are SMEIG members' views on eliminating the option to present actuarial gains and losses either in profit and loss or in other comprehensive income?

Simplifications permitted by paragraph 28.19

- Q3 In your experience, do SMEs frequently apply the requirements in the *IFRS for SMEs* Standard for defined benefits plans?
- Q4 Are SMEIG members aware of entities applying the simplifications permitted by **paragraph 28.19** of the *IFRS for SMEs* Standard?
- Q5 Do SMEIG members agree that applying paragraph 28.19 requires defined benefit obligation to be discounted?

A grayscale world map is centered in the background. Overlaid on the map are several thick, curved, light-gray lines that sweep across the frame from the bottom left towards the top right. Additionally, there are several dotted lines that form a grid-like pattern across the map, representing latitude and longitude lines.

Aligning with IAS 19 (2011)

Question S8

What are your views on **aligning Section 28** with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits?

Feedback

Most respondents agreed with alignment for termination benefits and provided the following reasons:

- alignment will contribute to comparability of financial statements among SMEs; and
- alignment will improve faithful representation.

A few respondents disagreed with alignment.

Request for Information

The [Appendix](#) sets out an extract on how the Board developed question S8 in the Request for Information.

The Board sought views on aligning the recognition of termination benefits such that they would be recognised at the earlier of when the entity can no longer withdraw the offer of those benefits and when any related restructuring costs are recognised.

Termination benefits

- Those respondents that did not support the alignment of the recognition requirements for termination benefits questioned the relevance principle. However, respondents that supported the alignment noted that termination benefits are relevant to SMEs and furthermore the matter had increased in prominence following the covid-19 pandemic.
- One respondent questioned the measurement of termination benefits, however, the Request for Information asked for views on aligning the recognition requirements. The measurement requirements for short-term employee benefits are aligned between the *IFRS for SMEs* Standard and IAS 19. There is, however, a difference in the measurement requirements for long-term termination benefits. The requirements in the *IFRS for SMEs* Standard have been simplified—when termination benefits are due more than 12 months after the end of the reporting period they are measured at the discounted present value; whereas IAS 19 requires long-term termination benefits to be measured using an actuarial method.

Other matters


- The Board did not ask for views, in the Request for Information, on aligning the *IFRS for SMEs Standard* with the 2011 amendments to IAS 19 and thereby eliminating the option, for defined benefit plans, to present actuarial gains and losses either in profit and loss or in other comprehensive income.
- A small number of respondents supported eliminating the option in the *IFRS for SMEs Standard*. The reasons noted by the respondents include:
 - elimination is consistent with the alignment principles (relevance to SMEs, simplicity, and faithful representation), mainly in relation to the faithful of representation of economic transactions and events; and
 - elimination would remove the need to conceptually justify the use of ‘other comprehensive income’, which has not been adequately articulated in the context of the *IFRS for SMEs Standard*.

Staff proposal

The staff suggest aligning Section 28 with the 2011 amendments to IAS 19 only in respect of the recognition requirements for termination benefits.

Questions to SMEIG members

- Q1** Do SMEIG members have any comments on the staff proposal?
- Q2** What are SMEIG members' views on eliminating the option to present actuarial gains and losses either in profit and loss or in other comprehensive income?



Simplifications permitted by
paragraph 28.19

Relevance of defined benefit plans

Q3 In your experience, do SMEs frequently apply the requirements in the *IFRS for SMEs* Standard for defined benefit plans?

Simplifications permitted by paragraph 28.19

... the entity is permitted to make the following simplifications in measuring its defined benefit obligation with respect to current employees:

- **ignore estimated future salary increases** (ie assume current salaries continue until current employees are expected to begin receiving post-employment benefits).
- **ignore future service** of current employees (ie assume closure of the plan for existing as well as any new employees).
- **ignore possible in-service mortality** of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (ie assume all current employees will receive the post-employment benefits). However, mortality after service (ie life expectancy) will still need to be considered.

Question N3

Are you aware of entities applying the simplifications permitted by **paragraph 28.19** of the *IFRS for SMEs* Standard? If so, are you aware of difficulties arising in applying the simplifications? Please include a brief description of the difficulty encountered in applying the simplification.

Feedback

Some respondents said they are aware of entities applying the simplifications permitted by paragraph 28.19 of the *IFRS for SMEs* Standard.

About half of those respondents are aware of difficulties in applying the simplifications, for example when applying the simplification(s), whether the defined benefit liabilities should be discounted.

Question to SMEIG members

Q4 Are SMEIG members aware of entities applying the simplifications permitted by **paragraph 28.19** of the *IFRS for SMEs* Standard?

Discounting ?

Example 1:

One stakeholder asked: for a defined benefit plan in which a lump sum amount is paid at the date of retirement (eg final salary multiplied by the number of years of service) if paragraph 28.19 of the *IFRS for SMEs* Standard requires the obligation to be discounted. The stakeholder noted that not requiring an entity to discount the obligation would ignore the fact that the benefit is not payable at the reporting date and could be paid many years later.

Staff's view

- Paragraph 28.15 of the *IFRS for SMEs* Standard requires an SME to measure a defined benefit liability at the **net total of the present value** of its obligations minus the fair value at the reporting date of plan assets.
- According to the Glossary of terms of the *IFRS for SMEs* Standard, **defined benefit obligation** is the gross amount of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
- Paragraph 28.19 of the *IFRS for SMEs* Standard permits simplifications that apply to measurement of defined benefit obligation rather than the present value of the defined benefit obligation.

Question to SMEIG members

Q5 Do SMEIG members agree that applying paragraph 28.19 of the *IFRS for SMEs* Standard requires defined benefit obligation to be discounted?

A grayscale world map is the background for the top half of the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. A network of thin, dotted lines is also visible, connecting various points across the map. The overall aesthetic is clean and professional.

Appendix

B75 Question S8 asks respondents to comment on the potential alignment of Section 28 of the *IFRS for SMEs* Standard with IAS 19 *Employee Benefits* as revised in 2011. The Board did not align Section 28 *Employee Benefits* with IAS 19 (2011) as part of the first comprehensive review in 2012.

B76 In relation to defined benefit plans, the 2011 amendments to IAS 19:

- (a) eliminated an option to defer recognition of changes in the defined benefit obligation and an option to present actuarial gains or losses in profit or loss. The option to defer recognition of changes in the defined benefit obligation is not available to entities applying the *IFRS for SMEs* Standard.
- (b) eliminated the option to present actuarial gains and losses either in profit or loss or in other comprehensive income.
- (c) clarified that termination benefits should be recognised at the earlier of when the entity can no longer withdraw the offer of those benefits and when any related restructuring costs are recognised.

B77 The Board is seeking views on aligning Section 28 for the amendment described in paragraph B76(c); such that termination benefits would be recognised at the earlier of when the entity can no longer withdraw the offer of those benefits and when any related restructuring costs are recognised.

B78 The Board is not seeking views on aligning Section 28 with other amendments introduced in IAS 19 (2011) and in subsequent minor consequential amendments.

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