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EFRAG research project on pension plans

Cover Note

Objective

- 1 The objective of this session is to consider the structure and content of EFRAG's discussion paper on certain pension plans. This includes considering how the effects of alternative approaches should be illustrated.

Background

- 2 The objective of the project is to consider possible amendments to the accounting requirements in IAS 19 *Employee Benefits* in relation to post-employment plans with specific characteristics.
- 3 Concerns have been raised about the application of the accounting requirements for defined benefit plans that some refer to as 'hybrid', plans that share characteristics of both defined contribution and defined benefit plans. Some of the concerns expressed are:
 - (a) When the benefits are linked to the return of the plan assets, IAS 19 requires projecting the benefits using the expected rate of return and discounting them back using the rate of high quality corporate bonds. This is perceived to create an accounting mismatch;
 - (b) In some cases, entities provide minimum guarantee returns that are below the historical level of returns on the plan assets. IAS 19 requirements may result in recognising a defined benefit obligation even in those cases when an outflow of resources has a low probability. Also, the requirements are perceived to be too costly and complex to apply.
- 4 The EFRAG Secretariat notes that there is no commonly agreed definition of 'hybrid plans'. Some refer to DC plans with a minimum guaranteed return as hybrids; in other cases, hybrids are considered those plans where the benefits are partially contingent on the plan return, while 'pure DB plans' are considered those where the benefits only depend on final-year (or career-average) salary and length of service.
- 5 The IASB has been considering the issue but has found difficult to define an appropriate scope that would result in improvements for a sufficiently wide range of plans without creating unintended consequences. Following the completion of the 2015 Agenda consultation, the IASB has a current feasibility project with the objective to consider whether there is a viable solution for plans with a return-based promise.
- 6 The project has been considered at several meetings of EFRAG TEG and EFRAG's Pension Plans Advisory Panel ('EFRAG PAP'). In addition, the EFRAG User Panel and EFRAG Academic Panel have been consulted.

- 7 Based on these previous discussions, for this session, the EFRAG Secretariat has prepared a proposal on the content and structure of a discussion paper.

Agenda Papers

- 8 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 11-02 – Issues paper on the structure and scope of a discussion paper.
 - (b) Agenda paper 11-03 – Issues paper on how alternative approaches should be illustrated in a discussion paper.