IASB Research Project
Pension Benefits that Depend on Asset Returns
Project update

Introduction and Objective

1 The objective of this paper is to provide an update on the IASB's Research project *Pension Benefits that Depend on Asset Returns*.

2 The IASB Staff provided an update for the IASB in January 2020. The IASB Staff paper has been provided as Agenda Paper 08-04 (for background purposes).

Background of the Project

3 Entities are shifting from traditional defined benefit plans to 'hybrid plans'. In some hybrid plans, the benefits paid to employees depend, wholly or partly, on the return on a specified pool of assets.

4 For these hybrid plans, which depend on asset returns, IAS 19 requires projecting the benefit to employees on the basis of an assumption of future performance of the specified assets. These benefits are then discounted back using a rate which is determined by reference to market yields on high quality corporate bonds.

5 There are two concerns regarding this measurement:

(a) Attribution of the asset is not faithfully depicted - The measurement of the pension obligation is not similar to the fair value of the underlying reference assets that determine the amount of the payment to employees; and

(b) In many cases, the underlying reference assets are held by the plan and these incorporate the market price of risk inherent in the plan asset cash flows. However, the present value of the defined benefit obligation does not incorporate the market price of this risk. As a result, even if an entity does not expect to pay additional contributions for employee contribution for past and present periods, the entity would recognise a net liability.

6 After the 2015 IASB Agenda Consultation, the IASB requested to consider whether it was feasible to eliminate this measurement inconsistency of pension benefits that depend on asset returns, without performing a comprehensive review of IAS 19.

7 The IASB agreed with the IASB Staff's recommendation to focus on a 'capped' ultimate costs adjustment model regardless of whether reference assets are held by the plan. Under this approach, those projected cash flows that vary **only** with the asset returns are capped so that they do not exceed the discount rate specified under IAS 19. For example, where the expected rate of return on the reference assets is 5% and the discount rate specified by IAS 19 is 3%, applying the cap would result in the entity both projecting and discounting the benefits at 3%.

Next steps

8 The IASB Staff:

(a) will consider interaction with other features of pension plans to check for any unintended consequences;

(b) is currently developing illustrative examples comparing current accounting and under the 'capped' ultimate costs adjustment model to check for any practical issues;

(c) is in the process of updating data relating to global trends in pensions that was presented to the IASB in November 2015.

9 The IASB Staff expects to complete the illustrative examples and the data collection by the end of Q1 2020 and to bring the results to an IASB meeting in Q2.

Question for EFRAG TEG

10 Does EFRAG TEG have any comments on the IASB's project?