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ACCOUNTING STANDARDS BOARD (ASB): EMPLOYEE BENEFITS (GRAP 25)

1. Purpose

1.1 To inform municipalities and municipal entities that the Accounting Standards Board (ASB) has approved and issued the Standard of Generally Recognised Accounting Practice on *Employee Benefits (GRAP 25)*. This can be accessed via the following link **http://www.asb.co.za**

2. Introduction

2.1 The Accounting Standards Board (the Board) is required, in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

2.2 This Standard of GRAP is set out in paragraphs .01 to .161. All paragraphs in this Standard of GRAP have equal authority. This Standard should be read in the context of its objectives, its basis for conclusions if applicable, the *Preface to Standards of GRAP, the Preface to the Interpretations of the Standards of GRAP and the Framework for the Preparation and Presentation of Financial Statements.*

2.3 Standards of GRAP and Interpretations of the standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

2.4 Reference may be made to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .12 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

3. Objective

3.1 The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
b) an expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

4. Effective date

4.1 An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999 as amended.

5. Enquiries

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DATE: *6 January 2010*

ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

EMPLOYEE BENEFITS

(GRAP 25)

Issued by the
Accounting Standards Board
November 2009

Acknowledgment

This Standard of Generally Recognised Accounting Practice (GRAP) is drawn primarily from the International Public Sector Accounting Standard (IPSAS) on *Employee Benefits* issued by the International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB). The International Federation of Accountants (IFAC) was founded in 1977 with its mission to develop and enhance the profession with harmonised standards. IPSASB has issued a comprehensive body of IPSASs, which will be used to produce future Standards of GRAP. Extracts of the IPSAS on *Employee Benefits* are reproduced in this Standard of GRAP with the permission of the IPSASB.

The approved text of the IPSASs is that published by the IFAC in the English language. The IPSASs are contained in the IFAC Handbook of International Public Sector Accounting Pronouncements and are available from:

International Federation of Accountants

545 Fifth Avenue, 14th Floor

New York, New York 10017 USA

Internet: http://www.ifac.org

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This Standard has also drawn on the International Financial Reporting Standards (IFRSs) and interpretations issued by the International Accounting Standards Board (IASB). The approved text of the IFRS and Interpretations is that published by the IASB in the English language and copies may be obtained from:

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EMPLOYEE BENEFITS

Introduction

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

(a) departments (national and provincial);

(b) public entities;

(c) constitutional institutions;

(d) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and

(e) Parliament and the provincial legislatures.

The above are collectively referred to as “entities”.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants, to be GRAP for:

(a) government business enterprises (as defined in the PFMA);

(b) trading entities (as defined in the PFMA);

(c) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and

(d) entities under the ownership control of any of these entities.

The Board believes that Statements of GAAP are relevant and applicable to financial statements prepared by all such entities, including those under their ownership control.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations of the Standards of GRAP.

The Standard of GRAP is set out in paragraphs .01 to .161. All paragraphs in this Standard of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Standard should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP,* the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .12 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

.01 The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Scope

.02 This Standard shall be applied by an employer in accounting for all employee benefits, except share based payment transactions (see the International Financial Reporting Standard on Share-based Payment).

.03 This Standard does not deal with reporting by employee retirement benefit plans (see the International Accounting Standard on *Retirement Benefit Plans)*. This Standard does not deal with benefits provided by composite social security programmes that are not consideration in exchange for service rendered by employees or past employees of entities.

.04 The employee benefits to which this Standard applies include those provided:

(a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;

(b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, provincial, local, or other multi-employer plans or where entities are required to contribute to the composite social security programmes; or

(c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity’s informal practices would cause unacceptable damage to its relationship with employees.

.05 Employee benefits include:

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, bonus, incentive and performance related payments (if payable within twelve months of the end of the

reporting period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, which may include long-service leave or sabbatical leave, other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the reporting period, bonus, incentive and performance related payments, as well as deferred compensation; and

(d) termination benefits.

Because each category identified in (a)-(d) above has different characteristics, this Standard establishes separate requirements for each category.

.06 Employee benefits include benefits provided to either employees or their dependants and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.

.07 An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include key management personnel as defined in the Standard of GRAP on *Related Party Disclosures*.

Definitions

.08 The following terms are used in this Standard with the meanings specified:

<u>Actuarial gains and losses</u> comprise:

(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

(b) the effects of changes in actuarial assumptions.

<u>Assets held by a long-term employee benefit fund</u> are assets (other than non-transferable financial instruments issued by the reporting entity) that:

(a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and

(b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

(i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or

(ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Composite social security programmes are established by legislation; and

(a) operate as multi-employer plans to provide post-employment benefits; as well as to

(b) provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:

(a) pool the assets contributed by various entities that are not under common control; and

(b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases).

Plan assets comprise:

(a) assets held by a long-term employee benefit fund; and

(b) qualifying insurance policies.

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

A qualifying insurance policy is an insurance policy[*] issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy:

(a) can be used only to pay or fund employee benefits under a defined benefit plan; and

[*] A qualifying insurance policy is not necessarily an insurance contract (see the International Financial Reporting Standard on *Insurance Contracts*).

***(b)** are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:*

(i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or

(ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

The <u>return on plan assets</u> is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

<u>Short-term employee benefits</u> are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

<u>State plans</u> are plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

<u>Termination benefits</u> are employee benefits payable as a result of either:

(a) an entity's decision to terminate an employee's employment before the normal retirement date; or

(b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

<u>Vested employee benefits</u> are employee benefits that are not conditional on future employment.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards of GRAP.

Short-term employee benefits

.09 Short-term employee benefits include items such as:

(a) wages, salaries and social security contributions;

(b) short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;

(c) bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and

(d) non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

.10 Accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

Recognition and measurement

All short-term employee benefits

.11 When an employee has rendered service to an entity during a reporting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, the Standard of GRAP on Inventories, the Standard of GRAP on Property, Plant and Equipment, the Standard of GRAP on Intangible Assets and the Standard of GRAP on Heritage Assets).

Paragraphs .12, .15 and .18 explain how an entity shall apply this requirement to short-term employee benefits in the form of compensated absences and bonus, incentive and performance related payments.

Short-term compensated absences

.12 An entity shall recognise the expected cost of short-term employee benefits in the form of compensated absences under paragraph .11 as follows:

(a) in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and

(b) in the case of non-accumulating compensated absences, when the absences occur.

.13 An entity may compensate employees for absence for various reasons including annual leave, sick leave, short-term disability and maternity or paternity leave. Entitlement to compensated absences falls into two categories:

(a) accumulating; and

(b) non-accumulating.

.14 Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recognised, even if the compensated absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

.15 An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

.16 The method specified in paragraph .15 measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused compensated absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.

.17 Non-accumulating compensated absences do not carry forward: they lapse if the current reporting period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick leave (to the extent that unused past entitlement does not increase future entitlement), and maternity or paternity leave. An entity recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Bonus, incentive and performance related payments

.18 An entity shall recognise the expected cost of bonus, incentive and performance related payments under paragraph .11 when, and only when:

(a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and

(b) a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

.19 In the public sector some entities have incentive plans that are related to service delivery objectives or aspects of financial performance. Under such plans employees receive specified amounts, dependent on an assessment of their contribution to the achievement of the objectives of the entity or a segment of the entity. In some cases such plans may be for groups of employees, such as when performance is evaluated for all or some employees in a particular segment, rather than on an individual basis. Some public sector entities may evaluate performance against financially based measures such as the generation of revenue streams and the achievement of budgetary targets. Some incentive plans may entail payments to all employees who rendered employment services in a reporting period, even though they may have left the entity before the reporting date. However, under other incentive plans, employees receive payments only if they remain with the entity for a specified period, for example, a requirement that employees render services for the whole of the reporting period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving incentive and performance related payments. Paragraph .21 provides further conditions that are to be satisfied before an entity can recognise the expected cost of incentive and performance related payments.

.20 An entity may have no legal obligation to pay a bonus or incentive. Nevertheless, in some cases, an entity has a practice of paying bonuses or incentives. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus or incentive. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus or incentive.

.21 An entity can make a reliable estimate of its legal or constructive obligation under bonus, incentive and performance related payment scheme when, and only when:

(a) the formal terms of the plan contain a formula for determining the amount of the benefit;

(b) the entity determines the amounts to be paid before the financial statements are authorised for issue; or

(c) past practice gives clear evidence of the amount of the entity's constructive obligation.

.22 An obligation under bonus, incentive and performance related plans results from employee service and is recognised as an expense in surplus or deficit.

.23 If bonus, incentive and performance related payments are not due wholly within twelve months after the end of the reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs .142 – .147).

Example illustrating paragraphs .18 to .23: Accounting for an incentive scheme
An entity operates an incentive scheme for its employees as follows: • 25% of each employee's cost to the entity can be paid as an incentive; • 7.5% of the 25% is automatically paid to those individuals who were in service for a full financial year. • 17.5% of the 25% is paid to employees based on the rating of their individual performance. *The entity recognises an expense and a liability for the number of employees expected to complete a full year's service, based on 7.5% of their cost to the entity.* *Once an entity has assessed each individual's performance, it recognises an expense and a liability for the performance component of the incentive plan, based on the ratings of each individual multiplied by 17.5% of their respective cost to the entity.*

Disclosure

.24 Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, the Standard of GRAP on *Related Party Disclosures* requires disclosures of the aggregate remuneration of key management personnel and the Standard of GRAP on *Presentation of Financial Statements* requires the disclosure of information about employee benefits.

Post-employment benefits: Distinction between defined contribution plans and defined benefit plans

.25 Post-employment benefits include, for example:

(a) retirement benefits, such as pensions; and

(b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity, such as a pension scheme or retirement benefit scheme, to receive contributions and to pay benefits.

.26 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions. In order to be classified as a defined contribution plan a post-employment benefit plan must require the entity to pay fixed contributions into a separate entity. Under defined contribution plans:

(a) the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and

(b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

.27 Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

(a) a plan benefit formula that is not linked solely to the amount of contributions;

(b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.

.28 Under defined benefit plans:

(a) the entity's obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

.29 Unlike defined contribution plans, the definition of a defined benefit plan does not require the payment of contributions to a separate entity. Paragraphs .30 - .51 below explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, state plans, composite social security programmes and insured benefits.

Multi-employer plans

.30 An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:

(a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and

(b) disclose the information required by paragraph .136.

.31 When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:

(a) account for the plan under paragraphs .53 – .55 as if it were a defined contribution plan;

(b) disclose:

(i) the fact that the plan is a defined benefit plan; and

(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and

(c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:

(i) any available information about that surplus or deficit;

(ii) the basis used to determine that surplus or deficit; and

(iii) the implications, if any, for the entity.

.32 One example of defined benefit multi-employer plan is where:

(a) the plan is financed on a pay-as-you-go basis such that: contributions of employers and/or employees are set at a level that is expected to be sufficient to pay the

benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and

(b) employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal.

Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the reporting date is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

.33 Where sufficient information is available about a multi-employer plan that is a defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, there may be cases where an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) the entity does not have access to information about the plan that satisfies the requirements of this Standard; or

(b) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the additional information required by paragraph .31.

.34 There may be a contractual agreement, binding arrangement or stated policy between the multi-employer plan and its participant entities that determines how the surplus in the plan will be distributed to the participant entities (or the deficit funded). A participant in a multi-employer plan with such an arrangement that accounts for the plan as a defined contribution plan in accordance with paragraph .31 recognises the asset or liability that arises from the contractual agreement, binding arrangement or stated policy and the resulting revenue or expense in surplus or deficit.

Example illustrating paragraph .34: Accounting for a multi-employer plan
Along with similar entities in province X, municipality A participates in a multi-employer defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan, there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. Municipality A therefore accounts for the plan as if it were a defined contribution plan. A funding valuation, which is not drawn up on the basis of assumptions compatible with the requirements of this Standard, shows a deficit of R480 million in the plan. The plan has agreed under a binding arrangement a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. Municipality A's total contributions under the arrangement are R40 million.   *The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in surplus or deficit.*

.35 The Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* requires an entity to disclose information about some contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

(a) actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or

(b) any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

.36 Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Defined benefit plans where the participating entities are under common control

.37 Defined benefit plans that share risks between various entities under common control, for example, controlling and controlled entities, are not multi-employer plans.

.38 An entity participating in such a plan obtains information about the plan as a whole measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement, binding arrangement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Standard to individual entities within the economic entity, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement, arrangement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the entity that is legally the sponsoring employer for the plan. The other entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the reporting period.

.39 There are cases in the public sector where a controlling entity and one or more controlled entities participate in a defined benefit plan. Unless there is a contractual agreement, binding arrangement or stated policy, as specified in paragraph .38, the controlled entity accounts on a defined contribution basis and the controlling entity accounts on a defined benefit basis in its consolidated financial statements. The controlled entity also discloses that it accounts on a defined contribution basis in its separate financial statements. A controlled entity that accounts on a defined contribution basis also provides details of the controlling entity, and states that, in the controlling entity's consolidated financial statements, accounting is on a defined benefit basis. The controlled entity also makes the disclosures required in paragraph .40.

.40 Participation in such a plan is a related party transaction for each individual entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:

(a) The contractual agreement, binding arrangement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) The policy for determining the contribution to be paid by the entity.

(c) If the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph .38, all the information about the plan as a whole in accordance with paragraphs .135 – .137.

(d) If the entity accounts for the contribution payable for the reporting period in accordance with paragraph .38, the information about the plan as a whole

required in accordance with paragraphs .136(a)–(d), (k), (l), and (n) and .137. The other disclosures required by paragraph .136 do not apply.

State plans

.41 An entity shall account for post-employment benefits under state plans in the same way as for a multi-employer plan (see paragraphs .30 and .31).

.42 State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national, provincial or local government or by another body (for example, an agency created specifically for this purpose). This Standard deals only with employee benefits of the entity and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting entity. While government may establish state plans and provide benefits to employees of private sector entities and/or self-employed individuals, obligations arising in respect of such plans are not addressed in this Standard.

.43 Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Entities covered by state plans account for those plans as either defined contribution or defined benefit plans. The accounting treatment depends upon whether the entity has a legal or constructive obligation to pay future benefits. If an entity's only obligation is to pay the contributions as they fall due and the entity has no obligation to pay future benefits, it accounts for that state plan as a defined contribution plan.

.44 A state plan may be classified as a defined contribution plan by a controlled entity. However, it is a rebuttable presumption that the state plan will be characterised as a defined benefit plan by the controlling entity. Where that presumption is rebutted the state plan is accounted for as a defined contribution plan.

Composite social security programmes

.45 A reporting entity shall account for post-employment benefits under composite social security programmes in the same way as for a multi-employer plan (see paragraphs .30 and .31).

.46 Composite social security programmes are established by legislation and provide benefits to individuals who have satisfied eligibility criteria. Such criteria principally include a requirement that an individual has attained a retirement age laid down in legislation. There may also be other criteria related to factors such as income and personal wealth. Composite social security programmes may also operate to provide benefits as consideration in exchange for employment services rendered by

individuals. This Standard only addresses obligations in composite social security programmes which arise as consideration in exchange for service rendered by employees and past employees of the reporting entity. This Standard requires a reporting entity to account for obligations for employee benefits that arise under composite social security programmes as for a multi-employer plan in accordance with paragraphs .30 and .31.

.47 For an economic entity, such as the whole-of-government level, the accounting treatment for obligations for employee benefits under composite social security programmes depends upon whether the component of that programme operating to provide post-employment benefits to employees of the economic entity is characterised as a defined contribution or a defined benefit plan. In making this judgement the factors highlighted in paragraph .33 are considered.

Insured benefits

.48 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

(a) pay the employee benefits directly when they fall due; or

(b) pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

.49 The benefits insured by an insurance contract need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance contracts are subject to the same distinction between accounting and funding as other funded plans.

.50 Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

(a) accounts for a qualifying insurance policy as a plan asset (see paragraph .08); and

(b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph .116).

.51 Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-employment benefits: Defined contribution plans

.52 Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each reporting period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service.

Recognition and measurement

.53 When an employee has rendered service to an entity during a reporting period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, the Standard of GRAP on Inventories, the Standard of GRAP on Property, Plant and Equipment, the Standard of GRAP on Intangible Assets and the Standard of GRAP on Heritage Assets).

.54 Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph .91.

Disclosure

.55 An entity shall disclose the amount recognised as an expense for defined contribution plans.

.56 Where required by the Standard of GRAP on *Related Party Disclosures* an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment benefits: Defined benefit plans

.57 Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Recognition and measurement

.58 Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability (and willingness) to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan.

.59 Unlike defined contribution plans, the liability recognised at year end for a defined benefit plan is not limited to contributions owed by the employer to the fund at year end and, the expense recognised in the statement of financial performance is not necessarily the amount of contributions due for the reporting period. Instead, an entity measures the obligation and expense using the approach set out in the paragraphs that follow, and includes any contributions paid by the employer to the fund in the plan assets.

.60 Accounting by an entity for defined benefit plans involves the following steps:

(a) using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs .80 - .84) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and

mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit (see paragraphs .96 - .104);

(b) discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs .77 - .79);

(c) determining the fair value of any plan assets (see paragraphs .113 - .115);

(d) determining the total amount of actuarial gains and losses to be recognised (see paragraphs .105 - .107);

(e) where a plan has been introduced or changed, determining the resulting past service cost (see paragraphs .108 - .112); and

(f) where a plan has been curtailed or settled, determining the resulting gain or loss (see paragraphs .124 - .130).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately. For example, government provides education, health and a number of other services and may have separate plans for teachers, healthcare workers and other employees. The requirements of this Standard are applied to each of those plans separately where they are material.

.61 In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the constructive obligation

.62 An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

.63 The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to cancel a plan if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity which is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of financial position

.64 The amount recognised as a defined benefit liability shall be the net total of the following amounts:

(a) the present value of the defined benefit obligation at the reporting date (see paragraph .77);

(b) minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs .113 - .115);

(c) plus any liability that may arise as a result of a minimum funding requirement (see paragraphs .71 - .73)

.65 The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets.

.66 An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

.67 This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the reporting date. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

Asset recognition ceiling

.68 The amount determined under paragraph .64 may be negative (an asset). An entity shall measure the resulting asset at the lower of:

(a) the amount determined under paragraph .64; and

(b) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph .91.

.69 Any adjustments arising from the limit in paragraph .68(b) shall be recognised in surplus or deficit.

.70 An asset may arise where a defined benefit plan has been overfunded or in certain cases where actuarial gains are recognised. An entity recognises an asset in such cases because:

(a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit.

Example illustrating paragraph .68: Limit on recognition of plan asset

A defined benefit plan has the following characteristics:

	R
Present value of the obligation	1 100
Fair value of plan assets	1 190
	(90)
Present value of available future refunds and reductions in future contributions	60
Limit of asset	60

R60 is less than R90. Therefore, the entity recognises an asset of R60 and discloses that the limit in paragraph .68(b) reduced the carrying amount of the asset by R30 (see paragraph .136(e)(i)).

Asset recognition ceiling: When a minimum funding requirement may give rise to a liability

.71 If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity determines whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.

.72 To the extent that the contributions payable will not be available after they are paid into the plan, the entity recognises a liability when the obligation arises. The liability reduces the defined benefit asset or increases the defined benefit liability so that no

gain or loss is expected to result from applying paragraph .68 of this Standard when the contributions are paid.

.73 The liability in respect of the minimum funding requirement and any subsequent remeasurement of that liability is recognised immediately in surplus or deficit in accordance with the effect of applying the limit in paragraph .68 on the measurement of the defined benefit asset.

Statement of financial performance

.74 An entity shall recognise the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

(a) current service cost (see paragraphs .76 - .104);

(b) interest cost (see paragraph .95);

(c) the expected return on any plan assets (see paragraphs .120 - .122) and on any reimbursement rights (see paragraph .116);

(d) actuarial gains and losses (see paragraphs .105 - .107);

(e) past service cost (see paragraph .108);

(f) the effect of any curtailments or settlements (see paragraphs .124 and .125); and

(g) the effect of applying the limit in paragraph .68.

.75 Other Standards require the inclusion of certain employee benefit costs within the cost of assets such as inventories or property, plant and equipment (see, for example, the Standard of GRAP on *Inventories,* the Standard of GRAP on *Property, Plant and Equipment,* the Standard of GRAP on *Intangible Assets* and the Standard of GRAP on *Heritage Assets*). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph .74.

Recognition and measurement: Present value of defined benefit obligations and current service cost

.76 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:

(a) apply an actuarial valuation method (see paragraphs .77 - .79);

(b) attribute benefit to periods of service (see paragraphs .80 - .84); and

(c) make actuarial assumptions (see paragraphs .85 - .104).

Actuarial valuation method

.77 An entity shall use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

.78 The Projected Unit Credit Method (sometimes known as the accrued benefit method pro rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs .80 to .84) and measures each unit separately to build up the final obligation (see paragraphs .85 to .104).

Example illustrating paragraph .78: Projected Unit Credit Method

A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is R10 000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum.

The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	*1*	*2*	*3*	*4*	*5*
Benefit attributed to:	R	R	R	R	R
– prior years	-	131	262	393	524
– current year (1% of final salary)	131	131	131	131	131
– current and prior years	131	262	393	524	655

Year	*1*	*2*	*3*	*4*	*5*
Opening obligation	-	89	196	324	476

Interest at 10%	-	9	20	33	48
Current service cost	89	98	108	119	131
Closing obligation	89	196	324	476	655

Note:

1. The opening obligation is the present value of benefit attributed to prior years.

2. The current service cost is the present value of benefit attributed to the current year.

3. The closing obligation is the present value of benefit attributed to current and prior years.

.79 An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation falls due within twelve months of the reporting date.

Attributing benefit to periods of service

.80 In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

(a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

(b) 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.

.81 The Projected Unit Credit Method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits which an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

Example illustrating paragraph .81: Attributing benefit to periods of service

1. A defined benefit plan provides a lump sum benefit of R100 payable on retirement for each year of service.

   A benefit of R100 is attributed to each year. The current service cost is the present value of R100. The present value of the defined benefit obligation is the present value of R100, multiplied by the number of years of service up to the reporting date.

   If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the reporting date.

2. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.

   Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the reporting date.

   The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

.82 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words, they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at each successive reporting date, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although certain post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

Examples illustrating paragraph .82: Vesting and non-vesting benefits

1. A plan pays a benefit of R100 for each year of service. The benefits vest after 10 years of service.

A benefit of R100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete ten years of service.

2. A plan pays a benefit of R100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of R100 is attributed to each subsequent year.

.83 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual reporting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

Examples illustrating paragraph .83: Attributing benefits to reporting periods

1. A plan pays a lump sum benefit of R1 000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

   A benefit of R100 (R1 000 divided by 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

2. A plan pays a lump sum retirement benefit of R2 000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

   For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no

material amount of further benefits. For these employees, the entity attributes benefit of R100 (R2 000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of R100 (R2 000 divided by 20) to each of the first twenty years.

For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of R200 (R2 000 divided by 10) to each of the first 10 years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

3. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service and 50% of those costs if the employee leaves after 20 or more years of service.

   Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by 10) to each of the first ten years and 1% (10% divided by 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits.

   For employees expected to leave within 10 years, no benefit is attributed.

4. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service and 50% of those costs if the employee leaves after 20 or more years of service.

   Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after 20 or more years, the entity attributes benefit on a straight-line basis under paragraph .82. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5% of the present value of the expected medical costs (50% divided by 20).

   For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within 10 years, no benefit is attributed.

.84 Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the reporting date, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph .80(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Example illustrating paragraph .84: Attributing benefits to reporting periods

Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Actuarial assumptions

.85 Actuarial assumptions shall be unbiased and mutually compatible.

.86 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) mortality, both during and after employment;

(ii) rates of employee turnover, disability and early retirement;

(iii) the proportion of plan members with dependants who will be eligible for benefits; and

(iv) claim rates under medical plans.

(b) financial assumptions, dealing with items such as:

(i) the discount rate (see paragraphs .91 - .95);

(ii) future salary and benefit levels (see paragraphs .96 - .100);

(iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments (see paragraphs .101 - .104); and

(iv) the expected rate of return on plan assets (see paragraphs .122 - .123).

.87 Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

.88 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

.89 An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyper-inflationary economy (see the Standard of GRAP on *Financial Reporting in Hyperinflationary Economies*), or where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.

.90 Financial assumptions shall be based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

Actuarial assumptions: Discount rate

.91 The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations.

.92 One actuarial assumption which has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

.93 The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

.94 The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is

no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available financial instrument.

.95 Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation. The present value of the obligation will differ from the liability recognised in the statement of financial position because the liability is recognised after deducting the fair value of any plan assets. [Appendix B illustrates the computation of interest cost, among other things.]

Actuarial assumptions: Salaries, benefits and medical costs

.96 Post-employment benefit obligations shall be measured on a basis that reflects:

(a) estimated future salary increases;

(b) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and

(c) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

(i) those changes were enacted before the reporting date; or

(ii) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

.97 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

.98 If the formal terms of a plan (or a constructive obligation that goes beyond those terms) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example:

(a) the entity has a past history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future; or

(b) actuarial gains have already been recognised in the financial statements and the entity is obliged, by either the formal terms of a plan (or a constructive obligation

that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph .110(c)).

.99 Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the reporting date. Such changes will result in:

(a) past service cost, to the extent that they change benefits for service before the change; and

(b) current service cost for periods after the change, to the extent that they change benefits for service after the change.

.100 Some post-employment benefits are linked to variables such as the level of benefit entitlements from social security pensions or state medical care. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence.

.101 Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

.102 Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.

.103 The level and frequency of claims is particularly sensitive to the age, health status and gender of employees (and their dependants) and may be sensitive to other factors such as geographical location. Therefore, historical data is adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the historical data. It is also adjusted where there is reliable evidence that historical trends will not continue.

.104 Some post-employment health care plans require employees to contribute to the medical costs covered by the plan. Estimates of future medical costs take account of any such contributions, based on the terms of the plan at the reporting date (or based on any constructive obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments. The cost of meeting claims may be reduced by benefits from state or other medical providers (see paragraphs .96(c) and .100).

Actuarial gains and losses

.105 In measuring its defined benefit liability in accordance with paragraph .64, an entity shall recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

.106 Actuarial gains and losses are recognised in full in the year that they occur in the statement of financial performance.

.107 Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses include, for example:

(a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(c) the effect of changes in the discount rate; and

(d) differences between the actual return on plan assets and the expected return on plan assets (see paragraphs .121 to .123).

Past service cost

.108 In measuring its defined benefit liability under paragraph .64, an entity shall, recognise past service cost as an expense in the reporting period in which the plan is amended.

.109 Past service cost arises when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan. Such changes are in return for employee service already rendered and, as a result, are recognised in the reporting period in which the plan is amended. The entity measures past service cost as the change in the liability resulting from the amendment (see paragraph .78). Negative past service cost arises when an entity changes the benefits attributable to past service so that the present value of the defined benefit obligation decreases.

.110 Past service cost excludes:

(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) under and over estimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (the resulting increase in the obligation is an actuarial loss and not past service cost, see paragraph .98(b));

(d) the increase in vested benefits when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered); and

(e) the effect of plan amendments that reduce benefits for future service (a curtailment).

.111 Where an entity reduces benefits payable under an existing defined benefit plan, the resulting reduction in the defined benefit liability is recognised as (negative) past service cost in the reporting period in which the plan is amended.

.112 Where an entity reduces certain benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

Recognition and measurement: Plan assets

Fair value of plan assets

.113 The fair value of any plan assets is deducted in determining the amount recognised in the statement of financial position under paragraph .64. When no market price is available, the fair value of plan assets is estimated; for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation).

.114 Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, payables and liabilities resulting from derivative financial instruments.

.115 Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations, as described in paragraph .64 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

.116 When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In all other respects, an entity shall treat that asset in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

.117 Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph .08, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph .116 does not apply (see paragraphs .48 - .51 and .115).

.118 When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph .116 deals with such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit liability recognised under paragraph .64; in all other respects, the entity treats that asset in the same way as plan assets. Paragraph .136(e)(ii) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

.119 If the right to reimbursement arises under an insurance policy or a legally binding agreement that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation, as described in paragraph .64 (subject to any reduction required if the reimbursement is not recoverable in full).

Return on plan assets

.120 The expected return on plan assets is one component of the expense recognised in the statement of financial performance. The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss; it is included with the actuarial gains and losses on the defined benefit obligation.

.121 The expected return on plan assets is based on market expectations, at the beginning of the reporting period, for returns over the entire life of the related obligation. The expected return on plan assets reflects changes in the fair value of plan assets held during the reporting period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

Example illustrating paragraph .121 : Return on plan assets

At 1 July 20X7, the fair value of plan assets was R10 000. On 31 December 20X7, the plan paid benefits of R1 900 and received contributions of R4 900. At 30 June 20X8, the fair value of plan assets was R15 000 and the present value of the defined benefit obligation was R14 792. Actuarial losses on the obligation for 20X8 were R60.

At 1 July 20X7, the reporting entity made the following estimates, based on market prices at that date:

	%
Interest and dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Administration costs	(1.00)
Expected rate of return	10.25

For 20X7, the expected and actual return on plan assets are as follows:	R
Return on R10 000 held for 12 months at 10.25%	1 025
Return on R3 000 held for six months at 5% (equivalent to 10.25% annually, compounded every six months)	150
Expected return on plan assets for 20X8	1 175
Fair value of plan assets at 30 June 20X8	15 000
Less fair value of plan assets at 1 July 20X7	(10 000)
Less contributions received	(4 900)

Add benefits paid	1 900
Actual return on plan assets	2 000

The difference between the expected return on plan assets (R1 175) and the actual return on plan assets (R2 000) is an actuarial gain of R825. This actuarial gain is recognised in the statement of financial performance for the year ended 30 June 20X8.

The expected return on plan assets for 20X9 will be based on market expectations at 1 July 20X9 for returns over the entire life of the obligation.

.122 In determining the expected and actual return on plan assets, an entity deducts expected administration costs, other than those included in the actuarial assumptions used to measure the obligation.

Entity combinations

.123 In determining the assets and liabilities to be recognised related to post-employment benefits in an entity combination, an entity considers the Standard of GRAP on *Entity Combinations.*

Curtailments and settlements

.124 An entity shall recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement shall comprise:

(a) any resulting change in the present value of the defined benefit obligation; and

(b) any resulting change in the fair value of the plan assets.

.125 Before determining the effect of a curtailment or settlement, an entity shall remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

.126 A curtailment occurs when an entity either:

(a) is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or

(b) amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case, an entity accounts for a curtailment at the same time as for a related restructuring.

.127 When a plan amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.

.128 A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.

.129 In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior reporting periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph .48) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs .116 - .119 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

.130 A settlement occurs together with a curtailment if a plan is terminated such that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a curtailment or settlement if the plan is replaced by a new plan that offers benefits that are, in substance, identical.

Example illustrating paragraph .130: Accounting for a curtailment without a settlement

An entity is required by legislation to discontinue the direct provision of waste collection and waste disposal services. Employees of this discontinued segment will earn no further benefits. This is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the entity has a defined benefit obligation with a net present value of R1 000 and plan assets with a fair value of R820. The curtailment reduces the net present value of the obligation by R100 to R900.

The effect of the curtailment is as follows:

	Before curtailment	Curtailment gain	After curtailment
	R	R	R
Net present value of obligation	1 000	(100)	900
Fair value of plan assets	(820)	-	(820)
Net liability recognised in the statement of financial position	180	(100)	80

Presentation

Offset

.131 An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:

(a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and

(b) intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

.132 The offsetting criteria are similar to those established for financial instruments in the Standard of GRAP on *Financial Instruments*.

Current/non-current distinction

.133 Some entities distinguish current assets and liabilities from non-current assets and liabilities. This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

Financial components of post-employment benefit costs

.134 This Standard does not specify whether an entity should present current service cost, past service cost, interest cost, expected return on plan assets and actuarial gains and losses as components of a single item of revenue or expense on the face of the statement of financial performance.

Disclosure

.135 An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the reporting period.

.136 An entity shall disclose the following information about defined benefit plans:

(a) A general description of the type of plan.

(b) A reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the reporting period attributable to each of the following:

(i) current service cost;

(ii) interest cost;

(iii) contributions by plan participants;

(iv) actuarial gains and losses;

(v) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency;

(vi) benefits paid;

(vii) past service cost;

(viii) entity combinations;

(ix) curtailments; and

(x) settlements.

(c) An analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.

(d) A reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph .116 showing separately, if applicable, the effects during the reporting period attributable to each of the following:

(i) expected return on plan assets;

(ii) actuarial gains and losses;

(iii) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency;

(iv) contributions by the employer;

(v) contributions by plan participants;

(vi) benefits paid;

(vii) entity combinations; and

(viii) settlements.

(e) A reconciliation of the present value of the defined benefit obligation in (b) and the fair value of the plan assets in (d) to the assets and liabilities recognised in the statement of financial position, showing at least:

(i) any amount not recognised as an asset, because of the limit in paragraph .68(b);

(ii) the fair value at the reporting date of any reimbursement right recognised as an asset in accordance with paragraph .116 (with a brief description of the link between the reimbursement right and the related obligation); and

(iii) the other amounts recognised in the statement of financial position.

(f) The total expense recognised in the statement of financial performance for each of the following, and the line item(s) in which they are included:

(i) current service cost;

(ii) interest cost;

(iii) expected return on plan assets;

(iv) expected return on any reimbursement right recognised as an asset in accordance with paragraph .116;

(v) actuarial gains and losses;

(vi) past service cost;

(vii) the effect of any curtailment or settlement; and

(viii) the total amount of the effect of the limit in paragraph .68(b).

(g) For each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.

(h) The amounts included in the fair value of plan assets for:

(i) each category of the entity's own financial instruments; and

(ii) any property occupied by, or other assets used by, the entity.

(i) A narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.

(j) The actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph .116.

(k) The principal actuarial assumptions used as at the reporting date, including, when applicable:

(i) the discount rates;

(ii) the basis on which the discount rate has been determined;

(iii) the expected rates of return on any plan assets for the reporting periods presented in the financial statements;

(iv) the expected rates of return for the reporting periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph .116;

(v) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);

(vi) medical cost trend rates; and

(vii) any other material actuarial assumptions used.

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

(l) The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:

(i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and

(ii) the accumulated post-employment benefit obligation for medical costs.

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment;

***(m)** The amounts for the current annual reporting period and previous four annual reporting periods of:*

  ***(i)** the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and*

  ***(ii)** the experience adjustments arising on:*

  - ***the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the reporting date; and***
  - ***the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the reporting date.***

(n) The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting date.

.137 Paragraph .136(a) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan includes informal practices that give rise to constructive obligations included in the measurement of the defined benefit obligation in accordance with paragraph .62. Further detail is not required.

.138 When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:

(a) the geographical location of the plans; or

(b) whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans.

When an entity provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

.139 Paragraph .31 requires additional disclosures about multi-employer defined benefit plans that are treated as if they were defined contribution plans.

.140 Where required by the Standard of GRAP on *Related Party Disclosures* an entity discloses information about:

(a) related party transactions with post-employment benefit plans; and

(b) post-employment benefits for key management personnel.

.141 Where required by the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long-term employee benefits

.142 Other long-term employee benefits may include, for example:

(a) long-term compensated absences such as long service or sabbatical leave;

(b) other long service benefits;

(c) long-term disability benefits;

(d) bonus, incentive and performance related payments payable twelve months or more after the end of the reporting period in which the employees render the related service;

(e) deferred compensation paid twelve months or more after the end of the reporting period in which it is earned; and

(f) compensation payable by the entity until an individual enters new employment.

.143 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. This Standard includes a rebuttable presumption 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 in accordance with paragraphs .57 to .141.

Recognition and measurement

.144 The amount recognised as a liability for other long-term employee benefits shall be the net total of the following amounts:

(a) the present value of the defined benefit obligation at the reporting date (see paragraph .77);

(b) minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs .113 - .115).

In measuring the liability, an entity shall apply paragraphs .57 - .123, excluding paragraphs .64 and .74. An entity shall apply paragraph .116 in recognising and measuring any reimbursement right.

.145 For other long-term employee benefits, an entity shall recognise the net total of the following amounts as expense or (subject to paragraph .68) revenue, except

to the extent that another Standard requires or permits their inclusion in the cost of an asset:

(a) current service cost (see paragraphs .77 - .104);

(b) interest cost (see paragraph .95);

(c) the expected return on any plan assets (see paragraphs .120 - .122) and on any reimbursement right recognised as an asset (see paragraph .116);

(d) actuarial gains and losses, which shall all be recognised immediately;

(e) past service cost, which shall all be recognised immediately; and

(f) the effect of any curtailments or settlements (see paragraphs .124 and .125).

.146 One form of other long-term employee benefits is long-term disability benefits. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability. Paragraph .143 highlights the possibility that long-term disability benefit payments may be subject to a higher degree of uncertainty than other long-term employee benefits.

Disclosure

.147 Although this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures; for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with the Standard of GRAP on *Presentation of Financial Statements*. When required by the Standard of GRAP on *Related Party Disclosures,* an entity discloses information about other long-term employee benefits for key management personnel.

Termination benefits

.148 This Standard deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

.149 An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:

(a) terminate the employment of an employee or group of employees before the normal retirement date; or

(b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

.150 An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan shall include, as a minimum:

(a) the location, function, and approximate number of employees whose services are to be terminated;

(b) the termination benefits for each job classification or function; and

(c) the time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.

.151 An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:

(a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and

(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

.152 Some employee benefits are payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Such benefits, which may be described as termination indemnities or termination gratuities, are post-employment benefits, rather than termination benefits and an entity accounts for them as post-employment benefits. Some entities provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination is a termination benefit.

.153 Termination benefits do not provide an entity with future economic benefits and are recognised as an expense immediately.

.154 Where an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits (see paragraph .124).

Measurement

.155 Where termination benefits fall due more than 12 months after the reporting date, they shall be discounted using the discount rate specified in paragraph .91.

.156 In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

Disclosure

.157 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets*, an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

.158 As required by the Standard of GRAP on *Presentation of Financial Statements*, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

.159 Where required by the Standard of GRAP on *Related Party Disclosures* an entity discloses information about termination benefits for key management personnel.

Transitional provisions

.160 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Effective date

.161 An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Appendix A: Consequential amendments to other Standards of GRAP

This appendix does not form part of the Standard. The purpose of the appendix is to highlight the consequential amendments to other Standards of GRAP as a result of the Standard of GRAP on Employee Benefits.

Amended text is shown with new text underlined and deleted text struck through.

Standard of GRAP on *Events After the Reporting Date*

A1. Amend paragraph .08(e) as follows:

(e) The determination of the amount of bonus, incentive and performance related ~~performance bonus~~ payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date (see the Standard of GRAP on *Employee Benefits*).

Standard of GRAP on *Heritage Assets*

A2. Amend paragraph .28 as follows:

.28 The cost of a ~~purchased~~ heritage asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by management. ~~Directly attributable expenditure includes, for example, costs initially incurred to acquire and assess the state of the heritage asset, costs to restore it, costs initially incurred to remove it or restore the site where it is located, professional fees, property transfer taxes, initial delivery and handling costs, installation and assembly costs, and other transaction costs.~~

A3. Add paragraph .28(a):

28A Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in the Standard of GRAP on *Employee Benefits*) which may arise, for example, from the initial assessment of the state of a heritage asset by museum staff when initially acquired along with any time spent on the restoration of an asset;

(b) costs incurred to remove the heritage asset or restore the site where it is located;

(c) professional fees;

(d) property transfer taxes;

(e) initial delivery and handling costs;

(f) installation and assembly costs; and

(g) other transaction costs.

Appendix B: Funded defined benefit plan

This appendix accompanies, but is not part of, the Standard of GRAP on Employee Benefits.

Extracts from statements of financial performance and statements of financial position are provided to show the effects of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Standards.

Background information

The following information is given about a funded defined benefit plan. To keep interest computations simple, all transactions are assumed to occur at the year-end. The present value of the obligation and the fair value of the plan assets were both R1,000 at 1 July 20X6.

	20X7	*20X8*	*20X9*
Discount rate at start of year	10.0%	9.0%	8.0%
Expected rate of return on plan assets at start of year	12.0%	11.1%	10.3%
	R	*R*	*R*
Current service cost	130	140	150
Benefits paid	150	180	190
Contributions paid	90	100	110
Present value of obligation at 30 June	1 141	1 197	1 295
Fair value of plan assets at 30 June	1 092	1 109	1 093
Expected average remaining working lives of employees (years)	10	10	10

In 20X8, the plan was amended to provide additional benefits with effect from 1 July 20X7. The present value as at 1 July 20X7 of additional benefits for employee service before 1 July 20X7 was R80.

Changes in the present value of the obligation and in the fair value of the plan assets

The first step is to summarise the changes in the present value of the obligation and in the fair value of the plan assets and use this to determine the amount of the actuarial gains or losses for the period. These are as follows:

	20X7	20X8	20X9
	R	R	R
Present value of obligation, 1 July	1 000	1 141	1 197
Interest cost	100	103	96
Current service cost	130	140	150
Past service cost	–	80	–
Benefits paid	(150)	(180)	(190)
Actuarial (gain) loss on obligation (balancing figure)	61	(87)	42
Present value of obligation, 30 June	1 141	1 197	1 295
Fair value of plan assets, 1 July	1 000	1 092	1 109
Expected return on plan assets	120	121	114
Contributions	90	100	110
Benefits paid	(150)	(180)	(190)
Actuarial gain (loss) on plan assets (balancing figure)	32	(24)	(50)
Fair value of plan assets, 30 June	1 092	1 109	1 093

Amounts recognised in the statement of financial position, statement of financial performance and related analyses

The final step is to determine the amounts to be recognised in the statement of financial position, the statement of financial performance and the related analyses to be disclosed in accordance with paragraph .136(e), (f) and (j) of the Standard (the analyses required to be disclosed in accordance with paragraph .136(b) and (d) are given in the appendix B, "Changes in the Present Value of the Obligation and in the Fair Value of the Plan Assets." These are as follows:

	20X7	*20X8*	*20X9*
	R	R	R
Present value of the obligation	1 141	1 197	1 295
Fair value of plan assets	(1 092)	(1 109)	(1 093)
Liability recognised in statement of financial position	**49**	**88**	**202**
Current service cost	130	140	150
Interest cost	100	103	96
Expected return on plan assets	(120)	(121)	(114)
Past service cost	–	80	-
Actuarial (gains) and losses	29	(63)	8
Expense recognised in statement of financial performance	**139**	**139**	**140**
Actual return on plan assets			
Expected return on plan assets	120	121	114
Actuarial gain (loss) on plan assets	32	(24)	(50)
Actual return on plan assets	152	97	64
Calculation of actuarial gains and losses			
Actuarial gain (loss) for year—obligation	(61)	87	42
Actuarial gain (loss) for year—plan assets	32	(24)	(50)
Actuarial gains (losses) recognised in the statement of financial performance	**(29)**	**63**	**(8)**

Appendix C: Illustrative disclosures

This appendix accompanies, but is not part of the Standard of GRAP on Employee Benefits. Extracts from notes show how the required disclosures may be aggregated in the case of an entity that provides a variety of employee benefits. These extracts do not necessarily conform with all the disclosure and presentation requirements of the Standard of GRAP on Employee Benefits and other Standards. In particular, they do not illustrate the disclosure of:

(a) A general description of the type of plan (paragraph .136(a)).

(b) A narrative description of the basis used to determine the overall expected rate of return on assets (paragraph .136(i)).

(c) Employee benefits granted to key management personnel (see the Standard of GRAP on Related Party Disclosures).

Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X8	*20X7*	*20X8*	*20X7*
	R	R	R	R
Present value of funded obligations	21 050	17 400	–	–
Fair value of plan assets	(18 420)	(17 280)	–	–
	2 630	120	–	–
Present value of unfunded obligations	2 000	1 000	7 337	6 405
Net liability	4 630	1 120	7 337	6 405

Amounts in the statement of financial position:

liabilities	4 630	1 120	7 337	6 405
assets	–	(90)	–	–
Net liability	4 630	1 030	7 337	6 405

The pension plan assets include ordinary shares issued by [name of reporting entity] with a fair value of R317 (20X7: R281). Plan assets also include property occupied by [name of reporting entity] with a fair value of R200 (20X7: R185).

The amounts recognised in surplus or deficit are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X8	*20X7*	*20X8*	*20X7*
	R	R	R	R
Current service cost	850	750	479	411
Interest on obligation	950	1 000	803	705
Expected return on plan assets	(900)	(650)	-	-
Past service cost	450	650	-	-
Actuarial (gains) and losses	2 950	(650)	250	400
Losses (gains) on curtailments and settlements	175	(390)	-	-
Total, included in 'employee benefits expense'	4 475	710	2 032	2 316
Actual return on plan assets	600	2 250	–	–

Calculation of actuarial gains and losses

	R	R	R	R
Actuarial (gains) and losses - Obligation	2 650	950		
Actuarial (gains) and losses - Plan assets	300	(1 600)	-	-
Total	2 950	(650)	250	400

Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X8	*20X7*	*20X8*	*20X7*
	R	R	R	R
Opening defined benefit obligation	18 400	10 950	6 405	5 439
Service cost	850	750	479	411
Past service cost	450	650		
Interest cost	950	1 000	803	705
Actuarial losses (gains)	2 650	950	250	400
Liabilities extinguished on curtailments	(500)	–		
Liabilities extinguished on settlements	–	(350)		
Liabilities assumed in an entity combination	–	5 000		
Exchange differences on foreign plans	900	(150)		
Benefits paid	(650)	(400)	(600)	(550)
Closing defined benefit obligation	23 050	18 400	7 337	6 405

Changes in the fair value of plan assets are as follows:

	Defined benefit pension plans	
	20X8	*20X7*
	R	R
Opening fair value of plan assets	17 280	9 200
Expected return	900	650
Actuarial gains (losses)	(300)	1 600
Assets distributed on settlements	(400)	–
Contributions by employer	700	350
Assets acquired in an entity combination	–	6 000
Exchange differences on foreign plans	890	(120)
Benefits paid	(650)	(400)
	18 420	17 280

The entity expects to contribute R900 to its defined benefit pension plans in 20X9.

The major categories of plan assets as a percentage of total plan assets are as follows:	*20X8*	*20X7*
South African equities	41%	45%
European equities	5%	5%
South African bonds	44%	40%
European bonds	5%	5%
Property	5%	5%

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	20X8	*20X7*
Discount rate at 30 June	5%	6.5%
Expected return on plan assets at 30 June	5.4%	7%
Future salary increases	5%	4%
Future pension increases	3%	2%
Proportion of employees opting for early retirement	30%	30%
Annual increase in healthcare costs	8%	8%
Future changes in maximum state healthcare benefits	3%	2%

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
	R	R
Effect on the aggregate of the service cost and interest cost	190	(150)
Effect on defined benefit obligation	1 000	(900)

Amounts for the current and previous four periods are as follows:

Defined benefit pension plans

	20X8	*20X7*	*20X6*	*20X5*	*20X4*
	R	R	R	R	R
Defined benefit obligation	(23 050)	(18 400)	(10 950)	(10 582)	(9 144)

Plan assets	18 420	17 280	9 200	8 502	10 000
Surplus (deficit)	(4 630)	(1 120)	(2 400)	(2 080)	856
Experience adjustments on plan liabilities	(1 111)	(768)	(69)	543	(642)
Experience adjustments on plan assets	(300)	1 600	(1 078)	(2 890)	2 777

Post-employment medical benefits

	20X8	*20X7*	*20X6*	*20X5*	*20X4*
	R	R	R	R	R
Defined benefit obligation	7 337	6 405	5 439	4 923	4 221
Experience adjustments on plan liabilities	(232)	829	490	(174)	(103)

The reporting entity also participates in a defined benefit plan for all municipalities in province X that provides pensions linked to final salaries and is funded on a pay-as-you-go basis. It is not practicable to determine the present value of the economic entity's obligation or the related current service cost as the plan computes its obligations on a basis that differs materially from the basis used in [name of reporting entity]'s financial statements. [describe basis] On that basis, the plan's financial statements to 30 June 20X6 show an unfunded liability of R27 525. The unfunded liability will result in future payments by participating employers. The plan has approximately 75 000 members, of whom approximately 5 000 are current or former employees of [name of reporting entity] or their dependants. The expense recognised in the statement of financial performance, which is equal to contributions due for the year, and is not included in the above amounts, was R230 (20X7: R215). The reporting entity's future contributions may be increased substantially if other entities withdraw from the plan.

Appendix D: Illustration of the effect of minimum funding requirements (paragraphs .71 to .73)

These examples accompany, but are not part of, the Standard of GRAP on Employee Benefits.

Example 1—Effect of the minimum funding requirement when there is a surplus and the minimum funding contributions payable are fully refundable to the entity

An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under the Standard) of 82 per cent in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to contribute R200 to Plan A immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. The year-end valuations for Plan A are set out below.

	R
Market value of assets	1 200
Present value of defined benefit obligation	(1 100)
Surplus	100
Defined benefit asset (before consideration of the minimum funding requirements)*	100

Application of requirements

Paragraph .72 requires the entity to recognise a liability to the extent that the contributions payable are not fully available. Payment of the contributions of R200 will increase the surplus from R100 to R300. Under the rules of the plan this amount will be fully refundable to the entity with no associated costs. Therefore, no liability is recognised for the obligation to pay the contributions.

Example 2—Effect of a minimum funding requirement when there is deficit and the minimum funding contributions payable would not be fully available

An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under the Standard) of 77 per cent in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to pay additional contributions of R300 to Plan B. The plan rules permit a maximum refund of 60 per cent of the surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the service cost. The year-end valuations for Plan B are set out below.

	R
Market value of assets	1 000
Present value of defined benefit obligation	(1 100)
Deficit	(100)
Defined benefit liability (before consideration of the minimum funding requirements)	100

Application of requirements

The payment of R300 would change the deficit of R100 to a surplus of R200. Of this R200, 60 per cent (R120) is refundable.

Therefore, of the contributions of R300, R100 eliminates the deficit and R120 (60 per cent of R200) is available as an economic benefit. The remaining R80 (40 per cent of R200) of the contributions paid is not available to the entity.

Paragraph .72 requires the entity to recognise a liability to the extent that the additional contributions payable are not available to it.

Therefore, the entity increases the defined benefit liability by R80. As required by paragraph .73, R80 is recognised immediately in accordance with the effect of the limit in paragraph .68 and the entity recognises a net liability of R180 in the statement of financial position. No other liability is recognised in respect of the statutory obligation to pay contributions of R300.

Summary

	R
Market value of assets	1 000
Present value of defined benefit obligation	(1 100)
Deficit	(100)
Defined benefit liability (before consideration of the minimum funding requirement)	100
Adjustment in respect of minimum funding requirement	(80)
Defined benefit liability (before consideration of the minimum funding requirements)	(180)

When the contributions of R300 are paid, the net asset recognised in the statement of financial position will be R120.

Basis for conclusions

This basis for conclusions accompanies, but does not form part of, the Standard of GRAP.

Recognition of actuarial gains and losses

Method of recognising actuarial gains and losses

BC1. International Public Sector Accounting Standard 25 (IPSAS 25) on *Employee Benefits* allows entities to recognise actuarial gains and losses using the following methods:

(a) By using a 10% corridor method (which is the minimum amount of actuarial gains and losses that should be recognised during a reporting period), which defers the recognition of actuarial gains and losses.

(b) Any other method that results in the faster recognition of actuarial gains and losses. Entities are given the option of recognising these gains and losses outside of surplus or deficit in the statement of changes in net assets/equity, in accordance with the requirements of IPSAS 1 on the *Presentation of Financial Statements.*

BC2. A Discussion Paper issued by the International Accounting Standards Board (IASB) during 2008 suggested that the deferral of actuarial gains and losses is inappropriate, and that actuarial gains and losses should be recognised in full in the year that they occur. The IASB proposed that full recognition of actuarial gains and losses is appropriate for the following reasons:

- It faithfully represents the entity's financial position.
- It results in amounts in the financial statements that are transparent and easy to understand.
- By eliminating alternative accounting treatment, comparability is enhanced.

Experience in practice has also indicated that the corridor method is difficult to apply.

BC3. In order to improve the understandability and comparability of financial statements in the public sector, the Board concluded that the Standard of GRAP on *Employee Benefits* should only allow the full recognition of actuarial gains and losses in the year that they occur.

Presentation of actuarial gains and losses

BC4. When the Board exposed a proposed Standard of GRAP on *Employee Benefits*, it required the recognition of actuarial gains and losses in the statement of changes in net assets, consistent with the principles in IPSAS 25. Some respondents commented on this proposed principle and noted that actuarial gains and losses should be recognised in a statement similar to the "statement of comprehensive income" in the IFRSs and not the statement of changes in net assets. In IAS 19 on *Employee Benefits*, where an entity chooses to recognise actuarial gains and losses in full in the year that they occur, it is permitted to recognise those gains and losses in the statement of comprehensive income.

BC5. As no equivalent statement of comprehensive income exists either in the Standard of GRAP on *Presentation of Financial Statements* or in the equivalent IPSAS, the Board considered what alternative presentation approaches existed in the public sector for actuarial gains and losses arising from defined benefit plans.

BC6. In assessing where actuarial gains and losses should be recognised for the purposes of the Standard of GRAP on *Employee Benefits*, the Board considered the nature of actuarial gains and losses in the context of the requirements in the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC7. In measuring the various components related to defined benefit obligations and plan assets, e.g. current service cost, interest cost and expected return on plan assets, an entity uses estimates. If actual events and circumstances differ from the original estimates used, actuarial gains and losses arise.

BC8. These actuarial gains and losses represent the revision of the estimates used by management in the initial recognition of the various revenue and expense components of defined benefit obligations and plan assets. Consequently, the Board considered whether actuarial gains and losses should be treated as a change in accounting estimate and recognised in the statement of financial performance in the year that they occur in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*. The Board agreed that recognising actuarial gains and losses in surplus or deficit is conceptually sound and issued a revised exposure draft on this basis for further consultation.

BC9. Respondents' views on the recognition and measurement of actuarial gains and losses in the statement of financial performance were divided.

The Board acknowledged that while neither the IPSASB nor the IASB require full recognition of actuarial gains and losses in surplus or deficit, it may be appropriate for the Board to prescribe full recognition of actuarial gains and losses in surplus or deficit for the following reasons:

- In developing a Standard of GRAP, the Board aims to eliminate alternative accounting treatments wherever possible. Requiring the recognition of actuarial gains and losses in surplus or deficit achieves this objective.
- In revising IAS 19, the IASB tentatively agreed to recognise actuarial gains and losses in profit or loss on the basis that these gains and losses represent a change in estimate. On this basis, the Board agreed that, even if it allowed recognition outside surplus or deficit, this approach may be a short-lived.
- The Board has minimised the recognition of gains and losses outside of surplus or deficit in other Standards of GRAP, for example, in the Standard of GRAP on *Financial Instruments,* on the basis that changes in the values of assets and liabilities should be recognised in surplus or deficit and presented in the statement of financial performance.

BC10. As a result of these factors, coupled with the Board's rationale that, conceptually, actuarial gains and losses are changes in estimates, it agreed that actuarial gains and losses should be recognised in full in the year in surplus or deficit in the year that they occur. While the Board acknowledged that actuarial gains and losses could be significant to an entity's reported results, it was not persuaded that this argument provides a conceptual basis for recognising actuarial gains and losses outside of surplus or deficit.

BC11. The Board also agreed that any amounts arising from application of the limits for the asset recognition ceiling and any liability, and changes in that liability, resulting from the effect of any minimum funding requirement, should also be recognised in the statement of financial performance.

Recognition of past service costs

BC12. Past service costs arise from amendments to the terms of defined benefit plans that result in increased or decreased benefits attributable to services already rendered by employees. IPSAS 25 requires past service costs to be recognised as follows:

- To the extent that the past service costs relate to vested benefits, these are recognised immediately; and

- To the extent that the past service costs relate to unvested benefits, these are recognised on a straight line basis until the benefits vest.

BC13. One of the Board's objectives in developing Standards of GRAP is to simplify the requirements of the Standards where appropriate. As a result, the Board is of the view that the accounting for past service costs could be simplified, which would also result in simplified requirements when calculating the asset recognition ceiling.

BC14. The Board considers past service costs to give rise to an increase (or decrease) in the present obligation relating to defined benefit plans, and that these increased (or decreased) benefits are as a result of services already rendered by employees. As a result, the Board agreed that past service costs should be recognised in surplus or deficit in the reporting period in which the plan is amended irrespective of whether vesting periods exist.

BC15. The fact that past service costs vest over a period of time indicate that an employee must be employed with the entity for a period of time to be entitled to those additional benefits, or affected by the reduced benefits. Past service costs accrue to employees as a result of past service provided and not services to be provided during the vesting period. Consequently, the existence of a vesting period affects the measurement of the defined benefit obligation rather than the recognition of increased (or decreased) benefits.

Comparison with International Public Sector Accounting Standard on *Employee Benefits* (January 2008)

The Standard of GRAP on *Employee Benefits* is drawn primarily from the International Public Sector Accounting Standard on *Employee Benefits* (IPSAS 25). The main differences between the Standard of GRAP on *Employee Benefits* and the IPSAS on *Employee Benefits* are as follows:

- This Standard includes amendments published by the IASB to IAS 19 in May 2008.
- Certain terminology changes were made, for example, 'bonuses and profit sharing payments' referred to in IPSAS 25 are called 'bonus, incentive and performance related payments' in the Standard of GRAP.
- References to a 'period' or 'accounting period' were amended to 'reporting period' where this clarified the requirements of the Standard.
- Examples included in the Application Guidance of IPSAS 25 have been incorporated into the text of the Standard (in line with IAS 19).
- Examples have been amended for South African circumstances.
- In certain instances, references to contractual agreements have been expanded to reflect the concept of a 'binding arrangement'.
- IPSAS 25 allows actuarial gains and losses to be recognised using either the 10% corridor method, or any other method that results in faster recognition of actuarial gains and losses. Where another basis is used, entities could recognise the resultant actuarial gains and losses outside of surplus or deficit. This Standard requires entities to recognise actuarial gains and losses in full in the year that they occur in surplus or deficit.
- IPSAS 25 prescribes that past service are recognised based on whether or not they are vested or unvested. This Standard prescribes that past service costs be recognised in surplus or deficit in the reporting period that the plan is amended.
- The Standard includes guidance from IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* on when a minimum funding requirement gives rise to a liability.
- IPSAS 25 allows entities within various jurisdictions to use the government bond rate, corporate bond rate or the rate of another instrument, to determine the discount

rate to be used for discounting defined benefit obligations. This Standard only refers to the government bond rate as this is the rate used in South Africa.

- Transitional provisions applicable to this Standard are prescribed in directives 2 to 4 issued by the Board, and are not included in the text of the Standard.