NATIONAL TREASURY

NO. 471 **28 May 2021**

PUBLIC FINANCE MANAGEMENT ACT, 1999

PROPOSED REGULATIONS ON ACCOUNTING STANDARDS – INVITATION TO COMMENT

1. Section 91 of the Public Finance Management Act, 1999 (Act No. 1 of 1999 – “the Act”), enables the Minister of Finance, after consulting the Auditor-General, to make regulations prescribing the standards set by the Board in terms of section 89 of the Act.

2. The Minister of Finance, acting in terms of section 91(1) of the Act, intends to make the regulation set out in the Schedule and the proposed implementation date is 1 April 2023.

3. Public comments on the intended regulations are, in terms of section 91(4) of the Act, invited and comments emailed to CommentDraftLegisation@treasury.gov.za within 30 days after the date of this notice will be considered.

SCHEDULE

ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

EMPLOYEE BENEFITS (GRAP 25)

Contents

Standard of Generally Recognised Accounting Practice

Employee Benefits

	Paragraphs
Objective	.01
Scope	.02 - .07
Definitions	.08 - .09
Short-term employee benefits	.10 - .26
Recognition and measurement	.12 - .25
All short-term employee benefits	.12 - .13
Short-term paid absences	.14 - .19
Bonus, incentive and performance related payments	.20 - .25
Disclosure	.26
Post-employment benefits: Distinction between defined contribution plans and defined benefit plans	.27 - .52
Multi-employer plans	.33 - .40
Defined benefit plans that share risks between entities under common control	.41 - .44
State plans	.45 - .48
Insured benefits	.49 - .52
Post-employment benefits: Defined contribution plans	.53 - .57
Recognition and measurement	.54 - .55
Disclosure	.56 - .57
Post-employment benefits: Defined benefit plans	.58 - .159
Recognition and measurement	.59 - .63
Accounting for the constructive obligation	.64 - .65
Statement of financial position	.66 - .71
Asset recognition ceiling: When a minimum funding requirement may give rise to a liability	.70 - .71
Recognition and measurement: Present value of defined benefit obligations and current service cost	.72 - .104
Actuarial valuation method	.73 - .75
Attributing benefit to periods of service	.76 - .80
Actuarial assumptions	.81 - .86
Actuarial assumptions: Mortality	.87 - .88
Actuarial assumptions: Discount rate	.89 - .92
Actuarial assumptions: Salaries, benefits and medical costs	.93 - .104
Past service cost and gains and losses on settlement	.105 - .119
Past service cost	.109 - .115
Gains and losses on settlement	.116 - .119
Recognition and measurement: Plan assets	.120 - .126
Fair value of plan assets	.120 - .122
Reimbursements	.123 - .126

Components of defined benefit cost	.127 - .138
Current service cost	.129
Net interest on the net defined benefit liability (asset)	.130 - .134
Remeasurements of the net defined benefit liability (asset)	.135 - .138
Presentation	.139 - .142
Offset	.139 - .140
Current/non-current distinction	.141
Components of defined benefit cost	.142
Disclosure	.143 - .159
Characteristics of defined benefit plans and risks associated with them	.147
Explanation of amounts in the financial statements	.148 - .151
Amount, timing and uncertainty of future cash flows	.152 - .154
Multi-employer plans	.155
Defined benefit plans that share risks between entities under common control	.156 - .157
Disclosure requirements in other Standards of GRAP	.158 - .159
Other long-term employee benefits	.160 - .167
Recognition and measurement	.163 - .165
Disclosure	.166 - .167
Termination benefits	.168 - .181
Recognition	.174 - .177
Measurement	.178 - .179
Disclosure	.180 - .181
Transitional provisions	.182
Initial adoption of the Standards of GRAP	.182
Effective date	.183
Initial adoption of the Standards of GRAP	.183
Withdrawal of the Standard of GRAP on Employee Benefits (2009)	.184
Appendix A - Consequential amendments to Standards of GRAP	
Basis for conclusions	
Comparison with the International Public Sector Accounting Standard on *Employee Benefits* (July 2016)	

Introduction

Standards of Generally Recognised Accounting Practice (GRAP)

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 (including national, provincial and government components);

(b) public entities;

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

(d) constitutional institutions;

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

(f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities” in Standards of GRAP.

The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board® for:

(a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities;* and

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

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

This Standard is set out in paragraphs .01 to .184. All paragraphs in this Standard 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, 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 .11 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. This 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), and to the initial recognition and initial measurement of assets and liabilities acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control), a transfer of functions between entities not under common control (see the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control) or a merger (see the Standard of GRAP on Mergers).

.03 This Standard does not deal with reporting by employee retirement benefit plans (see the International Accounting Standard® on *Accounting and Reporting by Retirement Benefit Plans*). This Standard does not deal with social benefits 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

(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 the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:

(i) wages, salaries and social security contributions;

(ii) paid annual leave and paid sick leave;

(iii) bonus, incentive and performance related payments; and

(iv) 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 the following:

(i) retirement benefits (e.g. pensions and lump sum payments on retirement); and

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

(c) other long-term employee benefits, such as the following:

(i) long-term paid absences such as long-service leave or sabbatical leave;

(ii) other long-service benefits; and

(iii) long-term disability benefits; and

(d) termination benefits.

.06 Employee benefits include benefits provided either to employees or to 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 management as defined in the Standard of GRAP on *Related Party Disclosures* (GRAP 20).

Definitions

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

Definitions of employee benefits

***Employee benefits** are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.*

***Short-term employee benefits** are employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.*

***Post-employment benefits** are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.*

***Other long-term employee benefits** are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.*

***Termination benefits** are employee benefits provided in exchange for the termination of an employee's employment 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 an offer of benefits in exchange for the termination of employment.

Definitions relating to classification of plans

*A **binding arrangement** is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.*

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

***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.*

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

***Multi-employer plans** are defined contribution plans (other than state plans) 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.

***State plans** are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.*

Definitions relating to the net defined benefit liability (asset)

*The **net defined benefit liability (asset)** is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.*

*The **deficit or surplus** is:*

(a) the present value of the defined benefit obligation; less

(b) the fair value of plan assets (if any); plus

(c) any liability that may arise as a result of a minimum funding requirement.

*The **asset ceiling** is 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 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.*

***Plan assets** comprise:*

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

(b) qualifying insurance policies.

Assets held by a long-term employee benefit fund ***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.

A qualifying insurance policy is an insurance policy[1] issued by an insurer that is not a related party (as defined in GRAP 20) 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

(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.

Definitions relating to defined benefit cost

Service cost comprises:

(a) current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;

(b) past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and

(c) any gain or loss on settlement.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

(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.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

(a) any costs of managing the plan assets; and

(b) any tax payable by the plan itself other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

[1] A qualifying insurance policy is not necessarily an insurance contract (see the International Financial Reporting Standard(s) (IFRS® Standard(s)) on insurance).

A settlement is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

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

Binding arrangements

.09 Binding arrangements can be evidenced in several ways:

(a) a contract concluded between the parties;

(b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or

(c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Short-term employee benefits

.10 Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:

(a) wages, salaries and social security contributions;

(b) paid annual leave and paid sick leave;

(c) bonus, incentive and performance related payments; and

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

.11 An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and measurement

All short-term employee benefits

.12 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.

(b) As an expense, unless another Standard of GRAP requires or permits the inclusion of the benefits in the cost of an asset (see, for example, the Standards of GRAP on Inventories (GRAP 12), Property, Plant and Equipment (GRAP 17), Intangible Assets (GRAP 31) and Heritage Assets (GRAP 103)).

.13 Paragraphs .14, .17 and .20 explain how an entity shall apply this requirement to short-term employee benefits in the form of paid absences and bonus, incentive and performance related payments.

Short-term paid absences

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

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

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

.15 An entity may pay employees for absence for various reasons including holidays, sickness and short-term disability, and maternity or paternity. Entitlement to paid absences falls into two categories:

(a) accumulating; and

(b) non-accumulating.

.16 Accumulating paid 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 paid 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 paid absences. The obligation exists, and is recognised, even if the paid 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.

.17 ***An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.***

.18 The method specified in paragraph .17 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 paid 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.

.19 Non-accumulating paid 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

.20 ***An entity shall recognise the expected cost of bonus, incentive and performance related payments under paragraph .12 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.

.21 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 end of the reporting period. 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 .23 provides further conditions that are to be satisfied before an entity can recognise the expected cost of incentive and performance related payments.

.22 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.

.23 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.

.24 An obligation under bonus, incentive and performance related plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognises the cost of bonus, incentive and performance related plans not as a distribution of surplus but as an expense.

.25 If bonus, incentive and performance related payments are not expected to be settled wholly before 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 .160 to .167).

Example illustrating paragraphs .20 to .25: 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; and
- 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

.26 Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, GRAP 20 requires disclosures of the aggregate remuneration of management and the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1) requires the disclosure of information about employee benefits expense.

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

.27 Post-employment benefits include items such as the following:

(a) retirement benefits (e.g. pensions and lump sum payments on retirement); 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.

.28 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.

.29 Under defined contribution plans 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. 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 in substance on the employee.

.30 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 and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

(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.

.31 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.

.32 Paragraphs .33 to .52 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans and insured benefits.

Multi-employer plans

.33 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).

.34 If an entity participates in a multi-employer defined benefit plan, unless paragraph .35 applies, 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 paragraphs .136 to .155 (excluding paragraph .155(d)).

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

(a) account for the plan in accordance with paragraphs .54 and .55 as if it were a defined contribution plan; and

(b) disclose the information required by paragraph .155.

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

(a) the plan is financed on a pay-as-you-go basis: contributions 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 end of the reporting period 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.

.37 Where sufficient information is available about a multi-employer 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, 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 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; or

(b) the entity does not have access to sufficient information about the plan that satisfies the requirements of this Standard.

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 .155.

.38 There may be a contractual arrangement or similar binding arrangement or stated policy between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (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 .35 shall recognise the asset or liability that arises from the contractual arrangement or similar binding arrangement or stated policy and the resulting revenue or expense in surplus or deficit.

Example illustrating paragraph .38: Accounting for a multi-employer plan
Along with other municipalities 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.*

.39 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).

.40 In determining when to recognise, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (GRAP 19).

Defined benefit plans that share risks between entities under common control

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

.42 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 arrangement or similar 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.

.43 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 arrangement or similar binding arrangement or stated policy, as specified in paragraph .42, 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 .155.

.44 ***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, disclose the information required by paragraph .155.***

State plans

.45 ***An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs .33 and .40).***

.46 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. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.

.47 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.

.48 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.

Insured benefits

.49 ***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 either to:***

(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.

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

.51 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 .123).

.52 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

.53 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 are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

Recognition and measurement

.54 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 end of the reporting period, 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, GRAP 12, GRAP 17, GRAP 31 and GRAP 103).

.55 When contributions to a defined contribution plan are not expected to be settled wholly before 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 .89.

Disclosure

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

.57 Where required by GRAP 20 an entity discloses information about contributions to defined contribution plans for management.

Post-employment benefits: Defined benefit plans

.58 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

.59 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. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the reporting period.

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

(a) Determining the deficit or surplus. This involves:

(i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs .73 to .75). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs .76 to .80) 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 affect the cost of the benefit (see paragraphs .81 to .104);

(ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs .73 to .75 and .89 to .92); and

(iii) deducting the fair value of any plan assets (see paragraphs .120 to .122) from the present value of the defined benefit obligation.

(b) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph .67).

(c) Determining amounts to be recognised in surplus or deficit:

(i) Current service cost (see paragraphs .76 to .80 and paragraph .129).

(ii) Any past service cost and gain or loss on settlement (see paragraphs .105 to .119).

(iii) Net interest on the net defined benefit liability (asset) (see paragraphs .130 to .134).

(d) Determining the remeasurements of the net defined benefit liability (asset), to be recognised in surplus or deficit, comprising:

(i) actuarial gains and losses (see paragraphs .136 and .137);

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph .138); and

(iii) any change in the effect of the asset ceiling (see paragraph .67), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

.61 An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

.62 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 end of the reporting period. 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 end of the reporting period.

.63 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

.64 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.

.65 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 terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of financial position

.66 An entity shall recognise the net defined benefit liability (asset) in the statement of financial position.

.67 When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

(a) the surplus in the defined benefit plan; and

(b) the asset ceiling, determined using the discount rate specified in paragraph .89.

.68 Any adjustments arising from the limit in paragraph .67(b) shall be recognised in surplus or deficit.

.69 A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognises a net defined benefit 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. The asset ceiling is the present value of those future benefits.

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

.70 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.

.71 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 .67 when the contributions are paid.

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

.72 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. 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 .73 to .75);

(b) attribute benefit to periods of service (see paragraphs .76 to .80); and

(c) make actuarial assumptions (see paragraphs .81 to .104).

Actuarial valuation method

.73 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.

.74 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 .76 to .80) and measures each unit separately to build up the final obligation (see paragraphs .81 to .104).

Example illustrating paragraph .74: 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.

.75 An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing benefit to periods of service

.76 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

CONTINUES ON PAGE 770 OF BOOK 7

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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.

.77 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 .77: 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 end of the reporting period.* *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 end of the reporting period.* 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 end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.*

.78 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 the end of each successive reporting period, 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 some 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 .78: 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.*

.79 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 .79: 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 .79. 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.

.80 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 end of the reporting period, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph .76(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 .80: 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

.81 Actuarial assumptions shall be unbiased and mutually compatible.

.82 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 (see paragraphs .87 to .88);

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

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

(iv) the proportion of plan members who will select each form of payment option available under the plan terms; and

(v) claim rates under medical plans.

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

(i) the discount rate (see paragraphs .89 to .92);

(ii) benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs .93 to .101);

(iii) in the case of medical benefits, future medical costs, including claim handling costs (i.e. the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs .102 to .104); and

(iv) taxes payable by the plan on contributions relating to service before the end of the reporting period or on benefits resulting from that service.

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

.84 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase and discount rates. For example, all assumptions that 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.

.85 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.

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

Actuarial assumptions: Mortality

.87 An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.

.88 In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial assumptions: Discount rate

.89 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.

.90 One actuarial assumption that 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.

.91 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.

.92 The discount rate that reflects the time value of money is best approximated by reference to market yields at the end of the reporting period 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.

Actuarial assumptions: Salaries, benefits and medical costs

.93 An entity shall measure its defined benefit obligations on a basis that reflects:

(a) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;

(b) any estimated future salary increases that affect the benefits payable;

(c) the effect of any limit on the employer's share of the cost of the future benefits;

(d) contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and

(e) 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 end of the reporting period; or

(ii) historical data, 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.

.94 Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. 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;

(b) 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 .115(c)); or

(c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

.95 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 end of the reporting period. 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.

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

.97 Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

(a) the estimated life of the entity; and

(b) the estimated life of the plan.

.98 Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph .123. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

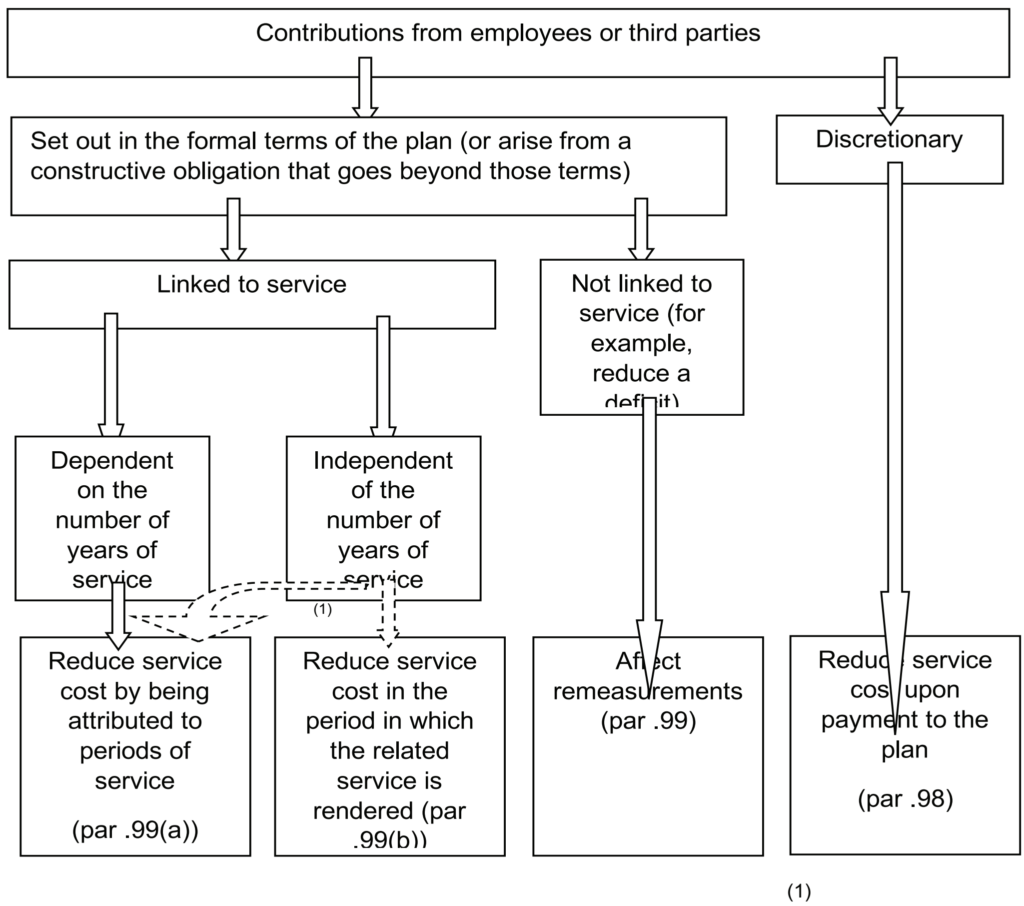
.99 Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:

(a) if the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method required by paragraph .76 for the gross benefit (i.e. either using the plan's contribution formula or on a straight-line basis); or

(b) if the amount of the contributions is independent of the number of years of service, the entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

Example Illustrating paragraphs .98 and .99: Contributions from employees or third parties

The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



(1) This dotted arrow means that an entity is permitted to choose either accounting.

.100 For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph .99(a), changes in the contributions result in:

(a) current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a constructive obligation); or

(b) actuarial gains and losses (if those changes are set out in the formal terms of a plan, or arise from a constructive obligation).

.101 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 the best estimate of such variables, based on historical data and other reliable evidence.

.102 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.

.103 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.

.104 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 are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. It is also adjusted where there is reliable evidence that historical trends will not continue.

Past service cost and gains and losses on settlement

.105 When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices), reflecting:

(a) the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and

(b) the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.

.106 An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognises past service cost before any gain or loss on settlement.

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

.108 When a plan amendment, curtailment or settlement occurs, an entity shall recognise and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs .105 to .107 and paragraphs .109 to .119. In doing so, an entity shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognise any change in that effect in accordance with paragraph .60(d).

Past service cost

.109 Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

.110 An entity shall recognise past service cost as an expense at the earlier of the following dates:

(a) when the plan amendment or curtailment occurs; and

(b) when the entity recognises related restructuring costs (see GRAP 19) or termination benefits (see paragraph .173).

.111 A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

.112 A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. 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.

.113 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 benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

.114 Where an entity reduces 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.

.115 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) underestimates and overestimates 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 or from the return on plan assets 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 (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph .94(b)); and

(d) the increase in vested benefits (i.e. benefits that are not conditional on future employment, see paragraph .78) 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).

Gains and losses on settlement

.116 The gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

.117 An entity shall recognise a gain or loss on the settlement of a defined benefit plan when the settlement occurs.

.118 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 (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a once-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump-sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

.119 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 .49) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs .123 to .126 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and measurement: Plan assets

Fair value of plan assets

.120 The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.

.121 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.

.122 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 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

.123 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:

(a) Recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.

(b) Disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs .132 and .134). The components of defined benefit cost recognised in accordance with paragraph .127 may be recognised net of amounts relating to changes in the carrying amount of the right to-reimbursement.

.124 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 .123 is not relevant (see paragraphs .49 to .52 and .122).

.125 When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph .123 is relevant to 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 deficit or surplus. Paragraph .148(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

.126 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 (subject to any reduction required if the reimbursement is not recoverable in full).

Components of defined benefit cost

.127 An entity shall recognise the components of defined benefit cost in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset, as follows:

(a) service cost (see paragraphs .72 to .119 and .129);

(b) net interest on the net defined benefit liability (asset) (see paragraphs .130 to .134); and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs .135 to .138).

.128 Other Standards of GRAP require the inclusion of some employee benefit costs within the cost of assets (see, for example, GRAP 12, GRAP 17, GRAP 31 and GRAP 103). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph .127.

Current service cost

.129 An entity shall determine current service cost using actuarial assumptions determined at the start of the reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph .105, it shall determine current service cost for the remainder of the reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph .105(b).

Net interest on the net defined benefit liability (asset)

.130 An entity shall determine net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph .89.

.131 To determine net interest in accordance with paragraph .130, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph .105, the entity shall determine net interest for the remainder of the reporting period after the plan amendment, curtailment or settlement using:

(a) the net defined benefit liability (asset) determined in accordance with paragraph .105(b); and

(b) the discount rate used to remeasure the net defined benefit liability (asset) in accordance with paragraph .105(b).

In applying this paragraph, the entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.

.132 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph .67.

.133 Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph .131. An entity shall determine the fair value of the plan assets at the start of the reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph .105, the entity shall determine interest revenue for the remainder of the reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph .105(b). In applying this paragraph, the entity shall also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

.134 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph .131. An entity shall determine the effect of the asset ceiling at the start of the reporting period. However, if an entity remeasures the net defined benefit liability (asset) in accordance with paragraph .105, the entity shall determine interest on the effect of the asset ceiling for the remainder of the reporting period after the plan amendment, curtailment or settlement taking into account any change in the effect of the asset ceiling determined in accordance with paragraph .108. The difference between interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset)

.135 Remeasurements of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses (see paragraphs .136 and .137);

(b) the return on plan assets (see paragraph .138), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph .133); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph .134).

.136 Actuarial gains and losses result from increases or decreases in the present value of a defined benefit obligation because of changes in actuarial assumptions and experience adjustments. 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 to assumptions concerning benefit payment options;

(c) 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; and

(d) the effect of changes in the discount rate.

.137 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

.138 In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph .82). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

.139 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.

.140 The offsetting criteria are similar to those established for financial instruments in the Standard of GRAP on *Financial Instruments* (GRAP 104).

Current/non-current distinction

.141 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.

Components of defined benefit cost

.142 Paragraph .127 requires an entity to recognise service cost, net interest on the net defined benefit liability (asset) and remeasurements in surplus or deficit. This Standard does not specify how an entity should present service cost, net interest on the net defined benefit liability (asset) and remeasurements. An entity presents those components in accordance with GRAP 1.

Disclosure

.143 An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph .147);

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs .148 to .151); and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs .152 to .154).

.144 To meet the objectives in paragraph .143, an entity shall consider all the following:

(a) the level of detail necessary to satisfy the disclosure requirements;

(b) how much emphasis to place on each of the various requirements;

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

.145 If the disclosures provided in accordance with the requirements in this Standard and other Standards of GRAP are insufficient to meet the objectives in paragraph .143, an entity shall disclose additional information necessary to meet those objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) Between amounts owing to active members, deferred members, and pensioners.

(b) Between vested benefits and accrued but not vested benefits.

(c) Between conditional benefits, amounts attributable to future salary increases and other benefits.

.146 An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:

(a) Different geographical locations.

(b) Different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.

(c) Different regulatory environments.

(d) Different reporting segments.

(e) Different funding arrangements (e.g. wholly unfunded, wholly or partly funded).

Characteristics of defined benefit plans and risks associated with them

.147 An entity shall disclose:

(a) Information about the characteristics of its defined benefit plans, including:

(i) The nature of the benefits provided by the plan (e.g. final salary defined benefit plan or contribution-based plan with guarantee).

(ii) A description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph .67).

(iii) A description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of management of the plan.

(b) A description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g. property, the plan may expose the entity to a concentration of property market risk.

(c) A description of any plan amendments, curtailments and settlements.

(d) The basis on which the discount rate has been determined.

Explanation of amounts in the financial statements

.148 An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) The net defined benefit liability (asset), showing separate reconciliations for:

(i) Plan assets.

(ii) The present value of the defined benefit obligation.

(iii) The effect of the asset ceiling.

(b) Any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

.149 Each reconciliation listed in paragraph .148 shall show each of the following, if applicable:

(a) Current service cost.

(b) Interest revenue or expense.

(c) Remeasurements of the net defined benefit liability (asset), showing separately:

(i) The return on plan assets, excluding amounts included in interest in (b).

(ii) Actuarial gains and losses arising from changes in demographic assumptions (see paragraph .82(a)).

(iii) Actuarial gains and losses arising from changes in financial assumptions (see paragraph .82(b)).

(iv) Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.

(d) Past service cost and gains and losses arising from settlements. As permitted by paragraph .106, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.

(e) The effect of changes in foreign exchange rates.

(f) Contributions to the plan, showing separately those by the employer and by plan participants.

(g) Payments from the plan, showing separately the amount paid in respect of any settlements.

(h) The effects of transfers of functions, mergers and disposals.

.150 An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not. For example, and considering the level of disclosure discussed in paragraph .144, an entity could distinguish between:

(a) cash and cash equivalents;

(b) equity instruments (segregated by industry type, company size, geography etc.);

(c) debt instruments (segregated by type of issuer, credit quality, geography etc.);

(d) property (segregated by geography etc.); and

(e) all other assets.

.151 An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph .86). Such disclosure shall be in absolute terms (e.g. as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows

.152 An entity shall disclose:

(a) A sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph .151) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.

(b) The methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

(c) Changes from the previous reporting period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

.153 An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

.154 To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

(a) A description of any funding arrangements and funding policy that affect future contributions.

(b) The expected contributions to the plan for the next reporting period.

(c) Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-employer plans

.155 If an entity participates in a multi-employer defined benefit plan, it shall disclose:

(a) A description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

(b) A description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

(c) A description of any agreed allocation of a deficit or surplus on:

(i) wind-up of the plan; or

(ii) the entity's withdrawal from the plan.

(d) If the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph .35, it shall disclose the following, in addition to the information required by (a) to (c) and instead of the information required by paragraphs .147 to .154:

(i) The fact that the plan is a defined benefit plan.

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

(iii) The expected contributions to the plan for the next reporting period.

(iv) Information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

(v) ***An indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.***

Defined benefit plans that share risks between entities under common control

.156 If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

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

(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 as noted in paragraph .42, all the information about the plan as a whole required by paragraphs .143 to .154.

(d) If the entity accounts for the contribution payable for the period as noted in paragraph .42, the information about the plan as a whole required by paragraphs .143 to .145, .147, .150 to .151 and .154(a) and (b).

.157 The information required by paragraph .156(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

(a) that group entity's financial statements separately identify and disclose the information required about the plan; and

(b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure requirements in other Standards of GRAP

.158 Where required by GRAP 20 an entity discloses information about:

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

(b) post-employment benefits for management.

.159 Where required by GRAP 19 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long-term employee benefits

.160 Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service:

(a) long-term paid 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;

(e) deferred remuneration; and

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

.161 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. For this reason, this Standard requires a simplified method of accounting for other long-term employee benefits.

.162 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 .58 to .159.

Recognition and measurement

.163 In recognising and measuring the surplus or deficit in another long-term employee benefit plan, an entity shall apply paragraphs .59 to .104 and .120 to .122. An entity shall apply paragraphs .123 to .126 in recognising and measuring any reimbursement right.

.164 For other long-term employee benefits, 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) service cost (see paragraphs .72 to .119 and .129);

(b) net interest on the net defined benefit liability (asset) (see paragraphs .130 to .134); and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs .135 to .138).

.165 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.

Disclosure

.166 An entity shall disclose information that:

(a) explains the characteristics of its other long-term employee benefits and risks associated with them;

(b) identifies and explains the amounts in its financial statements arising from its other long-term employee benefits; and

(c) describes how its other long-term employee benefits may affect the amount, timing and uncertainty of the entity's future cash flows.

.167 This Standard does not require specific information to be disclosed to meet the objectives outlined in paragraph .166. An entity should consider whether the disclosure requirements in other Standards of GRAP contribute towards meeting these objectives. These include:

- GRAP 20 requires disclosures about employee benefits, which includes other long-terms benefits for management.
- GRAP 1 requires disclosure of employee benefits expense and key sources of estimation uncertainty.
- GRAP 19 requires disclosures about provisions and contingent liabilities.

If the disclosures provided in accordance with the requirements in other Standards of GRAP are insufficient to meet the objectives in paragraph .166, an entity shall disclose additional information necessary to meet those objectives.

Termination benefits

.168 This Standard deals with termination benefits separately from other employee benefits because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

.169 Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

.170 The form of the employee benefit does not determine whether it is provided in exchange for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

(a) Enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.

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

.171 Indicators that an employee benefit is provided in exchange for services include the following:

(a) The benefit is conditional on future service being provided (including benefits that increase if further service is provided).

(b) The benefit is provided in accordance with the terms of an employee benefit plan.

.172 Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.

.173 Some employee benefits are provided 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. Although such benefits are described as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits.

Recognition

.174 An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of GRAP 19 and involves the payment of termination benefits.

.175 For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) when the employee accepts the offer; and

(b) when a restriction (e.g. a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

.176 For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

(b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.

(c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

.177 When an entity recognises termination benefits, the entity may also have to account for a plan amendment or a curtailment of retirement benefits or other employee benefits (see paragraph .110).

Measurement

.178 An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

(a) If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.

(b) If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the entity shall apply the requirements for other long-term employee benefits.

.179 Because termination benefits are not provided in exchange for service, paragraphs .76 to .80 relating to the attribution of the benefit to periods of service are not relevant.

Example illustrating paragraphs .168 to .179: Termination benefits

Background

As a result of a recent change in legislation, an entity plans to stop a vaccination programme in 10 months and, at that time, terminate the employment of all of the remaining employees in the programme. Because the entity needs the expertise of the employees in the programme to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the programme will receive on the termination date a cash payment of R30 000. Employees leaving before closure of the programme will receive R10 000.

There are 120 employees in the programme. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are R3 200 000 (i.e. 20 × R10 000 + 100 × R30 000). As required by paragraph .168, the entity accounts for benefits provided for termination of employment as termination benefits and accounts for benefits provided for services as short-term employee benefits.

Termination benefits

The benefit provided for termination of employment is R10 000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the programme or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to stop the programme and terminate their employment (i.e. all employees will leave employment when the programme stops). Therefore the entity recognises a liability of R1 200 000 (i.e. 120 × R10 000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the programme.

Benefits provided for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the reporting period. In this example, discounting is not required, so an expense of R200 000 (i.e. R2 000 000 ÷ 10) is recognised in each month during the service period of 10 months, with a corresponding increase in the carrying amount of the liability.

Disclosure

.180 An entity shall disclose information that:

(a) explains the characteristics of its termination benefits and risks associated with them;

(b) identifies and explains the amounts in its financial statements arising from its termination benefits; and

(c) describes how its termination benefits may affect the amount, timing and uncertainty of the entity's future cash flows.

.181 This Standard does not require specific information to be disclosed to meet the objectives outlined in paragraph .180. An entity should consider whether the disclosure requirements in other Standards of GRAP contribute towards meeting these objectives. These include:

- GRAP 20 requires disclosures about employee benefits, which includes termination benefits for management.
- GRAP 1 requires disclosure of employee benefits expense and key sources of estimation uncertainty.
- GRAP 19 requires disclosures about provisions and contingent liabilities.

If the disclosures provided in accordance with the requirements in other Standards of GRAP are insufficient to meet the objectives in paragraph .180, an entity shall disclose additional information necessary to meet those objectives.

Transitional provisions

Initial adoption of the Standards of GRAP

.182 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

Initial adoption of the Standards of GRAP

.183 An entity shall apply this Standard 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. If an entity elects to apply this Standard earlier, it shall disclose this fact.

Withdrawal of the Standard of GRAP on *Employee Benefits* (2009)

.184 This Standard supersedes the Standard of GRAP on *Employee Benefits* issued in 2009.

Appendix A - Consequential amendments to Standards of GRAP

The purpose of this appendix is to identify the consequential amendments to other Standards of GRAP resulting from the issue of this Standard. Amended text is shown with new text underlined and deleted text struck through.

A1. GRAP 35 *Consolidated Financial Statements*

Amend the following paragraphs in GRAP 35:

Appendix A - Application guidance

Relevant activities and direction of relevant activities

AG14. Examples of decisions about relevant activities include but are not limited to:

(a) establishing operating and capital decisions of an entity, including budgets; and

(b) appointing and remunerating an entity's ~~key~~ management ~~personnel~~ or service providers and terminating their services or employment.

AG17. Examples of rights that, either individually or in combination, can give an entity power include but are not limited to:

(a) …;

(b) …;

(c) rights to appoint, reassign or remove members of another entity's ~~key~~ management ~~personnel~~ who have the ability to direct the relevant activities;

AG20. In some circumstances it may be difficult to determine whether an entity's rights are sufficient to give it power over another entity. In such cases, to enable the assessment of power to be made the entity shall consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Consideration is given, but is not limited, to the following, which, when considered together with its rights and the indicators in paragraphs AG21. and AG22., may provide evidence that the entity's rights are sufficient to give it power over the other entity:

(a) the entity can appoint or approve the other entity's ~~key~~ management ~~personnel~~ who have the ability to direct the relevant activities;

(b) …;

(c) …;

(d) the other entity's ~~key~~ management ~~personnel~~ are related parties of the entity (for example, the chief executive officer of the other entity and the chief executive officer of the entity are the same person); or …

AG21. Sometimes there will be indications that the entity has a special relationship with the other entity, which suggests that the entity has more than a passive interest in the other entity. The existence of any individual indicator, or a particular combination of indicators, does not necessarily mean that the power criterion is met. However, if an entity has more than a passive interest in another entity this may indicate that the entity has other related rights sufficient to give it power or provide evidence of existing power over another entity. For example, the following suggests that the entity has more than a passive interest in the other entity and, in combination with other rights, may indicate power:

(a) The relationship between the entity and the other entity's operations is one of dependence, such as in the following situations:

(i) …

(ii) …

(iii) …

(iv) …

(v) The entity provides ~~key~~ management ~~personnel~~ to the other entity (for example, when the entity's personnel have specialised knowledge of the other entity's operations) and the other entity depends on this.

Relationship with other parties

AG77. The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the entity:

(a) …

(b) …

(c) …

(d) …

(e) Another entity for which the majority of the members of its board of directors or equivalent governing body or for which its ~~key~~ management ~~personnel~~ are the same as those of the entity.

Fair value measurement

AG104.An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its controlled entities or using the equity method for its interests in associates or joint ventures. In order to demonstrate that it meets this element of the definition, an investment entity:

(a) …; and

(b) reports fair value information internally to the entity's ~~key~~ management ~~personnel~~ (as defined in the Standard of GRAP on *Related Party Disclosures*), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

Appendix D - Illustrative examples

Example 26

…

The municipality has a mix of rights over the trust including rights to:

(a) appoint, reassign or remove members of the trust's ~~key~~ management ~~personnel~~ who have the ability to direct the relevant activities;

…

Example 39

Real Estate Entity was formed to develop, own and operate retail, office and other commercial properties. Real Estate Entity typically holds its property in separate wholly-owned controlled entities, which have no other substantial assets or liabilities other than borrowings used to finance the related investment property. Real Estate Entity and each of its controlled entities report their investment properties at fair value in accordance with GRAP 16. Real Estate Entity does not have a set time frame for disposing of its property investments, but uses fair value to help identify the optimal time for disposal. Although fair value is one performance indicator, Real Estate Entity and its investors use other measures, including information about expected cash flows, rental revenues and expenses, to assess performance and to make investment decisions. The ~~key~~ management ~~personnel~~ of Real Estate Entity do not consider fair value information to be the primary measurement attribute to evaluate the performance of its investments but rather a part of a group of equally relevant key performance indicators.

…

A2. GRAP 104 *Financial Instruments*

Amend the following paragraphs in GRAP 104:

Quantitative disclosures (see Appendix A paragraphs AG159. to AG180.)

.126 For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to ~~key~~ management ~~personnel~~ of the entity (as defined in the Standard of GRAP on Related Party Disclosures), for example the entity's board of directors, governing body or senior management;

(b) ...

Effective date

Entities already applying Standards of GRAP

.137C Paragraph .126(a) was amended by the Standard of GRAP on Employee Benefits issued April 2021. An entity shall apply this amendment retrospectively for annual financial periods beginning on or after 1 April 2023. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Appendix A - Application guidance

Quantitative disclosures (paragraph .126)

AG159.Paragraph .126(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to ~~key~~ management ~~personnel~~ of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and reliable information. GRAP 3 discusses relevance and reliability.

Quantitative liquidity disclosures (paragraphs .131(a) and (b))

AG163. In accordance with paragraph .126(a) an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to ~~key~~ management ~~personnel~~. An entity shall explain how those data are determined. If the outflows of cash (or another financial asset) included in those data could either:

…

A3. DIRECTIVE 2 ***Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Public Technical and Vocational Education and Training Colleges, and Constitutional Institutions***

Amend and delete the following paragraphs in Directive 2:

GRAP 25 ***Employee Benefits***

Transitional provisions

All employee benefits

.53 All changes resulting from the application of the Standard of GRAP on Employee Benefits (GRAP 25) shall be accounted for <u>retrospectively</u> in accordance with the requirements of GRAP 3<u>, except that:</u>~~.~~

(a) <u>An entity need not adjust the carrying amount of assets outside the scope of GRAP 25 for changes in employee benefit costs that were included in the carrying amount before the date of initial adoption. The date of initial adoption is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts GRAP 25.</u>

(b) <u>An entity need not present comparative information for the disclosures required by paragraph .147 about the sensitivity of the defined benefit obligation.</u>

~~.54 When an entity initially adopts a Standard of GRAP, GRAP 3 requires an entity to apply the requirements of the Standard being adopted retrospectively.~~

~~Defined benefit plans~~

~~.55 On the initial adoption of GRAP 25, an entity shall determine the net liability (asset) for defined benefit plans at that date as:~~

~~(a) the present value of the obligations (see paragraphs .76 to .112 of the Standard) at the date of adoption;~~

~~(b) minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs .113 to .122 of the Standard);~~

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

~~.56 If the amount determined for defined benefit plans on initial adoption of GRAP 25 is negative (an asset), the amount shall be measured using the asset recognition ceiling in paragraphs .68 to .70 of the Standard.~~

~~.57 The net liability (asset) recognised at the date of adoption in accordance with paragraph .55 includes all cumulative actuarial gains and losses and past service costs.~~

~~.58 The net liability (asset) on the date of adoption includes both recognised and previously unrecognised actuarial gains and losses and past service costs that arose in prior periods.~~

~~.59 Any difference between the net liability (asset) determined using GRAP 25 and the entity's previous accounting policy is accounted for retrospectively in accordance with GRAP 3.~~

~~.60 In the year of adoption, an entity is required to present a reconciliation of the net liability (asset) determined using its previous accounting policy, and the net liability (asset) determined using GRAP 25, showing separately the effect of:~~

~~(a) unrecognised actuarial gains and losses;~~

~~(b) unrecognised past service costs; and~~

~~(c) other changes.~~

~~The reconciliation shall be presented in the notes to the financial statements.~~

~~.61 In the year that an entity initially adopts GRAP 25, it discloses the information in paragraph .136(m) to the extent that it is available and/or previously disclosed.~~

~~.62 The information specified in paragraph .136(m) relates to the present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan, and certain experience adjustments. This information is required for the current and previous four reporting periods. An entity discloses this information to the extent that it is available and/or was previously disclosed. For example, if an entity only has information about the last three reporting periods, then~~

~~disclosure of the current year and three-year historical information is sufficient in the year of adoption.~~

…

A4. DIRECTIVE 3 *Transitional Provisions for High Capacity Municipalities*

Amend and delete the following paragraphs in Directive 3:

GRAP 25 *Employee Benefits*

Transitional provisions

All employee benefits

.65 All changes resulting from the application of the Standard of GRAP on Employee Benefits (GRAP 25) shall be accounted for retrospectively in accordance with the requirements of GRAP 3, except that:~~.~~

- ***(a) An entity need not adjust the carrying amount of assets outside the scope of GRAP 25 for changes in employee benefit costs that were included in the carrying amount before the date of initial adoption. The date of initial adoption is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts GRAP 25.***

- ***(b) An entity need not present comparative information for the disclosures required by paragraph .147 about the sensitivity of the defined benefit obligation.***

~~.66 When an entity initially adopts a Standard of GRAP, GRAP 3 requires an entity to apply the requirements of the Standard being adopted retrospectively.~~

~~**Defined benefit plans**~~

~~***.67 On the initial adoption of GRAP 25, an entity shall determine the net liability (asset) for defined benefit plans at that date as:***~~

- ~~***(a) the present value of the obligations (see paragraphs .76 to .112 of the Standard) at the date of adoption;***~~
- ~~***(b) minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs .113 to .122 of the Standard);***~~
- ~~***(c) plus any liability that may arise as a result of a minimum funding requirement (see paragraphs .71 to .73 of the Standard).***~~

~~***.68 If the amount determined for defined benefit plans on initial adoption of GRAP 25 is negative (an asset), the amount shall be measured using the asset recognition ceiling in paragraphs .68 to .70 of the Standard.***~~

~~***.69 The net liability (asset) recognised at the date of adoption in accordance with paragraph .67 includes all cumulative actuarial gains and losses and past service costs.***~~

~~.70 The net liability (asset) on the date of adoption includes both recognised and previously unrecognised actuarial gains and losses and past service costs that arose in prior periods.~~

~~***.71 Any difference between the net liability (asset) determined using GRAP 25 and the entity's previous accounting policy is accounted for retrospectively in accordance with GRAP 3.***~~

~~***.72 In the year of adoption, an entity is required to present a reconciliation of the net liability (asset) determined using its previous accounting policy, and the net liability (asset) determined using GRAP 25, showing separately the effect of:***~~

- ~~***(a) unrecognised actuarial gains and losses;***~~
- ~~***(b) unrecognised past service costs; and***~~
- ~~***(c) other changes.***~~

~~***The reconciliation shall be presented in the notes to the financial statements.***~~

~~***.73 In the year that an entity initially adopts GRAP 25, it discloses the information in paragraph .136(m) to the extent that it is available and/or previously disclosed.***~~

~~.74 The information specified in paragraph .136(m) relates to the present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan, and certain experience adjustments. This information is required for the current and previous four reporting periods. An entity discloses this information to the extent that it is available and/or was previously disclosed. For example, if an entity only has information about the last three reporting periods, then disclosure of the current year and three-year historical information is sufficient in the year of adoption.~~

…

A5. DIRECTIVE 4 *Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities*

Amend and delete the following paragraphs in Directive 4:

GRAP 25 ***Employee Benefits***

Transitional provisions

All employee benefits

.82 All changes resulting from the application of the Standard of GRAP on Employee Benefits (GRAP 25) shall be accounted for retrospectively in accordance with the requirements of GRAP 3, except that:~~.~~

(a) An entity need not adjust the carrying amount of assets outside the scope of GRAP 25 for changes in employee benefit costs that were included in the carrying amount before the date of initial adoption. The date of initial adoption is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts GRAP 25.

(b) An entity need not present comparative information for the disclosures required by paragraph .147 about the sensitivity of the defined benefit obligation.

~~.83 When an entity initially adopts a Standard of GRAP, GRAP 3 requires an entity to apply the requirements of the Standard being adopted retrospectively.~~

~~**Defined benefit plans**~~

~~***.84 On the initial adoption of GRAP 25, an entity shall determine the net liability (asset) for defined benefit plans at that date as:***~~

~~***(a) the present value of the obligations (see paragraphs .76 to .112 of the Standard) at the date of adoption;***~~

~~***(b) minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs .113 to .122 of the Standard);***~~

~~***(c) plus any liability that may arise as a result of a minimum funding requirement (see paragraphs .71 to .73 of the Standard).***~~

~~***.85 If the amount determined for defined benefit plans on initial adoption of GRAP 25 is negative (an asset), the amount shall be measured using the asset recognition ceiling in paragraphs .68 to .70 of the Standard.***~~

~~***.86 The net liability (asset) recognised at the date of adoption in accordance with paragraph .96 includes all cumulative actuarial gains and losses and past service costs.***~~

~~.87 The net liability (asset) on the date of adoption includes both recognised and previously unrecognised actuarial gains and losses and past service costs that arose in prior periods.~~

~~***.88 Any difference between the net liability (asset) determined using GRAP 25 and the entity's previous accounting policy is accounted for retrospectively in accordance with GRAP 3.***~~

~~***.89 In the year of adoption, an entity is required to present a reconciliation of the net liability (asset) determined using its previous accounting policy, and the net liability (asset) determined using GRAP 25, showing separately the effect of:***~~

~~***(a) unrecognised actuarial gains and losses;***~~

~~***(b) unrecognised past service costs; and***~~

~~***(c) other changes.***~~

~~***The reconciliation shall be presented in the notes to the financial statements.***~~

~~***.90 In the year that an entity initially adopts GRAP 25, it discloses the information in paragraph .136(m) to the extent that it is available and/or previously disclosed.***~~

~~.91 The information specified in paragraph .136(m) relates to the present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan, and certain experience adjustments. This information is required for the current and previous four reporting periods. An entity discloses this information to the extent that it is available and/or was previously disclosed. For example, if an entity only has information about the last three reporting periods, then disclosure of the current year and three-year historical information is sufficient in the year of adoption.~~

…

A6. DIRECTIVE 8 ***Transitional Provisions for Parliament and Provincial Legislatures***

Amend and delete the following paragraphs in Directive 8:

GRAP 25 Employee Benefits

Transitional provisions

All employee benefits

.50 ***All changes resulting from the application of the Standard of GRAP on Employee Benefits (GRAP 25) shall be accounted for retrospectively in accordance with the requirements of GRAP 3, except that:~~.~~***

(a) ***An entity need not adjust the carrying amount of assets outside the scope of GRAP 25 for changes in employee benefit costs that were included in the carrying amount before the date of initial adoption. The date of initial adoption is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts GRAP 25.***

(b) ***An entity need not present comparative information for the disclosures required by paragraph .147 about the sensitivity of the defined benefit obligation.***

~~.51 When an entity initially adopts a Standard of GRAP, GRAP 3 requires an entity to apply the requirements of the Standard being adopted retrospectively.~~

~~**Defined benefit plans**~~

~~***.52 On the initial adoption of GRAP 25, an entity shall determine the net liability (asset) for defined benefit plans at that date as:***~~

~~***(a) the present value of the obligations (see paragraphs .76 to .112 of the Standard) at the date of adoption;***~~

~~***(b) minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs .113 to .122 of the Standard);***~~

~~***(c) plus any liability that may arise as a result of a minimum funding requirement (see paragraphs .71 to .73 of the Standard).***~~

~~***.53 If the amount determined for defined benefit plans on initial adoption of GRAP 25 is negative (an asset), the amount shall be measured using the asset recognition ceiling in paragraphs .68 to .70 of the Standard.***~~

~~***.54 The net liability (asset) recognised at the date of adoption in accordance with paragraph .52 includes all cumulative actuarial gains and losses and past service costs.***~~

~~.55 The net liability (asset) on the date of adoption includes both recognised and previously unrecognised actuarial gains and losses and past service costs that arose in prior periods.~~

~~***.56 Any difference between the net liability (asset) determined using GRAP 25 and the entity's previous accounting policy is accounted for retrospectively in accordance with GRAP 3.***~~

~~***.57 In the year of adoption, an entity is required to present a reconciliation of the net liability (asset) determined using its previous accounting policy, and the net liability (asset) determined using GRAP 25, showing separately the effect of:***~~

~~***(a) unrecognised actuarial gains and losses;***~~

~~***(b) unrecognised past service costs; and***~~

~~***(c) other changes.***~~

~~***The reconciliation shall be presented in the notes to the financial statements.***~~

~~***.58 In the year that an entity initially adopts GRAP 25, it discloses the information in paragraph .136(m) to the extent that it is available and/or previously disclosed.***~~

~~.59 The information specified in paragraph .136(m) relates to the present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan, and certain experience adjustments. This information is required for the current and previous four reporting periods. An entity discloses this information to the extent that it is available and/or was previously disclosed. For example, if an entity only has information about the last three reporting periods, then disclosure of the current year and three-year historical information is sufficient in the year of adoption.~~

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for employee benefits. This basis for conclusions accompanies, but is not part of, this Standard.

Presentation of actuarial gains and losses

BC1. The International Accounting Standard on *Employee Benefits* (IAS 19®) (amended in 2011) recognises remeasurements of the net defined liability (asset) in other comprehensive income rather than in surplus or deficit. Because IPSAS does not acknowledge other comprehensive income, the IPSASB considered that recognising remeasurements in net assets/equity would have the same accounting outcome as IAS 19 in not impacting surplus or deficit with components of defined benefit cost that have different predictive values. Therefore, the IPSASB decided to recognise remeasurements in net assets/equity.

BC2. In developing GRAP 25 (2009), the Board assessed where actuarial gains and losses should be recognised for the purposes of this Standard. In doing so, 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* (GRAP 3).

BC3. In measuring the various components related to the net defined benefit liability (asset), e.g. service cost, net interest and return on plan assets, an entity uses estimates. If actual events and circumstances differ from the original estimates used, actuarial gains and losses arise.

BC4. These actuarial gains and losses represent the revision of the estimates used by management in the initial recognition of the various components of the net defined benefit liability (asset).

BC5. The Board prescribed 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; and
- the Board has minimised the recognition of gains and losses outside of surplus or deficit in other Standards of GRAP, for example, in GRAP 104*,* 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.

BC6. 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 surplus or deficit in the year that they occur.

BC7. 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.

BC8. In revising GRAP 25 to align to the requirements of the International Public Sector Accounting Standard on *Employee Benefits* (IPSAS 39), the Board remained of the view that remeasurements (comprising actuarial gains and losses, return on plan assets and changes in the effect of the asset ceiling) should be recognised in surplus or deficit, for the reasons discussed in paragraphs BC4. to BC7.

Disclosure of information on other long-term employee benefits and termination benefits

BC9. IPSAS 39 does not include any specific disclosure requirements or disclosure objectives for other long-term employee benefits and termination benefits. Stakeholders noted that there is inconsistent disclosure about these employee benefits in practice, and disclosure is often limited. The Board acknowledged that the nature and extent of entities' other long-term employee benefits and termination benefits may vary, and it may be appropriate that disclosure varies. The Board agreed to add disclosure objectives for other long-term employee benefits and termination benefits, together with more examples of disclosure requirements in other Standards of GRAP that may be appropriate for entities to consider in order to meet the disclosure objectives.

Comparison with the International Public Sector Accounting Standard on *Employee Benefits* (July 2016)

This Standard is drawn primarily from IPSAS 39. The main differences between this Standard and IPSAS 39 are as follows:

- Certain terminology changes were made, for example, "profit sharing and bonuses" referred to in IPSAS 39 are called "bonus, incentive and performance related payments" in this Standard.
- References to a "period" or "accounting period" were amended to "reporting period" where this clarified the requirements of this Standard.
- Examples included in the application guidance of IPSAS 39 have been incorporated into the text of this 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 39 prescribes that remeasurements are recognised in net assets/equity. This Standard prescribes that remeasurements are recognised in surplus or deficit.
- This Standard includes guidance from the IFRIC® Interpretation on *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 39 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.
- IPSAS 39 does not include disclosure objectives for other long-term employee benefits or termination benefits. Disclosure objectives for these employee benefits are included in this Standard.
- Transitional provisions applicable to this Standard are dealt with differently than in IPSAS 39.