



International Accounting Standards Board®

# Press Release

**FOR IMMEDIATE RELEASE**

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## **IFRIC publishes proposed guidance on cash balance plans**

The International Financial Reporting Interpretations Committee (IFRIC)\* today released for public comment a draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions* giving guidance on the accounting for cash balance plans. These are employee benefit plans with benefits that depend on future returns on assets.

Such plans are defined benefit plans under International Accounting Standard 19 *Employee Benefits* but the traditional method of accounting for defined benefit plans that is required by that Standard is difficult to apply. D9 proposes that no estimate should be made of the amount that will ultimately be payable for benefits that depend on future returns on assets, because of the difficulty in estimating what asset returns in the future will be. Instead, the measurement of the liability for such benefits should be based on the value of the assets at the balance sheet date.

The proposals are open for public comment until 21 September 2004.

The Chairman of the IFRIC, Kevin Stevenson, said:

Cash balance plans are an increasingly common form of pension provision. It is important to develop a method of accounting for them that can be applied consistently. The US standard-setter, the FASB, is also looking at this issue and we will work with it to arrive at a converged solution.

Subscribers to the IASB's Comprehensive Subscription Service can view the draft Interpretation from the secure online services area of the IASB's Website ([www.iasb.org](http://www.iasb.org)).

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\* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

From 9 July 2004 the complete text of the draft Interpretation will be freely available from the Website.

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**NOTES TO EDITORS**

**About the draft Interpretation**

1. The IFRIC was asked for guidance on how IAS 19 *Employee Benefits* should be applied to employee benefit plans with a promised return on actual or notional contributions. Examples of such plans are:
  - (a) a plan in which a contribution is made each year based on the employee's current salary and the employee receives a benefit (a lump sum or an annuity) equal to the contributions plus the higher of (i) the actual return generated on the contributions and (ii) a minimum fixed return\* on the contributions over the period to when the benefit is paid; and
  - (b) a plan in which the promised benefit is a notional contribution each year plus a return on the notional contribution that is the higher of (i) the return based on specified assets, for example the return on quoted bonds, and (ii) a fixed return, for example 4 per cent. The plan may or may not hold assets.

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\* The minimum fixed return may be a positive return, or it may provide protection against any loss of capital (ie the return will not be less than zero) or against a loss exceeding a fixed minimum loss.

2. D9 argues that such plans are defined benefit plans and proposes guidance on the treatment of the following benefits:
  - (a) a guarantee of a fixed return,
  - (b) a benefit that depends on future asset returns, and
  - (c) a combination of (a) and (b)?
3. D9 proposes that the liability for a benefit of a guarantee of a fixed return should be determined by projecting forward the contributions at the guaranteed fixed return to estimate the amount that will ultimately be paid. That amount should be discounted back to a present value using the high-quality corporate bond rate required by IAS 19. In contrast, for benefits that depend on future asset returns, D9 proposes that an estimate of the amount that will ultimately be paid should not be made. Instead, the liability should be determined by the value of the assets at the balance sheet date. Lastly, D9 proposes that the liability for a benefit that combines a guaranteed fixed return and the returns on future assets should be the higher of the liabilities for each separate element.

#### **About the IFRIC**

4. The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about every two months. The IFRIC's principal role is to consider, on a timely basis within the context of existing International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

#### **About the IASB**

5. The IASB, based in London, began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality,

global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.

- 6 At present, some 35 countries require the use of international standards for all domestic listed companies, six other countries require the use of international standards for some companies, and many countries base their national practices on international standards. In 2002, several jurisdictions, including Australia, the European Union, and Russia, announced that they would require international standards on or before 1 January 2005. In September 2002, the IASB and the US standard-setter, the Financial Accounting Standards Board (FASB), reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards.

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