INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group
Issue Paper

AGENDA ITEM: TAGED09-04
10 January 2023 – Online

Section 25 (Borrowing costs), Section 26 (Share based payments) and Section 28 (Employment benefits)

Summary	This paper provides TAG members with the proposed approach to updating Sections 25, 26 and 28, which are being updated to align with changes to other Sections and not fundamentally reviewed.
Purpose/Objective of the paper	To allow TAG members to consider the consequential impact of changes to other Sections and any other emerging issues.
Other supporting items	None
Prepared by	Karen Sanderson
Actions for this meeting	**<u>Comment and advise</u>** on: (i) the proposed editorial changes to borrowing costs (ii) whether share based payments should be retained in INPAG and if so, whether all references to employment based schemes should be removed (iii) the scope of employment benefits, particularly proposals to remove references to share based payments and profit sharing (iv) the policy choice for the presentation of changes to defined benefit pension schemes.

Technical Advisory Group

Section 25 (Borrowing costs), Section 26 (Share based payments) and Section 28 (Employment benefits)

1. Background

1.1 In line with responses to the Consultation Paper it was agreed to prioritise a limited number of topics for inclusion in the first edition of INPAG. Following discussions with the TAG it was agreed that other topics in the *IFRS for* SMEs Accounting Standard would be updated to align with the terminology being used in the remainder of INPAG.

1.2 As INPAG is being developed there are other consequential amendments that may need to be made that go beyond changes to terminology previously discussed. A limited number of changes are therefore proposed to ensure that INPAG is cohesive. Any consequential amendments do not constitute a full review of the text in these topic areas.

2. Borrowing costs

2.1 No major editorial changes on borrowing costs, with minor changes to terminology. The draft Section is in Annex A.

Question 1: Do TAG members agree that there are no other editorial changes required for borrowing costs*?*

3. Share based payments

3.1 Section 26 on share based payment specifies the accounting for all share-based payment transactions. This includes arrangements with employees where the future provision of shares in the entity is part of their remuneration package. It also provides for shares to be used for the payment to other external parties including vendors.

3.2 In previous discussions within the TAG it has been considered possible but unlikely that an NPO will have equity claims and even more unlikely that it has traded shares with commercial value. Given the level of likelihood that an NPO has shares and that these shares are used to make share-based payments, there is a key question as to whether this Section is needed at all.

3.3 As previously acknowledged it is possible that an NPO has share-based equity. If that is the case then guidance would be beneficial. However, given the characteristics of an NPO it would not be expected that share-based payments form a part of employee remuneration. Therefore, if this Section is retained it is proposed that it is amended to remove references to employees, including share appreciation rights and share options. Clarifications on the application of this guidance to employees could be included in the application guidance if this is considered necessary.

3.4 Whichever approach is taken, an explanation of the approach taken will be included in the Basis for Conclusions.

3.5 If the Section is retained and references to employment arrangements are removed, the a number of paragraphs from the *IFRS for SMEs* Accounting Standard that would be removed or deleted. The paragraphs most impacted are: 26.1C (G26.4), 26.2, 26.5, 26.6, 26.7 (G26.9), 26.8 (G26.10), 26.9, 26.11, 26.12, 26.15A, 26.15 B, 26.15C, 26.16 and 26.22. These changes are highlighted in the draft Section in Annex A.

3.6 Paragraph G26.13 provides guidance on cancellation or settlement as an acceleration of 'vesting' for services received. Given that the text only relates to services and that this was possibly only intended for the provision of services by employees, there is a question as to whether this paragraph is needed. Vesting is defined in the Glossary as:

Vest: *Become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.*

3.7 Paragraph G26.15 provides guidance on 'vesting conditions'. 'These are defined in the Glossary as:

Vesting conditions: *A condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. A vesting condition is either a service condition or a performance condition.*

The *IFRS for SMEs* Accounting Standard refers to employee service or a non-market performance condition. The paragraph has been retained but now only refers to non-market performance conditions.

Question 2: What are the TAG's view on Section 26? Do TAG members agree that it should be retained but references to employees should be removed?

Question 3: Do TAG members agree that paragraph G26.13 should be removed, and paragraph G26.15 retained for performance conditions?

Question 4: Do TAG members have any further comments on the draft text?

4. Employment benefits

4.1 There are a number of considerations in relation to employment benefits. These considerations mostly stem from the expected characteristics of NPOs and therefore the likely remuneration arrangements with employees.

4.2 As set out above, a number of amendments are proposed to share based payments, such that share based payments do not reference employees. As a consequence, share based payments have been removed from the draft INPAG text for Section 28.

4.3 In a similar vein, all references to profit sharing arrangements are also proposed to be removed from INPAG. This is because the characteristics of an NPO require that profits be used to further the objectives of the NPO and to be used for service beneficiaries. References to bonuses have been retained as this might be part of a remuneration structure, but not profit sharing.

4.4 Section 28 includes guidance on post-employment benefits and the accounting for defined benefit pension schemes. The *IFRS for SMEs* Accounting Standard allows a policy choice for in-year changes to the amounts to be recognised for defined benefit pension schemes. It allows these changes to be included in either the profit or loss or in other comprehensive income. For INPAG this would either appear in the Statement of Income and Expenses or Statement of Changes in Net Assets.

4.5 Earlier discussions with the TAG highlighted the desire for simplicity by some users of NPO financial statements. Removing an accounting policy choice and requiring actuarial changes from the revaluation of defined benefit pension schemes to be presented in the Statement of Changes in Net Assets, would be consistent with this desire for simplicity. However, the expectation is that few NPOs will have defined benefit pension schemes and those that do, may be have more complex stakeholders requirements with users of the financial statements that have a preference that changes in valuations are visible on the Statement of Income and Expenses.

4.6 As a consequence the draft INPAG guidance has retained the policy choice, with the choice between changes being recognised in the Statement of Income and Expenses of Statement of Changes in Net Assets. Application guidance could be provided to set an expectation of when a particular policy choice is used.

4.7 Paragraph G28.37 refers to group arrangements and the possibility that other entities are following other GAAP. It has been amended to require that the allocation of employee benefit expense can only be made if the controlling NPO is following INPAG.

*If a **controlling NPO** provides benefits to the employees of one or more **controlled entities** in the **group**, and the controlling NPO presents **consolidated financial statements** using ~~either the IFRS for SMEs Accounting Standard or **full IFRS Accounting Standards**~~ this Guidance, such controlled entities are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group.*

Again the likelihood of an NPO having a defined benefit pension scheme is low, but given that this paragraph is written for a controlling NPO, if follows that this treatment is allowed only if the NPO is following INPAG.

Question 5: Do the TAG agree that references to share based payments and profit sharing should be removed from Section 28. If so, do the TAG agree that the rationale for this should be set out in the Basis for Conclusions?

Question 6: Do the TAG agree that the policy choice for defined benefit pension schemes should be retained? Is additional guidance required.

Question 7: Do the TAG agree with the proposed amendment to G28.37?

5. Next steps

5.1 The authoritative guidance will be amended to reflect TAG member feedback. Unless otherwise requested, only further consequential amendments will be brought to the February 2023 TAG meeting. No Implementation Guidance or illustrative examples are intended to be provided. A Basis for Conclusions developed where as discussed above, but not for other changes to terminology.

January 2023

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Notice

Annex A

Section 25 (Borrowing costs), Section 26 (Share based payments) and Section 28 (Employment benefits)

Section 25 - *Borrowing Costs* (Editorial)

Scope of this section

25.1 This Section specifies the accounting for **borrowing costs**. Borrowing costs are interest and other costs that an NPO incurs in connection with the borrowing of funds. Borrowing costs include:

(a) interest **expense** calculated using the **effective interest method** as described in Section 11 *Financial Instruments*;

(b) finance charges in respect of **finance leases** recognised in accordance with Section 20 *Leases*; and

(c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Recognition

25.2 An NPO shall recognise all borrowing costs as an expense in **surplus or deficit** in the period in which they are incurred.

Disclosures

25.3 Paragraph G5.7(b) requires disclosure of finance costs. Paragraph G11.58(b) requires disclosure of total interest expense (using the effective interest method) for **financial liabilities** that are not at **fair value** through surplus or deficit. This Section does not require any additional disclosure.

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Section 26 - *Share-based Payment* (Updated)

Scope of this section

G26.1 This Section specifies the accounting for all **share-based payment transactions** including those that are equity or cash-settled or those in which the terms of the arrangement provide a choice of whether the NPO settles the transaction in **cash** (or other **assets**) or by issuing **equity** instruments.

G26.2 A share-based payment transaction may be settled by another ~~group~~ entity of a group of which the NPO is the controlling NPO (or a shareholder of any ~~**group**~~ such entity) on behalf of the NPO receiving the goods or services. This Section also applies to an NPO that:

(a) receives goods or services when another entity in the same NPO controlled group (or a shareholder of any ~~group~~ such entity) has the obligation to settle the share-based payment transaction; or

(b) has an obligation to settle a share-based payment transaction when another entity in the same NPO controlled group receives the goods or services

unless the transaction is clearly for a purpose other than the payment for goods or services supplied to the entity receiving them.

G26.3 In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this Section applies (see paragraph G26.17).

G26.4 This Section does not apply to transactions in which an entity acquires goods as part of the net assets acquired in:

(a) a **business combination** as defined in Section 19 *Business Combinations and Goodwill*;

(b) a combination of entities or **businesses** under common **control** as described in paragraph 19.2; or

(c) the contribution of a business on the formation of a **jointly controlled entity** as defined in Section 15 *Joint Arrangements*.

~~Equity instruments granted to employees of the **acquiree** in their capacity as employees (for example, in return for continued service) are within the scope of this section. Similarly,~~ The cancellation, replacement or other modification of **share-based payment arrangements** because of a business combination or other equity restructuring shall be accounted for in accordance with this Section.

G26.5 This Section uses the term fair value in a way that differs in some respects from the definition of fair value in the Glossary. Therefore, when applying this section, an NPO shall apply the definition of fair value in paragraph G26.6 and measure fair value in accordance with this section, not Section 12 *Fair Value Measurement*.

G26.6 For the purpose of this Section, fair value is the amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

~~26.2 **Cash-settled share-based payment transactions** include share appreciation rights. For example, an entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (instead of an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. Or an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (for example, upon cessation of employment) or at the employee's option.~~

Recognition

G26.7 An NPO shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The NPO shall recognise a corresponding increase in equity if the goods or services were received in an **equity-settled share-based payment transaction** or a **liability** if the goods or services were acquired in a cash-settled share-based payment transaction.

G26.8 When the goods or services received or acquired in a share-based payment transaction do not qualify for **recognition** as assets, the NPO shall recognise them as **expenses**.

~~Recognition when there are vesting conditions~~

~~26.5 If the share-based payments granted to employees vest immediately, the employee is not required to complete a specified period of service before becoming unconditionally entitled to those share-based payments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the employee as consideration for the share-based payments have been received. In this case, on the **grant date** the entity shall recognise the services received in full, with a corresponding increase in equity or liabilities.~~

~~26.6 If the share-based payments do not vest until the employee completes a specified period of service, the entity shall presume that the services to be rendered by the employee as consideration for those share-based payments will be received in the future, during the **vesting period**. The entity shall account for those services as they are rendered by the employee during the vesting period, with a corresponding increase in equity or liabilities.~~[5]

[5] ~~In the remainder of this section, all references to employees also include others providing similar services.~~

Measurement of equity-settled share-based payment transactions

Measurement principle

G26.9 For equity-settled share-based payment transactions, an NPO shall measure the goods or services received, and the corresponding increase in equity, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the NPO cannot estimate reliably the fair value of the goods or services received, the NPO shall measure their value, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted. ~~To apply this requirement to transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.~~

G26.10 ~~For transactions with employees (including others providing similar services), the fair value of the equity instruments shall be measured at the grant date. For transactions with parties other than employees,~~ The measurement date is the date when the NPO obtains the goods or the counterparty renders service.

~~26.9 A grant of equity instruments might be conditional on employees satisfying specified **vesting conditions** related to service or performance. An example of a **service condition** is when a grant of shares or share options to an employee is conditional on the employee remaining in the entity's employ for a specified period of time. Examples of **performance conditions** are when a grant of shares or share options is conditional on a specified period of service and on the entity achieving a specified growth in profit (a non-market vesting condition) or a specified increase in the entity's share price (a **market vesting condition**). Vesting conditions are accounted for as follows:~~

~~(a) all vesting conditions related to employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. Vesting conditions related to employee service or to a non-market performance condition shall not be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date.~~

~~(b) all market vesting conditions and conditions that are not vesting conditions (non-vesting conditions) shall be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date, with no subsequent adjustment to the estimated fair value, irrespective of the outcome of the market vesting or non-vesting condition, provided that all other vesting conditions are satisfied.~~

Shares

G26.11 An NPO shall measure the fair value of shares (and the related goods or services received) using the following three-tier measurement hierarchy:

(a) if an observable market price is available for the equity instruments granted, use that price.

(b) if an observable market price is not available, measure the fair value of equity instruments granted using NPO-specific observable market data such as:

(i) a recent transaction in the NPOs shares; or

(ii) a recent independent fair valuation of the NPO or its principal assets.

(c) if an observable market price is not available and obtaining a reliable measurement of fair value under (b) is **impracticable**, indirectly measure the fair value of the shares using a valuation method that uses market data to the greatest extent practicable to estimate what the price of those equity instruments would be on the grant date in an arm's length transaction between knowledgeable, willing parties. The NPOs directors should use their judgement to apply the most appropriate valuation method to determine fair value. Any valuation method used shall be consistent with generally accepted valuation methodologies for valuing equity instruments.

~~**Share options and equity-settled share appreciation rights**~~

~~26.11 An entity shall measure the fair value of share options and equity-settled share appreciation rights (and the related goods or services received) using the following three-tier measurement hierarchy:~~

~~(a) if an observable market price is available for the equity instruments granted, use that price.~~

~~(b) if an observable market price is not available, measure the fair value of share options and share appreciation rights granted using entity-specific observable market data such as (a) for a recent transaction in the share options.~~

~~(c) if an observable market price is not available and obtaining a reliable measurement of fair value under (b) is impracticable, indirectly measure the fair value of share options or share appreciation rights using an option pricing model. The inputs for the model (such as the weighted average share price, exercise price, expected volatility, option life, expected dividends and the risk-free interest rate) shall use market data to the greatest extent possible. Paragraph 26.10 provides guidance on determining the fair value of the shares used in determining the weighted average share price. The entity shall derive an estimate of expected volatility consistent with the valuation methodology used to determine the fair value of the shares.~~

Modifications to the terms and conditions on which equity instruments were granted

26.12 An NPO might modify the terms and conditions on which equity instruments are granted ~~in a manner that is beneficial to the employee~~, for example, ~~by reducing the exercise price of an option or reducing the vesting period or~~ by modifying or eliminating a performance condition. ~~Alternatively an entity might modify the terms and conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period or adding a performance condition.~~ The NPO shall take the modified vesting conditions into account in accounting for the share-based payment transaction, as follows:

(a) if the modification increases the fair value of the equity instruments granted (or increases the number of equity instruments granted) measured immediately before and after the modification, the NPO shall include the incremental fair value granted. ~~in the measurement of the amount recognised for services received as consideration for the equity instruments granted.~~ The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. ~~If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.~~

(b) if the modification reduces the total fair value of the share-based payment, ~~or apparently is not otherwise beneficial to the employee,~~ the NPO shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.

~~The requirements in this paragraph are expressed in the context of share-based payment transactions with employees. The requirements also apply to share-based payment transactions with parties other than employees if these transactions are measured by~~ Reference to the fair value of the equity instruments granted, but reference to the grant date refers to the date that the NPO obtains the goods or the counterparty renders service.

Cancellations and settlements

G26.13 An NPO shall account for a cancellation or settlement of an equity-settled share-based payment award as an acceleration of vesting, and therefore shall recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

Cash-settled share-based payment transactions

G26.14 For cash-settled share-based payment transactions, an NPO shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the NPO shall remeasure the fair value of the liability at each **reporting date** and at the date of settlement, with any changes in fair value recognised in **surplus or deficit** for the period.

G26.15 A cash-settled share-based payment transaction might be conditional on satisfying specified vesting conditions. Vesting conditions are accounted for as follows:

(a) all vesting conditions related ~~to employee service or to~~ a non-market performance condition shall be taken into account when estimating the number of awards that are expected to vest and subsequently adjusting the number of awards included in the measurement of the liability arising from the transaction. The NPO shall initially recognise an amount for the goods or services received during the vesting period based on the number of awards that are expected to vest. Subsequently, the NPO shall revise that estimate if new information indicates that the number of awards expected to vest differs from previous estimates. On the vesting date, the NPO shall revise the estimate to equal the number of awards that ultimately vested. Vesting conditions related to ~~employee service and~~ a non-market performance condition shall not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date.

(b) all market conditions and non-vesting conditions shall be taken into account when estimating the fair value of the cash-settled share-based payment granted and when remeasuring the fair value of the liability at the end of each reporting period and at the date of settlement.

Share-based payment transactions with cash alternatives

G26.16 Some share-based payment transactions give either the NPO or the counterparty a choice of settling the transaction in cash (or other assets) or by transfer of equity instruments. In such a case, the NPO shall account for the transaction as a cash-settled share-based payment transaction unless:

(a) the NPO has a past practice of settling by issuing equity instruments;

(b) the option has no commercial substance because the cash settlement amount bears no relationship to, and is likely to be lower in value than, the fair value of the equity instrument; or~~.~~

(c) the choice of settlement relates only to a net settlement feature ~~(see paragraphs 26.15A–26.15C)~~.

In circumstances (a) and (b), the NPO shall account for the transaction as an equity-settled share-based payment transaction in accordance with paragraphs G26.9–G26.13.

~~Share-based payment transactions with a net settlement feature for withholding tax obligations~~

~~26.15A Tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. A share-based payment arrangement has a net settlement feature when the terms of the arrangement permit or require an entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment.~~

~~26.15B As an exception to the requirements in paragraph 26.15, the transaction described in paragraph 26.15A shall be classified in its entirety as an equity-settled share-based payment transaction if:~~

~~(a) it would have been so classified in the absence of the net settlement feature; and~~

~~(b) there is an obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment.~~

~~An entity applying this paragraph shall account for the withholding of shares to fund payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment as a deduction from equity except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld.~~

~~26.15C Paragraph 26.15B does not apply to any equity instruments that the entity withholds in excess of the monetary value of the employee's tax obligation associated with the share-based payment. Such excess shares withheld shall be accounted for as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.~~

~~Group plans~~

~~26.16 If a share-based payment award is granted by an entity to the employees of one or more group entities, and the group presents **consolidated financial statements** using either the *IFRS for SMEs* Accounting Standard or **full IFRS Accounting Standards**, the group entities are permitted, as an alternative to the treatment set out in paragraphs 26.3–26.15C, to measure the share-based payment expense on the basis of a reasonable allocation of the expense for the group.~~

Unidentifiable goods or services

G26.17 If the identifiable consideration received appears to be less than the fair value of the equity instruments granted or the liability incurred, this situation typically indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received. For example, some jurisdictions have programmes by which **capital contributors** ~~(such as employees)~~ are able to acquire equity without providing goods or services that can be specifically identified (or by providing goods or services that are clearly less than the fair value of the equity instruments granted). This indicates that other consideration has been or will be received ~~(such as past or future employee services)~~. The NPO shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) measured at the grant date. For cash-settled transactions, the liability shall be remeasured at the end of each **reporting period** until it is settled in accordance with paragraph G26.14.

Disclosures

G26.18 An NPO shall disclose the following information about the nature and extent of share-based payment arrangements that existed during the period:

(a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (for example, whether in cash or equity). An NPO with substantially similar types of share-based payment arrangements may aggregate this information.

(b) the number and weighted average exercise prices of share options for each of the following groups of options:

(i) outstanding at the beginning of the period;

(ii) granted during the period;

(iii) forfeited during the period;

(iv) exercised during the period;

(v) expired during the period;

(vi) outstanding at the end of the period; and

(vii) exercisable at the end of the period.

G26.19 For equity-settled share-based payment arrangements, an NPO shall disclose information about how it measured the fair value of goods or services received or the value of the equity instruments granted. If a valuation methodology was used, the entity shall disclose the method and its reason for choosing it.

G26.20 For cash-settled share-based payment arrangements, an NPO shall disclose information about how the liability was measured.

G26.21 For share-based payment arrangements that were modified during the period, an NPO shall disclose an explanation of those modifications.

~~26.22 If the entity is part of a group share-based payment plan, and it measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, it shall disclose that fact and the basis for the allocation (see paragraph 26.16).~~

G26.22 An NPO shall disclose the following information about the effect of share-based payment transactions on the NPO's surplus or deficit for the period and on its **financial position**:

(a) the total expense recognised in surplus or deficit for the period; and

(b) the total **carrying amount** at the end of the period for liabilities arising from share-based payment transactions.

Section 28 - *Employee Benefits* (Updated)

Scope of this section

G28.1 **Employee benefits** are all forms of consideration given by an NPO in exchange for service rendered by employees, including directors and management. ~~This Section applies to all employee benefits, except for **share-based payment transactions**, which are covered by Section 26 *Share-based Payment*.~~ Employee benefits covered by this Section will be one of the following four types:

(a) short-term employee benefits, which are employee benefits (other than **termination benefits**) that are wholly due within twelve months after the end of the period in which the employees render the related service;

(b) **post-employment benefits**, which are employee benefits (other than termination benefits) that are payable after the completion of employment;

(c) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service; and

(d) termination benefits, which are employee benefits payable as a result of either:

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

(ii) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

~~28.2 Employee benefits also include share-based payment transactions by which employees receive **equity** instruments (such as shares or share options) or **cash** or other **assets** of the entity in amounts that are based on the price of the entity's shares or other equity instruments of the entity. An entity shall apply Section 26 in accounting for share-based payment transactions.~~

General recognition principle for all employee benefits

G28.2 An NPO shall recognise the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the NPO during the **reporting period**:

(a) as a **liability**, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the **reporting date**, an entity shall recognise that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an **expense**, unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset such as **inventories** or **property, plant and equipment**.

Short-term employee benefits

Examples

G28.3 Short-term employee benefits include items such as:

(a) wages, salaries and social security contributions;

(b) short-term compensated absences (such as paid annual leave and paid sick leave) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;

(c) ~~profit-sharing and~~ bonuses payable within twelve months after the end of the period in which the employees render the related service; and

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

Measurement of short-term benefits ~~generally~~

G28.4 When an employee has rendered service to an NPO during the reporting period, the NPO shall measure the amounts recognised in accordance with paragraph G28.2 at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Recognition and measurement—short-term compensated absences

G28.5 An NPO may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate—they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. Examples include annual vacation leave and sick leave. An NPO shall recognise the expected cost of **accumulating compensated absences** when the employees render service that increases their entitlement to future compensated absences. The NPO shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the NPO expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The NPO shall present this amount as a current liability at the reporting date.

G28.6 An NPO shall recognise the cost of other (non-accumulating) compensated absences when the absences occur. The NPO shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

Recognition—profit-sharing and bonus plans

G28.7 An NPO shall recognise the expected cost of ~~profit-sharing and~~ bonus payments only when:

(a) the NPO has a present legal or constructive obligation to make such payments as a result of past events (this means that the NPO has no realistic alternative but to make the payments); and

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

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

G28.8 Post-employment benefits include, for example:

(a) retirement benefits, such as pensions; and

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

Arrangements whereby an NPO provides post-employment benefits are **post-employment benefit plans**. An NPO shall apply this Section to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. In some cases, these arrangements are imposed by law instead of by action of the NPO. In some cases, these arrangements arise from actions of the NPO even in the absence of a formal, documented plan.

G28.9 Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on their principal terms and conditions:

(a) defined contribution plans are post-employment benefit plans under which an NPO pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an NPO (and perhaps also the employee) to a post-employment benefit plan or to an insurer, together with investment returns arising from the contributions.

(b) defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the NPO's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the NPO. If actuarial or investment experience is worse than expected, the NPO's obligation may be increased, and vice versa if actuarial or investment experience is better than expected.

Multi-employer plans and state plans

G28.10 **Multi-employer plans** and state plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan, including any constructive obligation that goes beyond the formal terms. However, if sufficient information is not available to use defined benefit accounting for a multi-employer plan or a state plan that is a defined benefit plan, an NPO shall account for the plan in accordance with paragraph G28.12 as if it was a defined contribution plan and make the disclosures required by paragraph G28.39.

Insured benefits

G28.11 An NPO may pay insurance premiums to fund a post-employment benefit plan. The NPO shall treat such a plan as a defined contribution plan unless the NPO has a legal or constructive obligation either:

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

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

A constructive obligation could arise indirectly through the plan, through the mechanism for setting future premiums, or through a **related party** relationship with the insurer. If the NPO retains such a legal or constructive obligation, the NPO shall treat the plan as a defined benefit plan.

Post-employment benefits: defined contribution plans

Recognition and measurement

G28.12 An NPO shall recognise the contribution payable for a period:

(a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, an NPO shall recognise that excess as an asset.

(b) as an expense, unless another Section of this Guidance requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Post-employment benefits: defined benefit plans

Recognition

G28.13 In applying the general **recognition** principle in paragraph G28.2 to defined benefit plans, an NPO shall recognise:

(a) a liability for its obligations under defined benefit plans net of **plan assets**—its '**defined benefit liability**' (see paragraphs G28.14–G28.21); and

(b) the net change in that liability during the period as the cost of its defined benefit plans during the period (see paragraphs G28.22–G28.25).

Measurement of the defined benefit liability

G28.14 An NPO shall measure a defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts:

(a) the **present value** of its obligations under defined benefit plans (its **defined benefit obligation**) at the reporting date (paragraphs G28.15–G28.20 provide guidance for measuring this obligation).

(b) minus the **fair value** at the reporting date of plan assets (if any) out of which the obligations are to be settled directly. Section 12 *Fair Value Measurement* provides guidance for determining the fair values of those plan assets.

Inclusion of both vested and unvested benefits

G28.15 The present value of an NPO's obligations under defined benefit plans at the reporting date shall reflect the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, including benefits that are not yet **vested** (see paragraph G28.24) and including the effects of benefit formulas that give employees greater benefits for later years of service. This requires the NPO to determine how much benefit is attributable to the current and prior periods on the basis of the plan's benefit formula 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 influence the cost of the benefit. The actuarial assumptions shall be unbiased (neither imprudent nor excessively conservative), mutually compatible and selected to lead to the best estimate of the future cash flows that will arise under the plan.

Discounting

G28.16 The NPO shall determine the rate used to discount the future payments by reference to market yields at the reporting date on high quality corporate bonds. In jurisdictions with no deep market in such bonds, the NPO shall use the market yields (at the reporting date) on government bonds. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated period of the future payments.

Actuarial valuation method

G28.17 An NPO shall use the **projected unit credit method** to measure its defined benefit obligation and the related expense. If defined benefits are based on future salaries, the projected unit credit method requires an NPO to measure its defined benefit obligations on a basis that reflects estimated future salary increases. Additionally, the projected unit credit method requires an NPO to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.

G28.18 This Guidance does not require an NPO to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually. In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels.

Plan introductions, changes, curtailments and settlements

G28.19 If a defined benefit plan has been introduced or changed in the current period, the NPO shall increase or decrease its defined benefit liability to reflect the change, and shall recognise the increase (decrease) as an expense (**income**) in measuring **surplus or deficit** in the current period. Conversely, if a plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the employer's obligation is completely discharged) in the current period, the defined benefit obligation shall be decreased or eliminated and the NPO shall recognise the resulting gain or loss in surplus or deficit in the current period.

Defined benefit plan asset

G28.20 If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An NPO shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Cost of a defined benefit plan

G28.21 An NPO shall recognise the net change in its defined benefit liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its defined benefit plans during the period. That cost is recognised either entirely in surplus or deficit as an expense or partly in surplus or deficit and partly as an item of income and expense recognised directly in changes in net assets (see paragraph G28.22) unless another section of this Guidance requires the cost to be recognised as part of the cost of an asset such as inventories or property, plant and equipment.

Recognition–accounting policy election

G28.22 An NPO is required to recognise all actuarial gains and losses in the period in which they occur. An NPO shall:

(a) recognise all actuarial gains and losses in surplus or deficit; or

(b) recognise all actuarial gains and losses through income and expenses recognised directly in changes in net assets.

as an accounting policy election. The NPO shall apply its chosen accounting policy consistently to all of its defined benefit plans and all of its actuarial gains and losses. ~~Actuarial gains and losses recognised in other comprehensive income shall be presented in the **statement of comprehensive income**.~~

G28.23 The net change in the defined benefit liability that is recognised as the cost of a defined benefit plan includes:

(a) the change in the defined benefit liability arising from employee service rendered during the reporting period;

(b) interest on the defined benefit obligation during the reporting period;

(c) the returns on any plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph G28.26) during the reporting period;

(d) actuarial gains and losses arising in the reporting period;

(e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the reporting period (see paragraph G28.19); and

(f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the reporting period (see paragraph G28.19).

G28.24 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 yet vested). In measuring its defined benefit obligation, an NPO considers the probability that some employees may not satisfy vesting requirements. Similarly, although some post-employment benefits (such as post-employment medical benefits) become payable only if a specified event occurs when an employee is no longer employed (such as an illness), 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.

G28.25 If defined benefits are reduced for amounts that will be paid to employees under government-sponsored plans, an NPO shall measure its defined benefit obligations on a basis that reflects the benefits payable under the government plans, but only if:

(a) those plans were enacted before the reporting date; or

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

Reimbursements

G28.26 If an NPO is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the NPO shall recognise its right to reimbursement as a separate asset. The NPO shall measure the asset at fair value. In the **Statement of Income and Expenses**, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

Other long-term employee benefits

G28.27 Other long-term employee benefits include, for example:

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

(b) long-service benefits;

(c) long-term disability benefits;

(d) ~~profit-sharing and~~ bonuses payable twelve months or more after the end of the period in which the employees render the related service; and

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

G28.28 An NPO shall recognise a liability for other long-term employee benefits measured at the net total of the following amounts:

(a) the present value of the benefit obligation at the reporting date; minus

(b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

An NPO shall recognise the net change in the liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its other long-term employee benefits during the period. That cost is recognised entirely in surplus or deficit as an expense unless another Section of this Guidance requires it to be recognised as part of the cost of an asset, such as inventories or property, plant and equipment.

Termination benefits

G28.29 An NPO may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on sector practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits.

Recognition

G28.30 Because termination benefits do not provide an NPO with future economic benefits, an NPO shall recognise them as an expense in surplus or deficit immediately.

G28.31 When an NPO recognises termination benefits, the NPO may also have to account for a curtailment of retirement benefits or other employee benefits.

G28.32 An NPO shall recognise a liability and an expense for termination benefits at the earlier of the following dates:

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

(b) when the NPO recognises costs for a restructuring that is within the scope of Section 21 *Provisions and Contingencies* and involves the payment of termination benefits.

G28.33 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 NPO can no longer withdraw the offer of termination benefits is the earlier of:

(a) when the employee accepts the offer.

(b) when a restriction (for example, a legal, regulatory or contractual requirement or other restriction) on the NPO'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.

G28.34 For termination benefits payable as a result of an NPO's decision to terminate an employee's employment, the NPO can no longer withdraw the offer when the NPO 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; and

(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.

Measurement

G28.35 An NPO shall measure termination benefits at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

G28.36 When termination benefits are due more than twelve months after the end of the reporting period, they shall be measured at their present value.

Group plans

G28.37 If a **controlling NPO** provides benefits to the employees of one or more **controlled entities** in the **group**, and the controlling NPO presents **consolidated financial statements** using ~~either the *IFRS for SMEs* Accounting Standard or **full IFRS Accounting Standards**~~ this Guidance, such controlled entities are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group.

Disclosures

Disclosures about short-term employee benefits

G28.38 This Section does not require specific disclosures about short-term employee benefits.

Disclosures about defined contribution plans

G28.39 An NPO shall disclose the amount recognised in surplus or deficit as an expense for defined contribution plans. If an NPO treats a defined benefit multi-employer or state plan as a defined contribution plan because sufficient information for defined benefit accounting is not available (see paragraph G28.10) it shall disclose the fact that the plan is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the NPO.

Disclosures about defined benefit plans

G28.40 Except for any defined benefit multi-employer or state plan that is accounted for as a defined contribution plan in accordance with paragraph G28.10, and in relation to which paragraph G28.39 requires different disclosures, an NPO shall disclose the following information about defined benefit plans-:

(a) a general description of the type of plan, including **funding** policy;

(b) the NPO's accounting policy for recognising actuarial gains and losses (either in surplus or deficit or as an item of income and expense recognised directly in changes in net assets) and the amount of actuarial gains and losses recognised during the period;

(d) the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date;

(e) a reconciliation of opening and closing balances of the defined benefit obligation showing separately:

(i) change in the defined benefit liability arising from employee service rendered during the reporting period;

(ii) interest on the defined benefit obligation during the reporting period;

(iii) actuarial gains and losses arising in the reporting period;

(iv) changes resulting from introducing a new plan or changing an existing plan in the reporting period;

(v) benefits paid; and

(vi) all other changes.

(f) a reconciliation of the opening and closing balances of the plan assets and of the opening and closing balances of any reimbursement right recognised as an asset, showing separately:

(i) contributions;

(ii) benefits paid;

(iii) the return on plan assets and the net change in the fair value of recognised reimbursement rights (see paragraph G28.26) during the reporting period; and

(iv) other changes in plan assets.

(h) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class of plan assets constitutes of the fair value of the total plan assets at the reporting date;

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

(i) each class of the NPO's own **financial instruments**; and

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

(k) the principal actuarial assumptions used, including:

(i) the discount rates;

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

(iii) the expected rates of salary increases;

(iv) medical cost trend rates; and

(v) any other **material** actuarial assumptions used.

G28.41 The reconciliations in G28.40(e) and G28.40(f) need not be presented for prior periods.

G28.42 If an NPO has more than one defined benefit plan, the disclosures required by paragraph G28.40 may be made in total, separately for each plan, or in such groupings the NPO considers to be the most useful.

G28.43 If an NPO participates in a defined benefit plan that is a group plan, it shall disclose:

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;

(b) the policy for determining the contribution to be paid by the NPO; and

(c) if the NPO accounts for an allocation of the net defined benefit cost as noted in paragraph G28.37, all the information about the plan as a whole required by paragraph G28.40.

G28.44 The information required by paragraph G28.43(c) can be disclosed by cross-reference to disclosures required by these subparagraphs 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 NPO and at the same time as, or earlier than, the financial statements of the NPO.

G28.45 When required by Section 21, an NPO discloses information about contingent liabilities arising from post-employment benefit obligations.

Disclosures about other long-term employee benefits

G28.46 For each category of other long-term employee benefits that an NPO provides to its employees, the NPO shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.

Disclosures about termination benefits

G28.47 For each category of termination benefits that an NPO provides to its employees, the NPO shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.