PSAB
Public Sector Accounting Board

IPSAS Introduction to International Public Sector Accounting Standards (IPSAS) Workshop Transcript Session 3: Liabilities

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Antonella Risi: Specifically this session focuses on the requirements for reporting provisions and contingent liabilities as per the guidance included in IPSAS 19.

This session will also focus on IPSAS 39, Employee Benefits.

However, before getting into these standards, Riley will provide us with an introduction on liabilities.

Over to you Riley.

Riley Turnbull: Thank you Antonella.

A public sector entity is likely to have at least some of the following types of liabilities:

a) Accounts payable arising from the purchases of goods and services;
b) Accrued salaries and wages;
c) Provisions for employee pension obligations, including any accrued termination benefits;
d) Transfer payments payable; and
e) Social benefits liabilities.

Antonella Risi: Riley can you describe the relationship between obligations and liabilities?

Riley Turnbull: Of course! Obligations are central to the concept of a liability. Obligations result in a public sector entity being bound or committed to a particular course of action.

Public sector entity liabilities arise from many different types of obligations. They can arise from:

a) agreements or contracts;
b) legislation; or
c) constructive obligations, meaning they can be inferred from the facts in a particular situation.

The most common type of obligation is a legal obligation.

However, not all obligations result in a recognition of a liability at the reporting date. Only those obligations that meet the definition of a liability are reported in the financial statements of public sector entities.

Antonella Risi: Ok. Thank you. What is the definition of a liability then?

Riley Turnbull: A liability is a present obligation of the entity for an outflow of resources that results from a past event. A present obligation is a legally binding obligation or a non-legally binding obligation (also known as a constructive obligation), in which an entity has little or no realistic alternative to avoid.

Antonella Risi: What is a constructive obligation?

Riley Turnbull: A constructive obligation (also known as non-legally binding obligation in the Conceptual Framework) generally results when an event, including an action of the entity, creates valid expectations in other parties that the entity will discharge the obligation.

Antonella Risi: What would be an example of a constructive obligation?

Riley Turnbull: An example might be, a government, by its established past practice, published policies, or a sufficiently specific current statement, has created a valid expectation on the part of other third parties that it assumes responsibility for cleanup of a contaminated site. The government's own actions or conduct has resulted in the loss of discretion to avoid settlement of its obligation.

Antonella Risi: Going back to the definition, in order to meet the definition of a liability, there has to be a past event. Can you talk a bit more about this?

Riley Turnbull: Yes. One of the key characteristics of liabilities is that they result from a past event. To expand on this a little more, the occurrence of an obligating event on or before the financial statement date distinguishes a present obligation from a future obligation.

It is not necessary, however, to know the identity of the party to whom the obligation is owed.

For example a government which may have an environmental liability without knowing the identity of the contractor who will be hired to carry out the work.

Because an obligation always involves a commitment to another party, it follows that a decision by an entity's management, governing body, or controlling entity alone does not give rise to a liability at the reporting date.

For example, a government may budget for the purchase of a fire truck. This is a possible future obligation that a government can avoid through its own actions. The government is not bound to a particular course of action. It has the discretion to change or avoid the possible future obligation through its own actions.

Antonella Risi: So how do we know when we should recognize a liability?

Riley Turnbull: Good question!

An item that meets the definition of a liability should be recognized if:

a) It is probable that there will be an outflow of service potential or economic benefits from the entity
b) The item has a cost or fair value that can be measured reliably.

However, recognition does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements. The recognition criteria are very similar to those for assets. Whether any particular item is recognized or not will require the exercise of professional judgment in considering materiality and whether the specific circumstances meet the recognition criteria.

An outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not.
The general recognition criteria require that an item has an appropriate basis of measurement, and a reasonable estimate can be made of the amount involved.

Antonella Risi: How do we determine the amount of a liability?

Riley Turnbull: For liabilities incurred, the transactions are generally initially recognized in financial statements at the amount of cash or cash equivalents to be paid or the fair value ascribed to the liability when incurred if it is a non-monetary transaction.

Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in the preparation of financial statements.

So that was a general introduction on liabilities. Next, we'll start looking at provisions, contingent liabilities and IPSAS 19.

Let's start by taking a look at the continuum on the slide it helps to determine what we mean by various terms such as accounts payable, accruals, provisions and contingent liabilities.

These terms are planted on a continuum of certainty – or how probable it is that a transaction or event will result in an outflow of resources. So the more certain we are about the probability that the transaction or event will result in an outflow of resources the more similar it is to an accounts payable item and therefore will result in a recognition of a liability in the financial statements. Conversely the more uncertain we are with regards to the probability of a transaction or event resulting in an outflow of resources the more we would consider if we want to include disclosure only in the notes to the financial statements.

Antonella Risi: Can you tell us more about provisions and contingencies?

Riley Turnbull:

- Provisions are liabilities of uncertain timing or amount.
- Contingent liabilities are possible obligations to be confirmed by occurrence of future events.

Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement.

And accruals are liabilities to pay for goods or services that have been received or supplied, but have not been paid, invoiced, or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Antonella Risi: How do we determine when to recognize a provision?

Riley Turnbull: A provision is recognized when:

a) An entity has a present obligation (legal or constructive) as a result of a past event;
b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
c) A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

On the basis of the evidence:

a) Where it is more likely than not that a present obligation exists at the reporting date, the entity recognizes a provision (if the recognition criteria are met); and
b) Where it is more likely than not that a present obligation exists at the reporting date, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Now we are going to switch gears and talk about contingent liabilities.

A contingent liability is a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

In a general sense, all provisions are contingent because they are uncertain in timing or amount.
A contingent liability may also be a present obligation that arises from past events, but is not recognized because it does not satisfy the recognition criteria. That is, it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

When an entity determines it is not probable that an outflow due to an obligation will occur, the entity does not recognize a liability. Instead it discloses a contingent liability unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. If the entity determines, based on an assessment of available evidence, that the possibility of an outflow of resources is remote, it does not disclose the possible obligation.

Contingent liabilities are assessed continually to determine whether an outflow of resources becomes probable. If it becomes probable that an outflow of resources will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs provided a reliable estimate can be made of the amount.
Professional judgement is required to determine if a liability should be recognized or disclosed.

Antonella Risi: Switching gears back to provisions. Can you take us through how provisions are measured?

Riley Turnbull: Sure!

The estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

Estimates require the exercise of judgment by management supplemented by experience and, in some cases, reports from independent experts.

Uncertainties surrounding an estimate are dealt with by various means according to the circumstances. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Risk describes variability of the outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities.

Where the provision being measured involves a large population of items, the obligation is estimated using the statistical method of estimation “expected value.” Under this method, the possible outcomes are weighted by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the midpoint of the range is used.

Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, the entity considers other possible outcomes.

Continuing on the topic related to measurements is what we refer to as the present value.
Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

The discount rate used reflects

- Current market assessments
- Risks specific to the liability
- Does *not* reflect risks for which future cash flow estimates adjusted

Provisions are therefore discounted, where the effect is material.

You might be wondering how future events affect the measurements of provisions…
Future events that may affect the amount required to settle an obligation will be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Future events may be:

- the effects of inflation or other specific price changes
- future changes in technology available at the time of the settlement

- cost reductions associated with increased experience
- effects of new legislation when virtually certain to be enacted

If there is sufficient evidence of changes expected to rates of inflation, this is reflected in the amount of the provision.

When a government believes that the cost of cleaning up contamination will be reduced by future changes in technology, the amount recognized reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

The effect of possible new legislation that may affect the amount of an existing obligation of a government or an individual public sector entity is taken into consideration in measuring that obligation, when sufficient objective evidence exists that the legislation is virtually certain to be enacted. Generally, the impact of new legislation is not considered until the new legislation is enacted.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

'Use' of a provision involves charging expenditures against a provision. Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognized for another purpose would conceal the impact of two different events.

The slide lists some of the disclosures required for provisions such as opening an closing amounts of provisions, increases in provisions, reversals of provisions, and impacts of changes in discount rate, nature and timing of provision and uncertainties and assumptions related to provisions..

The disclosures required by IPSAS 19 are intended to provide users of financial statements with information that allows them to understand the effects of accounting policies used and additional information to that presented on the face of financial statements that enables comparisons to be made for the entity over time and with other entities.

Antonella Risi: Thank you Riley, that was a lot of good information. Now that we talked a bit about IPSAS 19, let's turn our attention to IPSAS 39 the employee benefits standard.

The labor-intensive character of the operations of many public sector entities means that liabilities and expenses related to employee benefits are likely to be particularly significant in evaluating the financial performance and financial position of those entities.
So what is the scope of IPSAS 39?

Riley Turnbull: Good question! The scope of the standard is all forms of employee benefits.
Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

The employee benefits to which IPSAS 39 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, state, industry, or other multi-employer plans, or
c) By those informal practices that give rise to a constructive obligation. 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.

IPSAS 39 requires recognition of the liabilities for employee benefits and allocating the expense to the appropriate reporting period, but does not require funding of the liabilities.

The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the expense to the periods in which the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Antonella Risi: So funding policy is not relevant from an accounting standpoint for employee benefit plans?

Riley Turnbull: You are right. Determining whether an employee benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of an employee benefit plan.

Because the objectives of a funding policy are not necessarily the same as the accounting objective, the liability for accounting purposes may not be the same as the amount not yet funded at the financial statement date. In addition, the expense of the period for accounting purposes may not be the same as the contribution to the employee benefit plan in the period for funding purposes.

The diagram in this slide shows a good summary of the four common types of employee benefits that include: (FROM SLIDE)

- Short-term employee benefits
- Post-employment benefits
- Other long term benefits
- Termination benefits

Let's look at each of these types briefly now.

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.

Short-term employee benefits include items such as:

a) Wages, salaries, and social security contributions;
b) Paid annual leave and paid sick leave;
c) Profit-sharing and bonuses; and

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

Antonella Risi: How are short term plans accounted for?

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

When an employee has rendered service to an entity during an accounting period, the entity recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), and an expense.

Antonella Risi: Can we look at post-employment benefits next?

Riley Turnbull: Sure!

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

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

Post-employment benefits are covered in more detail in later slides.

Antonella Risi: Thank you Riley, and can you walk us through other-long-term benefits now?

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

Other long-term employee benefits may include the following 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:

a) Long-term compensated absences such as long service or sabbatical leave;
b) Jubilee or other long service benefits;
c) Long-term disability benefits;
d) Profit sharing and bonuses
e) Deferred remuneration; and
f) Compensation payable by the entity until an individual enters new employment.

Antonella Risi: You probably know what my next question will be….How do we account for other long-term benefit plans?

Riley Turnbull: The accounting for other long-term benefit plans is similar to that for post-employment benefits.

The amount recognized as a liability for other long-term employee benefits is the net total of the following amounts:

a) The present value of the defined benefit obligation at the reporting date using the Projected Unit Credit Method.
b) Minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

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, IPSAS 39 requires a simplified method of accounting for other long-term employee benefits. Unlike accounting required for post-employment benefits, this method does not recognize remeasurements in net assets/equity but in Surplus or Deficit.

For other long-term employee benefits, an entity recognizes the net total of the following amounts in Surplus or Deficit, except to the extent that another Standard requires or permits their inclusion in cost of an asset:

a) Service cost
b) Net interest on the net defined benefit liability (asset); and
c) Remeasurements of the net defined benefit liability (asset).

We will define and speak to these terms in more detail in a few slides.

Antonella Risi: What about the last category of plans, termination plans – can we look at these in more detail as well?

Riley Turnbull: Sure!

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.

IPSAS 39 deals with termination benefits separately from other employee benefits, because the event which gives rise to an obligation is the termination rather than employee service.
Termination benefits are typically lump-sum payments.

I know you are going to ask how termination plans are accounted for next.

Antonella Risi: Exactly!

Riley Turnbull: Termination benefits are dealt with separately from other employee benefits because the event which gives rise to an obligation is the termination of employment rather than employee service. Termination benefits do not provide an entity with future economic benefits, and are recognized as an expense immediately.

An entity recognizes a liability and an 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 recognizes the costs for a restructuring that is within the scope of IPSAS 19 and involves the payment of termination benefits.

Antonella Risi: Thank you Riley. You have walked us through 3 of the 4 categories of employee benefits. Next we will explore further the topic of post-employment benefits. Back to you Riley.

Riley Turnbull: Thank you Antonella!

Post-employment benefits include

- retirement benefits like pensions and
- other post-employment benefits like life insurance and medical care.

Both defined contribution and defined benefit plans will be addressed. This classification is based on the economic substance of the plan.

For defined contribution plans, an entity's obligation is limited to the amount the entity contributes to the fund. The employee receives post-employment benefits based on the contributions made to the plan plus investment returns. The employee bears the actuarial and investment risk, i.e., the risks that benefits will be less than expected and that the assets invested will be insufficient to meet expected benefits.

For defined benefit plans the entity that agrees to provide benefits bears the actuarial and investment risk lies with the employer.

The topic of multi-employer plans will not be covered in this presentation.

Let's look at defined contribution plans.

When an employee has rendered service to an entity during a period, the entity recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability, after deducting any contribution already paid, and as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset. An entity must disclose the amount recognized as an expense for defined contribution plans.
Antonella Risi: Now that you walked us through defined contribution plans, can you walk us through defined benefit plans, as they are more complicated than defined contribution plans?

Riley Turnbull: Absolutely!

Defined benefit plans may be funded, partially funded or unfunded – pensions may be funded or partially funded due to legislative requirements; other post-employment benefits are less likely to be funded.

The fundamental accounting task is to determine the amount of the obligation for retirement benefits to attribute to each period of employee service. This means determining the amount of the liability at the financial statement date and the value of the benefit employees earned during the period, which represents the expense of that period.
The ultimate cost of a defined benefit plan may be influenced by many variables, such as

- final salaries,
- employee turnover
- mortality,
- medical cost trends,

For a funded plan, the cost may be influenced by the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time.

Accounting for defined benefit plans is complex, because actuarial assumptions are required to measure the obligation and the expense. Determining such amounts involves not only accounting for past transactions and events; it also requires assumptions about future events, such as

- inflation,
- investment returns,
- medical costs and
- employee turnover and
- mortality.

It is probable that actual experience differs from the actuarial assumptions made about future economic events resulting in 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.

Most organizations involve a qualified actuary in the measurement of all material post-employment benefit obligations.

Antonella Risi: Determining the net defined benefit liability or asset is complex. Can you walk us through the steps that are required in determining such liability or asset?

Riley Turnbull: There are four key steps to measuring and recognizing the net defined liability or asset

i. The first is to use 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.
ii. Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost;
iii. Deducting the fair value of any plan assets from the present value of the defined benefit obligation.
iv. Adjusting the net defined benefit liability (asset) as calculated above for any effect of limiting a net defined benefit asset to the asset ceiling.

Antonella Risi: Is that all we need to account for?

Riley Turnbull: There are a few other steps in the accounting for defined benefit plans. These include:

- Determining amounts to be recognized in surplus or deficit. And then
- Determining the remeasurements of the net defined benefit liability/(asset), to be recognized in net assets/equity.

And we will get to these steps in the next few slides.

The diagram in this slide summarizes the components of defined benefit cost and their presentation in the financial statements. We will review each of these items in the coming slides.

Antonella Risi: Am I correct in understanding that not all amounts related to the defined benefit liability (asset) are recognized in surplus/deficit?

Riley Turnbull: That is correct! Let's discuss this further.

First, let's look at items that are recognized in surplus or deficit.

<u>Current Service Cost</u>

An entity uses 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.

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). That obligation arises as employees render services in return for postemployment benefits that 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.

<u>Past Service Cost</u>

Past service cost 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 (which is a significant reduction by the entity in the number of employees covered by a plan).

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)

<u>Net Interest on the Net Defined Benefit Liability (Asset)</u>

An entity determines net interest on the net defined benefit liability/ (asset) by multiplying the net defined benefit liability /(asset) by the discount rate.

To determine net interest, an entity uses the net defined benefit liability /(asset) and the discount rate determined at the start of the annual reporting period.

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 (if any).

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

Antonella Risi: Thank you Riley, you have now covered the items that are recognized in surplus/deficit. What about the items that are recognized in net assets/equity?

Riley Turnbull: Let's look at those now.

Actuarial Gains and Losses

Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments.

Antonella Risi: Before you go any further, What are the different types of actuarial assumptions used in determining the net defined benefit liability/asset?

Riley Turnbull: There are different types of actuarial assumptions used in determining the defined benefit obligation.

Demographic assumptions deal with matters such as:

a) Mortality;
b) Rates of employee turnover, disability, and early retirement;
c) Claim rates under medical plans.

Financial assumptions deal with items such as:

a) The discount rate;
b) Benefit levels, excluding any cost of the benefits to be met by employees, and future salary;
c) In the case of medical benefits, future medical costs, including claim handling costs and

Return on Plan Assets

The difference between:

- the interest on plan assets included in the net interest amount and
- the actual return on plan assets is accounted for as part of the remeasurement of the net defined benefit liability (asset) recognized in net assets/equity.

Lastly, any change in the effect of the asset ceiling is also recognized in net assets/equity.
However, we will not be covering the topic of asset ceilings in detail in this presentation.

Antonella Risi: Riley, in one of the previous slides you noted that the fair value of plan assets are deducted from the present value of the defined benefit obligation to arrive at the net defined benefit liability (asset), is that right?

Riley Turnbull: Right!

Antonella Risi: So what assets make up plan assets?

Riley Turnbull: Plan assets include Assets held by a long-term employee benefit fund – these 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 bankruptcy), and cannot be returned to the reporting entity

Plan assets may also include qualifying insurance policies.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party 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 bankruptcy) and cannot be paid to the reporting entity

Plan asset balances exclude unpaid contributions due from the reporting entity.

Antonella Risi: Now that we have looked at the various balances related to defined benefit plans, can you walk us through how these balances are presented on the financial statements?

Riley Turnbull: Yes, of course!

You might have noticed we referred to the "net defined benefit liability/asset". That is because defined benefit liabilities/assets are determined on a net basis. However, it is important to understand that an entity cannot offset an asset relating to one plan against a liability relating to another plan unless, 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 realize the surplus in one plan and settle its obligation under the other plan simultaneously.

Furthermore, some entities distinguish current assets and liabilities from noncurrent assets and liabilities. IPSAS 39 does not specify whether an entity should distinguish current and noncurrent portions of assets and liabilities arising from post-employment benefits.

An entity is required to recognize service cost and net interest on the net defined benefit liability (asset) in surplus or deficit. IPSAS 39 does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset).

Given how complex this topic is, there are a lot of disclosure requirements related to employee benefits, especially for defined benefit plans. Some of those requirements are listed on the slide. However, IPSAS 39 lists more.

Antonella Risi: Thank you Riley for walking us through some of the key aspects related to two complex liability standards.