

Pensions, Benefits and Social Security
4TH PBSS Colloquium

Tokyo, Japan
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Considerations about the Definition of Post-employment Benefit Obligation

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The Sumitomo Trust & Banking Co., Ltd.

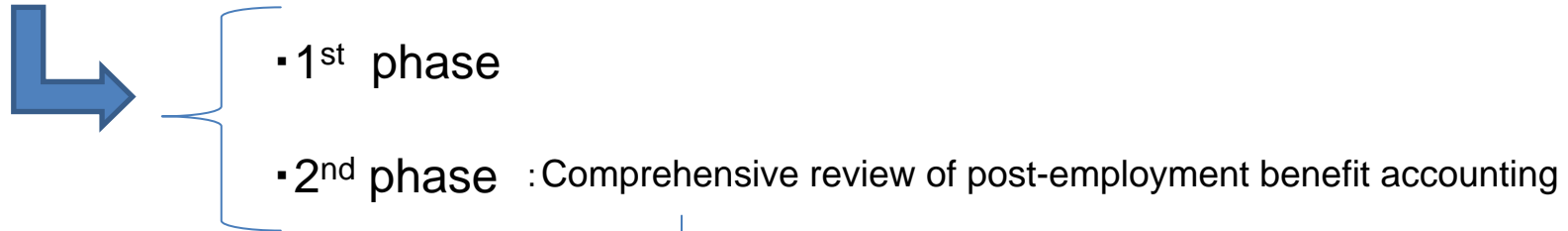


<<AGENDA>>

1. Introduction
2. General Discussion about Liability
3. ASB's Views and IAA's Views
4. Importance of Differences of Law System,
Social Discipline and Contract Practice
5. Principle which Defines Post-employment Benefit Obligation
6. Example
7. Conclusion

1. Introduction

IASB's project : Post-employment Benefits (including pensions)



→ : The most important and interesting subject, I think, is
the definition of post-employment benefit obligation

-
- Is the post-employment benefit obligation defined as PBO, ABO or VBO?
 - Is the straight-line based attribution necessary or not for back-end loaded benefit plans?
 - Should the unvested benefit be recognized or not?



2. General Discussion about Liability (1)

The present definition of a liability is:

“A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.”

The important points of this definition are:

- (1) An obligation is something an entity cannot avoid.
- (2) A present obligation must have arisen from a past transaction or event.

(From IASB's Framework)



2. General Discussion about Liability (2)

For a present obligation to exist, it is necessary that

- (a) the entity has no realistic alternative to settling the obligation and
- (b) the obligation exists independently of the entity's future actions.

An obligation must be either a legal obligation or a constructive obligation.

(From IASB's IAS37)



3. ASB's Views and IAA's Views

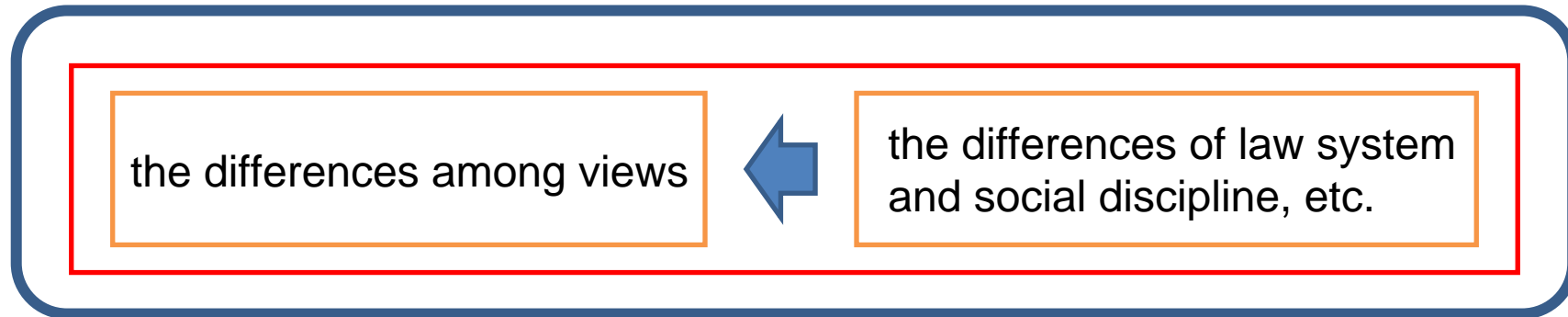
(Table 1)

	ASB's View		IAA's View	
	When a unit of account is an individual employee,	When a unit of account is the entire workforce of an enterprise,	When the accounts should record the value of the liability that the employer has incurred as of the balance sheet date,	When the commitment to employees should be spread over the period of time, in which the employee provides the services which earn that commitment,
Is post-employment benefit obligation defined as PBO, ABO or VBO?	ABO	PBO	VBO	PBO
Is straight-line based attribution necessary or not for back-end loaded benefit plan?	YES or NO Recognition should be based on a principle "Only present obligations should be reflected as liabilities".		NO	YES
Should the unvested benefit be recognized or not?	YES	YES	NO	YES

(From ASB's discussion paper published on 30th JAN 2008)

(From IAA's comment letter to the discussion paper)

4. Importance of Differences of Law System, Social Discipline and Contract Practice



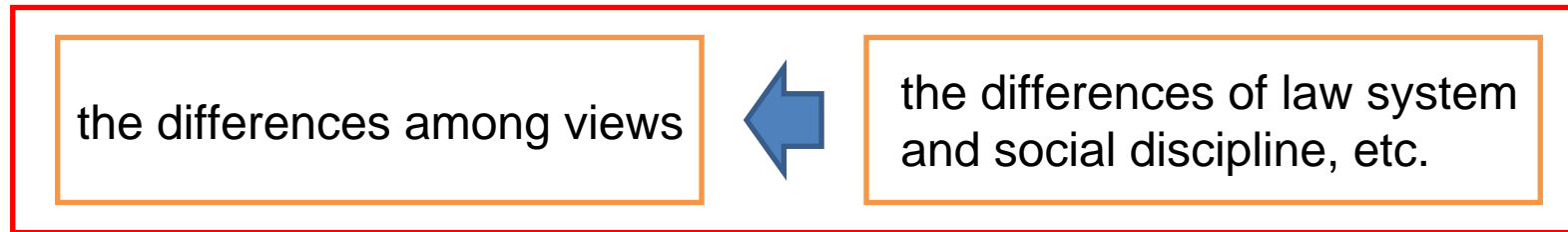
PBO, ABO or VBO? = varies in every country



PBO, ABO or VBO? = varies for every employee group



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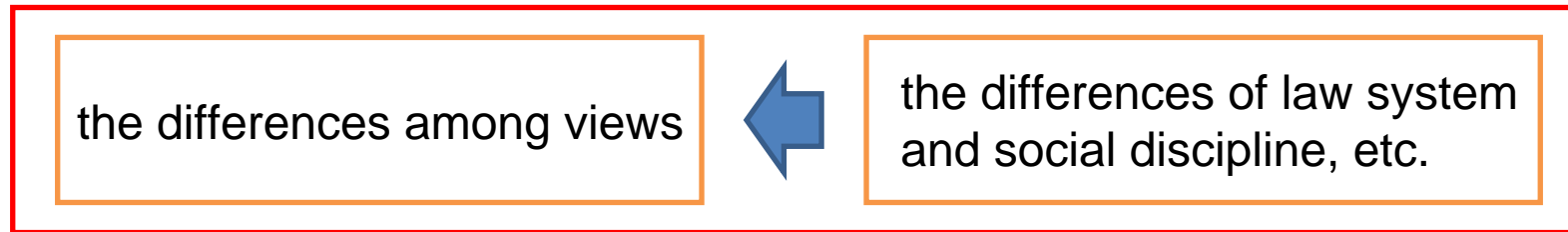


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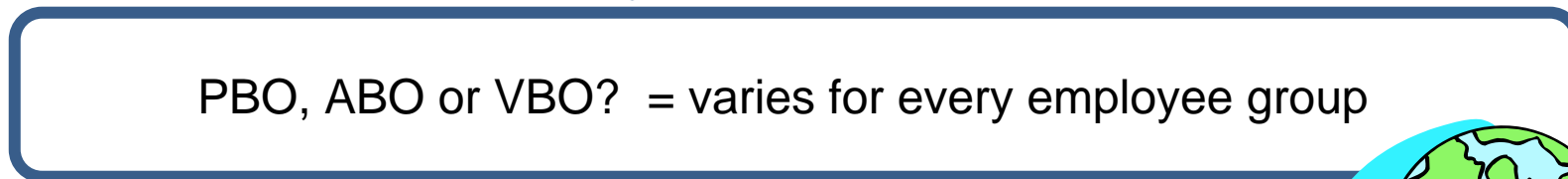
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It is much more logical that we study the definition of post-employment benefit obligation, with the premise that the right of employee and the duty of employer differ for every employee group.



What we have to do must be to establish a principle which decides the range to recognize with a background of the real relationship between employee and employer.



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5. Principle which Defines Post-employment Benefit Obligation(1)

For a present obligation to exist, it is necessary that

(Criterion a) the entity has no realistic alternative to settling the obligation and

(Criterion b) the obligation exists independently of the entity's future actions.

An obligation must be either a legal obligation or a constructive obligation.

are restricted by not only law and contract but also social discipline and custom

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5. Principle which Defines Post-employment Benefit Obligation(2)

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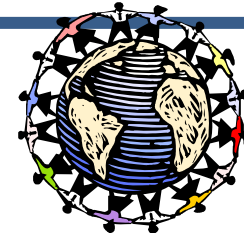
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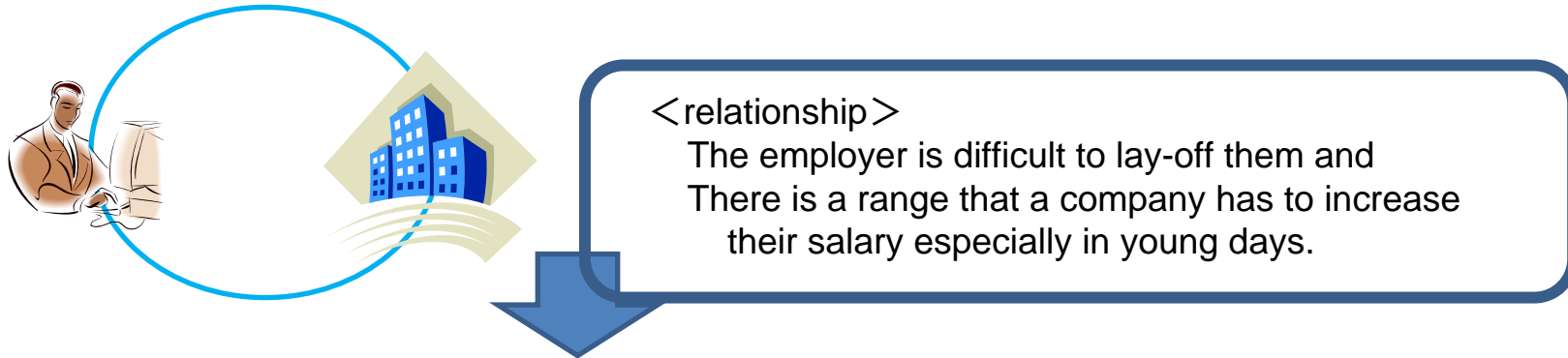
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6. In the Case of Proper Employees in Japanese Traditional Companies



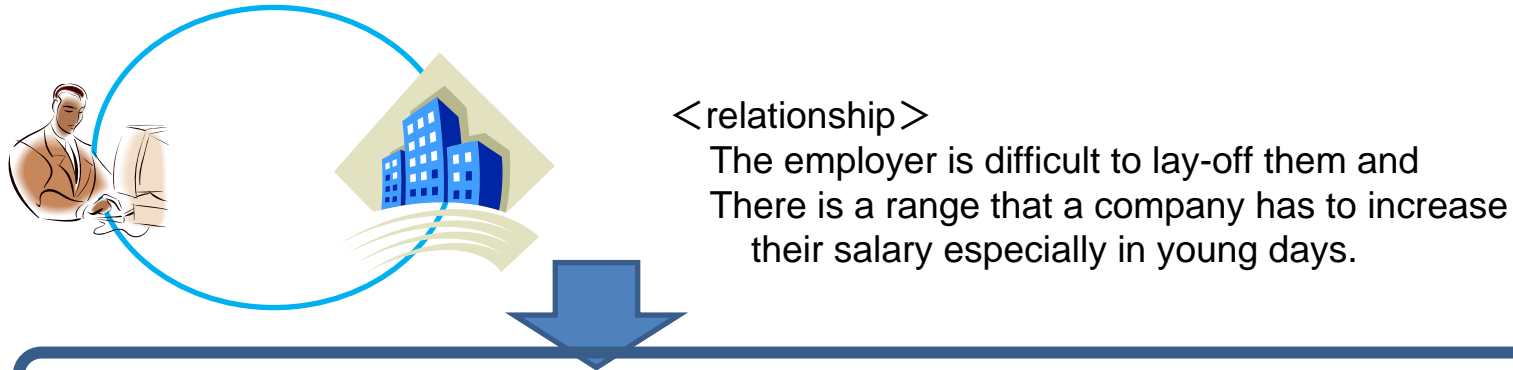
- Future salary increase = included (only necessary part)
- Unvested obligation = recognized
- Back-end loaded benefit = attributed in a straight-line basis

<Special Circumstance> an entity is able to decrease a post-employment benefit even the benefit corresponds to past service period



Post-employment benefit obligation has to be calculated for some portion of a presently contracted benefit, which is assumed to be inevitable in Japan.

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There is a range that a company has to increase
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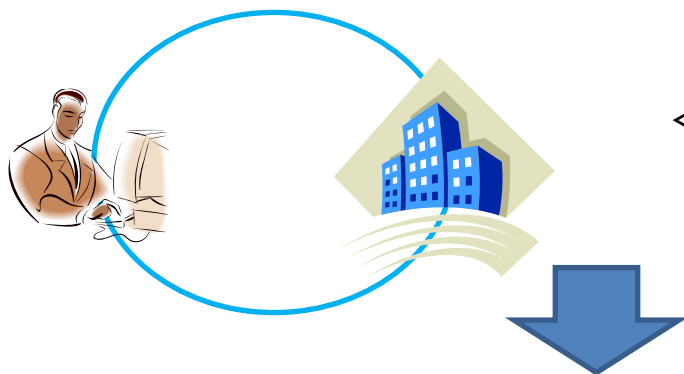
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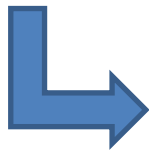
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7. Conclusion

principle approach



We can estimate appropriate obligation of post-employment benefit, which reflects the relationship between employee and employer and the difference of right and duty based on the differences of law scheme, social discipline and social custom, etc.

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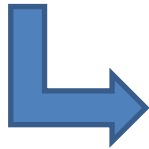
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