

Key theme

Accounting for post employment benefits

Title

Issues with the Preliminary Views on Amendments to IAS 19 Employee Benefits

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Abstract

This paper indicates the following four major issues with the Preliminary Views on Amendments to IAS 19 Employee Benefits in consideration of economic consistency and the consistency between pension related accounting items and non-pension related accounting items. In particular, this paper demonstrates that inconsistent risk evaluation among accounting items drives corporations to inefficient activities.

1. The line between contribution-based promises and defined benefit promises is blurry, and there is no need to distinguish between the two because of the availability of a consistent and comprehensive approach to the evaluation of pension liabilities through the incorporation of risk-neutral valuation methods.
2. Unlike the preliminary views on contribution-based promises, credit risk should not be considered unconditionally in evaluating pension liabilities in order to be consistent with corporate bonds, borrowings, and other balance sheet debt items.
3. This paper recommends the adoption of ABO instead of PBO for the measurement of pension liabilities, as PBO overvalues liabilities through the inclusion of unrealized future pay raise and evoke regulatory arbitrage.
4. The use of other comprehensive income is indispensable in evaluating profit or loss so that such evaluation is consistent with other accounting items that are never measured by changes in market value, such as rent. If some accounting items are measured by accrual income and others by changes in market value, then the risks of the former will be evaluated as smaller than those of the latter. Therefore, the preliminary views on contribution-based promises and approach 1 for defined benefit promises are not appropriate. This paper shows sample results of the difference in measurement using Divined Discount Models in which dividends have serial correlations.

Keywords

risk, utility, mark-to-market, risk-neutral, International Accounting Standards, employees benefit accounting, dividend discount model, PAAinE, serial correlation, regulatory arbitrage

