N. B. :- Sinhala and Tamil Versions of this Gazette will be published separately.

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The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

අංක 1851/21 - 2014 පෙබරවාරි මස 26 වැනි බදාදා - 2014.02.26

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PART I : SECTION (I) — GENERAL

Government Notifications

SRI LANKA ACCOUNTING AND AUDITING STANDARDS ACT, No. 15 OF 1995

Publication under Section 4(2)

BY virtue of the powers vested in the Institute of Chartered Accountants of Sri Lanka (hereinafter referred to as the "Institute"), the Institute has adopted the changes to Sri Lanka Accounting Standards (SLFRS & LKAS) with effect from 01st January, 2013, published herewith for the purpose of the Sri Lanka Accounting and Auditing Standards, Act, No. 15 of 1995. These changes shall be effective for financial statements covering period commencing on or after the first day of January Two Thousand Thirteen.

By Order of the Council,

ARUNA ALWIS,
Secretary.

The Institute of Chartered Accountants of Sri Lanka,
No. 30A,
Malalasekera Mawatha,
Colombo 07,
26th February, 2014.

Sri Lanka Accounting Standards Changes with effect from 01st January, 2013

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SLFRS 1-First time Adoption of Sri Lanka Accounting Standards

Standard	***Existing Para Reference***	***Replaced /added paragraph***
SLFRS 1	Para 29	An entity is permitted to designate a previously recognised financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss or a financial asset as available for sale in accordance with paragraph D19. The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.
	Para 29A	[Deleted]

SLFRS 3-Business Combinations

Standard	*Existing Para Reference*	*Replaced /added paragraph*
SLFRS 3	Para 16 (a)	classification of particular financial assets and liabilities as a financial asset or liability at fair value through profit or loss, or as a financial asset available for sale or held to maturity, in accordance with LKAS 39 *Financial Instruments: Recognition and Measurement*;
	Para 16 (c)	assessment of whether an embedded derivative should be separated from the host contract in accordance with LKAS 39 (which is a matter of ‘classification’ as this SLFRS uses that term).
	Para 42	In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income (for example, because the investment was classified as available for sale). If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.
	Para 53	Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder’s fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with LKAS 32 and LKAS 39.
	Para 56	This requirement does not apply to contracts accounted for in accordance with LKAS 39.
	Para 58 (b) (i)	is a financial instrument and is within the scope of LKAS 39 shall be measured at fair value, with any resulting gain or loss recognized either in profit or loss or in other comprehensive income in accordance with that SLFRS.
	Para 58 (b) (ii)	is not within the scope of LKAS 39 shall be accounted for in accordance with LKAS 37 or other SLFRSs as appropriate.

SLFRS 4-Insurance Contracts

Standard	*Existing Para Reference*	*Replaced /added paragraph*
SLFRS 4	Para 3	This SLFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see LKAS 32 *Financial Instruments: Presentation*, LKAS 39 *Financial Instruments: Recognition and Measurement* and SLFRS 7), except in the transitional provisions in paragraph 45.
	Para 4 (d)	financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either LKAS 39, LKAS 32 and SLFRS 7 or this SLFRS to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.
	Para 7	LKAS 39 requires an entity to separate some embedded derivatives from their host contract, measure them at *fair value* and include changes in their fair value in profit or loss. LKAS 39 applies to derivatives embedded in an insurance contract unless the embedded derivative is itself an insurance contract.
	Para 8	As an exception to the requirement in LKAS 39, an insurer need not separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate), even if the exercise price differs from the carrying amount of the host *insurance liability*. However, the requirement in LKAS 39 does apply to a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in a financial variable (such as an equity or commodity price or index), or a non-financial variable that is not specific to a party to the contract. Furthermore, that requirement also applies if the holder's ability to exercise a put option or cash surrender option is triggered by a change in such a variable (for example, a put option that can be exercised if a stock market index reaches a specified level).
	Para 12 (b)	apply LKAS 39 to the deposit component
	Para 34 (d)	shall, if the contract contains an embedded derivative within the scope of LKAS 39, apply LKAS 39 to that embedded derivative.
	Para 35 (a)	if the issuer classifies the entire discretionary participation feature as a liability, it shall apply the liability adequacy test in paragraphs 15–19 to the whole contract (ie both the guaranteed element and the discretionary participation feature). The issuer need not determine the amount that would result from applying LKAS 39 to the guaranteed element.
	Para 35 (b)	if the issuer classifies part or all of that feature as a separate component of equity, the liability recognised for the whole contract shall not be less than the amount that would result from applying LKAS 39 to the guaranteed element. That amount shall include the intrinsic value of an option to surrender the contract, but need not include its time value if paragraph 9 exempts that option from measurement at fair value. The issuer need not disclose the amount that would result from applying LKAS 39 to the guaranteed element, nor need it present that amount separately. Furthermore, the issuer need not determine that amount if the total liability recognised is clearly higher.

SLFRS 5-Non-Current Assets Held for Sale & Discontinued Operations

Standard	*Existing Para Reference*	*Replaced /added paragraph*
SLFRS 5	Para 5 (c)	financial assets within the scope of LKAS 39 *Financial Instruments: Recognition and Measurement.*

SLFRS 7-Financial Instruments: Disclosures

Standard	*Existing Para Reference*	*Replaced /added paragraph*
SLFRS 7	Para 2	The principles in this SLFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in LKAS 32 *Financial Instruments: Presentation* and LKAS 39 *Financial Instruments: Recognition and Measurement*.
	Para 3 (a)	those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with LKAS 27 *Consolidated and Separate Financial Statements*, LKAS 28 *Investments in Associates* or LKAS 31 *Interests in Joint Ventures*. However, in some cases, LKAS 27, LKAS 28 or LKAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using LKAS 39; in those cases, entities shall apply the requirements of this SLFRS. Entities shall also apply this SLFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in LKAS 32.
	Para 3 (d)	insurance contracts as defined in SLFRS 4 *Insurance Contracts*. However, this SLFRS applies to derivatives that are embedded in insurance contracts if LKAS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this SLFRS to *financial guarantee contracts* if the issuer applies LKAS 39 in recognising and measuring the contracts, but shall apply SLFRS 4 if the issuer elects, in accordance with paragraph 4(d) of SLFRS 4, to apply SLFRS 4 in recognising and measuring them.
	Para 3 (e)	financial instruments, contracts and obligations under share-based payment transactions to which SLFRS 2 *Share-based Payment* applies, except that this SLFRS applies to contracts within the scope of paragraphs 5–7 of LKAS 39.
	Para 4	This SLFRS applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of LKAS 39. Unrecognised financial instruments include some financial instruments that, although outside the scope of LKAS 39, are within the scope of this SLFRS (such as some loan commitments).
	Para 5	This SLFRS applies to contracts to buy or sell a non-financial item that are within the scope of LKAS 39 (see paragraphs 5–7 of LKAS 39).
	Para 8	The carrying amounts of each of the following categories, as defined in LKAS 39, shall be disclosed either in the statement of financial position or in the notes:
	Para 8 (a)	financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with LKAS 39
	Para 8 (b)	held-to-maturity investments
	Para 8 (c)	loans and receivables
	Para 8 (d)	available-for-sale financial assets

	Para 8 (e)	financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with LKAS 39; and
	Para 8 (g)	[Deleted]
	Para 8 (h)	[Deleted]
	Para 9	If the entity has designated a loan or receivable (or group of loans or receivables) as at fair value through profit or loss , it shall disclose:
	Para 9 (a)	the maximum exposure to *credit risk* (see paragraph 36(a)) of the loan or receivable (or group of loans or receivables) at the end of the reporting period.
	Para 9 (c)	the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:
	Para 9 (d)	the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.
	Para 10	If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of LKAS 39, it shall disclose: (*a*) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability determined either: (i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix B, paragraph B4); or (ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability. Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund. (*b*) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.
	Para 10 (c) (d)	[Deleted]
	Para 10A	[Deleted]
	Para 11	The entity shall disclose:
	Para 11 (a)	the methods used to comply with the requirements in paragraphs 9(c) and 10(a).
	Para 11(b)	if the entity believes that the disclosure it has given to comply with the requirements in paragraph 9(c) or 10(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant
	Para 11(c)	[Deleted]
		Reclassification

	Para 11A	[Deleted]
	Para 11B	[Deleted]
	Para 12	If the entity has reclassified a financial asset (in accordance with paragraphs 51–54 of LKAS 39) as one measured: (*a*) at cost or amortised cost, rather than at fair value; or (*b*) at fair value, rather than at cost or amortised cost, it shall disclose the amount reclassified into and out of each category and the reason for that reclassification.
	Para 12A	If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of LKAS 39 or out of the available-for-sale category in accordance with paragraph 50E of LKAS 39, it shall disclose: (*a*) the amount reclassified into and out of each category; (*b*) for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods; (*c*) if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare; (*d*) for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period; (*e*) for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and (*f*) the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.
	Para 12B	[Deleted]
	Para 12C	[Deleted]
	Para 12D	[Deleted]
	Para 14 (a)	the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of LKAS 39; and
	Para 20 (a) (i)	financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in accordance with LKAS 39;
	Para 20 (a) (ii)	available-for-sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period;

	Para 20 (a) (iii)	held-to-maturity investments;
	Para 20 (a) (iv)	loans and receivables; and
	Para 20 (a) (vi)	[Deleted]
	Para 20 (a) (vii)	[Deleted]
	Para 20 (b)	total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;
	Para 20 (c) (i)	financial assets or financial liabilities that are not at fair value through profit or loss; and
	Para 20 (d)	interest income on impaired financial assets accrued in accordance with paragraph AG93 of LKAS 39; and
	Para 20A	[Deleted]
	Para 28	If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74–AG79 of LKAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG76 of LKAS 39 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:
	Para 28 (a)	its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of LKAS 39); and
	Para 29 (b)	for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with LKAS 39 because its fair value cannot be measured reliably; or
	Para 30	In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:
	Para 42C (c)	an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 19(a)–(c) of LKAS 39 are met.
	Para 42D (f)	when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 20(c)(ii) and 30 of LKAS 39), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.
	Para 42E	To meet the objectives set out in paragraph 42B(b), when an entity derecognizes transferred financial assets in their entirety (see paragraph 20(a) and (c)(i) of LKAS 39) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

LKAS 1-Presentation of Financial Statements

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 1	Para 7	**The following terms are used in this Standard with the meanings specified**: ***General purpose financial statements*** **(referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.** ***Impracticable*** **Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.** ***Sri Lanka Accounting Standards (SLFRSs)*** **are Standards and Interpretations adopted by the Council of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). They comprise:** **(*a*) Sri Lanka Accounting Standards (SLFRSs);** **(*b*) Sri Lanka Accounting Standards (LKASs);** **(*c*) Statement of Recommended Practices (SoRPs);** **(*d*) Statement of Alternative Treatments (SoATs);** **(*e*) Interpretations adopted by the Council of the Institute of Chartered Accountants of Sri Lanka (IFRIC & SIC);** **(*f*) Financial Reporting guidelines issued by the Institute of Chartered Accountants of Sri Lanka.** ***Material*** **Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor**. Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statement*s states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions. *Notes*:- **Contain information in addition to that presented in the statement of financial position, statement of comprehensive income, separate income**

		statement (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements. ***Other comprehensive* income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other SLFRSs.** The components of other comprehensive income include: (*a*) changes in revaluation surplus (see LKAS 16 *Property, Plant and Equipment* and LKAS 38 *Intangible Assets*); (*b*) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of LKAS 19 *Employee Benefits*; (*c*) gains and losses arising from translating the financial statements of a foreign operation (see LKAS 21 The *Effects of Changes in Foreign Exchange Rates*); (*d*) gains and losses on remeasuring available-for-sale financial assets (see LKAS 39 *Financial Instruments: Recognition and Measurement)*; (*e*) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see LKAS 39). ***Owners* are holders of instruments classified as equity.** ***Profit or loss* is the total of income less expenses, excluding the components of other comprehensive income.** ***Reclassification adjustments* are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.** ***Total comprehensive income* is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.** Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.
	Para 68	The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets <u>classified as held for trading in accordance with LKAS 39)</u> and the current portion of non-current financial assets.

	Para 71	Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities classified as held for trading in accordance with LKAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.
	Para 82 (aa)	Deleted
	Para 82 (**ca**)	Deleted
	Para 93	Other SLFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period.
	Para 95	Reclassification adjustments arise, for example, on disposal of a foreign operation (see LKAS 21),on derecognition of available-for-sale financial assets (see LKAS 39) and when a hedged forecast transaction affects profit or loss (see paragraph 100 of LKAS 39 in relation to cash flow hedges).
	Para 123 (a)	whether financial assets are held-to-maturity investments;

LKAS 2-Inventories

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 02	Para 2 (b)	financial instruments (see LKAS 32 Financial Instruments: Presentation and LKAS 39 Financial Instruments: Recognition and Measurement); and

LKAS 8-Accounting Policies, Changes in Accounting Estimates & Errors

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 8	Para 5	**The following terms are used in this Standard with the meanings specified:Sri Lanka Accounting Standards (SLFRSs) are Standards and Interpretations adopted by the Council of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). They comprise:** **(a) Sri Lanka Accounting Standards (SLFRSs);** **(b) Sri Lanka Accounting Standards (LKASs);**

		(c) Statement of Recommended Practices (SoRPs); **(d) Statement of Alternative Treatments (SoATs);** **(e) Interpretations adopted by the Council of the Institute of Chartered Accountants of Sri Lanka (IFRIC & SIC);** **(f) Financial Reporting guidelines issued by the Institute of Chartered Accountants of Sri Lanka.**
	Para 53	Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in measuring financial assets previously classified as held to- maturity investments in accordance with LKAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with LKAS19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

LKAS 12-Income Taxes

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 12	Para 20	SLFRSs permit or require certain assets to be carried at fair value or to be revalued (see, for example, LKAS 16 *Property, Plant and Equipment*, LKAS 38 *Intangible Assets, LKAS 39 Financial Instruments: Recognition and Measurement and LKAS 40 Investment Property)*. In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:

LKAS 18-Revenue

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 18	Para 6 (d)	This Standard does not deal with revenue arising from: changes in the fair value of financial assets and financial liabilities or their disposal (see LKAS 39 Financial Instruments: Recognition and Measurement);
	Para 11	The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 29 and 30 and in accordance with LKAS 39.

LAKS 19-Sri Lanka Accounting Standard

Employee Benefits

Sri Lanka Accounting Standard LKAS 19 *Employee Benefits* is set out in paragraphs1–173. All the paragraphs have equal authority. LKAS 19 should be read in the context of its objective and *the Preface to Sri Lanka Accounting Standards* and the *Conceptual Framework for Financial Reporting*. LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1 The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

(*a*) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(*b*) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

2 **This Standard shall be applied by an employer in accounting for all employee benefits, except those to which SLFRS 2 *Share-based Payment* applies.**

3 This Standard does not deal with reporting by employee benefit plans (see LKAS 26 *Accounting and Reporting by Retirement Benefit Plans*).

4 The employee benefits to which this Standard 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. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. 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.

5 Employee benefits include:

(a) short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:

(i) wages, salaries and social security contributions;

(ii) paid annual leave and paid sick leave;

(iii) profit-sharing and bonuses; and

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

(b) post-employment benefits, such as the following:

(i) retirement benefits (*eg* : pensions and lump sum payments on retirement); and

(ii) other post-employment benefits, such as post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, such as the following:

(i) long-term paid absences such as long-service leave or sabbatical leave;

(ii) jubilee or other long-service benefits; and

(iii) long-term disability benefits; and

(d) termination benefits.

6 Employee benefits include benefits provided either to employees or to their dependants or beneficiaries and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.

7 An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include directors and other management personnel.

Definitions

8 The following terms are used in this Standard with the meanings specified:

Definitions of employee benefits

***Employee benefits* are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.**

***Short-term employee benefits* are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.**

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

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

***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.

Definitions relating to classification of plans

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

Defined contribution plans **are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.**

Defined benefit plans **are post-employment benefit plans other than defined contribution plans.**

Multi-employer plans **are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:**

(*a*) pool the assets contributed by various entities that are not under common control; and

(b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

Definitions relating to the net defined benefit liability (asset)

The net defined benefit liability (asset) **is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.**

The *deficitor surplus is*:

(a) the present value of the defined benefit obligation less

(b) the fair value of plan assets (if any).

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The *present value of a defined benefit obligation* is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Plan assets **comprise:**

(a) assets held by a long-term employee benefit fund; and

(b) qualifying insurance policies.

Assets held by a long-term employee benefit fund **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, unless either:

(i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or

(ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

A *qualifying insurance policy* is an insurance policy[1] issued by an insurer that is not a related party (as defined in LKAS 24 Related Party Disclosures) of the reporting entity, if the proceeds of the policy:

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[1] A qualifying insurance policy is not necessarily an insurance contract, as defined in SLFRS 4 *Insurance Contracts.*

(*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, unless either:

(i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or

(ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

***Fair value* is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.**

Definitions relating to defined benefit cost

***Service cost* comprises:**

(a) *current service cost,* which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;

(b) *past service cost,* which 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 (a significant reduction by the entity in the number of employees covered by a plan); *and*

(c) any gain or loss on settlement.

***Net interest on the net defined benefit liability (asset)* is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.**

***Remeasurements of the net defined benefit liability (asset)* comprise:**

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); *and*

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

***Actuarial gains and losses* are changes in the present value of the defined benefit obligation resulting from:**

(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

(b) the effects of changes in actuarial assumptions.

The *return on plan assets* is interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

(a) any costs of managing plan assets; and

(b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

A *settlement* is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-term employee benefits

9 Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:

(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 subsidised goods or services) for current employees.

10 An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and measurement

All short-term employee benefits

11 When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(b) as an expense, unless another SLFRS requires or permits the inclusion of the benefits in the cost of an asset (see, for example, LKAS 2 Inventories and LKAS 16 Property, Plant and Equipment).

12 Paragraphs 13, 16 and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.

Short-term paid absences

13 An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences.

(b) in the case of non-accumulating paid absences, when the absences occur.

14 An entity may pay employees for absence for various reasons including holidays, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to paid absences falls into two categories:

(a) accumulating; and

(b) non-accumulating.

15 Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation exists, and is recognised, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

16 An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

17 The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.

Example illustrating paragraphs 16 and 17
An entity has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31 December 20X1 the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X2 and that the remaining eight employees will take an average of six and a half days each. <u>The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31 December 20X1 (one and a half days each, for eight employees). Therefore, the entity recognises a liability equal to twelve days of sick pay.</u>

18 Non-accumulating paid absences do not carry forward: they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave and paid absences for jury service or military service. An entity recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-sharing and bonus plans

19 An entity shall recognise the expected cost of profit-sharing and bonus payments under paragraph 11 when, and only when:

(a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and

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

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

20 Under some profit-sharing plans, employees receive a share of the profit only if they remain with the entity for a specified period. Such plans create a constructive obligation as employees render service that increases the

amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments.

Example illustrating paragraph 20

A profit-sharing plan requires an entity to pay a specified proportion of its profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3 per cent of profit. The entity estimates that staff turnover will reduce the payments to 2.5 per cent of profit.

The entity recognizes a liability and an expense of 2.5 percent of profit.

21 An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

22 An entity can make a reliable estimate of its legal or constructive obligation under a profit-sharing or bonus plan when, and only when:

(a) the formal terms of the plan contain a formula for determining the amount of the benefit;

(b) the entity determines the amounts to be paid before the financial statements are authorised for issue; or

(c) past practice gives clear evidence of the amount of the entity's constructive obligation.

23 An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.

24 If profit-sharing and bonus payments are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 153–158).

Disclosure

25 Although this Standard does not require specific disclosures about short-term employee benefits, other SLFRSs may require disclosures. For example, LKAS 24 requires disclosures about employee benefits for key management personnel. LKAS 1 *Presentation of Financial Statements* requires disclosure of employee benefits expense.

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

26 Post-employment benefits include items such as the following:

(a) retirement benefits (eg: pensions and lump sum payments on retirement);and

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

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

27 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

28 Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

29 Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

(a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

(b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.

30 Under defined benefit plans:

(a) the entity's obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

31 Paragraphs 32–49 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans and insured benefits.

Multi-employer plans

32 An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

33 If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall:

(a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and

(b) disclose the information required by paragraphs 135–148 (excluding paragraph 148(d)).

34 When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:

(a) account for the plan in accordance with paragraphs 51 and 52 as if it were a defined contribution plan; and

(b) disclose the information required by paragraph 148.

35 One example of a multi-employer defined benefit plan is one where:

(a) the plan is financed on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and

(b) employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have either to increase its contributions or to persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

36 Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan; or

(b) the entity does not have access to sufficient information about the plan to satisfy the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the information required by paragraph 148.

37 There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 34 shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

Example illustrating paragraph 37
An entity participates in a multi-employer defined benefit plan that does not prepare plan valuations on an LKAS 19 basis. It therefore accounts for the plan as if it were a defined contribution plan. A non-LKAS 19 funding valuation shows a deficit of Rs.100 million in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. The entity's total contributions under the contract are Rs. 8 million. *The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.*

(*a*) In this Standard monetary amounts are denominated in 'Sri Lanka Rupees (Rs.)'

38 Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

39 In determining when to recognise, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply LKAS37 *Provisions, Contingent Liabilities and Contingent Assets.*

Defined benefit plans that share risks between entities under common control

40 Defined benefit plans that share risks between entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.

41 An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan as a whole measured in accordance with this Standard, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

42 Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, disclose the information required by paragraph 149.

State plans

43 An entity shall account for a State plan in the same way as for a multi-employer plan (see paragraphs 32–39).

44 State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by National or Local Government or by another body (for example, an autonomous agency created specifically for this purpose) that is not subject to control or influence by the reporting entity. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.

45 State plans are characterised as defined benefit or defined contribution, depending on the entity's obligation under the plan. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Nevertheless, in most state plans the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans. However, when a state plan is a defined benefit plan an entity applies paragraphs 32–39.

Insured benefits

46 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation either:

(a) to pay the employee benefits directly when they fall 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.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

47 The benefits insured by an insurance policy need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance policies are subject to the same distinction between accounting and funding as other funded plans.

48 Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

(a) accounts for a qualifying insurance policy as a plan asset (see paragraph 8);and

(b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criterion in paragraph 116).

49 Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-employment benefits: defined contribution plans

50 Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

Recognition and measurement

51 When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund;

(b) as an expense, unless another SLFRS requires or permits the inclusion of the contribution in the cost of an asset (see, for example, LKAS 2 and LKAS 16).

52 When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 83.

Disclosure

53 An entity shall disclose the amount recognised as an expense for defined contribution plans.

54 Where required by LKAS 24 an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment benefits: defined benefit plans

55 Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of 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.

Recognition and measurement

56 Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability, and willingness, to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.

57 Accounting by an entity for defined benefit plans involves the following steps:

(a) determining the deficit or surplus. This involves:

(i) using 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 (see paragraphs 67–69). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70–74) 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 will affect the cost of the benefit (see paragraphs 75–98);

(ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 67–69 and 83–86);

(iii) deducting the fair value of any plan assets (see paragraphs 113–115) from the present value of the defined benefit obligation.

(b) determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (*a*), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 64).

(c) determining amounts to be recognised in profit or loss:

(i) current service cost (see paragraphs 70–74);

(ii) any past service cost and gain or loss on settlement (see paragraphs 99–112);

(iii) net interest on the net defined benefit liability (asset) (see paragraphs 123–126).

(d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) actuarial gains and losses (see paragraphs 128 and 129);

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 130); and

(iii) any change in the effect of the asset ceiling (see paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

58 An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

59 This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

60 In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the constructive obligation

61 An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. 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.

62 The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of financial position

63 An entity shall recognise the net defined benefit liability (asset) in the statement of financial position.

64 When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

(a) the surplus in the defined benefit plan; and

(b) the asset ceiling, determined using the discount rate specified in paragraph 83.

65 A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognises a net defined benefit asset in such cases because:

(a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and measurement: present value of defined benefit obligations and current service cost

66 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:

(a) to apply an actuarial valuation method (see paragraphs 67–69);

(b) to attribute benefit to periods of service (see paragraphs 70–74); and

(c) to make actuarial assumptions (see paragraphs 75–98).

Actuarial valuation method

67 **An entity shall use 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.**

68 The projected unit credit method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 70–74) and measures each unit separately to build up the final obligation (see paragraphs 75–98).

Example illustrating paragraph 68

A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is Rs.10,000 and is assumed to increase at 7 per cent (compound) each year. The discount rate used is 10 per cent per year. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	1	2	3	4	5
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*
Benefit attributed to:					
–prior years	0	131	262	393	524
–current year(1% of final salary)	131	131	131	131	131
–current and prior years	131	262	393	524	655
Opening obligation	–	89	196	324	476
Interest at10%	–	9	20	33	48
Current service cost	89	98	108	119	131
Closing obligation	89	196	324	476	655

Note:
1. The opening obligation is the present value of the benefit attributed to prior years.
2. The current service cost is the present value of the benefit attributed to the current year.
3. The closing obligation is the present value of the benefit attributed to current and prior years.

69 An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing benefit to periods of service

70 **In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:**

(a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until,

(b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

71 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). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment 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.

Examples illustrating paragraph 71

1 A defined benefit plan provides a lump sum benefit of Rs.100 payable on retirement for each year of service.
A benefit of Rs.100 is attributed to each year. The current service cost is the present value of Rs.100. The present value of the defined benefit obligation is the present value of Rs.100, multiplied by the number of years of service up to the end of the reporting period.If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

2 A plan provides a monthly pension of 0.2 per cent of final salary for each year of service. The pension is payable from the age of 65.
Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2 per cent of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2 per cent of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

72 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 vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, 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.

Examples illustrating paragraph 72

1 A plan pays a benefit of Rs.100 for each year of service. The benefits vest after ten years of service.
A benefit of Rs.100 is attributed to each year. In each of the first ten years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete ten years of service

2 A plan pays a benefit of Rs.100 for each year of service, excluding service before the age of 25. The benefits vest immediately.
No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of Rs.100 is attributed to each subsequent year.

73 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

Examples illustrating paragraph 73

1 A plan pays a lump sum benefit of Rs.1,000 that vests after ten years of service. The plan provides no further benefit for subsequent service.

A benefit of Rs.100 (Rs.1,000 divided by ten) is attributed to each of the first ten years.

The current service cost in each of the first ten years reflects the probability that the employee may not complete ten years of service. No benefit is attributed to subsequent years.

2 A plan pays a lump sum retirement benefit of Rs. 2,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of Rs.100 (Rs.2,000 divided by twenty) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2,000 divided by twenty) to each of the first twenty years.

For an employees who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of Rs.200 (Rs.2,000 divided by ten) to each of the first ten years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

3 A post-employment medical plan reimburses 40 per cent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.

Under the plan's benefit formula, the entity attributes 4 per cent of the present value of the expected medical costs (40 per cent divided by ten) to each of the first ten years and 1 per cent (10 per cent divided by ten) to each of the second ten years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within ten years, no benefit is attributed.

4 A post-employment medical plan reimburses 10 per cent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.

Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity attributes benefit on a straight-line basis under paragraph 71. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2.5 per cent of the present value of the expected medical costs (50 per cent divided by twenty).

For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 1 per cent of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within ten years, no benefit is attributed.

74 Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph 70(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Example illustrating paragraph 74
Employees are entitled to a benefit of 3 per cent of final salary for each year of service before the age of 55. *Benefit of 3 per cent of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.*

Actuarial assumptions

75 Actuarial assumptions shall be unbiased and mutually compatible.

76 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) mortality (see paragraphs 81 and 82);

(ii) rates of employee turnover, disability and early retirement;

(iii) the proportion of plan members with dependants who will be eligible for benefits;

(iv) the proportion of plan members who will select each form of payment option available under the plan terms; and

(v) claim rates under medical plans.

(b) financial assumptions, dealing with items such as:

(i) the discount rate (see paragraphs 83–86);

(ii) benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 87–95);

(iii) in the case of medical benefits, future medical costs, including claim handling costs (**ie.** the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs96–98); and

(iv) taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service.

77 Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

78 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase and discount rates. For example, all assumptions that depend on a particular inflation

level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

79 An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyperinflationary economy (see LKAS 29 *Financial Reporting in Hyperinflationary Economies)*, or where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.

80 Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

Actuarial assumptions: mortality

81 An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.

82 In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial assumptions: discount rate

83 The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

84 One actuarial assumption that has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

85 The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

86 In some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter-term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds.

Actuarial assumptions: salaries, benefits and medical costs

87 An entity shall measure its defined benefit obligations on a basis that reflects:

(a) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;

(b) any estimated future salary increases that affect the benefits payable;

(c) the effect of any limit on the employer's share of the cost of the future benefits;

(d) contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and

(e) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

(i) those changes were enacted before the end of the reporting period; or

(ii) historical data, or other reliable evidence, indicate 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.

88 Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

(a) the entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;

(b) the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 108(*c*)); or

(c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

89 Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:

(a) past service cost, to the extent that they change benefits for service before the change; and

(b) current service cost for periods after the change, to the extent that they change benefits for service after the change.

90 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

91 Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

(a) the estimated life of the entity; and

(b) the estimated life of the plan.

92 Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 116. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

93 Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or reduce remeasurements of the net defined benefit liability (asset) (*eg*: if the contributions are required to reduce a deficit arising from losses on plan assets or actuarial losses). Contributions from employees or third parties in respect of service are attributed to periods of service as a negative benefit in accordance with paragraph 70 (ie the net benefit is attributed in accordance with that paragraph).

94 Changes in employee or third-party contributions in respect of service result in:

(a) current and past service cost (if changes in employee contributions are not set out in the formal terms of a plan and do not arise from a constructive obligation); or

(b) actuarial gains and losses (if changes in employee contributions are set out in the formal terms of a plan, or arise from a constructive obligation).

95 Some post-employment benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.

96 Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

97 Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.

98 The level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Past service cost and gains and losses on settlement

99 Before 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) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

100 An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognises past service cost before any gain or loss on settlement.

101 A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

Past service cost

102 Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

103 An entity shall recognise past service cost as an expense at the earlier of the following dates:–

(a) when the plan amendment or curtailment occurs; and

(b) when the entity recognises related restructuring costs (see LKAS 37) or termination benefits (see paragraph 165).

104 A plan amendment occurs when an entity introduces, or withdraws a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

105 A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

106 Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

107 Where an entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

108 Past service cost excludes:

(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 88); and

(d) the increase in vested benefits (ie benefits that are not conditional on future employment, see paragraph 72) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered).

Gains and losses on settlement

109 The gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

110 An entity shall recognise a gain or loss on the settlement of a defined benefit plan when the settlement occurs.

111 A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

112 In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 46) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 116–119 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and measurement: plan assets

Fair value of plan assets

113 The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus. When no market price is available, the fair value of plan assets is estimated, for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation).

114 Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

115 Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

116 When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall:

(a) recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.

(b) disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 124 and 125). The components of defined benefit cost recognised in accordance with paragraph 120 may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.

117 Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 8, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 116 is not relevant (see paragraphs 46–49 and 115).

118 When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 116 is relevant to such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph 140(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

119 If the right to reimbursement arises under an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of defined benefit cost

120 An entity shall recognise the components of defined benefit cost, except to the extent that another SLFRS requires or permits their inclusion in the cost of an asset, as follows:

- **(a) service cost (see paragraphs 66–112) in profit or loss;**
- **(b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126) in profit or loss; and**
- **(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130) in other comprehensive income.**

121 Other SLFRSs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant and equipment (see LKAS 2 and LKAS 16). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 120.

122 Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.

Net interest on the net defined benefit liability (asset)

123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

124 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 64.

125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

126 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the net defined benefit liability (asset)

127 Remeasurements of the net defined benefit liability (asset) comprise:

- (a) actuarial gains and losses (see paragraphs 128 and 129);
- (b) the return on plan assets (see paragraph 130), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 125) ; and
- (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 126).

128 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. Causes of actuarial gains and losses include, for example:

(a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) the effect of changes to assumptions concerning benefit payment options;

(c) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) the effect of changes in the discount rate.

129 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

130 In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 76). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

131 An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, 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 realise the surplus in one plan and settle its obligation under the other plan simultaneously.

132 The offsetting criteria are similar to those established for financial instruments in LKAS 32 *Financial Instruments: Presentation.*

Current/non-current distinction

133 Some entities distinguish current assets and liabilities from non-current assets and liabilities. This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

Components of defined benefit cost

134 Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with LKAS 1.

Disclosure

135 An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139);

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144); and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 145–147).

136 To meet the objectives in paragraph 135, an entity shall consider all the following:

(a) the level of detail necessary to satisfy the disclosure requirements;

(b) how much emphasis to place on each of the various requirements;

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

137 If the disclosures provided in accordance with the requirements in this Standard and other SLFRSs are insufficient to meet the objectives in paragraph 135, an entity shall disclose additional information necessary to meet those objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) between amounts owing to active members, deferred members, and pensioners.

(b) between vested benefits and accrued but not vested benefits.

(c) between conditional benefits, amounts attributable to future salary increases and other benefits.

138 An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:

(a) different geographical locations.

(b) different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.

(c) different regulatory environments.

(d) different reporting segments.

(e) different funding arrangements (eg wholly unfunded, wholly or partly funded).

Characteristics of defined benefit plans and risks associated with them

139 An entity shall disclose:

(a) information about the characteristics of its defined benefit plans, including:

(i) the nature of the benefits provided by the plan (eg: final salary defined benefit plan or contribution-based plan with guarantee).

(ii) a description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 64).

(iii) a description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of board members of the plan.

(b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For. example, if plan assets are invested primarily in one class of investments, eg property, the plan may expose the entity to a concentration of property market risk.

(c) a description of any plan amendments, curtailments and settlements.

Explanation of amounts in the financial statements

140 An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) the net defined benefit liability (asset), showing separate reconciliations for:

(i) plan assets.

(ii) the present value of the defined benefit obligation.

(iii) the effect of the asset ceiling.

(b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

141 Each reconciliation listed in paragraph 140 shall show each of the following, if applicable:

(a) current service cost.

(b) interest income or expense.

(c) re measurements of the net defined benefit liability (asset), showing separately:

(i) the return on plan assets, excluding amounts included in interest in (*b*)

(ii) actuarial gains and losses arising from changes in demographic assumptions (see paragraph 76(*a*)).

(iii) actuarial gains and losses arising from changes in financial assumptions (see paragraph 76(*b*)).

(iv) changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (*b*). An entity shall also disclose how it determined the maximum economic benefit available, ie whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.

(d) past service cost and gains and losses arising from settlements. As permitted by paragraph 100, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.

(e) the effect of changes in foreign exchange rates.

(f) contributions to the plan, showing separately those by the employer and by plan participants.

(g) payments from the plan, showing separately the amount paid in respect of any settlements.

(h) the effects of business combinations and disposals.

142 An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in SLFRS 13 *Fair Value Measurement*[2]) and those that do not. For example, and considering the level of disclosure discussed in paragraph 136, an entity could distinguish between:

(a) cash and cash equivalents;

(b) equity instruments (segregated by industry type, company size, geography etc);

(c) debt instruments (segregated by type of issuer, credit quality, geography etc);

(d) real estate (segregated by geography etc);

(e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc);

(f) investment funds (segregated by type of fund);

(g) asset-backed securities; and

(h) structured debt.

143 An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity

144 An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 76). Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows

145 An entity shall disclose:

(a) a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 144) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.

(b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

146 An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

147 To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

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[2] If an entity has not yet applied SLFRS 13, it may refer to paragraph AG71 of LKAS 39 Financial Instruments: *Recognition and Measurement*, or paragraph B. 5.4.3 of SLFRS 9 *Financial Instruments*, if applicable.

(a) a description of any funding arrangements and funding policy that affect future contributions.

(b) the expected contributions to the plan for the next annual reporting period.

(c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi- employer plans

148 If an entity participates in a multi-employer defined benefit plan, it shall disclose:

(a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

(b) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

(c) a description of any agreed allocation of a deficit or surplus on:

(i) wind-up of the plan; or

(ii) the entity's withdrawal from the plan.

(d) if the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by *(a)–(c)* and instead of the information required by paragraphs 139–147:

(i) the fact that the plan is a defined benefit plan.

(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.

(iii) the expected contributions to the plan for the next annual reporting period.

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

(v) an indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Defined benefit plans that share risks between entities under common control

149 If an entity participates in a defined benefit plan that shares risks between entities under common control, 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 entity.

(c) if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 135–147.

(d) if the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 135–137, 139, 142–144 and 147(a) and (b).

150 The information required by paragraph 149(c) and (d) can be disclosed by cross-reference to disclosures 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 entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure requirements in other SLFRSs

151 Where required by LKAS 24 an entity discloses information about:

(*a*) related party transactions with post-employment benefit plans; and

(*b*) post-employment benefits for key management personnel.

152 Where required by LKAS 37 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long- term employee benefits

153 Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service:

(a) long-term paid 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; and

(e) deferred remuneration.

154 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, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognize remeasurements in other comprehensive income.

Recognition and measurement

155 In recognising and measuring the surplus or deficit in an other long-term employee benefit plan, an entity shall apply paragraphs 56–98 and 113–115. An entity shall apply paragraphs 116–119 in recognising and measuring any reimbursement right.

156 For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another SLFRS requires or permits their inclusion in the cost of an asset:

(a) service cost (see paragraphs 66–112);

(b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126); and

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130).

157 One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

Disclosure

158 Although this Standard does not require specific disclosures about other long-term employee benefits, other SLFRSs may require disclosures. For example, LKAS 24 requires disclosures about employee benefits for key management personnel. LKAS 1 requires disclosure of employee benefits expense.

Termination benefits

159 This Standard deals with termination benefits separately from other employee benefits because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

160 Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

161 The form of the employee benefit does not determine whether it is provided in exchange for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

(a) enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.

(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

162 Indicators that an employee benefit is provided in exchange for services include the following:

(a) the benefit is conditional on future service being provided (including benefits that increase if further service is provided).

(b) the benefit is provided in accordance with the terms of an employee benefit plan.

163 Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.

164 Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some jurisdictions as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits.

Recognition

165 An entity shall recognise a liability and 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 recognises costs for a restructuring that is within the scope of LKAS 37 and involves the payment of termination benefits.

166 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 entity can no longer withdraw the offer of termination benefits is the earlier of :

(a) when the employee accepts the offer ; and

(b) when a restriction (*eg*: a legal, regulatory or contractual requirement or other restriction) on the entity'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.

167 For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity 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.

(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.

168 When an entity recognises termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 103).

Measurement

169 An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

(a) if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.

(b) if the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long-term employee benefits.

170 Because termination benefits are not provided in exchange for service, paragraphs 70–74 relating to the attribution of the benefit to periods of service are not relevant.

Example illustrating paragraphs 159–170

Background

As a result of a recent acquisition, an entity plans to close a factory in ten months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of Rs.30,000. Employees leaving before closure of the factory will receive Rs.10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are Rs. 3,200,000 (*ie*. 20 × Rs.10,000 + 100 × Rs.30,000). As required by paragraph 160, the entity accounts for benefits provided in exchange for termination of employment as termination benefits and accounts for benefits provided in exchange for services as short-term employee benefits.

Termination benefits

The benefit provided in exchange for termination of employment is *Rs.*10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (*ie.* all employees will leave employment when the factory closes). Therefore the entity recognises a liability of *Rs.*1,200,000 (*ie.* 120 × *Rs.*10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the factory.

Benefits provided in exchange for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are in exchange for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the annual reporting period. In this example, discounting is not required, so an expense of *Rs.* 200,000 (*ie. Rs.*2,000,000 ÷ 10) is recognised in each month during the service period of ten months, with a corresponding increase in the carrying amount of the liability.

Disclosure

171 Although this Standard does not require specific disclosures about termination benefits, other SLFRSs may require disclosures. For example, LKAS 24 requires disclosures about employee benefits for key management personnel. LKAS 1 requires disclosure of employee benefits expense.

Transition and effective date

172 An entity shall apply this Standard for annual periods beginning on or after 1st January, 2013. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact.

173 An entity shall apply this Standard retrospectively, in accordance with LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except that:

(a) an entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts this Standard.

(b) in financial statements for periods beginning before 1st January, 2014, an entity need not present comparative information for the disclosures required by paragraph 145 about the sensitivity of the defined benefit obligation.

174 [Deleted]

LKAS 20 - Accounting for Government Grants and Disclosure of Government Assistance

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 20	Para 10A	The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with <u>LKAS 39 Financial Instruments: Recognition and Measurement</u>. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with <u>LKAS 39</u> and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

LKAS 21-The Effects of Changes in Foreign Exchange Rates

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 21	Para 3 (a)	in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of <u>LKAS 39 Financial Instruments: Recognition and Measurement</u>;
	Para 4	<u>LKAS 39</u> applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of <u>LKAS 39</u> (eg: some foreign currency derivatives that are emedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.
	Para 52 (a)	the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with <u>LKAS 39</u>; and

LKAS 27-Consolidated & Separate Financial Statements

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 27	Para 35	If a parent loses control of a subsidiary, the parent shall account for all amounts recognised in other comprehensive income in relation to that

		subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. For example, if a subsidiary has available-for-sale financial assets and the parent loses control of the subsidiary, the parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. Similarly, if a revaluation surplus previously recognized in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary.
	Para 37	The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with LKAS 39 *Financial Instruments: Recognition and Measurement* or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.
	Para 38 (b)	in accordance with LKAS 39.
	Para 38	The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with SLFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with SLFRS 5. The measurement of investments accounted for in accordance with LKAS 39 is not changed in such circumstances.
	Para 40	Investments in jointly controlled entities and associates that are accounted for in accordance with LKAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.

LKAS 28-Investments in Associates

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 28	Para 1	That upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with LKAS 39 Financial Instruments: Recognition and Measurement. Such investments shall be measured at fair value in accordance with LKAS 39, with changes in fair value recognised in profit or loss in the period of the change. An entity holding such an investment shall make the disclosures required by paragraph 37(f).
	Para 18	An investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall

		account for the investment in accordance with <u>LKAS 39</u> from that date, provided the associate does not become a subsidiary or a joint venture as defined in LKAS 31. On the loss of significant influence, the investor shall measure at fair value any investment the investor retains in the former associate. The investor shall recognise in profit or loss any difference between:
	Para 19	When an investment ceases to be an associate and is accounted for in accordance with <u>LKAS 39</u>, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with <u>LKAS 39.</u>
	Para 19A	If an investor loses significant influence over an associate, the investor shall account for all amounts recognised in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by an associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over the associate. For example, if an associate has <u>available-for-sale financial assets</u> and the investor loses significant influence over the associate, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to <u>those assets</u>. If an investor's ownership interest in an associate is reduced, but the investment continues to be an associate, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in other comprehensive income.

LKAS 31-Interests in Joint Ventures

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 31	Para 1	**This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:** **(*a*) venture capital organisations, or** **(*b*) mutual funds, unit trusts and similar entities including investment-linked insurance funds.** **That <u>upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with LKAS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with LKAS 39, with changes in fair value recognised in profit or loss in the period of the change</u>. A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.**
	Para 45	When an investor ceases to have joint control over an entity, it shall account for any remaining investment in accordance with <u>LKAS 39</u> from

		that date, provided that the former jointly controlled entity does not become a subsidiary or associate. From the date when a jointly controlled entity becomes a subsidiary of an investor, the investor shall account for its interest in accordance with LKAS 27 and SLFRS 3 Business Combinations (as revised in 2008). From the date when a jointly controlled entity becomes an associate of an investor, the investor shall account for its interest in accordance with LKAS 28. On the loss of joint control, the investor shall measure at fair value any investment the investor retains in the former jointly controlled entity. The investor shall recognise in profit or loss any difference between:
	Para 45A	When an investment ceases to be a jointly controlled entity and is accounted for in accordance with LKAS 39, the fair value of the investment when it ceases to be a jointly controlled entity shall be regarded as its fair value on initial recognition as a financial asset in accordance with LKAS 39.
	Para 45B	If an investor loses joint control of an entity, the investor shall account for all amounts recognised in other comprehensive income in relation to that entity on the same basis as would be required if the jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the investor loses joint control of the entity. For example, if a jointly controlled entity has available-for-sale financial assets and the investor loses joint control of the entity, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. If an investor's ownership interest in a jointly controlled entity is reduced, but the investment continues to be a jointly controlled entity, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in other comprehensive income.
	Para 51	An investor in a joint venture that does not have joint control shall account for that investment in accordance with LKAS 39 or, if it has significant influence in the joint venture, in accordance with LKAS 28.

LKAS 32-Financial Instruments: Presentation

Standard	*Existing Para Reference*	*Replaced /added paragraph*
LKAS 32	Para 3	The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in LKAS 39 Financial *Instruments: Recognition and Measurement*, and for disclosing information about them in SLFRS 7 *Financial Instruments: Disclosures.*
	Para 4 (a)	those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with LKAS 27 *Consolidated and Separate Financial Statements*, LKAS 28 *Investments in Associates* or LKAS 31 *Interests in Joint Ventures*. However, in some cases, LKAS 27, LKAS 28

		or LKAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using LKAS 39; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.
	Para 4 (d)	insurance contracts as defined in SLFRS 4 *Insurance Contracts.* However, this Standard applies to derivatives that are embedded in insurance contracts if LKAS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies LKAS 39 in recognising and measuring the contracts, but shall apply SLFRS 4 if the issuer elects, in accordance with paragraph 4(d) of SLFRS 4, to apply SLFRS 4 in recognising and measuring them.
	Para 4 (e)	financial instruments that are within the scope of SLFRS 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32 and AG25–AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see LKAS 39).
	Para 12	The following terms are defined in paragraph 9 of LKAS 39 and are used in this Standard with the meaning specified in LKAS 39. * amortised cost of a financial asset or financial liability * available-for-sale financial assets * derecognition * derivative * effective interest method * financial asset or financial liability at fair value through profit or loss * financial guarantee contract * firm commitment * forecast transaction * hedge effectiveness * hedged item * hedging instrument * held-to-maturity investments * loans and receivables * regular way purchase or sale transaction costs
	Para 23	With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. When the financial liability is recognised initially under LKAS 39, its fair value (the present value of the redemption

		amount) is reclassified from equity. Subsequently, the financial liability is measured in accordance with LKAS 39. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (eg a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price).
	Para 31	LKAS 39 deals with the measurement of financial assets and financial liabilities. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component (such as an equity conversion option) is included in the liability component. The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.
	Para 42	In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see LKAS 39, paragraph 36).

LKAS 36-Impairment of Assets

Standard	***Existing Para Reference***	***Replaced /added paragraph***
LKAS 36	Para 2 (e)	financial assets that are within the scope of *LKAS 39 Financial Instruments: Recognition and Measurement*;
	Para 5	This Standard does not apply to financial assets within the scope of LKAS 39, investment property measured at fair value in accordance with LKAS 40, or biological assets related to agricultural activity measured at fair value less costs to sell in accordance with LKAS 41. However, this Standard applies to assets that are carried at revalued amount (ie fair value) in accordance with other SLFRSs, such as the revaluation model in LKAS 16 *Property, Plant and Equipment*. Identifying whether a revalued asset may be impaired depends on the basis used to determine fair value:

LKAS 37-Provisions, Contingent Liabilities & Contingent Assets

Standard	***Existing Para Reference***	***Replaced /added paragraph***
LKAS 37	Para 2	This Standard does not apply to financial instruments (including guarantees) that are within the scope of *LKAS 39 Financial Instruments: Recognition and Measurement.*

LKAS 39-Financial Instruments: Recognition & Measurement

Standard	***Existing Para Reference***	***Replaced /added paragraph***
LKAS 39	Heading	Objective
	Para 1	The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in LKAS 32 *Financial Instruments: Presentation*. Requirements for disclosing information about financial instruments are in SLFRS 7 *Financial Instruments: Disclosures.*
	Para 2 (a)	those interests in subsidiaries, associates and joint ventures that are accounted for under LKAS 27 *Consolidated and Separate Financial Statements*, LKAS 28 *Investments in Associates* or LKAS 31 *Interests in Joint Ventures*. However, entities shall apply this Standard to an interest in a subsidiary, associate or joint venture that according to LKAS 27, LKAS 28 or LKAS 31 is accounted for under this Standard. Entities shall also apply this Standard to derivatives on an interest in a subsidiary, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in LKAS 32.
	Para 2 (b) (i)	lease receivables recognised by a lessor are subject to the derecognition and impairment provisions of this Standard(see paragraphs 15–37, 58, 59, 63–65 and Appendix A paragraphsAG36–AG52 and AG84–AG93);
	Para 2 (b) (ii)	finance lease payables recognised by a lessee are subject to the derecognition provisions of this Standard (see paragraphs 39–42 and Appendix A paragraphs AG57–AG63); and
	Para 2 (b) (iii)	derivatives that are embedded in leases are subject to the embedded derivatives provisions of this Standard (see paragraphs 10–13 and Appendix A paragraphs AG27–AG33).
	Para 2 (e)	rights and obligations arising under (i) an insurance contract as defined in SLFRS 4 *Insurance Contracts*, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract in paragraph 9, or (ii) a contract that is within the scope of SLFRS 4 because it contains a discretionary participation feature. However, this Standard applies to a derivative that is embedded in a contract within the scope of SLFRS 4 if the derivative is not itself a contract within the scope of SLFRS 4 (see paragraphs 10–13 and Appendix A paragraphs AG27–AG33 of this Standard). Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or SLFRS 4 to such financial guarantee contracts (see paragraphs AG4 and AG4A). The issuer may make that election contract by contract, but the election for each contract is irrevocable.
	Para 2 (h)	loan commitments other than those loan commitments described in paragraph 4. An issuer of loan commitments shall apply LKAS 37

		Provisions, Contingent Liabilities and Contingent Assets to loan commitments that are not within the scope of this Standard. However, all loan commitments are subject to the derecognition provisions of this Standard (see paragraphs 15–42and Appendix A paragraphs AG36–AG63).
	Para 4 (a)	loan commitments that the entity designates as financial liabilities at fair value through profit or loss. An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class.
	Para 4 (c)	commitments to provide a loan at a below-market interest rate. Paragraph 47(d) specifies the subsequent measurement of liabilities arising from these loan commitments.
	Para 8	The terms defined in LKAS 32 are used in this Standard with the meanings specified in paragraph 11 of LKAS 32. LKAS 32 defines the following terms: • financial instrument • financial asset • financial liability • equity instrument and provides guidance on applying those definitions.
	Para 9	The following terms are used in this Standard with the meanings specified: Definition of a derivative A *derivative* is a financial instrument or other contract within the scope of this Standard (see paragraphs 2–7) with all three of the following characteristics: (*a*) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'); (*b*) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (*c*) it is settled at a future date. *Definitions of four categories of financial instruments* *A financial asset or financial liability at fair value through profit or loss* is a financial asset or financial liability that meets either of the following conditions. (*a*) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if: (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

		(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). (*b*) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, or when doing so results in more relevant information, because either (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in LKAS 24 *Related Party Disclosures*), for example the entity's board of directors and chief executive officer. In SLFRS 7, paragraphs 9–11 and B4 require the entity to provide disclosures about financial assets and financial liabilities it has designated as at fair value through profit or loss, including how it has satisfied these conditions. For instruments qualifying in accordance with (ii) above, that disclosure includes a narrative description of how designation as at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy. Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured (see paragraph 46(c) and Appendix A paragraphs AG80 and AG81), shall not be designated as at fair value through profit or loss. It should be noted that paragraphs 48, 48A, 49 and Appendix A paragraphs AG69–AG82, which set out requirements for determining a reliable measure of the fair value of a financial asset or financial liability, apply equally to all items that are measured at fair value, whether by designation or otherwise, or whose fair value is disclosed. *Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity (see Appendix A paragraphs AG16–AG25) other than: (*a*) those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity designates as available for sale; and (*c*) those that meet the definition of loans and receivables. An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding

financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

(i) are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) those that the entity upon initial recognition designates as available for sale; or

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

An interest acquired in a pool of assets that are not loans or receivables (for example, an interest in a mutual fund or a similar fund) is not a loan or receivable.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Definition of a financial guarantee contract

A *financial guarantee contract* is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Definitions relating to recognition and measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial

		recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.
		The *effective interest method* is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see LKAS 18 *Revenue*), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments). *Derecognition* is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position. *Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.* *A regular way purchase or sale* is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see Appendix A paragraph AG13). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.
	Para 9 (foot note)	* Paragraphs 48–49 and AG69–AG82 of Appendix A contain requirements for determining the fair value of a financial asset or financial liability.
	Heading	Embedded derivatives
	Para 10	10 An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes

		some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.
	Para 11	An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract (see Appendix A paragraphs AG30 and AG33); (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated). If an embedded derivative is separated, the host contract shall be accounted for under this Standard if it is a financial instrument, and in accordance with other appropriate Standards if it is not a financial instrument. This Standard does not address whether an embedded derivative shall be presented separately in the statement of financial position.
	Para 11A	Notwithstanding paragraph 11, if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless: (a) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or (b) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.
	Para 12	If an entity is required by this Standard to separate an embedded derivative from its host contract, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid (combined) contract as at fair value through profit or loss. Similarly, if an entity is unable to measure separately the embedded derivative that would have to be separated on reclassification of a hybrid (combined) contract out of the

		fair value through profit or loss category, that reclassification is prohibited. In such circumstances the hybrid (combined) contract remains classified as at fair value through profit or loss in its entirety.
	Para 13	If an entity is unable to determine reliably the fair value of an embedded derivative on the basis of its terms and conditions (for example, because the embedded derivative is based on an unquoted equity instrument), the fair value of the embedded derivative is the difference between the fair value of the hybrid (combined) instrument and the fair value of the host contract, if those can be determined under this Standard. If the entity is unable to determine the fair value of the embedded derivative using this method, paragraph 12 applies and the hybrid (combined) instrument is designated as at fair value through profit or loss.
	Heading	Recognition and derecognition
	Heading	Initial recognition
	Para 14	An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. (See paragraph 38 with respect to regular way purchases of financial assets.)
	Heading	Derecognition of a financial asset
	Para 15	In consolidated financial statements, paragraphs 16–23 and Appendix A paragraphs AG34–AG52 are applied at a consolidated level. Hence, an entity first consolidates all subsidiaries in accordance with LKAS 27 and SIC-12 *Consolidation—Special Purpose Entities* and then applies paragraphs 16–23 and Appendix A paragraphs AG34–AG52 to the resulting group.
	Para 16	Before evaluating whether, and to what extent, derecognition is appropriate under paragraphs 17–23, an entity determines whether those paragraphs should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety, as follows. (a) Paragraphs 17–23 are applied to a part of a financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions. (i) The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an interest rate strip whereby the counterparty obtains the right to the interest cash flows, but not the principal cash flows from a debt instrument, paragraphs 17–23 are applied to the interest cash flows. (ii) The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement

		whereby the counterparty obtains the rights to a 90 per cent share of all cash flows of a debt instrument, paragraphs 17–23 are applied to 90 per cent of those cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the cash flows provided that the transferring entity has a fully proportionate share. (iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90 per cent share of interest cash flows from a financial asset, paragraphs 17–23 are applied to 90 per cent of those interest cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the specifically identified cash flows provided that the transferring entity has a fully proportionate share. (*b*) In all other cases, paragraphs 17–23 are applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety). For example, when an entity transfers (i) the rights to the first or the last 90 per cent of cash collections from a financial asset (or a group of financial assets), or (ii) the rights to 90 per cent of the cash flows from a group of receivables, but provides a guarantee to compensate the buyer for any credit losses up to 8 per cent of the principal amount of the receivables, paragraphs 17–23 are applied to the financial asset (or a group of similar financial assets) in its entirety. In paragraphs 17–26, the term 'financial asset' refers to either a part of a financial asset (or a part of a group of similar financial assets) as identified in (a) above or, otherwise, a financial asset (or a group of similar financial assets) in its entirety.
	Para 17	An entity shall derecognise a financial asset when, and only when: (a) the contractual rights to the cash flows from the financial asset expire; or (b) it transfers the financial asset as set out in paragraphs 18 and 19 and the transfer qualifies for derecognition in accordance with paragraph 20.(See paragraph 38 for regular way sales of financial assets.)
	Para 18	An entity transfers a financial asset if, and only if, it either: (a) transfers the contractual rights to receive the cash flows of the financial asset; or (b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 19.
	Para 19	When an entity retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation

		to pay those cash flows to one or more entities (the 'eventual recipients'), the entity treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met. (a) The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition. (b) The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows. (c) The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in LKAS 7 *Statement of Cash Flows*) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.
	Para 20	When an entity transfers a financial asset (see paragraph 18), it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case: (a) if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. (b) if the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity shall continue to recognise the financial asset. (c) if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case: (i) if the entity has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. (ii) if the entity has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset (see paragraph 30).
	Para 21	The transfer of risks and rewards (see paragraph 20) is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of

		<u>ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (eg because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sale price plus a lender's return). An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (eg because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred a fully proportionate share of the cash flows from a larger financial asset in an arrangement, such as a loan sub-participation, that meets the conditions in paragraph 19).</u>
	Para 22	<u>Often it will be obvious whether the entity has transferred or retained substantially all risks and rewards of ownership and there will be no need to perform any computations. In other cases, it will be necessary to compute and compare the entity's exposure to the variability in the present value of the future net cash flows before and after the transfer. The computation and comparison is made using as the discount rate an appropriate current market interest rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.</u>
	Para 23	<u>Whether the entity has retained control (see paragraph 20(c)) of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control. In all other cases, the entity has retained control.</u>
	heading	**Transfers that qualify for derecognition** (see paragraph 20(a) and (c)(i))
	Para 24	<u>If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset in accordance with paragraph 27.</u>
	Para 25	<u>If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognise the new financial asset, financial liability or servicing liability at fair value.</u>

	Para 26	On derecognition of a financial asset in its entirety, the difference between: (*a*) the carrying amount and (*b*) the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income (see paragraph 55(b)) shall be recognised in profit or loss.
	Para 27	If the transferred asset is part of a larger financial asset (eg when an entity transfers interest cash flows that are part of a debt instrument, see paragraph 16(a)) and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised. The difference between: (a) the carrying amount allocated to the part derecognised and (b) the sum of (i) the consideration received for the part derecognised (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss allocated to it that had been recognised in other comprehensive income (see paragraph 55(b)) shall be recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts.
	Para 28	When an entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognised and the part that is derecognised, the fair value of the part that continues to be recognised needs to be determined. When the entity has a history of selling parts similar to the part that continues to be recognised or other market transactions exist for such parts, recent prices of actual transactions provide the best estimate of its fair value.When there are no price quotes or recent market transactions to support the fair value of the part that continues to be recognised, the best estimate of the fair value is the difference between the fair value of the larger financial asset as a whole and the consideration received from the transferee for the part that is derecognised.
	Heading	**Transfers that do not qualify for derecognition** (see paragraph 20(b))
	Para 29	If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the

		transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability. **Continuing involvement in transferred assets** (see paragraph 20(c)(ii))
	Para 30	If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of its continuing involvement. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. For example: (a) when the entity's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the entity's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the entity could be required to repay ('the guarantee amount'). (b) when the entity's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the entity's continuing involvement is the amount of the transferred asset that the entity may repurchase. However, in case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price (see paragraph AG48). (c) when the entity's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the entity's continuing involvement is measured in the same way as that which results from non-cash settled options as set out in (b) above.
	Para 31	When an entity continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability. Despite the other measurement requirements in this Standard, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is: (a) the amortised cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.
	Para 32	The entity shall continue to recognise any income arising on the transferred asset to the extent of its continuing involvement and shall recognise any expense incurred on the associated liability.

	Para 33	For the purpose of subsequent measurement, recognised changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other in accordance with paragraph 55, and shall not be offset.
	Para 34	If an entity's continuing involvement is in only a part of a financial asset (eg. when an entity retains an option to repurchase part of a transferred asset, or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the entity retains control), the entity allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. For this purpose, the requirements of paragraph 28 apply. The difference between: (*a*) the carrying amount allocated to the part that is no longer recognised; and (*b*) the sum of (i) the consideration received for the part no longer recognised and (ii) any cumulative gain or loss allocated to it that had been recognised in other comprehensive income (see paragraph 55(b)) shall be recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognized on the basis of the relative fair values of those parts.
	Para 35	If the transferred asset is measured at amortised cost, the option in this Standard to designate a financial liability as at fair value through profit or loss is not applicable to the associated liability.
	heading	**All transfers**
	Para 36	If a transferred asset continues to be recognised, the asset and the associated liability shall not be offset. Similarly, the entity shall not offset any income arising from the transferred asset with any expense incurred on the associated liability (see LKAS 32 paragraph 42).
	Para 37	If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows: (a) If the transferee has the right by contract or custom to sell or repledge the collateral, then the transferor shall reclassify that asset in its statement of financial position (eg as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets. (b) If the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral.

		(c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral. (d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset.
	Heading	**Regular way purchase or sale of a financial asset**
	Para 38	A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting (see Appendix A paragraphs AG53–AG56).
	heading	**Derecognition of a financial liability**
	Para 39	An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished— ie when the obligation specified in the contract is discharged or cancelled or expires.
	Para 40	An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.
	Para 41	The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.
	Para 42	If an entity repurchases a part of a financial liability, the entity shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between (a) the carrying amount allocated to the part derecognised and (b) the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised shall be recognised in profit or loss.
	heading	**Measurement**
	heading	**Initial measurement of financial assets and financial liabilities**
	Para 43	When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction

		costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
	Para 44	When an entity uses settlement date accounting for an asset that is subsequently measured at cost or amortised cost, the asset is recognised initially at its fair value on the trade date (see Appendix A paragraphs AG53–AG56).
		Subsequent measurement of financial assets
	Para 45	For the purpose of measuring a financial asset after initial recognition, this Standard classifies financial assets into the following four categories defined in paragraph 9: (a) financial assets at fair value through profit or loss; (b) held-to-maturity investments; (c) loans and receivables; and (d) available-for-sale financial assets. These categories apply to measurement and profit or loss recognition under this Standard. The entity may use other descriptors for these categories or other categorisations when presenting information in the financial statements.The entity shall disclose in the notes the information required by SLFRS 7.
	Para 46	After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets: (a) loans and receivables as defined in paragraph 9, which shall be measured at amortised cost using the effective interest method; (b) held-to-maturity investments as defined in paragraph 9, which shall be measured at amortised cost using the effective interest method; and (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost (see Appendix A paragraphs AG80 and AG81). Financial assets that are designated as hedged items are subject to measurement under the hedge accounting requirements in paragraphs 89–102. All financial assets except those measured at fair value through profit or loss are subject to review for impairment in accordance with paragraphs 58–70 and Appendix A paragraphs AG84–AG93.
	heading	**Subsequent measurement of financial liabilities**
	Para 47	After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:

		(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost. (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 29 and 31 apply to the measurement of such financial liabilities. (c) financial guarantee contracts as defined in paragraph 9. After initial recognition, an issuer of such a contract shall (unless paragraph 47(a) or (b) applies) measure it at the higher of: (i) the amount determined in accordance with LKAS 37; and (ii) the amount initially recognised (see paragraph 43) less, when appropriate, cumulative amortisation recognised in accordance with LKAS 18. (d) commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 47(a) applies) measure it at the higher of: (i) the amount determined in accordance with LKAS 37; and (ii) the amount initially recognised (see paragraph 43) less, when appropriate, cumulative amortization recognised in accordance with LKAS 18. Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements in paragraphs 89–102.
	heading	Fair value measurement considerations
	Para 48	In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, LKAS 32 or SLFRS 7, an entity shall apply paragraphs AG69–AG82 of Appendix A.
	Para 48A	The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation

		technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (ie without modification or repackaging) or based on any available observable market data.
	Para 49	The fair value of a financial liability with a demand feature (eg. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.
	heading	**Reclassifications**
	Para 50	An entity: (a) shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued; (b) shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss; and (c) may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through profit or loss category if the requirements in paragraph 50B or 50D are met. An entity shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
	Para 50A	The following changes in circumstances are not reclassifications for the purposes of paragraph 50: (a) a derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such; (b) a derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; (c) financial assets are reclassified when an insurance company changes its accounting policies in accordance with paragraph 45 of SLFRS 4.
	Para 50B	financial asset to which paragraph 50(C) applies (except a financial asset of the type described in paragraph 50D) may be reclassified out of the fair value through profit or loss category only in rare circumstances.
	Para 50C	If an entity reclassifies a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B, the financial asset shall be reclassified at its fair value on the date of reclassification.

		Any gain or loss already recognised in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.
	Para 50D	A financial asset to which paragraph 50(C) applies that would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition) may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
	Para 50E	A financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
	Para 50F	If an entity reclassifies a financial asset out of the fair value through profit or loss category in accordance with paragraph 50D or out of the available-for-sale category in accordance with paragraph 50E, it shall reclassify the financial asset at its fair value on the date of reclassification. For a financial asset reclassified in accordance with paragraph 50D, any gain or loss already recognised in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. For a financial asset reclassified out of the available-for-sale category in accordance with paragraph 50E, any previous gain or loss on that asset that has been recognised in other comprehensive income in accordance with paragraph 55(b) shall be accounted for in accordance with paragraph 54.
	Para 51	If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for in accordance with paragraph 55(b).
	Para 52	Whenever sales or reclassification of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions in paragraph 9, any remaining held-to-maturity investments shall be reclassified as available for sale. On such reclassification, the difference between their carrying amount and fair value shall be accounted for in accordance with paragraph 55(b).
	Para 53	If a reliable measure becomes available for a financial asset or financial liability for which such a measure was previously not available, and the asset or liability is required to be measured at fair value if a reliable measure is available (see paragraphs 46(c) and 47), the asset or liability shall be remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for in accordance with paragraph 55.
	Para 54	If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available (see paragraphs 46(c) and 47) or because the 'two preceding financial years' referred to in

		paragraph 9 have passed, it becomes appropriate to carry a financial asset or financial liability at cost or amortised cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortised cost, as applicable. Any previous gain or loss on that asset that has been recognised in other comprehensive income in accordance with paragraph 55(b) shall be accounted for as follows: (a) In the case of a financial asset with a fixed maturity, the gain or loss shall be amortised to profit or loss over the remaining life of the held-to-maturity investment using the effective interest method. Any difference between the new amortised cost and maturity amount shall also be amortised over the remaining life of the financial asset using the effective interest method, similar to the amortisation of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss in accordance with paragraph 67. (b) In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognised in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss in accordance with paragraph 67.
	heading	**Gains and losses**
	Para 55	A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship (see paragraphs 89–102), shall be recognised, as follows. (a) A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss shall be recognised in profit or loss. (b) A gain or loss on an available-for-sale financial asset shall be recognised in other comprehensive income, except for impairment losses (see paragraphs 67–70) and foreign exchange gains and losses (see Appendix A paragraph AG83), until the financial asset is derecognised. At that time the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment (see LKAS 1 *Presentation of Financial Statements* (as revised in 2007)). However,interest calculated using the effective interest method (see paragraph 9) is recognised in profit or loss (see LKAS 18). Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established (see LKAS 18).
	Para 56	For financial assets and financial liabilities carried at amortised cost (see paragraphs 46 and 47), a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process. However, for financial assets or

		financial liabilities that are hedged items (see paragraphs 78–84 and Appendix A paragraphs AG98–AG101) the accounting for the gain or loss shall follow paragraphs 89–102.
	Para 57	If an entity recognises financial assets using settlement date accounting (see paragraph 38 and Appendix A paragraphs AG53 and AG56), any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets carried at cost or amortised cost (other than impairment losses). For assets carried at fair value, however, the change in fair value shall be recognised in profit or loss or in other comprehensive income, as appropriate under paragraph 55.
	heading	**Impairment and uncollectibility of financial assets**
	Para 58	An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraph 63 (for financial assets carried at amortised cost), paragraph 66 (for financial assets carried at cost) or paragraph 67 (for available-for-sale financial assets) to determine the amount of any impairment loss.
	Para 61	In addition to the types of events in paragraph 59, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.
	heading	**Financial assets carried at amortised cost**
	Para 63	If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (*ie*. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.
	heading	Financial assets carried at cost
	Para 66	If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of

		return for a similar financial asset (see paragraph 46(c) and Appendix A paragraphs AG80 and AG81). Such impairment losses shall not be reversed.
	heading	**Available-for-sale financial assets**
	Para 67	When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired (see paragraph 59), the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised.
	Para 68	The amount of the cumulative loss that is reclassified from equity to profit or loss under paragraph 67 shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.
	Para 69	Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.
	Para 70	If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.
	Para 79	Unlike loans and receivables, a held-to-maturity investment cannot be a hedged item with respect to interest-rate risk or prepayment risk because designation of an investment as held to maturity requires an intention to hold the investment until maturity without regard to changes in the fair value or cash flows of such an investment attributable to changes in interest rates. However, a held-to-maturity investment can be a hedged item with respect to risks from changes in foreign currency exchange rates and credit risk.
	Para 88 (d)	The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured (see paragraphs 46 and 47 and Appendix A paragraphs AG80 and AG81 for guidance on determining fair value).
	Para 89 (b)	the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.
	Para 90	If only particular risks attributable to a hedged item are hedged, recognized changes in the fair value of the hedged item unrelated to the hedged risk are recognised as set out in paragraph 55.

	Para 96 (c)	if an entity's documented risk management strategy for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument (see paragraphs 74, 75 and 88(a)), that excluded component of gain or loss is recognised in accordance with paragraph 55.

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