June 2024

# *GRAP COMMUNIQUE*

# REVISED REQUIREMENTS FOR GRAP 25 ON *EMPLOYEE BENEFITS* EFFECTIVE 1 APRIL 2024

ACCOUNTING STANDARDS BOARD

**CONTENTS**


INTRODUCTION AND PURPOSE ..... 2

WHAT ARE EMPLOYEE BENEFITS IN THE SCOPE OF GRAP 25? ..... 2

SHORT-TERM EMPLOYEE BENFEITS ..... 3

POST-EMPLOYMENT BENEFITS ..... 3

OTHER LONG-TERM EMPLOYEE BENEFITS ..... 7

TERMINATION BENEFITS ..... 7

HOW SHOULD THE NEW REQUIREMENTS BE APPLIED IN THE FIRST YEAR OF ADOPTION? ..... 8



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## *INTRODUCTION AND PURPOSE*

This Communique provides entities with information on the amendments to the Standard of GRAP on *Employee Benefits* (GRAP 25) that became effective on 1 April 2023. These amendments should be applied when preparing financial statements for the 2023/24 reporting period. Entities should familiarise themselves with the amendments and consider the impact of these on their policies and reporting. This Communique is not intended to provide comprehensive information on GRAP 25. Entities should familiarise themselves with all the requirements of GRAP 25. Access the Standard on the ASB website here.

## *WHAT ARE EMPLOYEE BENEFITS IN THE SCOPE OF GRAP 25?*

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

There were no significant changes to the definitions of the types of employee benefits. Guidance was added to distinguish these types of benefits.

**Short-term employee benefits**

Due to be settled wholly before twelve months after end of reporting period in which employees render services, other than termination benefits.

**Post-employment benefits**

Employee benefits payable after completion of employment, other than termination benefits and short-term employee benefits.

**Termination benefits**

Provided in exchange for termination of employee's employment. Result of either (a) entity's decision to terminate employee's employment before normal retirement date, or (b) employee's decision to accept offer of benefits in exchange for termination.

**Other long-term employee benefits**

All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Are informal arrangements to provide post-employment benefits within the scope of GRAP 25? The answer is yes – see the full response to this question in the FAQs on Standards of GRAP: FAQs.



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## *SHORT-TERM EMPLOYEE BENFEITS*

Short-term employee benefits are recognised when an employee has rendered service to an entity during a reporting period.

An entity recognises an undiscounted amount as an expense (unless another Standard requires or permits the inclusion of benefits in the cost of an asset), and a liability to the extent that the benefits have not yet been provided to the employee.

The changes to short-term employee benefits were limited to terminology changes and guidance on reclassifying items between short and long-term employee benefits.

## *POST-EMPLOYMENT BENEFITS*

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

**Defined contribution plans** are post-employment benefit plans under which an entity pays fixed contributions into a separate entity 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. Therefore, such plans limit the entity's legal or constructive obligation to the amount that it agrees to contribute to the fund. Consequently, actuarial risk and investment risk fall in substance on the employee.

**Defined benefit plans** are post-employment benefit plans that are not defined contribution plans.

GRAP 25 provides specific guidance on the classification of the following types of plans:

- Multi-employer plans.
- Plans that share risks between entities under common control.
- State plans.
- Insured benefits.

### *Defined contribution plans*

Payments to defined contribution plans are recognised when an employee has rendered service to an entity during a reporting period:

- as an expense (unless another Standard requires or permits the inclusion of benefits in the cost of an asset); and
- as a liability to the extent that the contributions have not yet been paid to the plan.

The contributions are discounted where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

Minor changes have been made to defined contribution plans to change terminology and add guidance on distinguishing these plans from other plans.



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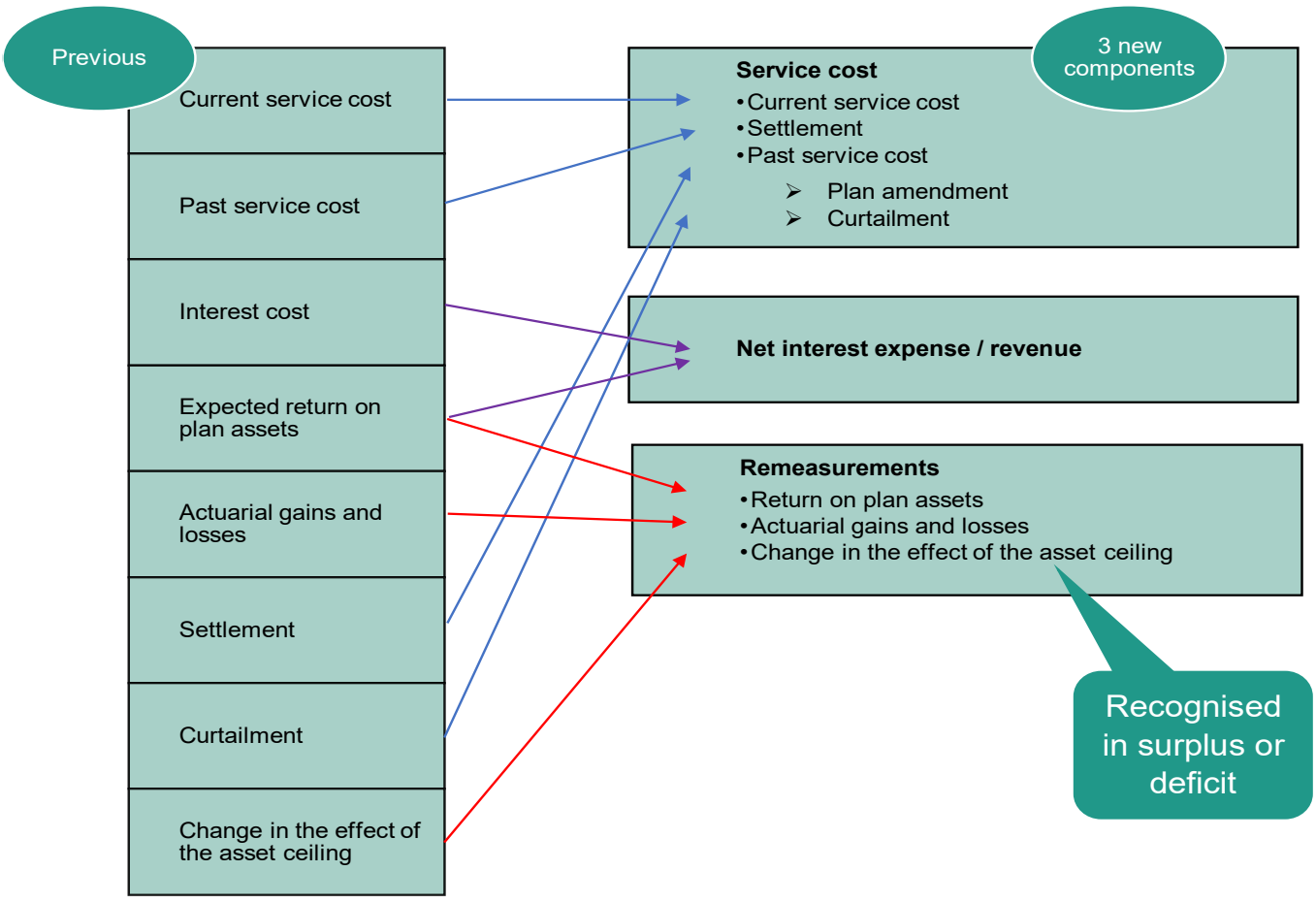
***Defined benefit plans***

Defined benefit plans are accounted for using the following steps:

1. Determining the deficit or surplus.
2. Determining the amount of the net defined benefit liability (asset).
3. Determining amounts to be recognised in surplus or deficit.
4. Determining the remeasurement of the net defined benefit liability (asset) recognised in surplus or deficit.

Most of the changes made to GRAP 25 relate to the components of defined benefit plans. The changes to the components have had a pervasive effect on the defined benefit plans section of GRAP 25.

The diagram below explains the changes to the components in the statement of financial performance, showing the previous components on the left and the new components on the right. A difference between GRAP 25 and international standards on employee benefits is that in GRAP 25, remeasurements are recognised in surplus or deficit.




The statement of financial position now includes one net item – the net defined benefit liability (asset), defined as *"the deficit or surplus (the present value of the defined benefit obligation less the fair value of plan assets plus liabilities as a result of minimum funding requirements), adjusted for any effect of the asset ceiling"*. Previously, the present value of the defined benefit obligation was presented separately from the fair value of plan assets.



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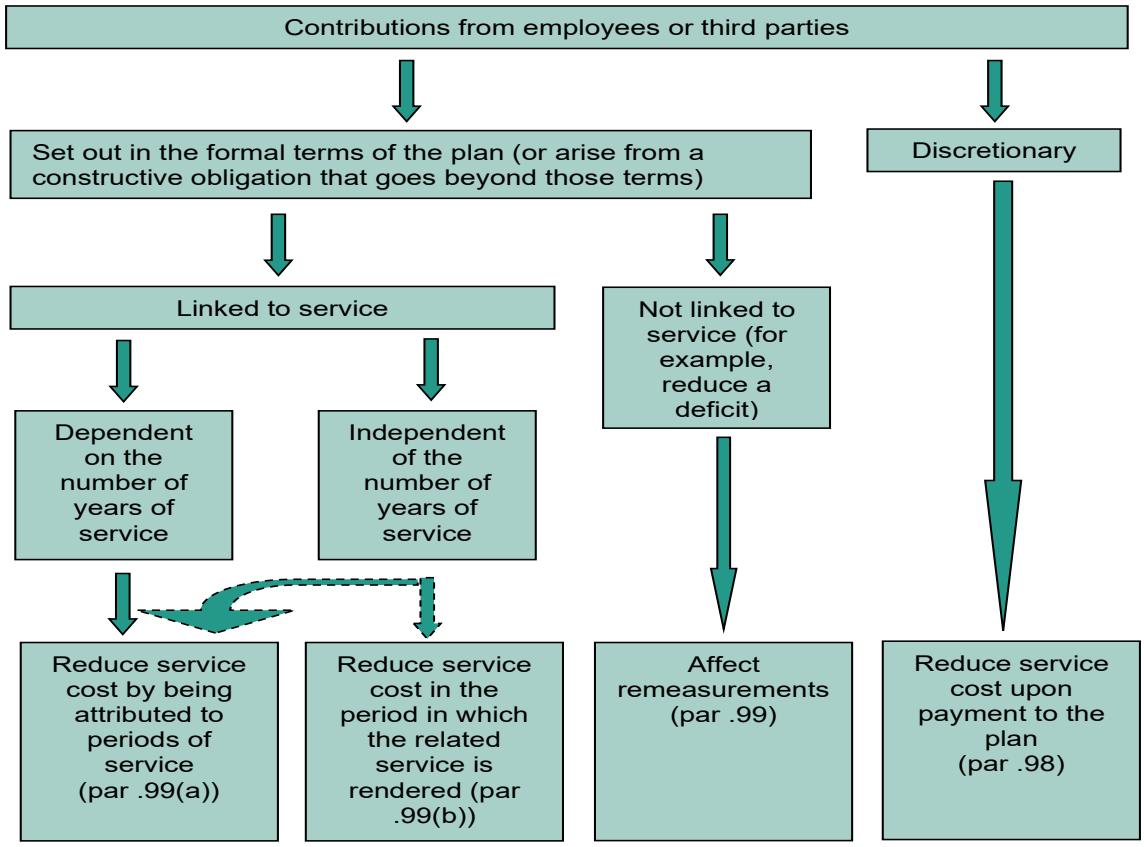
Although the components have changed, there was no change to the actuarial valuation method – the projected unit credit method. Entities are also still encouraged, but not required, to appoint an actuary at every reporting date to measure material post-employment benefit obligations. Entities should, however, update their last actuarial valuation for any material transactions or changes in circumstances up to end of reporting period.

Must an entity appoint an actuary at every reporting date to measure its defined benefit obligations? The answer is no – see the full response to this question in the FAQs on Standards of GRAP: FAQs.

To assist entities and actuaries with measuring the defined benefit liability (asset), guidance is added on actuarial assumptions, such as:

- Mortality should be measured with reference to the best estimate of mortality, considering expected changes.
- The effect of any limit on the employer's share of the cost of future benefits should be determined over the shorter period of the expected life of the plan and the expected life of the entity.
- When calculating the return on plan assets, an entity deducts the tax payable by the plan itself and the costs of managing plan assets. Any other administrative costs may not be deducted and should be separately expensed.
- The impact of employee and third-party contributions on salaries, benefits and medical costs are now explained and illustrated by the below diagram in GRAP 25.



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Guidance is also added on plan amendments, curtailments and settlements, by firstly explaining each of these events, and secondly clarifying the impact of these events on the components.

**Plan amendment** - When an entity introduces or withdraws a defined benefit plan or changes benefits payable under an existing defined benefit plan.

**Curtailment** - When an entity significantly reduces the number of employees covered by a plan, for example, when closing down a plant.

**Settlements** – The payment of benefits not set out in the terms of the plan, for example, the transfer of the defined benefit obligation to a third party insurer.

**Past service cost** - A change in the present value of the net defined benefit liability (asset) resulting from a plan amendment or curtailment.

When a plan amendment, curtailment or settlement occurs, an entity determines current service cost and net interest for the remainder of the reporting period using information available from the plan amendment, curtailment or settlement.

Past service cost is recognised at the earlier of when the plan amendment or curtailment occurs, and when the entity recognises relating restructuring costs (in accordance with the Standard of GRAP on *Provisions, Contingent Assets and Contingent Liabilities*) or termination benefits. Previously, GRAP 25 required that past service cost is recognised in the reporting period in which the plan is amended.

The effect of the asset ceiling is considered only after the remeasurement of the net defined benefit liability (asset) from the plan amendment, curtailment or settlement.

***How should the components be presented in the statement of financial performance?*** GRAP 25 requires that an entity recognises service cost, net interest and remeasurements in surplus or deficit. GRAP 25 does not specify how an entity should present these items. An entity presents the items in accordance with the Standard of GRAP on *Presentation of Financial Statements*.

**Disclosure objectives,** together with guidance on what an entity considers when deciding on the information to be disclosed to meet these objectives, are now included in the Standard. This is a significant change and requires a new way of considering disclosures.

The objectives are based on the information needs of users. This allows entities to decide what information, and the level of information, that is needed in their financial statements.

The objectives require entities to disclose information that:

- explains the characteristics of defined benefit plans and the risks associated with them;
- identifies and explains the amounts in financial statements arising from defined benefit plans; and
- describes how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.



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### *OTHER LONG-TERM EMPLOYEE BENEFITS*

Other long-term employee benefits are accounted for in a similar manner as post-employment defined benefit plans. Therefore, the guidance on these benefits is updated for changes made to defined benefit plans, e.g. reflecting the new components.

GRAP 25 did not previously include guidance on the information to be disclosed for other long-term employee benefits. This is an area in the Standard that is improved. Disclosure objectives and guidance on meeting these objectives have been added. The disclosure objectives are similar to post-employment defined benefit plans, although GRAP 25 does not require specific information to be disclosed to meet the objectives. An entity should consider whether the disclosure requirements in other Standards of GRAP contribute towards meeting the objectives, for example:

- GRAP 20 on *Related Party Disclosure*s
- GRAP 1 on *Presentation of Financial Statements*
- GRAP 19 on *Provisions, Contingent Assets and Contingent Liabilities*

### *TERMINATION BENEFITS*

It can be difficult to distinguish termination benefits from other employee benefits. Guidance is added in this area, explaining that the event that gives rise to an obligation for termination benefits is the termination of employment, rather than employee service. Benefits that arise from employee service are not termination benefits.

Termination benefits result from either an entity's decision to terminate employment, or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. They are recognised at the earlier of when an entity:

- can no longer withdraw its offer of those benefits; or
- recognises costs for restructuring within the scope of GRAP 19 that involves payment of termination benefits.

Another improvement is that GRAP 25 now includes guidance on measuring termination benefits. An entity would need to assess the nature of the termination benefit and measure the benefit accordingly:

| **If termination benefits are …:** | **… the benefit is measured in the same way as …:** |
|---|---|
| An enhancement to post-employment benefits | Post-employment benefit |
| Expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognised | Short-term employee benefits |
| Not expected to be settled wholly before twelve months after the end of the reporting period | Other long-term employee benefits |

Similarly to other long-term employee benefits, GRAP 25 did not previously include guidance on the information to be disclosed for termination benefits. The same disclosure objectives and guidance on meeting these objectives have been added for termination benefits as for other long-term employee benefits.



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## *HOW SHOULD THE NEW REQUIREMENTS BE APPLIED IN THE FIRST YEAR OF ADOPTION?*

The transitional provisions require that the changes are applied **retrospectively**, in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors,* with the following exceptions:

- adjusting the carrying amount of assets outside the scope of GRAP 25 for changes in employee benefit costs included in the carrying amount before the date of initial adoption; and
- presenting comparative information for the disclosures about the sensitivity of the defined benefit obligation.

These requirements apply to the year in which the entity first applies the new requirements, i.e. 2023/24.

The transitional provisions are included in the Directive relevant to the entity.



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