Accounting Standard (AS) 15 (revised 2005)*

Employee Benefits

(This Accounting Standard includes paragraphs set in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards[1].)

Accounting Standard (AS) 15, Employee Benefits (revised 2005), issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after April 1, 2006 and ~~the date to be announced by the Council in due course.This Standard~~ is mandatory in nature[2] from that date:.

(a) in its entirety, for the enterprises which fall in any one or more of the following categories, at any time during the accounting period:
   - (i) Enterprises whose equity or debt securities are listed whether in India or outside India.
   - (ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.
   - (iii) Banks including co-operative banks.
   - (iv) Financial institutions.
   - (v) Enterprises carrying on insurance business.
   - (vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.
   - (vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.
   - (viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

(b) in its entirety, except the following, for enterprises which do not fall in any of the categories in (a) above and whose average number of persons employed during the year is 50 or more.
   - (i) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);
   - (ii) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date; and
   - (iii) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such enterprises should actuarially determine and provide for the accrued liability in respect of defined benefit plans as follows:
     - The method used for actuarial valuation should be the Projected Unit Credit Method.
     - The discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.

     Such enterprises should disclose actuarial assumptions as per paragraph 120(l) of the Standard.
   - (iv) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. However, such enterprises should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits as follows:
     - The method used for actuarial valuation should be the Projected Unit Credit Method.

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* Originally issued in 1995 and titled as 'Accounting for Retirement Benefits in the Financial Statements of Employers'. AS 15 (revised 2005) was originally published in the March 2005 issue of the Institute's Journal. Subsequently, the Institute of Chartered Accountants of India (ICAI), in January 2006, made Limited Revision to AS 15 (revised 2005) primarily with a view to bring the disclosure requirements of the standard relating to the defined benefit plans in line with the corresponding International Accounting Standard (IAS) 19, Employee Benefits; to clarify the application of the transitional provisions; and to provide relaxation/ exemptions to the Small and Medium-sized Enterprises (SMEs). This Limited Revision has been duly incorporated in AS 15 (revised 2005). The changes made through the Limited Revision are given in the marked form (additions are shown as underlined and deletions are shown in strike-through form).

[1] Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

[2] This implies that, while discharging their attest function, it will be the duty of the members of the Institute to examine whether this Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from this Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

- The discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.

(c) in its entirety, except the following, for enterprises which do not fall in any of the categories in (a) above and whose average number of persons employed during the year is less than 50.

(i) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(ii) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date; and

(iii) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. Such enterprises may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

(iv) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such enterprises may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

Where an enterprise has been covered in any one or more of the categories in (a) above and subsequently, ceases to be so covered, the enterprise will not qualify for exemptions specified in (b) above, until the enterprise ceases to be covered in any of the categories in (a) above for two consecutive years.

Where an enterprise did not qualify for the exemptions specified in (c) above and subsequently, qualifies, the enterprise will not be qualify for exemptions as per (c) above, until it continues to be so qualified for two consecutive years.

Where an enterprise has previously qualified for exemptions in (b) or (c) above, as the case may be, but no longer qualifies for exemptions in (b) or (c) above, as the cases may be, in the current accounting period, this Standard becomes applicable, in its entirety or, in its entirety except exemptions in (b) above, as the case may be, from the current period. However, the corresponding previous period figures in respect of the relevant disclosures need not be provided.

An enterprise, which, pursuant to the above provisions, avails exemptions specified in (b) or (c) above, as the cases may be, should disclose the fact. An enterprise which avails exemptions specified in (c) above should also disclose the method used to calculate and provide for the accrued liability.

The following is the text of the revised Accounting Standard.

Objective

The objective of this Statement is to prescribe the accounting and disclosure for employee benefits. The Statement requires an enterprise 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 enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

1. This Statement should be applied by an employer in accounting for all employee benefits, except employee share-based payments[3].
2. This Statement does not deal with accounting and reporting by employee benefit plans.
3. The employee benefits to which this Statement applies include those provided:
   (a) under formal plans or other formal agreements between an enterprise and individual employees, groups of employees or their representatives;
   (b) under legislative requirements, or through industry arrangements, whereby enterprises are required to contribute to state, industry or other multi-employer plans; or
   (c) by those informal practices that give rise to an obligation. Informal practices give rise to an obligation where the enterprise has no realistic alternative but to pay employee benefits.

[3] The accounting for such benefits is dealt with in the Guidance Note on Accounting for Employee Share-based Payments issued by the Institute of Chartered Accountants of India.

An example of such an obligation is where a change in the enterprise's informal practices would cause unacceptable damage to its relationship with employees.

4. Employee benefits include:
   (a) short-term employee benefits, such as wages, salaries and social security contributions (e.g., contribution to an insurance company by an employer to pay for medical care of its employees), paid annual leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and 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 gratuity, pension, other retirement benefits, post-employment life insurance and post-employment medical care;
   (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and
   (d) termination benefits.

   Because each category identified in (a) to (d) above has different characteristics, this Statement establishes separate requirements for each category.

5. Employee benefits include benefits provided to either employees or their spouses, children or other dependants and may be settled by payments (or the provision of goods or services) made either:
   (a) directly to the employees, to their spouses, children or other dependants, or to their legal heirs or nominees; or
   (b) to others, such as trusts, insurance companies.

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

Definitions

7. The following terms are used in this Statement with the meanings specified:

   Employee benefits *are all forms of consideration given by an enterprise in exchange for service rendered by employees.*

   Short-term employee benefits *are employee* **benefits** *(other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.*

   Post-employment benefits *are employee benefits (other than termination benefits) which are payable after the completion of employment.*

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

   Defined contribution plans *are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no 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 enterprises that are not under common control; and
   (b) use those assets to provide benefits to employees of more than one enterprise, on the basis that contribution and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned.

   Other long-term employee benefits *are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service.*

   Termination benefits *are employee benefits payable as a result of either:*
   (a) an enterprise's decision to terminate an employee's employment before the normal retirement date; or
   (b) an employee's decision to accept voluntary redundancy in exchange for those benefits (voluntary retirement).

   Vested *employee benefits are employee benefits that are not conditional on future employment.*

   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.*

   Current service cost *is the increase in the present value of the defined benefit obligation resulting*

from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

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 enterprise) that:

(a) are held by an entity (a fund) that is legally separate from the reporting enterprise 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 enterprise's own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, 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 enterprise; or

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in AS 18 Related Party Disclosures) of the reporting enterprise, if the proceeds of the policy:

(a) can be used only to pay or fund employee benefits under a defined benefit plan; and

(b) are not available to the reporting enterprise's own creditors (even in bankruptcy) and cannot be paid to the reporting enterprise, 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 enterprise 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.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

Actuarial gains and losses comprise:

(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.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Short-term Employee Benefits

8. Short-term employee benefits include items such as:

(a) wages, salaries and social security contributions;

(b) short-term compensated absences (such as paid annual leave) where the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;

(c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and

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

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

Recognition and Measurement

All Short-term Employee Benefits

10. *When an employee has rendered service to an enterprise during an accounting period, the enterprise should 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 enterprise should 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; and

(b) as an expense, unless another Accounting Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, AS 10 Accounting for Fixed Assets).

Paragraphs 11, 14 and 17 explain how an enterprise should apply this requirement to short-term employee benefits in the form of compensated absences and profit-sharing and bonus plans.

Short-term Compensated Absences

11. An enterprise should recognise the expected cost of short-term employee benefits in the form of compensated absences under paragraph 10 as follows:

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

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

12. An enterprise may compensate employees for absence for various reasons including vacation, sickness and short-term disability, and maternity or paternity. Entitlement to compensated absences falls into two categories:
    (a) accumulating; and
    (b) non-accumulating.

13. Accumulating compensated 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 compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the enterprise) 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 compensated absences. The obligation exists, and is recognised, even if the compensated 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.

14. An enterprise should measure the expected cost of accumulating compensated absences as the additional amount that the enterprise expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

15. 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 enterprise may not need to make detailed computations to estimate that there is no material obligation for unused compensated absences. For example, a leave obligation is likely to be material only if there is a formal or informal understanding that unused leave may be taken as paid vacation.

Example Illustrating Paragraphs 14 and 15

An enterprise has 100 employees, who are each entitled to five working days of leave for each year. Unused leave may be carried forward for one calendar year. The 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 20X4, the average unused entitlement is two days per employee. The enterprise expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of leave in 20X5 and that the remaining eight employees will take an average of six and a half days each.

The enterprise expects that it will pay an additional 12 days of pay as a result of the unused entitlement that has accumulated at 31 December 20X4 (one and a half days each, for eight employees). Therefore, the enterprise recognises a liability, as at 31 December 20X4, equal to 12 days of pay.

16. Non-accumulating compensated 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 enterprise. This is commonly the case for maternity or paternity leave. An enterprise 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

17. An enterprise should recognise the expected cost of profit-sharing and bonus payments under paragraph 10 when, and only when:

(a) the enterprise has a present 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 enterprise has no realistic alternative but to make the payments.

18. Under some profit-sharing plans, employees receive a share of the profit only if they remain with the enterprise for a specified period. Such plans create an 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 obligations reflects the possibility that some employees may leave without receiving profit-sharing payments.

Example Illustrating Paragraph 18

A profit-sharing plan requires an enterprise to pay a specified proportion of its net 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% of net profit. The enterprise estimates that staff turnover will reduce the payments to 2.5% of net profit.

The enterprise recognises a liability and an expense of 2.5% of net profit.

19. An enterprise may have no legal obligation to pay a bonus. Nevertheless, in some cases, an enterprise has a practice of paying bonuses. In such cases also, the enterprise has an obligation because the enterprise has no realistic alternative but to pay the bonus. The measurement of the obligation reflects the possibility that some employees may leave without receiving a bonus.
20. An enterprise can make a reliable estimate of its 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; or
    (b) the enterprise determines the amounts to be paid before the financial statements are approved; or
    (c) past practice gives clear evidence of the amount of the enterprise's obligation.
21. An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the enterprise's owners. Therefore, an enterprise recognises the cost of profit-sharing and bonus plans not as a distribution of net profit but as an expense.
22. If profit-sharing and bonus payments are not due wholly within twelve months after the end of the period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs ~~126~~127~~131~~132).

Disclosure

23. Although this Statement does not require specific disclosures about short-term employee benefits, other Accounting Standards may require disclosures. For example, where required by AS 18 *Related Party Disclosures* an enterprise discloses information about employee benefits for key management personnel.

Post-employment Benefits: Defined Contribution Plans and Defined Benefit Plans

24. Post-employment benefits include:
    (a) retirement benefits, e.g., gratuity and pension; and
    (b) other benefits, e.g., post-employment life insurance and post-employment medical care.

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

25. 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. Under defined contribution plans:
    (a) the enterprise's 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 enterprise (and also by the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and
    (b) 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 on the employee.
26. Examples of cases where an enterprise's obligation is not limited to the amount that it agrees to contribute to the fund are when the enterprise has an obligation through:
    (a) a plan benefit formula that is not linked solely to the amount of contributions; or
    (b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or
    (c) informal practices that give rise to an obli-

gation, for example, an obligation may arise where an enterprise has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.

27. Under defined benefit plans:
    (a) the enterprise'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 enterprise. If actuarial or investment experience are worse than expected, the enterprise's obligation may be increased.

28. Paragraphs 29 to 43 below deal with defined contribution plans and defined benefit plans in the context of multi-employer plans, state plans and insured benefits.

Multi-employer Plans

29. An enterprise should classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an enterprise should:
(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 paragraph ~~119~~120.

30. When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an enterprise should:
(a) account for the plan under paragraphs 45-47 as if it were a defined contribution plan;
(b) disclose:
(i) the fact that the plan is a defined benefit plan; and
(ii) the reason why sufficient information is not available to enable the enterprise to account for the plan as a defined benefit plan; and
(c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:
(i) any available information about that surplus or deficit;
(ii) the basis used to determine that surplus or deficit; and
(iii) the implications, if any, for the enterprise.

31. One example of a defined benefit multi-employer plan is one where:
    (a) the plan is financed in a manner such that 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 enterprises 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 enterprise; if the ultimate cost of benefits already earned at the balance sheet date is more than expected, the enterprise will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

32. Where sufficient information is available about a multi-employer plan which is a defined benefit plan, an enterprise accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, in some cases, an enterprise 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 enterprise does not have access to information about the plan that satisfies the requirements of this Statement; or
    (b) the plan exposes the participating enterprises to actuarial risks associated with the current and former employees of other enterprises, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual enterprises participating in the plan.

In those cases, an enterprise accounts for the plan as if it were a defined contribution plan and discloses the additional information required by paragraph 30.

33. 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 infor-

mation 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 enterprises to actuarial risks associated with the current and former employees of other enterprises. The definitions in this Statement require an enterprise 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 obligation that goes beyond the formal terms).

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

35. In respect of such a plan, if there is a contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group enterprises, the enterprise recognises, in its separate financial statements, the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost is recognised in the separate financial statements of the group enterprise that is legally the sponsoring employer for the plan. The other group enterprises recognise, in their separate financial statements, a cost equal to their contribution payable for the period.

36. AS 29 *Provisions, Contingent Liabilities and Contingent Assets* requires an enterprise to recognise, or disclose information about, certain contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:
    (a) actuarial losses relating to other participating enterprises because each enterprise that participates in a multi-employer plan shares in the actuarial risks of every other participating enterprise; or
    (b) any responsibility under the terms of a plan to finance any shortfall in the plan if other enterprises cease to participate.

State Plans

37. An enterprise should account for a state plan in the same way as for a multi-employer plan (see paragraphs 29 and 30).

38. State plans are established by legislation to cover all enterprises (or all enterprises 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) which is not subject to control or influence by the reporting enterprise. Some plans established by an enterprise provide both compulsory benefits which substitute for benefits that would otherwise be covered under a state plan and additional voluntary benefits. Such plans are not state plans.

39. State plans are characterised as defined benefit or defined contribution in nature based on the enterprise's obligation under the plan. Many state plans are funded in a manner such that 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 enterprise has no obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the enterprise ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by such employees in previous years. For this reason, state plans are normally defined contribution plans. However, in the rare cases when a state plan is a defined benefit plan, an enterprise applies the treatment prescribed in paragraphs 29 and 30.

Insured Benefits

40. An enterprise may pay insurance premiums to fund a post-employment benefit plan. The enterprise should treat such a plan as a defined contribution plan unless the enterprise will have (either directly, or indirectly through the plan) an obligation to either:
    (a) pay the employee benefits directly when they fall due; or
    (b) 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 enterprise retains such an obligation, the enterprise should treat the plan as a defined benefit plan.

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

42. Where an enterprise funds a post-employment benefit obligation by contributing to an insurance policy under which the enterprise (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains

an obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the enterprise:

(a) accounts for a qualifying insurance policy as a plan asset (see paragraph 7); and

(b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 103).

43. Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the enterprise does not have any obligation to cover any loss on the policy, the enterprise 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 enterprise no longer has an asset or a liability. Therefore, an enterprise treats such payments as contributions to a defined contribution plan.

Post-employment Benefits: Defined Contribution Plans

44. Accounting for defined contribution plans is straightforward because the reporting enterprise'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 do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

Recognition and Measurement

45. When an employee has rendered service to an enterprise during a period, the enterprise should 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 balance sheet date, an enterprise should 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; and

(b) as an expense, unless another Accounting Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, AS 10, Accounting for Fixed Assets).

46. Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they should be discounted using the discount rate specified in paragraph 78.

Disclosure

47. An enterprise should disclose the amount recognised as an expense for defined contribution plans.

48. Where required by AS 18 *Related Party Disclosures* an enterprise discloses information about contributions to defined contribution plans for key management personnel.

Post-employment Benefits: Defined Benefit Plans

49. 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. While the Statement requires that it is the responsibility of the reporting enterprise to measure the obligations under the defined benefit plans, it is recognised that for doing so the enterprise would normally use the services of a qualified actuary.

Recognition and Measurement

50. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an enterprise, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting enterprise 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 enterprise's ability to make good any shortfall in the fund's assets. Therefore, the enterprise 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.

51. Accounting by an enterprise for defined benefit plans involves the following steps:

(a) using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an enterprise to determine how much benefit is attributable to the current and prior periods (see paragraphs 68-72) 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 influence the cost of the benefit (see paragraphs 73-91);
(b) discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 65-67);
(c) determining the fair value of any plan assets (see paragraphs 100-102);
(d) determining the total amount of actuarial gains and losses (see paragraphs 92-93);
(e) where a plan has been introduced or changed, determining the resulting past service cost (see paragraphs 94-99); and
(f) where a plan has been curtailed or settled, determining the resulting gain or loss (see paragraphs 110-116).

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

52. For measuring the amounts under paragraph 51, in some cases, estimates, averages and simplified computations may provide a reliable approximation of the detailed computations.

Accounting for the Obligation under a Defined Benefit Plan

53. An enterprise should account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any other obligation that arises from the enterprise's informal practices. Informal practices give rise to an obligation where the enterprise has no realistic alternative but to pay employee benefits. An example of such an obligation is where a change in the enterprise's informal practices would cause unacceptable damage to its relationship with employees.

54. The formal terms of a defined benefit plan may permit an enterprise to terminate its obligation under the plan. Nevertheless, it is usually difficult for an enterprise to cancel a plan if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an enterprise which is currently promising such benefits will continue to do so over the remaining working lives of employees.

Balance Sheet

55. The amount recognised as a defined benefit liability should be the net total of the following amounts:
(a) the present value of the defined benefit obligation at the balance sheet date (see paragraph 65);
(b) minus any past service cost not yet recognised (see paragraph 94);
(c) minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 100-102).

56. The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets.

57. An enterprise should determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

58. The detailed actuarial valuation of the present value of defined benefit obligations may be made at intervals not exceeding three years. However, with a view that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date, the most recent valuation is reviewed at the balance sheet date and updated to reflect any material transactions and other material changes in circumstances (including changes in interest rates) between the date of valuation and the balance sheet date. The fair value of any plan assets is determined at each balance sheet date.

59. The amount determined under paragraph 55 may be negative (an asset). An enterprise should measure the resulting asset at the lower of:
(a) the amount determined under paragraph 55; and
(b) 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 these economic benefits should be determined using the discount rate specified in paragraph 78.

60. An asset may arise where a defined benefit plan has been overfunded or in certain cases where actuarial gains are recognised. An enterprise recognises an asset in such cases because:
    (a) the enterprise 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 enterprise and service rendered by the employee); and
    (c) future economic benefits are available to the enterprise in the form of a reduction in future contributions or a cash refund, either directly to the enterprise or indirectly to another plan in deficit.

Example Illustrating Paragraph 59

(Amount in Rs.) A defined benefit plan has the following characteristics:	
Present value of the obligation	1,100
Fair value of plan assets	(1,190)
	(90)
Unrecognised past service cost	(70)
Negative amount determined under paragraph 55	(160)
Present value of available future refunds and reductions in future contributions	90
Limit under paragraph 59 (b)	90
Rs. 90 is less than Rs. 160. Therefore, the enterprise recognises an asset of Rs. 90 and discloses that the limit reduced the carrying amount of the asset by Rs. 70 (see paragraph ~~119~~120(ef)(vii)).	

Statement of Profit and Loss

61. An enterprise should recognise the net total of the following amounts in the statement of profit and loss, except to the extent that another Accounting Standard requires or permits their inclusion in the cost of an asset:
    (a) current service cost (see paragraphs 64-91);
    (b) interest cost (see paragraph 82);
    (c) the expected return on any plan assets (see paragraphs 107-109) and on any reimbursement rights (see paragraph 103);
    (d) actuarial gains and losses (see paragraphs 92-93);
    (e) past service cost to the extent that paragraph 94 requires an enterprise to recognise it;
    (f) the effect of any curtailments or settlements (see paragraphs 110 and 111); and
    (g) the effect of the limit in paragraph 59 (b), i.e., the extent to which the amount determined under paragraph 55 (if negative) exceeds the amount determined under paragraph 59 (b).

62. Other Accounting Standards require the inclusion of certain employee benefit costs within the cost of assets such as tangible fixed assets (see AS 10 *Accounting for Fixed Assets*). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 61.

Illustrative Example

63. Appendix A contains an example describing the components of the amounts recognised in the balance sheet and statement of profit and loss in respect of defined benefit plans.

Recognition and Measurement: Present Value of Defined Benefit Obligations and Current Service Cost

64. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:
    (a) apply an actuarial valuation method (see paragraphs 65-67);
    (b) attribute benefit to periods of service (see paragraphs 68-72); and
    (c) make actuarial assumptions (see paragraphs 73-91).

Actuarial Valuation Method

65. ***An enterprise should 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.***

66. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) considers each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 68-72) and measures each unit separately to build up the final obligation (see paragraphs 73-91).

67. An enterprise discounts the whole of a post-employment benefit obligation, even if part of the obligation falls due within twelve months of the balance sheet date.

Example Illustrating Paragraph 66

A lump sum benefit, equal to 1% of final salary for each year of service, is payable on termination of service. The salary in year 1 is Rs. 10,000 and is assumed to increase at 7% (compound) each year resulting in Rs. 13,100 at the end of year 5. The discount rate used is 10% per annum. 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 enterprise at an earlier or later date.

(Amount in Rs.)

Year	*1*	*2*	*3*	*4*	*5*
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 (see note 1)	*–*	*89*	*196*	*324*	*476*
Interest at 10%	*–*	*9*	*20*	*33*	*48*
Current Service Cost (see note 2)	*89*	*98*	*108*	*119*	*131*
Closing Obligation (see note 3)	*89*	*196*	*324*	*476*	*655*

Notes:

1. The Opening Obligation is the present value of benefit attributed to prior years.

2. The Current Service Cost is the present value of benefit attributed to the current year.

3. The Closing Obligation is the present value of benefit attributed to current and prior years.

Attributing Benefit to Periods of Service

68. In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an enterprise should 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 enterprise should 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.

69. The Projected Unit Credit Method requires an enterprise 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 enterprise 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 which an enterprise expects to pay in future reporting periods. Actuarial techniques allow an enterprise to measure that obligation with sufficient reliability to justify recognition of a liability.

Examples Illustrating Paragraph 69

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 balance sheet date.

If the benefit is payable immediately when the employee leaves the enterprise, 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 balance sheet date.

2. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 60.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% 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% of final salary, multiplied by the number of years of service up to the balance sheet date. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 60.

70. 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 an obligation because, at each successive balance sheet date, 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 enterprise considers the probability that some employees may not satisfy any vesting requirements. Similarly, although certain post-employment ben-

efits, 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 70

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.

71. 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 enterprise 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 71

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 50 after twenty years of service, or who are still employed at the age of 60, regardless of their length of service.

For employees who join before the age of 30, service first leads to benefits under the plan at the age of 30 (an employee could leave at the age of 25 and return at the age of 28, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 50 will lead to no material amount of further benefits. For these employees, the enterprise attributes benefit of Rs. 100 (Rs. 2,000 divided by 20) to each year from the age of 30 to the age of 50.

For employees who join between the ages of 30 and 40, service beyond twenty years will lead to no material amount of further benefits. For these employees, the enterprise attributes benefit of Rs. 100 (Rs. 2,000 divided by 20) to each of the first twenty years.

For an employee who joins at the age of 50, service beyond ten years will lead to no material amount of further benefits. For this employee, the enterprise attributes benefit of Rs. 200 (Rs. 2,000 divided by 10) 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% 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% of those costs if the employee leaves after twenty or more years of service.

Under the plan's benefit formula, the enterprise attributes 4% of the present value of the expected medical costs (40% divided by ten) to each of the first ten years and 1% (10% 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% 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% 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 enterprise attributes benefit on a straight-line basis under paragraph 69. 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% of the present value of the expected medical costs (50% 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% 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.

72. 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 balance sheet date, but do not create an additional obligation. Therefore:
    (a) for the purpose of paragraph 68(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 72

Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% 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

73. Actuarial assumptions comprising demographic assumptions and financial assumptions should be unbiased and mutually compatible. Financial assumptions should be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.

74. Actuarial assumptions are an enterprise'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, both during and after employment;
        (ii) rates of employee turnover, disability and early retirement;
        (iii) the proportion of plan members with dependants who will be eligible for benefits; and
        (iv) claim rates under medical plans; and
    (b) financial assumptions, dealing with items such as:
        (i) the discount rate (see paragraphs 78-82);
        (ii) future salary and benefit levels (see paragraphs 83-87);
        (iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments (see paragraphs 88-91); and
        (iv) the expected rate of return on plan assets (see paragraphs 107-109).

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

76. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. For example, all assumptions which 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.

77. An enterprise determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.

Actuarial Assumptions: Discount Rate

78. The rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by reference to market yields at the balance sheet date on government bonds. The cur-

rency and term of the government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations.

79. One actuarial assumption which 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 enterprise-specific credit risk borne by the enterprise's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

80. The discount rate reflects the estimated timing of benefit payments. In practice, an enterprise 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.

81. In some cases, there may be no government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an enterprise 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 government bonds.

82. Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation. The present value of the obligation will differ from the liability recognised in the balance sheet because the liability is recognised after deducting the fair value of any plan assets and because some past service cost are not recognised immediately. [*Appendix A* illustrates the computation of interest cost, among other things]

Actuarial Assumptions: Salaries, Benefits and Medical Costs

83. Post-employment benefit obligations should be measured on a basis that reflects:

(a) estimated future salary increases;

(b) the benefits set out in the terms of the plan (or resulting from any obligation that goes beyond those terms) at the balance sheet date; and

(c) 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 balance sheet date; or

(ii) past history, or other reliable evidence, indicates 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.

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

85. If the formal terms of a plan (or an obligation that goes beyond those terms) require an enterprise to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example:

(a) the enterprise has a past 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; or

(b) actuarial gains have already been recognised in the financial statements and the enterprise is obliged, by either the formal terms of a plan (or an obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 96(c)).

86. Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or an obligation that goes beyond those terms) at the balance sheet date. 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.

87. 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 expected changes in such variables, based on past history and other reliable evidence.

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

89. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An enterprise estimates future medical costs on the basis of historical data about the enterprise's own experience, supplemented where necessary by historical data from other enterprises, 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.

90. 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 is adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the historical data. It is also adjusted where there is reliable evidence that historical trends will not continue.

91. Some post-employment health care plans require employees to contribute to the medical costs covered by the plan. Estimates of future medical costs take account of any such contributions, based on the terms of the plan at the balance sheet date (or based on any obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments. The cost of meeting claims may be reduced by benefits from state or other medical providers (see paragraphs 83(c) and 87).

Actuarial Gains and Losses

92. Actuarial gains and losses should be recognised immediately in the statement of profit and loss as income or expense (see paragraph 61).

93. Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets. 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 terms of a plan provide for inflationary benefit increases) or medical costs;
   (b) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the terms of a plan provide for inflationary benefit increases) or medical costs;
   (c) the effect of changes in the discount rate; and
   (d) differences between the actual return on plan assets and the expected return on plan assets (see paragraphs 107-109).

Past Service Cost

94. In measuring its defined benefit liability under paragraph 55, an enterprise should recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognise past service cost immediately.

95. Past service cost arises when an enterprise introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment (see paragraph 65).

Example Illustrating Paragraph 95

An enterprise operates a pension plan that provides a pension of 2% of final salary for each year of service. The benefits become vested after five years of service. On 1 January 20X5 the enterprise improves the pension to 2.5% of final salary for each year of service starting from 1 January 20X1. At the date of the improvement, the present value of the additional benefits for service from 1 January 20X1 to 1 January 20X5 is as follows:

Employees with more than five years' service at 1/1/X5	Rs. 150
Employees with less than five years' service at 1/1/X5(average period until vesting: three years)	Rs. 120
	Rs. 270

The enterprise recognises Rs. 150 immediately because those benefits are already vested. The enterprise recognises Rs. 120 on a straight-line basis over three years from 1 January 20X5.

96. 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) under and over estimates of discretionary pension increases where an enterprise has an 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 that have already been recognised in the financial statements if the enterprise is obliged, by either the formal terms of a plan (or an 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 (the resulting increase in the obligation is an actuarial loss and not past service cost, see paragraph 85(b));
   (d) the increase in vested benefits (not on account of new or improved benefits) when employees

complete vesting requirements (there is no past service cost because the estimated cost of benefits was recognised as current service cost as the service was rendered); and

(e) the effect of plan amendments that reduce benefits for future service (a curtailment).

97. An enterprise establishes the amortisation schedule for past service cost when the benefits are introduced or changed. It would be impracticable to maintain the detailed records needed to identify and implement subsequent changes in that amortisation schedule. Moreover, the effect is likely to be material only where there is a curtailment or settlement. Therefore, an enterprise amends the amortisation schedule for past service cost only if there is a curtailment or settlement.

98. Where an enterprise reduces benefits payable under an existing defined benefit plan, the resulting reduction in the defined benefit liability is recognised as (negative) past service cost over the average period until the reduced portion of the benefits becomes vested.

99. Where an enterprise reduces certain 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 enterprise treats the change as a single net change.

Recognition and Measurement: Plan Assets

Fair Value of Plan Assets

100. The fair value of any plan assets is deducted in determining the amount recognised in the balance sheet under paragraph 55. 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).

101. Plan assets exclude unpaid contributions due from the reporting enterprise to the fund, as well as any non-transferable financial instruments issued by the enterprise 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.

102. 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, as described in paragraph 55 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

103. 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 enterprise should recognise its right to reimbursement as a separate asset. The enterprise should measure the asset at fair value. In all other respects, an enterprise should treat that asset in the same way as plan assets. In the statement of profit and loss, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

104. Sometimes, an enterprise 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 7, are plan assets. An enterprise accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 103 does not apply (see paragraphs 40-43 and 102).

105. When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 103 deals with such cases: the enterprise recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit liability recognised under paragraph 55; in all other respects, including for determination of the fair value, the enterprise treats that asset in the same way as plan assets. Paragraph ~~119~~120(~~c~~f)(viii) requires the enterprise to disclose a brief description of the link between the reimbursement right and the related obligation.

Example Illustrating Paragraphs 103-105	
	(Amount in Rs.)
Liability recognised in balance sheet being the present value of obligation	1,258
Rights under insurance policies that exactly match the amount and timing of some of the benefits payable under the plan.Those benefits have a present value of Rs. 1,092	1,092

106. 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, as described in paragraph 55 (subject to any reduction required if the reimbursement is not recoverable in full).

Return on Plan Assets

107. The expected return on plan assets is a component of the expense recognised in the statement of profit and loss. The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss.

108. The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The expected return on plan assets reflects changes in the fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

109. In determining the expected and actual return on plan assets, an enterprise deducts expected administration costs, other than those included in the actuarial assumptions used to measure the obligation.

Example Illustrating Paragraph 108

At 1 January 20X1, the fair value of plan assets was Rs. 10,000. On 30 June 20X1, the plan paid benefits of Rs. 1,900 and received contributions of Rs. 4,900. At 31 December 20X1, the fair value of plan assets was Rs. 15,000 and the present value of the defined benefit obligation was Rs. 14,792. Actuarial losses on the obligation for 20X1 were Rs. 60.

At 1 January 20X1, the reporting enterprise made the following estimates, based on market prices at that date:

		%
Interest and dividend income, after tax payable by the fund		9.25
Realised and unrealised gains on plan assets (after tax)		2.00
Administration costs		(1.00)
Expected rate of return		10.25

For 20X1, the expected and actual return on plan assets are as follows:

		(Amount in Rs.)
Return on Rs. 10,000 held for 12 months at 10.25%		1025
Return on Rs. 3,000 held for six months at 5% (equivalent to 10.25% annually, compounded every six months)		150
Expected return on plan assets for 20X1	1,175	
Fair value of plan assets at 31 December 20X1	——	15,000
Less fair value of plan assets at 1 January 20X1		(10,000)
Less contributions received	(4,900)	
Add benefits paid	1,900	
Actual return on plan assets	2,000	

The difference between the expected return on plan assets (Rs. 1,175) and the actual return on plan assets (Rs. 2,000) is an actuarial gain of Rs. 825. Therefore, the net actuarial gain of Rs. 765 (Rs. 825 – Rs. 60 (actuarial loss on the obligation)) would be recognised in the statement of profit and loss.

The expected return on plan assets for 20X2 will be based on market expectations at 1/1/X2 for returns over the entire life of the obligation.

Curtailments and Settlements

110. An enterprise should recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement should comprise:

(a) any resulting change in the present value of the defined benefit obligation;

(b) any resulting change in the fair value of the plan assets;

(c) any related past service cost that, under paragraph 94, had not previously been recognised.

111. Before determining the effect of a curtailment or settlement, an enterprise should remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

112. A curtailment occurs when an enterprise either:

(a) has a present obligation, arising from the requirement of a statute/regulator or otherwise, to make a material reduction in the number of employees covered by a plan; or

(b) amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

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. An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements. Curtailments are often linked with a restructuring. Therefore, an enterprise accounts for a curtailment at the same time as for a related restructuring.

113. A settlement occurs when an enterprise enters into a transaction that eliminates all further obligations for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.

114. In some cases, an enterprise 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 enterprise retains an obligation (see paragraph 40) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 103-106 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

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

116. Where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of the previously unrecognised past service cost. The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement, unless another basis is more rational in the circumstances.

Example Illustrating Paragraph 116

An enterprise discontinues a business segment and employees of the discontinued segment will earn no further benefits. This is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the enterprise has a defined benefit obligation with a net present value of Rs. 1,000 and plan assets with a fair value of Rs. 820 and unrecognised past service cost of Rs. 50. The curtailment reduces the net present value of the obligation by Rs. 100 to Rs. 900.

Of the previously unrecognised past service cost, 10% (Rs. 100/Rs. 1000) relates to the part of the obligation that was eliminated through the curtailment. Therefore, the effect of the curtailment is as follows:

(Amount in Rs.)

	Before Curtailment	*Curtailment Gain*	*After Curtailment*
Net present value of obligation	*1,000*	*(100)*	*900*
Fair value of plan assets	*(820)*	*–*	*(820)*
	180	*(100)*	*80*
Unrecognised past service cost	*(50)*	*5*	*(45)*
Net liability recognised in balance sheet	130	(95)	35

Presentation

Offset

117. An enterprise should offset an asset relating to one plan against a liability relating to another plan when, and only when, the enterprise:

(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.

Financial Components of Post-employment Benefit Costs

118. This Statement does not specify whether an enterprise should present current service cost, interest cost and the expected return on plan assets as components of a single item of income or expense on the face of the statement of profit and loss.

Disclosure

119. An enterprise should disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

~~119~~120. ***An enterprise should disclose the following information about defined benefit plans:***

(a) the enterprise's accounting policy for recognising actuarial gains and losses.;

(b) a general description of the type of plan.;

(c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:

(i) current service cost,

(ii) interest cost,

(iii) contributions by plan participants,

(iv) actuarial gains and losses,

(v) foreign currency exchange rate changes on plans measured in a currency different from the enterprise's reporting currency,

(vi) benefits paid,

(vii) past service cost,

(viii) amalgamations,

(ix) curtailments, and

(x) settlements.

(d) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.

(e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 103 showing separately, if applicable, the effects during the period attributable to each of the following:

(i) expected return on plan assets,

(ii) actuarial gains and losses,

(iii) foreign currency exchange rate changes on plans measured in a currency different from the enterprise's reporting currency,

(iv) contributions by the employer,

(v) contributions by plan participants,

(vi) benefits paid,
(vii) amalgamations, and
(viii) settlements.

(~~c~~f) a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the balance sheet, showing at least:

~~(i) the present value at the balance sheet date of defined benefit obligations that are wholly unfunded;~~

~~(ii) the present value (before deducting the fair value of plan assets) at the balance sheet date of defined benefit obligations that are wholly or partly funded;~~

~~(iii) the fair value of any plan assets at the balance sheet date;~~

(~~iv~~i) the past service cost not yet recognised in the balance sheet (see paragraph 94);

(~~v~~ii) any amount not recognised as an asset, because of the limit in paragraph 59(b);

(~~vi~~iii) the fair value at the balance sheet date of any reimbursement right recognised as an asset ~~under~~ in accordance with paragraph 103 (with a brief description of the link between the reimbursement right and the related obligation); and

(~~v~~iv) the other amounts recognised in the balance sheet.;

~~(d) the amounts included in the fair value of plan assets for:~~

~~(i) each category of the reporting enterprise's own financial instruments; and~~

~~(ii) any property occupied by, or other assets used by, the reporting enterprise;~~

~~(e) a reconciliation showing the movements during the period in the net liability (or asset) recognised in the balance sheet;~~

(~~f~~g) the total expense recognised in the statement of profit and loss for each of the following, and the line item(s) of the statement of profit and loss in which they are included:

(i) current service cost;
(ii) interest cost;
(iii) expected return on plan assets;
(iv) expected return on any reimbursement right recognised as an asset ~~under~~ in accordance with paragraph 103;
(v) actuarial gains and losses;
(vi) past service cost;
(vii) the effect of any curtailment or settlement; and
(viii) the effect of the limit in paragraph 59 (b), i.e., the extent to which the amount determined in accordance with ~~under~~ paragraph 55 (if negative) exceeds the amount determined in accordance with ~~under~~ paragraph 59 (b).

(h) for each major category of plan assets, which should include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.

(i) the amounts included in the fair value of plan assets for:

(i) each category of the enterprise's own financial instruments; and

(ii) any property occupied by, or other assets used by, the enterprise.

(j) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.

(~~g~~k) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset ~~under~~ in accordance with paragraph 103.; ~~and~~

(~~h~~l) the principal actuarial assumptions used as at the balance sheet date, including, where applicable:

(i) the discount rates;
(ii) the expected rates of return on any plan assets for the periods presented in the financial statements;
(iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with ~~under~~ paragraph 103;
~~(iv) the expected rates of salary increases (and of changes in an index or other variable specified in the terms of a plan as the basis for future benefit increases);~~
(iv) medical cost trend rates; and
(~~vi~~) any other material actuarial assumptions used.

An enterprise should disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

Apart from the above actuarial assumptions, an enterprise should include an assertion under the actuarial assumptions to the effect that estimates of future salary increases, considered in actuarial valuation, take account of inflation,

seniority, promotion and other relevant factors, such as supply and demand in the employment market.

(m) the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:

(i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and

(ii) the accumulated post-employment benefit obligation for medical costs.

For the purposes of this disclosure, all other assumptions should be held constant. For plans operating in a high inflation environment, the disclosure should be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

(n) the amounts for the current annual period and previous four annual periods of:

(i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and

(ii) the experience adjustments arising on:

(A) the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the balance sheet date, and

(B) the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the balance sheet date.

(o) the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date.

~~120~~121. Paragraph ~~119~~120(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan should include informal practices that give rise to other obligations included in the measurement of the defined benefit obligation in accordance with paragraph 53. Further detail is not required.

~~121~~122. When an enterprise has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:

(a) the geographical location of the plans, for example, by distinguishing domestic plans from foreign plans; or

(b) whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans.

When an enterprise provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

~~122~~123. Paragraph 30 requires additional disclosures about multi-employer defined benefit plans that are treated as if they were defined contribution plans.

~~123~~124. Where required by AS 18 *Related Party Disclosures* an enterprise discloses information about:

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

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

~~124~~125. Where required by AS 29 *Provisions, Contingent Liabilities and Contingent Assets* an enterprise discloses information about contingent liabilities arising from post-employment benefit obligations.

Illustrative Disclosures

~~125~~126. Appendix B contains illustrative disclosures.

Other Long-term Employee Benefits

~~126~~127. Other long-term employee benefits include, for example:

(a) long-term compensated absences such as long-service or sabbatical leave;

(b) jubilee or other long-service benefits;

(c) long-term disability benefits;

(d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service; and

(e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

~~127~~128. In case of other long-term employee benefits, the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost. For this reason, this Statement requires a simplified method of accounting for other long-term employee benefits. This method differs from the accounting required for post-employment benefits insofar as that all past service cost is recognised immediately.

Recognition and Measurement

~~128~~129. ***The amount recognised as a liability for other long-term employee benefits should be the net total of the following amounts:***

(a) the present value of the defined benefit obligation at the balance sheet date (see paragraph 65);
(b) minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 100-102).

In measuring the liability, an enterprise should apply paragraphs 49-91, excluding paragraphs 55 and 61. An enterprise should apply paragraph 103 in recognising and measuring any reimbursement right.

~~129~~*130. For other long-term employee benefits, an enterprise should recognise the net total of the following amounts as expense or (subject to paragraph 59) income, except to the extent that another Accounting Standard requires or permits their inclusion in the cost of an asset:*
(a) current service cost (see paragraphs 64-91);
(b) interest cost (see paragraph 82);
(c) the expected return on any plan assets (see paragraphs 107-109) and on any reimbursement right recognised as an asset (see paragraph 103);
(d) actuarial gains and losses, which should all be recognised immediately;
(e) past service cost, which should all be recognised immediately; and
(f) the effect of any curtailments or settlements (see paragraphs 110 and 111).

~~130~~131. 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

~~131~~132. Although this Statement does not require specific disclosures about other long-term employee benefits, other Accounting Standards may require disclosures, for example, where the expense resulting from such benefits is of such size, nature or incidence that its disclosure is relevant to explain the performance of the enterprise for the period (see AS 5 *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies*). Where required by AS 18 *Related Party Disclosures* an enterprise discloses information about other long-term employee benefits for key management personnel.

Termination Benefits

~~132~~133. This Statement deals with termination benefits sseparately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

~~133~~134. *An enterprise should recognise termination benefits as a liability and an expense when, and only when:*
(a) the enterprise has a present obligation as a result of a past event;
(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(c) a reliable estimate can be made of the amount of the obligation.

~~134~~135. An enterprise may be committed, by legislation, by contractual or other agreements with employees or their representatives or by an obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:
(a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and
(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the enterprise.

~~135~~136. Some employee benefits are payable 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 may be described as termination indemnities, or termination gratuities, they are post-employment benefits, rather than termination benefits and an enterprise accounts for them as post-employment benefits. Some enterprises provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the enterprise. The additional benefit payable on involuntary termination is a termination benefit.

~~136~~137. Termination benefits are recognised as an expense immediately.

~~137~~138. Where an enterprise recognises termination benefits, the enterprise may also have to account for a curtailment of retirement benefits or other employee benefits (see paragraph 110).

Measurement

~~138~~139. ***Where termination benefits fall due more than 12 months after the balance sheet date, they should be discounted using the discount rate specified in paragraph 78.***

Disclosure

~~139~~140. Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by AS 29, *Provisions, Contingent Liabilities and Contingent Assets* an enterprise discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

~~140~~141. As required by AS 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies* an enterprise discloses the nature and amount of an expense if it is of such size, nature or incidence that its disclosure is relevant to explain the performance of the enterprise for the period. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

~~141~~142. Where required by AS 18, *Related Party Disclosures* an enterprise discloses information about termination benefits for key management personnel.

Transitional Provisions

Employee Benefits other than Defined Benefit Plans and Termination Benefits

~~142~~143. ***Where an enterprise first adopts this Statement for employee benefits, the difference (as adjusted by any related ~~deferred~~ tax expense) between the liability in respect of employee benefits other than defined benefit plans and termination benefits, as per this Statement, existing on the date of adopting this Statement and the liability that would have been recognised at the same date, as per the pre-revised AS 15 ~~under the enterprise's previous accounting policy~~, should be adjusted against opening balance of revenue reserves and surplus.***

Defined Benefit Plans

~~143~~144. ***On first adopting this Statement, an enterprise should determine its transitional liability for defined benefit plans at that date as:***

- ***(a) the present value of the obligation (see paragraph 65) at the date of adoption;***
- ***(b) minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 100-102);***
- ***(c) minus any past service cost that, under paragraph 94, should be recognised in later periods.***

~~144~~145. ***The difference (as adjusted by any related ~~deferred~~ tax expense) between the transitional liability and the liability that would have been recognised at the same date, as per the pre-revised AS 15 ~~under the enterprise's previous accounting policy~~, should be adjusted immediately, against opening balance of revenue reserves and surplus.***

Example Illustrating Paragraphs ~~143~~ 144 and ~~144~~ 145

At 31 March 20X6, an enterprise's balance sheet includes a pension liability of Rs. 100, recognised as per the pre-revised AS 15. The enterprise adopts the Statement as of 1 April 20X6, when the present value of the obligation under the Statement is Rs. 1,300 and the fair value of plan assets is Rs. 1,000. On 1 April 20X0, the enterprise had improved pensions (cost for non-vested benefits: Rs. 160; and average remaining period at that date until vesting: 10 years).

	(Amount in Rs.)
The transitional effect is as follows:	
Present value of the obligation	*1,300*
Fair value of plan assets	*(1,000)*
Less: past service cost to be recognised in later periods (160 x 4/10)	*(64)*
Transitional liability	*236*
Liability already recognised	*100*
Increase in liability	*136*

*This increase in liability (*as adjusted by any related deferred tax*) should be adjusted against the opening balance of revenue reserves and surplus as on 1 April 20X6.*

Termination Benefits

~~145~~146. This Statement requires immediate expensing of expenditure on termination benefits (including expenditure incurred on voluntary retirement scheme (VRS)). However, where an enterprise incurs expenditure on termination benefits on or before 31st March, 2009~~within three years of this Statement first coming into effect~~, the enterprise may choose to follow the accounting policy of deferring such expenditure over its pay-back period. However, the expenditure so deferred cannot be carried forward to accounting periods commencing on or after 1st April, 2010 ~~subject to a maximum of 5 years.~~

Appendix A

Illustrative Example

The appendix is illustrative only and does not form part of the Statement. The purpose of the appendix is to illustrate the application of the Statement to assist in clarifying its meaning. Extracts from statements of profit and loss and balance sheets are provided to show the effects of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Accounting Standards.

Background Information

The following information is given about a funded defined benefit plan. To keep interest computations simple, all transactions are assumed to occur at the year end. The present value of the obligation and the fair value of the plan assets were both Rs. 1,000 at 1 April, 20X4.

(Amount in Rs.)

	20X4-X5	20X5-X6	20X6-X7
Discount rate at start of year	10.0%	9.0%	8.0%
Expected rate of return on plan assets at start of year	12.0%	11.1%	10.3%
Current service cost	130	140	150
Benefits paid	150	180	190
Contributions paid	90	100	110
Present value of obligation at 31 March	1,141	1,197	1,295
Fair value of plan assets at 31 March	1,092	1,109	1,093
Expected average remaining working lives of employees (years)	10	10	10

In 20X5-X6, the plan was amended to provide additional benefits with effect from 1 April 20X5. The present value as at 1 April 20X5 of additional benefits for employee service before 1 April 20X5 was Rs. 50 for vested benefits and Rs. 30 for non-vested benefits. As at 1 April 20X5, the enterprise estimated that the average period until the non-vested benefits would become vested was three years; the past service cost arising from additional non-vested benefits is therefore recognised on a straight-line basis over three years. The past service cost arising from additional vested benefits is recognised immediately (paragraph 94 of the Statement).

Changes in the Present Value of the Obligation and in the Fair Value of the Plan Assets

The first step is to summarise the changes in the present value of the obligation and in the fair value of the plan assets and use this to determine the amount of the actuarial gains or losses for the period. These are as follows:

(Amount in Rs.)

	20X4-X5	20X5-X6	20X6-X7
Present value of obligation, 1 April	1,000	1,141	1,197
Interest cost	100	103	96
Current service cost	130	140	150
Past service cost – (non vested benefits)	-	30	-
Past service cost – (vested benefits)	-	50	-
Benefits paid	(150)	(180)	(190)
Actuarial (gain) loss on obligation (balancing figure)	61	(87)	42
Present value of obligation, 31 March	1,141	1,197	1,295
Fair value of plan assets, 1 April	1,000	1,092	1,109
Expected return on plan assets	120	121	114
Contributions	90	100	110
Benefits paid	(150)	(180)	(190)
Actuarial gain (loss) on plan assets (balancing figure)	32	(24)	(50)
Fair value of plan assets, 31 March	1,092	1,109	1,093
Total actuarial gain (loss) to be recognised immediately as per the Statement	(29)	63	(92)

Amounts Recognised in the Balance Sheet and Statements of Profit and Loss, and Related Analyses

The final step is to determine the amounts to be recognised in the balance sheet and statement of profit and loss, and the related analyses to be disclosed ~~under~~ in accordance with paragraphs ~~119~~120~~(c), (e)~~; (f), ~~and~~ (g) and (j) of the Statement (the analyses required to be disclosed in accordance with paragraph 120(c) and (e) are given in the section of this Appendix 'Changes in the Present Value of the Obligation and in the Fair Value of the Plan Assets'). These are as follows:

			(Amount in Rs.)
	20X4-X5	20X5-X6	20X6-X7
Present value of the obligation	1,141	1,197	1,295
Fair value of plan assets	(1,092)	(1,109)	(1,093)
	49	88	202
Unrecognised past service cost – non vested benefits	-	(20)	(10)
Liability recognised in balance sheet	**49**	**68**	**192**
Current service cost	130	140	150
Interest cost	100	103	96
Expected return on plan assets	(120)	(121)	(114)
Net actuarial (gain) loss recognised in year	29	(63)	92
Past service cost - non-vested benefits	-	10	10
Past service cost - vested benefits	-	50	-
Expense recognised in the statement of profit and loss	**139**	**119**	**234**
~~Movements in the net liability recognised in the balance sheet, to be disclosed under paragraph 119(e):~~			
~~Opening net liability~~	~~-~~	~~49~~	~~68~~
~~Expense as above~~	~~139~~	~~119~~	234
~~Contributions paid~~	~~(90)~~	~~(100)~~	~~(110)~~
~~Closing net liability~~	~~49~~	~~68~~	~~192~~
Actual return on plan assets, ~~to be disclosed under paragraph 119(g):~~			
Expected return on plan assets	120	121	114
Actuarial gain (loss) on plan assets	32	(24)	(50)
Actual return on plan assets	152	97	64
Note: see example illustrating paragraphs 103-105 for presentation of reimbursements.			

Appendix B

Illustrative Disclosures

This appendix is illustrative only and does not form part of the Statement. The purpose of the appendix is to illustrate the application of the Statement to assist in clarifying its meaning. Extracts from notes to the financial statements show how the required disclosures may be aggregated in the case of a large multi-national group that provides a variety of employee benefits. These extracts do not necessarily provide all the information required under the disclosure and presentation requirements of AS 15 (2005) and other Accounting Standards. In particular, they do not illustrate the disclosure of:

(a) accounting policies for employee benefits (see AS 1 Disclosure of Accounting Policies). Paragraph 120(a) of the Statement requires this disclosure to include the enterprise's accounting policy for recognising actuarial gains and losses.

(b) a general description of the type of plan (paragraph 120(b)).

(c) a narrative description of the basis used to determine the overall expected rate of return on assets (paragraph 120(j)).

(d) employee benefits granted to directors and key management personnel (see AS 18 Related Party Disclosures).

Employee Benefit Obligations

The amounts (in Rs.) recognised in the balance sheet are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X5-X6	20X4-X5	20X5-X6	20X4-X5
Present value of funded obligations	20,300	17,400	-	-
Fair value of plan assets	18,420	17,280	-	-
	1,880	120	-	-
Present value of unfunded obligations	2000	1000	7,337	6,405
Unrecognised past service cost	(450)	(650)	-	-
Net liability	3,430	470	7,337	6,405
Amounts in the balance sheet:				
Liabilities	3,430	560	7,337	6,405
Assets	-	(90)	-	-
Net liability	3,430	470	7,337	6,405

The pension plan assets include equity shares issued by [name of reporting enterprise] with a fair value of Rs. 317 (20X4-X5: Rs. 281). Plan assets also include property occupied by [name of reporting enterprise] with a fair value of Rs. 200 (20X4-X5: Rs. 185).

The amounts (in Rs.) recognised in the statement of profit and loss are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X5-X6	20X4-X5	20X5-X6	20X4-X5
Current service cost	850	750	479	411
Interest on obligation	950	1,000	803	705
Expected return on plan assets	(900)	(650)		
Net actuarial losses (gains) recognised in year	2650	(650)	250	400
Past service cost	200	200	-	-
Losses (gains) on curtailments and settlements	175	(390)	-	-
Total, included in 'employee benefit expense'	3,925	260	1,532	1,516
Actual return on plan assets	600	2,250	-	-

Changes in the present value of the defined benefit obligation representing reconciliation of opening and closing balances thereof are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X5-X6	20X4-X5	20X5-X6	20X4-X5
Opening defined benefit obligation	18,400	11,600	6,405	5,439
Service cost	850	750	479	411
Interest cost	950	1,000	803	705
Actuarial losses (gains)	2,350	950	250	4200
Losses (gains) on curtailments	(500)	-		
Liabilities extinguished on settlements	-	(350)		
Liabilities assumed in an amalgamation in the nature of purchase	-	5,000		
Exchange differences on foreign plans	900	(150)		
Benefits paid	(650)	(400)	(600)	(550)
Closing defined benefit obligation	22,300	18,400	7,337	6,405

Changes in the fair value of plan assets representing reconciliation of the opening and closing balances thereof are as follows:		
	Defined benefit pension plans	
	20X5-X6	20X4-X5
Opening fair value of plan assets	17,280	9,200
Expected return	900	650
Actuarial gains and (losses)	(300)	1,600
Assets distributed on settlements	(400)	-
Contributions by employer	700	350
Assets acquired in an amalgamation in the nature of purchase	-	6,000
Exchange differences on foreign plans	890	(120)
Benefits paid	(650)	(400)
	18,420	17,280
The Group expects to contribute Rs. 900 to its defined benefit pension plans in 20X6-X7.		

The major categories of plan assets as a percentage of total plan assets are as follows:				
	Defined benefit pension plans		Post-employment medical benefits	
	20X5-X6	20X4-X5	20X5-X6	20X4-X5
Government of India Securities	80%	82%	78%	81%
High quality corporate bonds	11%	10%	12%	12%
Equity shares of listed companies	4%	3%	10%	7%
Property	5%	5%	-	-

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):		
	20X5-X6	20X4-X5
Discount rate at 31 March	5.0%	6.5%
Expected return on plan assets at 31 March	5.4%	7.0%
Proportion of employees opting for early retirement	30%	30%
Annual increase in healthcare costs	8%	8%
Future changes in maximum state health care benefits	3%	2%

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in the statement of profit and loss. At present, healthcare costs, as indicated in the principal actuarial assumption given above, are expected to increase at 8% p.a. A one percentage point change in assumed healthcare cost trend rates would have the following effects on the aggregate of the service cost and interest cost and defined benefit obligation:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	190	(150)
Effect on defined benefit obligation	1,000	(900)

Amounts for the current and previous four periods are as follows: Defined benefit pension plans					
	20X5-X6	20X4-X5	20X3-X4	20X2-X3	20X1-X2
Defined benefit obligation	(22,300)	(18,400)	(11,600)	(10,582)	(9,144)
Plan assets	18,420	17,280	9,200	8,502	10,000
Surplus/(deficit)	(3,880)	(1,120)	(2,400)	(2,080)	856
Experience adjustments on plan liabilities	(1,111)	(768)	(69)	543	(642)
Experience adjustments on plan assets	(300)	1,600	(1,078)	(2,890)	2,777

Post-employment medical benefits					
	20X5-X6	20X4-X5	20X3-X4	20X2-X3	20X1-X2
Defined benefit obligation	7,337	6,405	5,439	4,923	4,221
Experience adjustments on plan liabilities	(232)	829	490	(174)	(103)

The group also participates in an industry-wide defined benefit plan which provides pensions linked to final salaries and is funded in a manner such that contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period. It is not practicable to determine the present value of the group's obligation or the related current service cost as the plan computes its obligations on a basis that differs materially from the basis used in [name of reporting enterprise]'s financial statements. [describe basis] On that basis, the plan's financial statements to 30 September 20X3 show an unfunded liability of Rs. 27,525. The unfunded liability will result in future payments by participating employers. The plan has approximately 75,000 members, of whom approximately 5,000 are current or former employees of [name of reporting enterprise] or their dependants. The expense recognised in the statement of profit and loss, which is equal to contributions due for the year, and is not included in the above amounts, was Rs. 230 (20X4-X5: Rs. 215). The group's future contributions may be increased substantially if other enterprises withdraw from the plan.

~~*The appendix is illustrative only and does not form part of the Statement. The purpose of the appendix is to illustrate the application of the Statement to assist in clarifying its meaning. Extracts from notes to the financial statements show how the required disclosures may be aggregated in the case of a large multi-national group that provides a variety of employee benefits. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Accounting Standards. In particular, they do not illustrate the disclosure of:*~~

~~*(a) accounting policies for employee benefits (see AS 1 Disclosure of Accounting Policies). Under paragraph 119(a) of the Statement, this disclosure should include the enterprise's accounting policy for recognising actuarial gains and losses; or*~~

~~*(b) employee benefits granted to directors and key management personnel (see AS 18 Related Party Disclosures).*~~

Employee Benefit Obligations

The amounts (in Rs.) recognised in the balance sheet are as follows:				
	Defined benefit pension plans		Post-employment medical benefits	
	20X5-X6	20X4-X5	20X5-X6	20X4-X5
Present value of funded obligations	12,310	11,772	2,819	2,721
Fair value of plan assets	(11,982)	(11,188)	(2,480)	(2,415)
	328	584	339	306
Present value of unfunded obligations	6,362	6,106	5,191	5,166
Unrecognised past service cost	(450)	(650)	-	-
Net liability in balance sheet	6,240	6,040	5,530	5,472
Amounts in the balance sheet:				
liabilities	6,451	6,278	5,530	5,472
assets	(211)	(238)	-	-
Net liability in balance sheet	6,240	6,040	5,530	5,472
The pension plan assets include equity shares issued by [name of reporting enterprise] with a fair value of Rs. 317 (20X4-X5: Rs. 281). Plan assets also include property occupied by [name of reporting enterprise] with a fair value of Rs. 200 (20X4-X5: Rs. 185).				

The amounts (in Rs.) recognised in the statement of profit and loss are as follows:				
	Defined benefit pension plans		Post-employment medical benefits	
	20X5-X6	20X4-X5	20X5-X6	20X4-X5
Current service cost	1,679	1,554	471	411
Interest on obligation	1,890	1,650	819	705
Expected return on plan assets	(1,392)	(1,188)	(291)	(266)
Net actuarial losses (gains) recognised in year	90	(187)	-	-
Past service cost	200	200	-	-
Losses (gains) on curtailments and settlements	221	(47)	-	-
Total, included in 'staff costs'	2,688	1,982	999	850
Actual return on plan assets	1,232	1,205	275	254

Movements in the net liability recognised in the balance sheet are as follows:				
	Defined benefit pension plans		Post-employment medical benefits	
	20X5-X6	20X4-X5	20X5-X6	20X4-X5
Net liability at start of year	6,040	5,505	5,472	5,439
Net expense recognised in the statement of profit and loss	2,688	1,982	999	850
Contributions	(2,261)	(1,988)	(941)	(817)
Exchange differences on foreign plan	(227)	221	-	-
Liabilities acquired in an amalgamation in the nature of purchase	-	320	-	-
Net liability at end of year	6,240	6,040	5,530	5,472

~~The group also participates in an industry-wide defined benefit plan which provides pensions linked to final salaries and is funded in a manner such that contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period. It is not practicable to determine the present value of the group's obligation or the related current service cost as the plan computes its obligations on a basis that differs materially from the basis used in [name of reporting enterprise]'s financial statements. [describe basis] On that basis, the plan's financial statements to 30 September 20X3 show an unfunded liability of Rs. 27,525. The unfunded liability will result in future payments by participating employers. The plan has approximately 75,000 members, of whom approximately 5,000 are current or former employees of [name of reporting enterprise] or their dependants. The expense recognised in the statement of profit and loss, which is equal to contributions due for the year, and is not included in the above amounts, was Rs. 230 (20X4-X5: Rs. 215). The group's future contributions may be increased substantially if other enterprises withdraw from the plan.~~

~~Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):~~		
	~~20X5-X6~~	~~20X4-X5~~
~~Discount rate at 31 March~~	~~10.0%~~	~~9.1%~~
~~Expected return on plan assets at 31 March~~	~~12.0%~~	~~10.9%~~
~~Future salary increases~~	~~5%~~	~~4%~~
~~Future pension increases~~	~~3%~~	~~2%~~
~~Proportion of employees opting for early retirement~~	~~30%~~	~~30%~~
~~Annual increase in health care costs~~	~~8%~~	~~8%~~
~~Future changes in maximum state health care benefits~~	~~3%~~	~~2%~~

Appendix C

Note: This Appendix is not a part of the Accounting Standard. The purpose of this appendix is only to bring out the major differences between Accounting Standard 15 (revised 2005) and corresponding International Accounting Standard (IAS) 19, Employee Benefits (as amended in December 2004).

Comparison with IAS 19, Employee Benefits (as amended in December 2004)

Revised AS 15 (2005) differs from International Accounting Standard (IAS) 19, *Employees Benefits*, in the following major respects:

1. Recognition of Actuarial Gains and Losses

IAS 19 provides options to recognise actuarial gains and losses as follows:

(i) by following a 'Corridor Approach', which results in deferred recognition of the actuarial gains and losses, or

(ii) immediately in the statement of profit and loss, or

(iii) immediately outside the profit or loss in a statement of changes in equity titled 'statement of recognised income and expense'.

The revised AS 15 (2005) does not admit options and requires that actuarial gains and losses should be recognised immediately in the statement of profit and loss. The following are the reasons of requiring immediate recognition in the statement of profit and loss:

(a) Deferred recognition and 'corridor' approaches are complex, artificial and difficult to understand. They add to cost by requiring enterprises to keep complex records. They also require complex provisions to deal with curtailments, settlements and transitional matters. Also, as such approaches are not used for other uncertain assets and liabilities, it is not appropriate to use the same for post-employment benefits.

(b) Immediate recognition of actuarial gains and losses represents faithfully the enterprise's financial position. An enterprise will report an asset only when a plan is in surplus and a liability only when a plan has a deficit. Paragraph 94 of the Framework for the Preparation and Presentation of Financial Statements notes that the application of the matching concept does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities. Deferred actuarial losses do not represent future benefits and hence do not meet the Framework's definition of an asset, even if offset against a related liability. Similarly, deferred actuarial gains do not meet the Framework's definition of a liability.

(c) Immediate recognition of actuarial gains and losses generates income and expense items that are not arbitrary and that have information content.

(d) The primary argument for the 'corridor approach' is that in the long term, actuarial gains and losses may offset one another. However, it is not reasonable to assume that

all actuarial gains or losses will be offset in future years; on the contrary, if the original actuarial assumptions are still valid, future fluctuations will, on average, offset each other and thus will not offset past fluctuations.

(e) Deferred recognition by using the 'corridor approach' attempts to avoid volatility. However, a financial measure should be volatile if it purports to represent faithfully transactions and other events that are themselves volatile.

(f) Immediate recognition is consistent with AS 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.* Under AS 5, the effect of changes in accounting estimates should be included in net profit or loss for the period if the change affects the current period only but not future periods. Actuarial gains and losses are not an estimate of future events, but result from events before the balance sheet date that resolve a past estimate (experience adjustments) or from changes in the estimated cost of employee service before the balance sheet date (changes in actuarial assumptions).

(g) Any amortisation period (or the width of a 'corridor') is arbitrary.

(h) Actuarial gains and losses are items of income and expense. Recognition of such items outside the statement of profit and loss, as per the option (iii) above is not appropriate.

(i) Immediate recognition requires less disclosure because all actuarial gains and losses are recognised.

(j) Immediate recognition is also permitted under IAS 19. Providing only one treatment is in line with the ICAI's endeavour to eliminate alternatives, to the extent possible.

(k) The existing AS 15 (1995) also requires immediate recognition of actuarial gains and losses.

2. Recognition of Defined Benefit Asset

Both IAS 19 and revised AS 15 (2005) specify an 'asset ceiling' in case of a situation of defined benefit asset. AS 15 (2005) provides that the asset should be recognised only to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. IAS 19, on the other hand, provides that the asset should be recognised to the extent of the total of (i) any cumulative unrecognised net actuarial losses and past service cost; and (ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. IAS 19, however, also provides that the application of this should not result in a gain being recognised solely as a result of an actuarial loss or past service cost in the current period or in a loss being recognised solely as a result of an actuarial gain in the current period.

The aspect with regard to unrecognised net actuarial losses is not relevant in the context of revised AS 15 (2005) since it does not permit the adoption of 'corridor approach'. In respect of past service cost, it is felt that in a situation of defined benefit asset, the asset, to the extent of unrecognised past service cost, should not be required to be recognised in view of the prudence consideration for preparation of financial statements.

~~3. Disclosures~~

~~As compared to IAS 19, AS 15 (2005) requires lesser disclosures in respect of defined benefit plans considering the information overload. For example, while IAS 19 requires disclosure of sensitivity information, five year histories of present value of the defined benefit obligations, fair value of plan assets, experience adjustments arising on plan liabilities and plan assets etc., AS 15 does not require the same~~.

~~4~~3. Termination Benefits – Recognition of Liability

IAS 19 provides that an enterprise should recognise termination benefits as a liability and an expense when, and only when, the enterprise is demonstrably committed to either (a) terminate the employment of an employee or group of employees before the normal retirement date; or (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. It further provides that an enterprise is demonstrably committed to a termination when, and only when, the enterprise has a detailed formal plan for the termination and is without realistic possibility of withdrawal. It is felt that merely on the basis of a detailed formal plan, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystalised at this stage. Accordingly, the revised AS 15 (2005) provides criteria for recognition of liability in respect of termination benefits on the lines of AS 29, *Provisions, Contingent Liabilities and Contingent Assets.*

~~5~~4. Transitional Provisions

In respect of transitional liability for defined benefit plans, IAS 19 provides that if the transitional liability is more than the liability that would have been recognised at the same date under the enterprise's previous accounting policy, the enterprise should make an irrevocable choice to recognise that increase as part of its defined benefit liability (a) immediately, under IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies;* or (b) as an expense on a straight-line basis over up to five years from the date of adoption subject to certain conditions. IAS 19 also requires that if the transitional liability is less than the liability that would have been recognised at the same date under the enterprise's previous accounting policy, the enterprise should recognise that decrease immediately under IAS 8.

The revised AS 15 (2005), on the other hand, provides no choice in this regard, and requires that the difference between the transitional liability as per this Statement and the liability that would have been recognised as per the pre-revised AS 15~~under the enterprise's previous accounting policy~~, should be adjusted against the opening balance of revenue reserves and surplus. This treatment is in line with the transitional provisions provided in other Indian Accounting Standards.

In respect of termination benefits, the revised AS 15 (2005), considering that the industry in India at present is passing through a restructuring phase, specifically contains a transitional provision providing that where an enterprise incurs expenditure on termination benefits on or before 31st March, 2009~~within three years of this Statement first coming into effect~~, the enterprise may choose to follow the accounting policy of deferring such expenditure over its pay-back period. However, the expenditure so deferred cannot be carried forward to accounting periods commencing on or after 1st April, 2010 ~~subject to a maximum of 5 years~~. IAS 19 does not provide such a transitional provision. ❐

EXPOSURE DRAFT

PREFACE TO AUDITING AND ASSURANCE STANDARDS, THE STATEMENTS ON AUDITING AND GUIDANCE NOTES

The following is the text of the proposed Revised Preface to Auditing and Assurance Standards, Statements on Auditing and Guidance Notes, issued by the Institute of Chartered Accountants of India. Once finalised, the revised Preface would replace the existing Preface to the Statements on Standard Auditing Practices. Members and others are requested to send their comments on the Exposure Draft to the Secretary, Auditing and Assurance Standards Board, the Institute of Chartered Accountants of India, Indraprastha Marg, New Delhi –110002 or email at aasb@icai.org, so as to reach us ***not later than May 31, 2006.***

Introduction

1. This Preface to the Auditing and Assurance Standards, Statements on Auditing and Guidance Notes[1] is issued to facilitate understanding of the objectives and operating procedures of the Auditing and Assurance Standards Board (AASB) and the scope and authority of the pronouncements of the AASB issued as per the terms of reference approved by the Council of the Institute of Chartered Accountants of India (ICAI). The final authority to issue Statements on Auditing, Auditing and Assurance Standards and Guidance Notes vests with the Council of the ICAI.

2. For the purpose of this Preface, the Auditing and Assurance Standards issued by the ICAI include the following Standards[2] :
   i. Such Standards which are to be applied in the audit of historical financial information, viz., **Standards on Auditing (SAs)**.
   ii. Such Standards which are to be applied in the review of historical financial information, viz., **Standards on Review Engagements (SREs).**
   iii. Such Standards which are to be applied in assurance engagements, engagements dealing with subject matters other than historical financial information, viz., **Standards on Assurance Engagements (SAEs).**
   iv. Such Standards which are to be applied to engagements to apply agreed upon procedures to information and other related services engagements such as compilation engagements, as specified by the ICAI, viz., **Standards on Related Services (SRSs).**
   v. Standards relating to quality controls which are to be applied to all engagements covered from (i) to (iv) above viz., **Standards on Quality Controls (SQCs).**

3. The Institute of Chartered Accountants of India is one of the founder members of the International Federation of Accountants (IFAC). The mission

[1] *Similar Guidance Notes issued by the International Auditing and Assurance Standards Board are known as International Auditing Practices Statements.*

[2] *The International Auditing and Assurance Standards Board has categorised the Standards applicable to different engagements as follows:*

i. International Standards on Auditing (ISAs) – To be applied in the audit of historical financial information.

ii. International Standards on Review Engagements (ISREs) – To be applied in the review of historical financial information.

iii. International Standards on Assurance Engagements (ISAEs) – To be applied in assurance engagements, engagements dealing with subject matters other than historical financial information.

iv. International Standards on Related Services (ISRSs) – To engagements to apply agreed upon procedures to information and other related services engagements such as compilation engagements.

v. International Standards on Quality Control (ISQCs) – To be applied to all engagements covered from (i) to (iv) above.

Till the time the Council of the ICAI too approves the categorization of Standards as described above, related Standards issued by the Council would continue to be collectively referred to as the Auditing and Assurance Standards.

of the IFAC is "the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest." In pursuing this mission, the IFAC Board has established the International Auditing and Assurance Standards Board (IAASB) to develop and issue, in the public interest and under its own authority, high quality auditing and assurance standards for use around the world[3].

4. The ICAI too is committed to the goal of enabling the accountancy profession in India to provide services of high quality in the public interest and which are accepted worldwide. To further this goal, the ICAI develops and promulgates high quality professional and technical Standards and other literature. The ICAI being a member of the International Federation of Accountants (IFAC), the Auditing and Assurance Standards developed and promulgated by the ICAI are in harmony, to the extent possible in the light of the conditions prevailing in India, with the corresponding International Standards on Auditing, International Standards on Review Engagements, International Standards on Assurance Engagements, International Standards on Related Services or International Standards on Quality Control, issued by the International Auditing and Assurance Standards Board (IAASB) of the IFAC.

The Auditing and Assurance Standards Board

Brief History

5. The Institute of Chartered Accountants of India constituted the Auditing Practices Committee (APC) on 17th September 1982, to review the existing auditing practices in India and to develop Statements on Standard Auditing Practices so that these may be issued under the authority of the Council of the Institute. Subsequently, at its 226th meeting held in July 2002, the Council of the Institute approved certain recommendations of the APC to strengthen the role being played by it in the growth and development of the profession of accountancy in India. The Council, accordingly, at the said meeting also approved the renaming of the Auditing Practices Committee as the Auditing and Assurance Standards Board (AASB) as well as renaming of the Statements on Standard Auditing Practices as Auditing and Assurance Standards, with immediate effect.

Objectives and Functions of the Auditing and Assurance Standards Board

6. The following are the objectives of the Auditing and Assurance Standards Board:
   (i) To review the existing auditing practices in the country and identify and recommend areas in which Auditing and Assurance Standards or Statements on Auditing need to be developed.
   (ii) To formulate Auditing and Assurance Standards and Statements on Auditing so that these may be issued under the authority of the Council of the Institute.
   (iii) To review the existing International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants to examine their relevance and adaptability while formulating the Auditing and Assurance Standards and to adapt the same.
   (iv) To review the existing Auditing and Assurance Standards and Statements on Auditing periodically to assess their relevance in the changed conditions and to undertake their revision, if necessary.
   (v) To develop Guidance Notes on issues arising out of any Auditing and Assurance Standard, auditing issues pertaining to any specific industry or on generic issues, so that those may be issued under the authority of the Council of the Institute.
   (vi) To review the existing Guidance Notes periodically to assess their relevance in their changed circumstances and to undertake their revision, if necessary.
   (vii) To formulate General Clarifications on issues arising from Auditing and Assurance Standards.
   (viii) To carry out such other functions relating to Auditing and Assurance Standards, Statements on Auditing and Guidance Notes, as the Board may consider appropriate.

7. Being a member of the International Federation of Accountants, it is one of the membership obligations of the Institute to actively propagate the pronouncements of the International Auditing and Assurance Standards Board to contribute towards global harmonisation and acceptance of the Standards issued by the IAASB. Accordingly, while formulating the Auditing and Assurance Standards, the AASB will take into consideration

[3] *Source, The Handbook of International Auditing, Assurance and Ethics Pronouncements, 2005 Edition (IFAC).*

the Standards issued by the IAASB. While formulating the Auditing and Assurance Standards, the AASB will also take into consideration the applicable laws, customs, usages and business environment prevailing in India.

Composition

8. The composition of the AASB is fairly broad-based and attempts to ensure participation of all interest groups in the standard setting process. Apart from the elected members of the Council of the ICAI nominated on the AASB, the following are also represented on AASB:
   (i) Eminent members of the profession co-opted by the ICAI (they may be in practice or in industry)
   (ii) One special invitee from the Securities and Exchange Board of India[4]
   (iii) One special invitee from the Reserve Bank of India
   (iv) One special invitee from the Indian Institutes of Management (from Ahmedabad, Bangalore, Kolkata, Lucknow, Kozhikode and Indore in reverse alphabetical order)
   (v) One special invitee from industry associations (Federation of Indian Chambers of Commerce, Confederation of Indian Industries and Associated Chambers of Commerce, in reverse alphabetical order)

Attendance at the Meetings

9. Each AASB meeting requires the presence, in person, of at least one third of the members (including the co-opted members but excluding special invitees) of the AASB.
10. In case any member of the AASB (a special invitee is not a member) absents himself from three consecutive meetings of the Board, the AASB may recommend the Council to seek resignation of the said member from the Board.

Authority Attached to Standards Issued by the ICAI

11. Auditing and Assurance Standards codify the existing best practices in the area of auditing. AASs are, therefore, issued with a view to securing compliance by members on matters which, in the opinion of the Council, are critical for the proper discharge of their functions. AASs are, therefore, mandatory in nature. Accordingly, while discharging their attest function, it will be the duty of the members of the Institute to ensure that the AASs are followed in the audit of financial information covered by their audit reports. The nature of the Auditing and Assurance Standards requires members to exercise professional judgment in applying them, for example, a member may judge it necessary to depart from an essential procedure laid down in a Standard to achieve more effectively the objective of the engagement. If, for any reason, a member has not been able to perform an audit in accordance with such AAS, his report should draw attention to the material departures therefrom.
12. The Auditing and Assurance Standards contain basic principles and essential procedures (Standard portion), identified separately in the Standards[5] together with related guidance in the form of explanatory and other material, though both the Standard portion as well as the explanatory guidance have equal authority. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures. An individual Standard should be read in the context of the objective stated in the Standard as well as this Preface.
13. Any limitation of the applicability of a specific Standard is made clear in the Standard itself.

Authority Attached to Statements on Auditing

14. Statements on Auditing too are issued with a view to securing compliance by members on matters, which in the opinion of the Council, are critical for the proper discharge of their functions. Statements are, therefore, mandatory. Accordingly, it is the duty of the members of the Institute to ensure that the Statements are followed in the audit of financial information covered by their audit reports. If for any reason, a member has not been able to perform an audit in accordance with such Statement, his report should draw material departures therefrom.

[4] *The concept of having a special invitee each from the Reserve Bank of India, Securities and Exchange Board of India, Indian Institutes of Management and industry associations was approved by the Council of the Institute at its 226th meeting held in July 2005. The concept was based on a recommendation to the effect made by the APC to the Council with a view to have greater transparency in the working of the APC.*

[5] *Currently, the basic principles and essential procedures (the Standard portion) are identified by way of bold lettering in an Auditing and Assurance Standard. The identification might undergo a change in accordance with that adopted by the IAASB.*

Authority Attached to AASs *vis a vis* Statements

15. In a situation where a matter is covered both by an Auditing and Assurance Standards as also by a Statement on auditing. In such a situation, the Statement shall prevail till the time the Standard becomes mandatory. Once an Auditing and Assurance Standard becomes mandatory, the concerned Statement or the relevant portion thereof shall automatically stand withdrawn.

Authority Attached to General Clarifications

16. General Clarifications are issued by the Board under the authority of the Council of the Institute with a view to clarify any issues arising from application of the Auditing and Assurance Standards. The General Clarifications are mandatory in nature. Accordingly, it is the duty of the members of the Institute to ensure that the General Clarifications are followed in the audit of financial information covered by their audit reports. If for any reason, a member has not been able to perform an audit in accordance with such General Clarifications, his report should draw material departures therefrom.

Authority Attached to Guidance Notes

17. Guidance Notes are designed primarily to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a Guidance Note except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. If the recommendations in a Guidance Note have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary.

Technical Guides, Studies and Other Papers Published by the Auditing and Assurance Standards Board

18. The Board may also publish Technical Guides, Studies and other papers. Technical Guides are ordinarily aimed at imparting broad knowledge about a particular aspect or an industry to the members. Studies and other papers are aimed at promoting discussion or debate or creating awareness on issues relating to quality control, auditing, assurance and related service, affecting the profession. They do not establish any basic principles or essential procedures to be followed in audit, assurance or related services engagements.

AASB Due Process and Working Procedures

Auditing and Assurance Standards/ Statements on Auditing/ General Clarifications

Project Identification, Prioritization and Approval

19. Project proposals to develop new, or revise existing Standards, Statements or General Clarifications are identified based on international and national developments, input from members of the Council of the ICAI, AASB members, members of other committees of the ICAI and/ or recommendations received from other interested parties.
20. The AASB determines the priorities of various projects on hand for commencement.
21. In the preparation of AASs/ Statements/ General Clarifications, AASB is assisted by Study Groups / Task Forces constituted to consider specific projects. The AASB appoints one of the members of the ICAI as a convener of the Study Group / Task Force. The Convener nominates other members of the Study Group/Task Force, ordinarily five to seven in number. For operating convenience and economy, a study group is usually based in the area where the convenor is located. In situations considered necessary, the Board may also consider having an outside expert on such Study Groups/Task Forces and such an "expert" need not necessarily be a member of the Institute. The Study Group/Task Force is responsible for preparing the basic draft of the Standard/ Statement/ General Clarification. In addition, a separate group of experts may be formed to advice the Study Group /Task Force.
22. The AASB may also conduct projects jointly with regulators and/ or others. In such cases, the joint Study Group/Task Force is ordinarily chaired by the convener appointed by the AASB.

Consultation and Debate

23. The Study Group/Task Force develops the preliminary draft of the Standard/ Statement based on appropriate research and consultation, which may include, depending on the circumstances; consultation with the other professionals, regulators and other interested parties, as well as reviewing professional pronouncements issued

by IFAC member bodies and other professional bodies.

24. The agenda papers, including issues papers and draft Standard/ Statement, as approved by the Chairman, AASB, prepared by the study group for the AASB's review as mentioned in the preceding paragraph are hosted on the website of the AASB at least twenty one days in advance of the AASB meeting at which such draft Standard/ Statement/ General Clarification is planned to be considered.

25. Agenda papers, including back ground papers and draft Standard/ Statement/ General Clarification prepared by the Study Group/Task Force for review and debate are sent in advance to the members of AASB.

26. The AASB considers the preliminary draft of the Standard/ Statement/ General Clarification prepared by the Study Group/Task Force. In case the draft Standard/ Statement or General Clarification requires significant revision on the basis of deliberations, the AASB may refer the same to the Study Group/Task Force to examine the issues arising out of the deliberations of the AASB and accordingly modify the draft Standard/ Statement.

27. In case the revision to the Standard/ Statement/ General Clarification is made by the Study Group/ Task Force in terms of the requirements of paragraph 26 above, the procedure laid down in paragraphs 24 to 26 above is followed for the revised draft of the Standard/ Statement.

28. The draft of the proposed Standard/ Statement, as modified in the light of the deliberations of the Board, and approved by the Chairman, AASB, is circulated to the Council members of the ICAI for their comments. AASB finalises the Exposure Draft of the proposed Standard/ Statement on the basis of the comments received, if any.

Public Exposure

29. The Exposure Draft of the proposed AAS/ Statement is issued for comments by the members of the ICAI and the public. Each Exposure Draft is ordinarily accompanied by an explanatory memorandum that highlights the objectives and significant proposals contained in the draft. The explanatory memorandum may also direct the respondents to those aspects of the Exposure Draft on which specific feedback is sought.

30. The exposure draft is sent to the members of the Council of the ICAI as well the Institute's past Presidents. Copies of the Exposure Draft are also sent to the following bodies:

(i.) The Comptroller and Auditor General of India
(ii.) The Reserve Bank of India
(iii.) The Insurance Regulatory and Development Authority
(iv.) The Central Board of Direct Taxes
(v.) The Ministry of Company Affairs, Government of India
(vi.) The Securities and Exchange Board of India
(vii.) The Central Registrar of Co-operative Societies
(viii.) The Institute of Cost and Works Accountants of India
(ix.) The Institute of Company Secretaries of India
(x.) The Indian Banks Association
(xi.) Industry organizations such as Federation of Indian Chambers of Commerce and Industry, Associated Chambers of Commerce, Confederation of Indian Industry
(xii.) Indian Institutes of Management (IIM), such as IIM Ahmedabad, IIM Lucknow, IIM Kolkata, IIM Kozhikode, IIM Bangalore
(xiii.) The Telecom Regulatory Authority of India
(xiv.) The Central Board of Excise and Custom
(xv.) The Standing Conference on Public Enterprises
(xvi.) Any other Body considered relevant by the AASB keeping in view the nature and requirement of AAS/Statement.

31. Exposure Draft is also hosted on the website of the ICAI as well as the AASB, accessible free of charge. The text of the Exposure Draft would also be published in the Journal of the Institute. To allow adequate time for due consideration and comment from all interested parties, exposure period will ordinarily be at least 45 days or such period as may be decided by the AASB.

Responses to Exposure Drafts and Consideration of Respondents' Comments

32. An acknowledgement of receipt is sent to every respondent to an Exposure Draft. Respondents' comments are considered a matter of public records and are hosted on the website of the AASB and kept there till the date of the AASB meeting at which the Exposure Draft and comments thereon are considered. The members of the AASB as well as the Council of the Institute are notified when the comments are hosted on

the website of the AASB. Copies of the Exposure Draft and comment letters are also made available to the AASB members at the AASB meeting at which the project is scheduled for discussion.

33. The comments and suggestions received within the exposure period as a result of public exposure are read and considered by the AASB. To facilitate the deliberative process, the AASB is ordinarily provided with a revised proposed Standard and background papers that analyzes the comments received and summarizes the main issues raised. The AASB gives due consideration to the comments received on the Exposure Draft and the AASB's deliberations on the significant issues raised in the comments letters received together with the AASB's decision thereon are recorded in the minutes of the relevant AASB meeting. The AASB may decide to discuss with the respondents their comment letters or explain to them the reasons for not having accepted their proposals. The nature and outcome of such discussions are reported and recorded in the minutes of the relevant AASB meeting. The AASB meetings at which the Exposure Draft of the proposed Standard/ Statement and the comments thereon are to be discussed are open for public. The members of the public can attend the said meetings only as observers. The notification as to the date of the said AASB meeting would be hosted on the website of the Institute at least 30 days in advance and the members of the public desirous of attending the said meeting(s) are required to send their request for the same to the Board at least 15 days prior to the date of the concerned AASB meeting. The seats for the members of the public at such meetings would be limited to such numbers as may be decided by the AASB and would be allotted on a first come first serve basis. The AASB may also hold a meeting of the representatives of the specified bodies to ascertain their views on the draft of the proposed AAS/ Statement.

34. After taking into consideration the comments received, the draft of the proposed AAS is finalized by the AASB and submitted to the Council of the ICAI for its consideration and approval.

35. The Council of the ICAI considers the final draft of the proposed AAS, and if found necessary, modify the same in consultation with AASB. The AAS on the relevant subject is then issued under the authority of the Council of the ICAI.

Re-exposure

36. The AASB on a direction from the Council of the ICAI or on its own, in cases considered appropriate, may re-expose a proposed Standard/ Statement. In deciding the need for re-exposure, it would be assessed whether, as a result of the comments received on the Exposure Draft, there has been substantial change to the exposed AAS and if so, whether those changes warrant the need to re-expose. Situations that constitute potential grounds for a decision to re-expose may include, for example, substantial changes to a proposal arising from matters not previously deliberated by the AASB or highlighted in the Exposure Draft, or substantial change to the substance of a Standards or revision of the corresponding International Standard by IAASB.

Procedure for Issuing the Guidance Notes

37. The AASB identifies the issues on which Guidance Notes need to be formulated and the priority in regard to selection thereof.

38. In the preparation of Guidance Notes, the AASB is assisted by Study Groups/Task Forces constituted to consider specific projects. The AASB appoints one of the members of the ICAI as a convener of the Study Group / Task Force. The Convener nominates other members of the Study Group/Task Force and in the formation of Study Groups / Task Forces, provision will be made for participation of a cross section of members of the ICAI. In situations considered necessary, the Board may also consider having an outside expert on such Study Groups/Task Forces and such "expert" need not necessarily be a member of the Institute. The Study Group/ Task Force will be responsible for preparing the basic draft of the Guidance Note.

39. The Study Group/Task Force develops the preliminary draft of the Guidance Note based on appropriate research and consultation, which may include, depending on the circumstances; consulting with the other professionals, regulators and other interested parties, as well as reviewing professional pronouncements issued by IFAC member bodies and other parties and submits the preliminary draft Guidance Note to the AASB.

40. The AASB considers the preliminary draft prepared by the Study Group/Task Force and if any significant revision to the draft is required on the basis of deliberations, the AASB may refer the same to the Study Group/Task Force to examine the issues arising out of the deliberations

of the AASB and accordingly modify the draft Guidance Note. The so modified Guidance Note is once again considered by the Board. The draft Guidance Note as finalised by the Board is submitted for the consideration of the Council of the ICAI.

41. Unlike Standards on Auditing and Assurance Services, ordinarily, no proposed Guidance Note will be required to be exposed for comments of the members and others. However, in situations considered necessary by the Board, an Exposure Draft of a Guidance Note may well be issued for comments. In case an Exposure Draft of a Guidance Note is to be issued, the same procedures as required for an Exposure Draft of the AAS/ Statement (as mentioned above) is required to be followed.
42. The Council of the Institute will consider the final draft of the proposed Guidance Note and, if necessary, modify the same in consultation with the AASB. The Guidance Note will then be issued under the authority of the Council of the ICAI.

Final Standard, Statement or Guidance Note

43. At the point of approval of a final Standard, Statement or Guidance Note, the Secretary to the AASB confirms to the Council of the ICAI that the AASB's stated due process has been followed.
44. When the Council of the ICAI approves the revised draft, it is issued as a definitive Standard, Statement or Guidance Note, the Council of the ICAI will also set an effective date for the document.

Limited or Substantive Revision to the Standard, Statement or Guidance Note

45. For a Substantive revision of a Standard, Statement or Guidance Note, the procedure followed for formulation of a new Standard or the Guidance Note, as the case may be, as detailed above will be followed.
46. Subsequent to issuance of a Standard, Statement or Guidance Note, some aspect(s) may require revision which are not substantive in nature. For this purpose, the Council of the ICAI may make limited revision to an AAS, a Statement and/or Guidance Note. The procedure followed for the limited revision will substantially be the same as that followed for formulation of a Standard, Statement or Guidance Note, as the case may be.

Technical Guides, Studies and Other Papers Published by the Auditing and Assurance Standards Board

47. For issuance of a Technical Guide, the procedure adopted by the AASB is ordinarily the same as in case of a Guidance Note except that the draft Technical Guide is not required to be exposed for public comments nor is the same placed for the consideration and final approval of the Council. In other words, the AASB can issue a Technical Guide under its own authority.
48. Studies and other papers, the AASB will appoint a review group of AASB members to consider whether a draft paper has sufficient merit to be added to the ICAI's assurance and auditing literature. The draft paper may come from any source and the AASB need not have specifically commissioned it. If the review group believes that the paper has sufficient merit, after due deliberations, the AASB recommends to the Council of the ICAI that the paper be published and added to its literature.

Voting

49. The affirmative votes of at least two thirds of the members present at a meeting, but not less than six, is required to approve an Exposure Draft, Standard, Statement or Guidance Note.
50. Each member of the AASB has the right to one vote.

Other Matters

51. ICAI's annual report describes the operating procedure followed by the AASB during the period for issuing any Exposure Draft, Standard, Statement or Guidance Note. ❐

Announcement for Members

The members are aware that the Institute is a member of various international organizations, which function for the advancement of global accountancy profession. These organizations, on an ongoing basis, develop publications and guidance on various subjects of significance to the profession. The publications and guidance are available to professionals at cost as well as for gratis download in electronic form.

The members may access the text of and information about the publications of the International Federation of Accountants (www.ifac.org) and International Accounting Standards Board (www.iasb.org) at their respective websites. The details are also available on the Institute's website at International Affairs Committee page.

Important Announcement Regarding Pass Certificates

It has been decided that the Pass Certificates issued to the successful candidates of Professional Education – I Examination, Professional Education – II Examination and Final Examination effective from November 2005 examinations will henceforth contain the following features :

1. Photograph of the candidate printed on the Pass Certificate;
2. Specimen Signature of the candidate printed on the Pass Certificate; and
3. Bar Code of certain value printed on the Pass Certificate.

All successful candidates of PE-I, PE-II and Final Examinations, November 2005 and all other concerned may kindly note that the pass certificates effective from November 2005 examination onwards will be issued with the three aforesaid features viz. photograph, specimen signature of the candidate and bar code.

For any query in this regard, kindly feel free to write to the undersigned or email to - exam@icai.org.

G. Somasekhar
Joint Secretary (Exams)

INVITATION TO JOIN PANEL OF EXAMINERS

The Institute is in the process of strengthening its panel of examiners with professionals/academicians/ resource persons for all the papers in CA PE-II and Final Examinations in general and for the following subjects in particular:

1. Management Accounting & Financial Analysis
2. Management Information & Control Systems
3. Direct Taxes
4. Indirect Taxes
5. Income Tax & Central Sales Tax
6. Information Technology

Persons who take classes for CA Students in the ICAI limbs; accredited educational Institutions or private Coaching Centres are invited to join the panel of Examiners prefarably for the respective papers which they teach.

Persons who have the requisite inclination and who can spare time may send in the Empanelment Form duly filled in to the Joint Secretary (Exams), The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi – 110002. The form may be obtained by sending a request letter or in the alternative, downloaded from the Institute's website www.icai.org and used.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA-NEW DELHI

Chartered Accountants Examination Rescheduled

In view of the General Elections to some of the State Assemblies in the month of April/May 2006, the Chartered Accountants Professional Education - I, Professional Education –II and Final examinations, Post Qualification Courses in Management Accountancy Course (Part-I), Corporate Management Course (Part-I), Tax Management Course (Part-I), Insurance and Risk Management (IRM) and International Trade Laws and World Trade Organisation Course (ITL & WTO) examinations scheduled to be held from 2nd May 2006 to 10th May 2006 are rescheduled. These Examinations will now be held from **2nd May 2006 to 12th May 2006.** The sequence of papers, centres of examinations and other conditions shall remain the same.

The Council reserves the right to withdraw any centre at any stage without assigning any reason.

The revised examination-wise date schedule is given below:

PROFESSIONAL EDUCATION– I EXAMINATION:

[As per syllabus contained in the scheme notified by the Council under Regulation 25-B (4) of the Chartered Accountants Regulations, 1988.]

2nd, 4th, 5th and 6th May 2006

(Morning Session – 8.00 a.m. to 11.00 a.m.) (IST)

PROFESSIONAL EDUCATION– II EXAMINATION:

[As per syllabus contained in the scheme notified by the Council under Regulation 28-B (5) of the Chartered Accountants Regulations, 1988.]

Group-I : 2nd, 4th and 5th May 2006

Group-II : 6th, 9th and 10th May 2006

(Afternoon Session – 12.30 p.m. to 3.30 p.m.) (IST)

FINAL EXAMINATION:

[As per syllabus contained in the scheme notified by the Council under Regulation 31 (2) of the Chartered Accountants Regulations, 1988.]

Group -I : 2nd, 4th, 5th and 6th May 2006

Group -II : 9th, 10th, 11th and 12th May 2006

(Morning Session – 8.00 a.m. to 11.00 a.m.) (IST)

MANAGEMENT ACCOUNTANCY COURSE (PART-I), CORPORATE MANAGEMENT COURSE (PART-I) AND TAX MANAGEMENT COURSE (PART-I) EXAMINATIONS:

[As per provisions contained in "Schedules C, D and E" of Chartered Accountants Regulations, 1988]

Group-I : 9th and 10th May 2006

Group-II : 11th and 12th May 2006

(Morning Session – 8.00 a.m. to 11.00 a.m.) (IST)

INSURANCE AND RISK MANAGEMENT (IRM) COURSE EXAMINATION:

[As per provisions contained in "Schedule G" of Chartered Accountants Regulations 1988]

Modules I to IV : 9th, 10th, 11th and 12th May 2006

(Morning Session – 8.00 a.m. to 11.00 a.m.) (IST)

INTERNATIONAL TRADE LAWS AND WORLD TRADE ORGANISATION (ITL & WTO) COURSE EXAMINATION:

[As per provisions contained in "Schedule H" of Chartered Accountants Regulations, 1988]

Group-A : 2nd, 4th and 5th May 2006

Group-B : 6th, 9th and 10th May 2006

(Afternoon Session – 12.30 p.m. to 3.30 p.m.) (IST)

Admission Notice

Post Qualification Course in Insurance and Risk Management (DIRM)

Genesis of the IRM course

The Committee on Insurance and Pension was constituted by the Institute to identify opportunities in the sector and equip members to find a new niche for themselves. By interacting with the regulators - Government & IRDA - and key players in the Indian insurance industry, the committee has gathered and disseminated the information to members. To enhance awareness among CAs, the committee has taken initiatives like publishing, organising industry-focused programmes, and structuring insurance specific courses. The Insurance and Risk Management (IRM) course is a high focus and high value post-qualification course, which will transform the skills of both CAs in practice as well as those in service.

Empowering CAs to take on challenges in insurance

The IRM course is tailor-made for CAs like you, who wish to emerge as preferred professionals in the insurance sector. The contemporary curriculum and comprehensive course material provide inputs required to comprehend the nitty-gritties of the industry. The Orientation Course will provide an opportunity to interface with experts in the field and gain a better understanding of the industry.

IRDA Approval

The Insurance Regulatory and Development Authority (IRDA) has approved the course curriculum. The approval vindicates the appropriateness of the course curriculum to effectively address the needs of the industry.

Government Approval

The Government of India has formally approved the IRM course as a post-qualification course of the Institute.

Objectives of the Course

- To equip members of the Institute to become world-class Insurance and Risk Management professionals, and Insurance consultants.
- To help members leverage opportunities in the rapidly evolving insurance sector, take on multiple roles & responsibilities and assume leadership in this sector.

Main Features of the DIRM Course

- Offering a rich curriculum that sets the learning standards in Insurance and Risk Management
- Empowering Chartered Accountants with focused domain knowledge to usher in best practices in the Insurance industry
- Inspiring new generation insurance professionals to forge mutually beneficial relations with the Insurance industry
- Instilling expertise in members to provide a fillip to the sector by working towards the objectives of the Insurance Regulatory and Development Authority (IRDA)

The Overall Scheme

Candidates must complete the Self-study and ETs as outlined in the previous chapter. On securing the certificate of completion, they become eligible for appearing for the Technical Examination. The candidates who pass the Technical Examination will have to undergo a mandatory Orientation Course, which marks the completion of the programme. Being a dynamic and vibrant industry, the candidates are advised to be updated with latest developments in industry. They are advised to regularly access the relevant portals and in particular the knowledge page of the Committee on Insurance.

Course Curriculum – Technical Examination

Module I: Principles and Practice of Insurance

Module II: Technical Aspects of Insurance

Module III: Risk Management and Reinsurance

Module IV: Business Strategic Planning and Information Technology

Registering for IRM	
Who is eligible?	A member of the ICAI.
How to register?	Candidates have to fill in the Registration Form available along with this prospectus and send the completed form along with the requisite fee to, The Secretary, The Committee on Insurance, The Institute of Chartered Accountants of India, Post Box No: 7100, Indraprastha Marg, New Delhi - 110002.
When to Register?	Registration for the IRM course is open throughout the year. The interval between the date of registration for the course and the date of the Technical Examination should not be less than 9 months. However, the Institute reserves the right to modify this period.
Prospectus	The prospectus can be obtained from any of the regional councils/branches of the Institute (for list of Regional councils branches, visit: www.icai.org).
Course Duration	The interval between the date of registration for the course and the date of the Technical Examination should not be less than 9 months. However, the Institute reserves the right to modify this period.
Fee Structure	The fee will be decided by the Council and will be notified from time to time. Presently the fee payable is: ● Prospectus Rs. 150 (or equivalent in foreign currency)· ● Course fee Rs. 6,000 (or equivalent in foreign currency)· ● Technical Examination fee Rs. 1,000 (or equivalent in foreign currency) Course fee covers fee for course material, ETs and registration for the Orientation Course. The candidate can pay the fee through a Demand Draft or Pay Order, drawn in favour of 'The Secretary', The Institute of Chartered Accountants of India, payable at New Delhi.
Address for Correspondence	● Any information required by the candidates, except with regard to the Technical Examination, should be addressed to: The Secretary - The Committee on Insurance Mail to: insurance@icai.org ● Any communication pertaining to the Technical Examination should be addressed to:The Joint Secretary – Examinations; Mail to: exam@icai.org Please mark a copy to: The Secretary - The Committee on Insurance also at insurance@icai.org.

e-Governance & Practicing Accountants

Digital Signature for e-Filing

e-TDS, e-Filing of Income Tax returns, MCA21, & e-Tendering, Others

E-Governance

E-Governance is perhaps the most happening thing in Government. More and more departments are shifting to e-Governance in the recent times. E-Governance envisages e-filing of forms/ returns to enable the department to move to a paper-less era where information is available in digital form for further analysis and follow-ups on a timely basis. It also saves the users from the hustles of standing in queues and they can know their status online through the Internet/ WWW. The following table provides details of some prominent initiatives impacting us:

Department	Website Address/URL
Income Tax	http://incometaxindia.gov.in/archive/e-brochure.pdf
Excise	http://www.cbec.gov.in/cae/p-notice-digital-signature.pdf https://www.icert.gov.in/Docs/Public-Notice120905.pdf
Ministry of Company Affairs - ROC	http://dca.nic.in/mca21web.doc
Directorate General of Foreign Trade	http://dgft.delhi.nic.in; http://www.dgft.gov.in/

Digital Certificate

The IT Act, 2000 notified in the official Gazette of the Government of India (Available at URL http://www.mit.gov.in/itbillonline/it_framef.asp) issued on June 9, 2000 under section 5 provides for **Legal recognition of digital signatures** as follows – *"Where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person (hen, notwithstanding anything contained in such law, such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of digital signature affixed in such manner as may be prescribed by the Central Government."*

Digital Certificates are the enabling force for e-governance. For filing of forms/ returns under the e-Governance, we need to have a digital certificate.

Mandatory e-Filing of Forms

After launch of the above e-Governance initiatives, e-Filing of returns/ forms to be submitted to the Income Tax, Excise, ROC (under MCA21 Project) authorities would become mandatory in due course. MCA envisages that paper forms and documents will no more be accepted by ROC offices once e-Filing is launched. MCA 21 is getting launched at Coimbatore from 18th February, 2006 and is expected to be rolled out to all parts of the country from April, 2006.

Considering the above, we all need to access – Are we suitably equipped and prepared to practice in the digital era? Do you have a Digital Certificate? Have you started using it?

Digital Certificates issued by ICAI

To facilitate members in practicing in the E era, the Institute has proactively taken initiative and has taken the onus of becoming a Sub-Registrar to issue Digital Certificates effectively at a nominal cost of Rs.750/- per annum. Digital certificates in the market may cost many times more. Further details of Digital Certificates issued by the Institute are available on the official website of the Institute at www.icai.org (URL http://icai.org:7777/icairoot/digital/dg_digital_certification.jsp).

Practical Workshops on E-Governance

Obtaining and using Digital Certificate for e-governance may seem difficult. Hence, the Committee on Information Technology would be organizing "Practical Workshops on e-Governance Practice" using Reliance Web Conferencing from time to time based upon requests received from Branches/ Regional Offices along with workshop fee of Rs.4,000/- for two hours workshop that would cover 10-15 candidates based upon space availability at the centre. Branches can send their requests in this regard to Secretary to Committee on Information Technology, Institute of Chartered Accountants of India, ICAI Bhawan, Plot No. 52-54, Vishwas Nagar, Shahadara, Delhi – 110 032. E-mail: secyitc@icai.org.

Invitation to Participate in Research Projects in Competition Law and Policy of the Institute of Chartered Accountants of India

The Committee on Trade Laws and WTO of the Institute of Chartered Accountants of India intends to undertake studies/research projects in various fields and on issue of relevance to Competition Law & Policy. The basic objective of these studies/research projects is to provide guidance to the Chartered Accountants in practice and in service and others concerned:-

- To gain an insight into the structure of various sectors of the market and the business practices prevailing therein.
- To assist the Competition Commission of India in its role of undertaking competition advocacy and public awareness and training. The studies/ research projects could help in generating greater awareness about competition issues and anti-competitive practices.
- To identify policies and practices of Central and State Governments and Statutory Authorities that are having adverse appreciable effect on competition, in markets in India.

The Competition Commission of India in order to optimally utilize its manpower and other resources, is undertaking studies/research projects in various fields and on issue of relevance to Competition Law & Policy and has requested the Institute to submit its proposal for research/study on all or any of the areas identified.

The following are the priority areas for research/ studies:-

- Policies of the Central and the State Governments regarding competition and their effect on the consumer welfare and economic growth.

- State of competition in manufacturing sector, service sector and in commodity markets.
- Competition in regulated industries.
- Impact of public sector undertakings on competition.
- Competition law – economics of competition and law of competition.

In pursuance of its goals, the Committee on Trade Laws and WTO is presently looking for experts having experience in the relevant areas for preparing the drafts of the research projects and invites the members of the Institute to participate in the research projects in the field of Competition Law and Policy.

Should you like to be associated with any of the above research projects, you may kindly write (with complete bio-data including experience in the relevant area and a synopsis of the project/area wherein you wish to contribute highlighting core aspects proposed to be covered) to Secretary, Committee on Trade Laws and WTO, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002 or by e-mail at ctlwto@icai.org. The application should also indicate the time frame to complete the project, along with the estimated expenditure and expected honorarium for this purpose.

In addition, the Committee is also proposing to take-up other research projects in the following fields:-

- Study on Intellectual Property Rights.
- Study on Anti-dumping, Anti-Subsidies and Safeguard Measures.
- Study on Foreign Trade Policy (2004-09).
- Study on International Commercial Arbitration.

Proposal regarding such research project are also invited. Reimbursement of incidental expenses upto Rs. 6,000/- (Rs. Six Thousand only) and/or payment of honorarium ranging from Rs. 12,000/- (Rs. Twelve Thousand only) to Rs. 24,000/- (Rs. Twenty Four Thousand only) will be fixed keeping in view the nature of the research project, extent of research, size of draft (including reproduced pages) and the qualifications and experience of the person concerned. A Researcher is expected to commit specific working hours per day/per week for the research project allotted to him. Consistently good academic record, aptitude for research and good written communication ability would be the relevant factors in selection. The Institute will be the sole owner of the copyright on the publication on the subject. The name of the author would, however, be prominently displayed in the publication. The payment/reimbursement will be made only upon the approval of the final draft by the Committee.

Secretary
Committee on Trade Laws and WTO

MCA 21 Project as the flagship e-governance initiative of the Ministry of Company Affairs, Government of India - Launch Awareness Campaign Schedule

The Ministry of Company Affairs, Government of India as a part of governance reforms has undertaken MCA 21 Project. As the flagship E-Governance initiative of the Government of India, this project aims at fulfilling the aspirations of the stakeholders in the 21st century through adoption of a service-centric approach. The bottom line of this unique initiative is the improved speed and certainty in the delivery of MCA services. This improvement is primarily enabled through the mechanism of secure electronic filing (e-Filing) for all the services provided by the Registrar of Companies including incorporation of a company, annual filing and other event based statutory filings. This project is being implemented through a public private partnership and the portal www.mca.gov.in has become operational w.e.f. 30th January, 2006. The e-filing operations has been launched from 18th Feb., 2006 from the Registrar Office, Coimbatore, which has been selected as a pilot site and thereafter at other locations by the end of April, 2006. At the current point in time, detailed information on the process of e-filing will be available.

To implement the Project, the services & expertise of all chartered accountants are required. The key pre-requisites of the Project are as follows: -

- **Director Registration:** All directors, be it those of existing companies or first time directors, will need to register themselves online and obtain the Director Identification Number (DIN).
- **Acquire a Digital Signature Certificate (DSC):** A director or authorized representative of a company (including branches of foreign companies) engaged in signing documents and professionals who wish to attest documents that will be e-filed, will need to obtain a DSC from any of the agencies authorized for the purpose.

To create the awareness amongst the professionals, MCA has launched the Awareness Campaign/Pilot launch Programmes at various locations as follows:

Dates	MCA21 Launch/Awareness Campaign Schedule	Officer to be deputed
23.02.06	Users Awareness Campaign at Shilong	JS(K)/Dir. (MKA)
24.02.06	Users Awareness Campaign at Kolkata	JS(M)
27.02.06	Users Awareness Campaign at Chennai	JS(M)
*01.03.06	Users Awareness Campaign at Ahmedabad	JS(M)
*03.03.06	Users Awareness Campaign at Hyderabad	Dir. (PK)
08.03.06	Users Awareness Campaign at Kanpur	JS(M)
14.03.06	Users Awareness Campaign at Jallandhar	Dir. (MKA)
17.03.06	Users Awareness Campaign at Pune	JS(M)
21.03.06	Users Awareness Campaign at Patna	Dir. (MKA)
	PILOT LAUNCH	
27.02.06	MCA 21 Pilot launch at Pondicherry	Secy. CA
06.03.06	MCA 21 Pilot launch at Ernakulam	JS(K)
13.03.06	MCA 21 Pilot Launch at Jaipur	
18.03.06	MCA 21 Pilot Launch at Delhi by Hon'ble PM	
27.03.06	MCA 21 Pilot launch at Patna by MCA	
29.03.06	MCA 21 Pilot launch at Pune	JS(K)
31.03.06	MCA 21 Pilot launch at Cuttack	JS(M)
31.03.06	MCA 21 Pilot launch at Jallandhar	JS(K)
03.04.06	MCA 21 Pilot launch at Chennai by MCA	
04.04.06	MCA 21 Pilot launch at Jammu	JS(M)
06.04.06	MCA 21 Pilot launch at Gwalior	JS(K)
10.04.06	MCA 21 Pilot launch at Hyderabad by MCA	
12.04.06	MCA 21 Pilot launch at Bangalore by MCA	
17.04.06	MCA 21 Pilot launch at Kolkata by MCA	
19.04.06	MCA 21 Pilot launch at Ahmedabad	
20.04.06	MCA 21 Pilot launch at Goa	
22.04.06	MCA 21 Pilot launch at Kanpur	JS(M)
24.04.06	MCA 21 Pilot launch at Mumbai by MCA	

*Considering the pre-occupations of the Members in Post budget discussions, MCA was requested to postpone the programme at Ahmedabad and Hyderabad to suitable dates. It is learnt that dates of other Awareness/ Launch Programmes may also be rescheduled. Members are requested to visit the portal www.mca.gov.in and be in touch with the concerned ROC office for the same.

In all these programmes, all presentations and detailed explanations including questions-answers etc. will be handled by representatives of Deptt. Of Company Affairs & Tata Consultancy Services. From the time of project conceptualization, the Institute has associated with the project and provided its technical support in the formulation of the project. Since the e-governance has become an emerging integral part of the corporate governance system, the members are requested to visit the Portal www.mca.gov.in regularly and to participate in these Launch/Awareness Campaign to familiarize themselves with this flagship E-governance Project.

Invitation to Participate in Research Projects of The Institute of Chartered Accountants of India

The Committee on Trade Laws and WTO of the Institute of Chartered Accountants of India intends to undertake studies/research projects in various fields and on issues of relevance to International Trade Laws and WTO in the following fields. The basic objective of these studies/research projects is to provide guidance to the Chartered Accountants in practice and in service and others concerned.

- Study on Anti-dumping, Anti-Subsidies and Safeguard Measures.
- Study on Foreign Trade Policy (2004-09).
- Study on Intellectual Property Rights.
- Study on International Commercial Arbitration.
- Study on Competition Law & Policy
- Publication on Destination India

In pursuance of its goals, the Committee on Trade Laws and WTO is presently looking for experts having experience in the relevant areas for preparing the drafts of the research projects and invites the members of the Institute to participate in the research projects in the above fields.

Should you like to be associated with any of the above research projects, you may kindly write (with complete bio-data including experience in the relevant area and a synopsis of the project/area wherein you wish to contribute highlighting core aspects proposed to be covered) to Secretary, Committee on Trade Laws and WTO, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002 or by e-mail at ctlwto@icai.org. The application should also indicate the time frame to complete the project, along with the estimated expenditure and expected honorarium for this purpose.

Reimbursement of incidental expenses upto Rs. 6,000/- (Rs. Six Thousand only) and/or payment of honorarium ranging from Rs. 12,000/- (Rs. Twelve Thousand only) to Rs. 24,000/- (Rs. Twenty Four Thousand only) will be fixed keeping in view the nature of the research project, extent of research, size of draft (including reproduced pages) and the qualifications and experience of the person concerned. A Researcher is expected to commit specific working hours per day/per week for the research project allotted to him. Consistently good academic record, aptitude for research and good written communication ability would be the relevant factors in selection. The Institute will be the sole owner of the copyright on the publication on the subject. The name of the author would, however, be prominently displayed in the publication. The payment/reimbursement will be made only upon the approval of the final draft by the Committee.

Secretary,
Committee on Trade Laws and WTO

IMPORTANT ANNOUNCEMENT

Members may kindly note that Fee Circular with related forms and Entry on Record are being dispatched to them by the Decentralised Offices concerned. Members are requested to remit the fee as per the instructions given therein. They are further requested to return the Entry on Record duly verified and confirmed by them to enable the Office to update the particulars wherever required. They are advised to contact the Decentralised Office concerned in case they do not received the fee circular and Entry on Record by 31st March 2006.

Members may note that the facility for payment of fees through Central Bank of India has been withdrawn from this year. They are advised to make payment of fees through any of the other modes specified in the fee circular.

FORM IV (See Rule 8)

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I, Vijay Kapur, hereby declare that the particulars given above are true to the best of my knowledge and belief.

sd/-
Vijay Kapur
Signature of Publisher.

Date:
March 7, 2006

2006 Edition of the Guidance Note on Audit of Banks

The Council of the Institute, at its last, 258th meeting held on March 8, 2006 finalised the 2006 edition of the Revised Guidance Note on Audit of Banks. The 2006 edition of the Guidance Note enshrines the impact of the various circulars of the Reserve Bank of India as well as important pronouncements of the Institute, especially:

- New/ revised circulars of RBI in respect of prudential norms, investment portfolio, capital adequacy, exposure norms, CDR, CRR and SLR etc.
- Risk-based approach including assessment of risk based internal audit and supervision, including a checklist on assessment of risk based internal audit
- Detailed guidance on various risks in the banking industry
- Impact of IT environment on audit, including audit checklist, audit of ATM transactions
- Developments in taxation, including banking cash transaction tax, fringe benefit tax
- New illustrative formats of audit reports in case of nationalized banks and banking companies
- Text of all the relevant circulars of RBI as separate Appendix – both in printed form as well as on CD.
- Provides an exhaustive reference material on the knowledge of the business.

The revised Guidance Note is divided into two parts – part I contains the text of the guidance whereas part II, Appendices, contains the text of the relevant circulars issued by the Reserve Bank of India. Part I is divided into four sections – initial considerations, audit of branches, audit of head office and other aspects.

Copies of the Guidance Note would be available for sale at the sales counter at New Delhi on **MARCH 20, 2006** and at other sales counters of the Institute in a day or two thereafter. Alternatively, you can also send a demand draft in favour of the **"Secretary, the Institute of Chartered Accountants of India"**, payable at New Delhi, covering the cost of the publication as well the courier charges.