State Bank of Mysore Pensioners' Commune

A note on Pension Funds, Pension Updation, etc.

For internal circulation only

To Members of State Bank of Mysore Pensioners' Commune :

Dear friends,

In the recent past, Circulars of different Bank Retirees' Organisations, Messages, etc., are being Circulated in Social Media with regard to updation of Pension, Pension Funds, applicability of Regulation 35 (1), Pension revision in terms pension revision in Reserve Bank of India, Meeting at/by Indian Banks' Association, etc. It is always an endeavour of our Commune to guide and provide correct, right and truthful information to its members. Our Commune does not find any need to provide such half-truths and incomplete information to its members, for whatsoever reasons. Our Commune believes that 'knowledge is power'. Without adequate knowledge and information, it is extremely difficult to achieve and deliver benefits to members. In any discussion, negotiation and proceedings, complete information and knowledge alone brings in success.

Our Commune is providing authentic, verifiable, true and correct information to its members through Mysore Bank Shathayu. Since, a lot of information is being circulated in the Social media, some of which are misleading and untrue, an effort is being made through this document to provide right and true information with evidence. It is an endeavour of our Commune to provide treasure of knowledge and information with a view to make its membership most knowledgeable who do not sway by incorrect information.

The issues that are agitating in the minds of our members are :

a. *Revision of Pension ;*
b. *Role of Pension Funds and its role*
c. *Accounting Standards – AS 15*
d. *Government of India's directive regarding alignment of Commutation Table*

We are enclosing copies of the notes, letters. Extract from Mysore Bank Shathayu which explain above issues in detail. We request members of our Commune to not to swayed by information or correspondence which do not provide right information.

We reiterate and support the demand of Bank Pensioners for Revision of Pension on the lines it was revised in Reserve Bank of India. *We would say that it is the right of Bank Pensioners to get their pension revised based on Revision of Pension in Reserve Bank of India on account of order of Hon'ble Supreme Court allowing the Civil Appeal No.6254 of 2012 of our Apex Organisation, All India Retired Bank Employees' Association and also in view of repeated stand of Indian Banks Association and the Government of India that any pension revision in Reserve*

Bank of India is followed by the demand of revision of pension in Banking Industry. Therefore, both Indian Banks Association and also the Government of India are bound by their statement/representation. On account of efforts with full force, we can certainly get the pension revised, but it is difficult assure the timelines. Therefore, providing the following information is only with a view to explain the members that our Commune through its Apex Organisation, All India Retired Bank Employees' Association is making sincere efforts with complete knowledge and understanding of the issues involved in revision of Bank Pension. Our Commune do not believe in rhetoric and theatrics. Our objective is only to deliver, but not to claim for credit for the Success. We have not done in the past and will not do so in future.

For immediate information, various aspects are briefly explained hereunder :

A to Z of Pension Fund :

Revision in Pension and balance in Pension Fund are not linked to each other. When the Managements/Government of India agrees for revision of Pension, it is their duty to make good the shortfall on account of increased outgo. Therefore, it is our duty to convince them to revise our Pension, irrespective of balance in Pension Fun. It is not prudent to imagine that the Bank Pensioners are not aware of this position, as they have vast experience.

a. *Pension in Banks is a Defined Benefit Plan. It is because rules governing payment of pension to Bank Pensioners is in terms of statutory 'Bank (Employees') Pension Regulations, 1995. These Regulations do not provide linking payment of pension with balance in Pension Fund.*
b. *Pension Funds are basically 'Trusts'. They are registered under 'Indian Trusts Act, 1882'. Pension Funds are under the Control of these independent Trusts. Pension Fund is placed in Trusts to ensure payment of pension in terms of existing regulations (i.e existing as on the date of retirement), irrespective of financial or legal standing of the Banks. They are created to discharge statutory duty and therefore amounts once transferred cannot be transferred back. Banks are required to pay only in terms of the Pension Regulations, but nothing less than what is provided in Pension Regulations ;*
c. *'Pension Fund Trusts' are independent entities and Banks have no right over monies in Pension Funds. They are 'sinking funds' created specially for meeting future needs. The Balance in Pension is the 'Present Value of future obligation'. 'Present Value of future obligation' means amount of balance in the Pension Fund should be there to pay pension to those who are covered under 'Pension Regulations'. They are annuities, which work like reverse of a Life Insurance Policy/Loan. In Life Insurance Policy premium is paid in instalments and on maturity/claim, full amount is paid. In respect of EMIs, loan is sanctioned in lumpsum and repaid in EMIs. At the end of the term, balance is reduced to Zero. But, annuities are opposite to Life Insurance Policy or Loan repayment by EMIs. In respect of annuities, lumpsum is invested in the beginning and amount is paid back in instalments, till contracted period (in Banks) or till death (in Insurance Companies – 'Annuity for Life'). The balance becomes zero when the obligations are completely met.*

d. Actuarial Valuation conducted every year in terms of Regulation 11 and Accounting Standard 15. Reserve Bank of India has mandated following this Accounting Standard 15, which is in respect of Employee Benefits.

e. As Bankers, we are aware that maximum amount of each EMI initially goes towards servicing interest and lesser amount towards principle. That is the reason, we find negligible reduction in principle/balance during initial period. Similarly, interest earned on the investment during the accumulation period would be more than the outgo. Once the accumulation amount comes down on account of retirement of most of the beneficiaries, income/provision decreases and payment increases. Therefore, members should not assume that there is surplus in Pension Fund, without understanding the extent of obligations.

f. Regulation 5 of the Bank Employees' Pension Regulations, 1995 provides for Constitution of the Fund and enough contribution by the Bank to this fund to meet Pension obligations toward employees and retirees. In terms of Regulation 7, Banks have to contribute at 10% of amount reckoned for Superannuation Fund. Regulation 11 provides for Actuarial Valuation of Pension Fund as at 31st of March every year. Funds are contributed to Pension Fund, every year by every Bank based on Report of Actuaries, as per Regulation 7 (f) of Bank Employees Pension Regulations. Banks have to discharge entire liability of contribution to Pension fund.

g. Actuarial Valuation also covers pension liabilities of the Banks towards present employees and also past employees. Valuation in respect of past employees(i.e those who are drawing pension already) changes, only if there is any deviation from the assumed parameters (here also DA rates are dynamic and also mortality rate);

h. While computing Actuarial Valuation of liabilities, the mortality rates at various ages-based mortality table of Life Insurance Corporation of India, in respect of employees, staff pensioners and family pensioners are taken into account. Therefore, number of employees, pensioners and family pensioners likely to die during the year is assumed while arriving at the liability. Since this exercise is conducted every year, there cannot be any surplus in the funds on account of death of employees/pensioners/family pensioners ;

i. Like making provisions for Non-Performing Assets, the Banks are also liable to make provision for additional liabilities towards Pension Fund, in addition to 10% of 'Pay', if present value of obligations as computed by Actuaries is more than the Assets of Pension fund;

j. While arriving at the Pension Liabilities, liabilities till last pensioner survives are taken into account. Therefore, Balance in Pension Fund and Liabilities have 'Bell Curve'. 'Bell Curve' means, Balance/liability starts with 'Zero' and ends with 'Zero'. They peak in between. While computing actuarial valuation, initial increase in numbers and later reduction in numbers are taken into account basing on mortality rates provided in Mortality Table of LIC of India. Consequently, no one can claim that death of a pensioner leaves 'surplus' in Pension Fund, as at the end of the year, number of pensioners died and their pension liability and also number of pensioners likely to die during next year is considered while arriving at actuarial valuation and Pension Fund balance required ;

k. Pension Fund balance includes liability towards payment of pension to those who are still in service. Similarly, liabilities towards present pensioners were contributed while they were in service. Additional liabilities towards those who have retired arises, if there is any change or

modification of liabilities on account of changes or modifications in Pension Regulations or on account of Bipartite Settlement/Joint Note, Court cases, etc. In case there is no change in the regulations, there will not be any change in liability ;

l. *There were two occasions in Banking Industry earlier, when 'Pension Liabilities' of Banks increased. They are when the Pension was introduced and when second pension option was extended in 2010. There was no balance in the Pension Fund at the time of introduction of Pension Scheme. Banks had to meet pension liabilities after adjusting balance in Provident Funds of employees/retirees at that time. While extending second pension option, negotiation/ contribution was only in respect of additional liability. Balance in the Pension Fund, whether it was in deficit or in surplus, was not the subject matter of actuarial valuation or negotiation. Therefore, the balance in the Pension Funds at the time of any improvement is not material while deciding quantum of improvement, as the balance in Pension Funds at that time should be sufficient, if not less than required to meet pension obligation towards employees and pensioners/family pensioners covered under Pension Regulations ;*

m. *In both 10th and 11th Bipartite Settlement, quantum of load towards superannuation benefits was defined. It was at 2% and 2.5% respectively. 'Pay' which qualifies for computation of Superannuation benefits including Pension was determined within this load of 2% and 2.5% , but not based on balance in Pension Fund of member banks, which were parties in Bipartite Settlement/Joint Note. In fact, balance in Pension Fund was never a part of negotiation;*

n. *Executives/Trustees or representatives of Unions/Associations in the Pension Trust have no personal or vested interest in making additional provision over and above what is required or providing more than what is required in terms of Actuaries' Reports. Statutory Auditors are mandated to certify about adequacy of provision and also about provisions made more than what is required. So far, there is no instance of excess provision or additional provision made over and above what is required to be made as per actuarial report;*

o. *Authorities who over report expenditure/loss or under report income/profit are liable for proceeding under Criminal Procedure Code for 'fraud' and 'misrepresentation'. Unlike 'Satyam', authorities in Banks do not have any personal or vested interest risking prosecution;*

p. *Rights of 'Shareholders including Government of India appointed Directors' is affected as valuation of Shares is impacted in case the Banks make addition provision and transfer to Pension Fund, if the Fair Value of Assets of Pension Fund is more than its obligations. Therefore, even Board of Directors do not allow such an endeavour of making provisions, which are not required under law;*

q. *If interest is more than the pension paid during the year, it does not mean there is surplus. It only means that the 'contribution to fund' on behalf of existing employees who are optees of pension under Pension Regulations, 1995 is far more than the balance towards payment of pension to existing pensioners. The contribution on behalf of employees who are in the verge of retirement would be huge, fund is accumulated, but yet to disburse pension including Commutation amount;*

r. *The investment of the Funds and instruments in which they are invested are defined and mandated in Rule 67 and 82 of Income Tax Rules and the Banks cannot deviate. Classes and instruments of investments are decided to ensure security of the Funds. Therefore, there is*

least scope for increasing the rate and by such efforts to increase the rate is only possible by increasing the risk and reducing the security. After all, 'risk and returns are inversely proportional'.

s. *Extract from the actuarial report, balance sheets of Pension Funds , assumptions, etc. are provided in the Annual Reports of each of the Banks ;*
t. *Regarding transfer of funds from Pension Funds of Punjab National Bank, the Government of India, itself has clarified that there is no diversion or misappropriation in Pension Funds.*
u. *Investments are also made in market instruments which are traded. When Bonds, including Government Bonds are held to maturity and the Funds have accounted only face value of these Bonds, market price/intrinsic value would be far more than the face value, like real estate assets. It is prudent to book profits/loss/enhance/reduce the valuation to align with market rates. Very often, the Banks revalue their real estate assets by considering current market value. If no provision is made on account of such revaluation or any provision made but not transferred to Pension Fund is transferred back to P&L account, if nothing is required to be transferred. But, every quarter, a portion is provided, but not transferred to Pension Fund. Amount in excess of mandatory 10% of 'Pay' would be transferred only at the end of the year after receipt of Actuarial Report to the extent of what is required to be provided from P&L account.*
v. *The Banks are mandated to ensure that the Balance in the Fund is more or equal to the amount/balance required to be maintained to meet the Pension liability in terms of Actuarial valuation at the end of the year. On account of any acts of omission and commission, if the Balance is less than the required amount, it is Banks' responsibility to meet the shortfall. Therefore, no prudent Banker would use monies of Pension Fund, because final liability rests on him ;*
w. *Central/State Governments pay pension out of Budgetary provisions/consolidated funds of the Government. The Governments should be and will be there. The same cannot be said about other individual Financial Institutions. Banks are also Companies, but with unlimited liabilities. Therefore, a separate Pension Fund is created and pension is paid out of Pension Fund. Pension Funds are liable for payment of pension out of the Funds provided by the Banks. Liability of Pension Funds rests with the Banks, but not the ownership of assets in Pension Funds. Any deviation or improvement involves provision to the debit of Profit and Loss account duly considering the amount required to pay enhanced pension for the remaining period of life of pensioner and/or Family Pensioner.*
x. *The Government of India allowed amortisation of additional liability on account of huge number of retirement under VRS – 2000/01 ;*
y. *Rumours regarding transfer from State Bank of India Pension Fund is completely false. In fact, State bank of India has made contribution to the extent of over Rs.19K for the year ending March 2021 ;*
z. *No Bank or any person, who is prudent will provide additional funds to Pension Fund, if Pension Fund is already in 'Surplus', as claimed by many.*

Therefore, members of our Commune are requested not to go by any information Circulated in Social Media regarding Pension Revision. Certainly, Pension Funds do not play any role in revision of Bank Pension, whether there is 'Surplus' or 'Deficit' in Pension Funds. We reiterate, Pension Funds do not play any role in revision of Bank Pension. Let there not be any confusion.

Revision of Pension :

With the approval of revision in Family Pension by the Government of India, focus should be on Revision of Pension. Members of our Commune are rest assured that the Pension Revision for the Bank Pensioners is certainly going to happen. Only question is the timeline. The Government, Suo-moto do not order pension revision. Even in Reserve Bank of India, the Government approved 'Revision of Pension' on receipt of proposal from Reserve Bank of India. Govt. of India has already clarified on the floor of the house that the Government will consider revision of Bank Pension, on receipt of proposal from Indian Banks Association. It is only in 2019, Pension in Reserve Bank of India is revised. Bank pensioners are far, far more than that of Reserve Bank of India. **Therefore, it is likely to take some more time. But, await revision of Bank pension.**

Our Apex Organisation, All India Retired Bank Employees' Association is in the process of filing Contempt Petition in Hon'ble Supreme Court for extending same formula as in Reserve Bank of India. Notices have been issued. We would inform shortly.

It is observed that there are sections of Bank Retirees and their organisations who are basing their demand on what is provided in Regulation 35 (1). Those who are claiming revision based on the replacement of the word will by 'SHALL', when Regulations were amended in 2003. The scope and meaning of the word 'SHALL' is explained in the Judgment of Hon'ble Supreme Court in Paradise Printers v. Union Territory of Chandigarh, (1988) 1 SCC 440 at page 447

> 10. The next step in the argument was . . . . . . The reliance was placed and emphasis was put on the word "shall" used in sub-rule (3) of Rule 8. Sub-rule (3) of Rule 8 provides that when 10 per cent of the premium has been tendered, the Estate Officer shall, subject to such directions as may be issued by the Chief Administrator in that behalf, allot a site of the size applied for. We do not think that there is much force in this contention also. Generally the use of the word "shall" prima facie indicates that the particular provision is imperative. But that is not always so. The meaning to be given to a word depends upon the context in which it is used. The word takes the colour depending upon the context. We must ask what does the word mean in its context? We must examine why the rule-making authority has chosen that word. After examining the purpose and scope of the rule, we must give such meaning as to render the rule workable in a fair manner. We must give that meaning which would promote the purpose and object of the rule. When there is a choice of meanings, there is a presumption that one which produces an unjust or inconvenient result was not intended. Let us now take a brief look at Rule 8. If sub-rule (3) of Rule 8 is construed as mandatory, then every person who applies for a site with earnest money must be allotted a site. That means the administration must receive only equal number of applications as there are sites

available for allotment. That would be impracticable. The administration cannot restrict the number of applications to be received when the public are notified. Secondly, the sites are required to be disposed by auction or allotment. If it is by allotment, it should be after considering all applications. The sites cannot be allotted by private arrangement. All the applications received must be considered and if there are more applications than the available sites, some reasonable procedure should be adopted for consideration and elimination. In our opinion, the right of every applicant under sub-rule (3) of Rule 8 is only the right to have his application considered. The acceptance of application does not create a right for allotment of a site. The word "shall" used in sub-rule (3) must, therefore, be considered as not mandatory. The imperative meaning would defeat the purpose of the rule.

Further, these sections of retirees are not considering the recent Judgment in Canara Bank Retired Officers' Association Vs. Union of India & Ors. In this case, Hon'ble High Court of Karnataka has decided as under :

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The petitioner relies on the aforesaid Regulation to contend that the basic pension and additional pension wherever applicable should be updated as per the formula given in Appendix-I. Appendix-I reads as follows:
Appendix-I categorically restricts the application of updation of pension only to those employees who retired during the period between 01.01.1986 to 31.10.1987.

7. The Regulations have come about on 29.09.1995. It is presumed that the Members of the Association have all opted for pension as they are seeking updation of pension. The Regulation or the Appendix which restricts updation of pension only to employees retired between 01.01.1986 to 31.10.1987 is not called in question

9. Insofar as the judgments relied on by the learned counsel appearing for the petitioner is concerned, they are all distinguishable on the facts of the case without much ado, as every one of them deal with the concept of pension <u>and not a right to the employees to seek pension dehors their entitlement under the Regulation</u>. Therefore, I do not find any merit in this petition in the form that it is presented.

From the Judgment quoted above, it is clear that the meaning those who claim revision of pension in terms of Regulation 35(1) is not the meaning that can be assigned.

We sincerely request all our members to not to give credence to messages, mails, postings, etc. regarding anything relating to pension and its improvement thereof. Those who post or forward such messages are only harming the interest of pensioners and they are also misguiding innocent pensioners. Please go by information provided by the Commune.

Team SBMPC

Following documents prepared/published with regard to Pension Funds and other connected matters are appended :

a. *Note circulated among the Central Committee members of All India Bank Retirees' Federation during the meeting held at Lonawala during 2018 ;*
b. *Extract from Mysore Bank Shathayu – December 2018*
c. *Extract from Mysore Bank Shathayu – February 2021*
d. *Pension updation in terms of Reg 35(1) - Million dollar question*
e. *Claim for Pension updation in terms of Regulation 35 - Million dollar question*
f. *Extract from Annual Report of Punjab National Bank for FY 2016-17*
g. *Extract from Annual Report of State Bank of India for FY 2020-21*
h. *Reply on behalf of the Government of India on 04.01.2019 regarding alleged misappropriation of Pension Fund.*
i. *Reserve Bank of India's letters to the Banks regarding deferment of implementation of Ind AS vid*e No.RBI/2018-2019/146 DBR.BP.BC.No.29/ 21.07.001/2018-19 dated 22.03.2019
j. *Accounting Standard - 15*

Pension Funds in Banks.

Introduction and Regulatory Framework :

There are numerous questions about Pension Funds in Banks. Many feel that the monies in Pension Funds belong to the pensioners and have rightful claims over Pension Fund. We shall commence our discussion by considering constitution of the Fund and need for constitution of the Fund, etc.

Pension in Bank is a defined benefit. Defined benefit means benefit payable is based on set/agreed parameter. Employer is obligated to honour his commitment in extending benefits which are entitled to receive in terms of Law, rules, regulation, agreements, etc. Bank employees' pension is governed either pension regulations/rules amended from time to time either on account of implementation of provisions of settlement/agreement/contract or benefits conferred on account of Settlement/Joint Note/Govt. of India directions, with or without amendments to pension regulations. Benefits available under Pension Regulations are the 'minimum' payable, but not the maximum. Therefore, if Pension in Banks is a Defined Benefit Plan, payment is dependent on Bank Employees' Pension Regulations, 1995 or Bipartite Settlement/Joint Notes, as the case may be (but not on the basis of balance in Pension fund) and payment in a Defined Contribution Plan, like New Pension Scheme, is based on the balance in the Fund. Only in such cases, returns, balance, etc. matter, but not in Bank Employees' Pension, which are based on Pension Regulations/BPS/JS.

Public Sector Banks manage their own Pension Fund. But, it is mandated that the Private Sector Banks buys annuities from Life Insurance Corporation of India, for payment of pension as per pension rules, framed in terms of Pension Settlement/Bipartite Settlements. Payment of Gratuity and Leave Encashment are also form part of Defined Benefits. But, Provident Fund contribution of those who continued to be covered under contributory Provident Fund and New Pension Scheme of those who have joined the Banks after 1.5.2010 are examples of Defined Contributions. Here, once the Banks contribute, their liabilities cease. But, Banks continue to be liable for payment of pension as per Pension Regulations, till the last pensioner as per Bank Employees' Pension Regulations, 1995 dies.

Pension Settlement was signed on the 29th October, 1993. This Settlement is silent on Pension Fund, though its Clause 9 provides for administration of Pension Fund by forming a Public Trust and application of provisions of Income Tax Act and Indian Trust Acts. Public Sector Banks frame Pension Regulations and also establish Pension Fund as provided in Section 19 of Banking Companies (Acquisition and Transfer of Undertakings Act, 1970. Pension Funds are approved by the Commissioner of Income Tax under Part B of Fourth Schedule of Income Tax Act. Provisions of Pension Regulations, which are statutory in nature form the foundation of Pension Fund, as the

monies are paid from the Pension Fund in terms of these Regulations. Government of India, Ministry of Corporate Affairs has introduced and notified Companies (Indian Accounting Standards) Rules, 2015 on the 16th February, 2015. At present, these Acts and Rules govern Pension Fund. Ind AS is applicable from the financial year 2018-19 for Public Sector Banks, as the net worth of these banks is more than Rs.500 Crores. Accounts of the Fund are audited under Section 41 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. Listing agreements of these Banks provide for Publication of quarterly results. Provisions of Indian Trusts Act are also applicable. Reserve Bank of India Act and Banking Regulations Act provide for Audit and supervision of Banks. Since, Pension Fund also forms part of the business of the Bank, they are also subject to Audits, in addition to Statutory Audit of the Banks. These statutory provisions provide for regulation and control of Pension Funds, in India. These Pension Funds are called as 'Approved Pension Funds'. Pension Regulations also provide for appointment of Trustees representing employees.

Superannuation Funds including Pension Funds are maintained, managed and owned by a Trust. Superannuation Funds need to be approved and continue to be approved by the Chief Commissioner or Commissioners of Income Tax In terms of Part B of the Fourth Schedule of Income Tax Act. This is defined in Section 2 (6) of Income Tax Act. Important stipulation for approval of Superannuation Fund are :

a. *the fund should be a fund established under an irrevocable trust ;*
b. *the fund should have been for with a sole purpose the provision of annuities for employees ;*
c. *the employer in the trade or undertaking shall be a contributor.*

On account of these provisions, every Pension Fund is managed by an irrevocable trust, which is a different or separate entity from the Bank. One of the objectives of this prescription is that assets of a Pension Fund do not form a part of the Bank's assets. This disallows merger of Pension Funds with Banks' monies. Therefore, existence of this Trust and Fund is independent of existence of the Bank. No Creditor or Government agencies can have any claim over Pension Fund. Monies in Pension Fund could be used only to meet obligations as per Pension Regulations, 1995. Why should Banks have separate Pension Funds? Instead, like salary, pension can also be paid out of Profit & Loss account, instead of payment pension through Pension Fund. It is in the interest of employees and pensioners, pension is being paid out of Pension Fund. Separate Pension Funds are created only to ensure meeting of obligations under Pension Regulations, even in the absence of the Banks. Even though providing for any increase in pension may be perceived as a hurdle. This may also be an impediment in updation or improvement in pension. But, as there is a saying, a bird in a hand is better than two in a bush, the first priority of Bank pensioners should be protecting their present pension and then secure improvements.

Regulation 5 of the Bank Employees' Pension Regulations, 1995 provides for Constitution of the Fund and enough contribution by the Bank to this fund to meet Pension obligations toward employees and retirees. In terms of Regulation 7, Banks have to contribute at 10% of amount reckoned for Superannuation Fund. Regulation 11 provides for Actuarial Valuation of Pension Fund as at 31st of March every year. Funds are contributed to Pension Fund, every year by every Bank based on Report of Actuaries, as per Regulation 7 (f) of Bank Employees Pension Regulations. Banks have to discharge entire liability of contribution to Pension fund. If the Fund has surplus amount, there will not be any contribution by the Bank, but such additional amount remains a part of the Trust.

Introduction of Accounting Standard 15 during 2006 has changed entire method of contribution. Accounting Standard 15 and later Ind Accounting Standard 19 deals with employee benefits. Employee benefits include both Defined Benefits and Defined Contributory Plans. Employee Benefits are segregated as long term and short term benefits. Any payment which is due during the year, which does not require discounting is called as Short Term benefit and all other benefits are called as Long Term Benefit. For example, Gratuity payable to an employee to the extent of maximum limit, say Rs.20.00 lacs on 31.12.2019, Gratuity Fund balance as far as this employee is concerned, need not be Rs.20.00 lacs, as on 31.04.2018, as balance required is Rs.20.00 lacs, reduced by the interest this fund is going to generate in next 21 months. This is a long term benefit, since the amount payable is only on 31.12.2019, not in the current financial year. But, Pension involves two types of cash flows. One is monthly pension, which is a recurring expenditure and other is commutation, which is a lump sum. Both these benefits are payable on retirement or/and thereafter. Therefore, there should be enough money in the fund to pay not only Commutation on the date of retirement, but also enough money in the corpus to pay pension, till the pensioner and/or family pensioner survives. ***The balance in the corpus is like an annuity amount, where lump sum is set aside and interest plus a portion of corpus is used for payment of pension***. ***Required amount is provided, every year, based on the actuarial valuation***. *As long as there is 'Surplus', no contribution is made to Pension Fund. Contribution is made to the extent of deficit, if any.*

The balance in the 'Pension Fund' should be enough to pay present and future Pension Liabilities. Therefore, pension is a recurring expenditure. Pension is another name of 'Annuity'. Annuity is reverse of life insurance. In life insurance, premium is paid every year in installments. Upon death, amount is paid in lump sum to the nominee. In annuity, amount is paid in a one lump sum and annuitant receives money in installments, till death. The amount of money invested and available in pension fund which should be sufficient to pay the pension is computed by the actuaries. Since, these accounting standards mandate availability of sufficient balance in the respective superannuation funds to meet the obligations, these accounting standards compel contribution of shortfall, if any, to superannuation funds to meet obligation of payment of pension. This includes provision to be made for payment of Gratuity. Therefore, Banks have no option, but to provide for, as per Actuarial Report obtained every year.

Who owns Pension Funds?

Now, the question is whether monies in Pension Fund belongs to whom. Is it that of Pensioners or employees or that of Banks ? Is it possible that Pension Funds have surplus ? Pension Fund belongs to the Bank and does not belong to either employees or pensioners. Even if, the Funds have surplus, there can be no claim of Pensioners/Employees on this Fund. In case of deficit, Banks cannot shrink their responsibility to pay pension. Pension Fund is a Sinking Fund for meeting statutory obligation of payment of periodical pension to existing pensioners and to employees on their retirement. Monies to meet future liabilities of payment of Pension are computed, earmarked and kept aside in Pension Fund. Pension payable is accrued from the day the employee or his/her spouse is entitled to receive pension. While computing liability during first ten years of service is nil as far as pension is concerned. But, possible liabilities for payment of family pension arises moment employees join the Bank (those who joined before 1.5.2010) and liabilities towards payment of pension, in respect of voluntary retirement commences after 20 years of service and in respect of all other modes of exist minimum service required is ten years, for entitlement of pension.

Pension Fund is a separate Fund which is created to ensure that funds position is independent of financial position of Banks. Pension Fund's stakeholders, includes present employees who have joined the Bank before 1.5.2010. Further, if income of the Fund is more than the quantum of pension paid, it does not mean that there is surplus. Contribution to the Pension Fund would be over and above pension paid to Pensioners, as this income should be enough to meet liability of the Bank also towards existing Employees who are covered under Pension Regulations, 1995. The balance in Pension Fund, should be enough to pay every employee who is a Pension Optee, if the Bank is liquidated or every employee is retrenched or retired compulsorily or voluntarily, today. This also mean pension fund also includes liability to over 3 lakh employees who are pension optees in Banks, in addition to present Pensioners. Commutation should also be paid, immediately after retirement to these employees. Fund should be enough to honour every commitment to pensioners and present employees till the last pensioner/family pensioner dies.

On date, number employees covered under Pension Regulations, 1995 is over and above present pensioners. Till their retirement, Bank not only contributes 10% of 'Pay' in respect of present employees and also shortfall, if any in Pension fund. Once, last pension-optee employee retires, there will not be 10% contribution to Pension Fund. One major source of contribution ceases to exist. Gradually, number of pensioners increase and number of employees, on whose behalf the Banks contribute reduces. But, payment out of Pension Fund to all these pensioners increases. This also means income for the Pension Fund is out of return on Pension Fund and/or contribution by the Bank as per actuarial valuation, every year. Therefore, it is incorrect to say that there is surplus in Pension fund.

It is in public domain that the profitability of Banks is dependent on various expenditures such as provisioning. Such provisions include Superannuation liabilities. Provision over and above 10% of 'Pay' is dependent on assets of the Pension Fund. In case of surplus, there is no necessity for further provision. If Banks are providing for Superannuation Funds, despite incurring losses only indicate, these funds have no surplus. Any prudent person would appreciate the fact that Executives and Shareholders do not allow further provisioning, if there is surplus already. Otherwise, they are decreasing the profits, which no one works for.

Balance in Pension Fund of State Bank of Mysore was more than Rs.1,800Crores, including contribution of Rs.300 Crores during the year, just before merger. The payment of pension was around Rs.95/- Crores last year. Pension Liability of the Bank would have gone up by another Rs,150/- Crores, if employees of State Bank of Mysore who were in service at the time of merger, were to be retired at the time of merger. Whether present balance would have been sufficient to pay Rs.250/- Crores, every year, in a situation, where Bank is liquidated or closed ?

Any additional contribution reduces profit of every Bank. But, every Bank is contributing every year, even if the Banks undergo loss. Therefore, additional contribution to pension fund increases expenditure of the Banks. Question which comes to mind is whether Banks can save monies, by not contributing to Pension fund. If they refrain from contributing to Pension Fund, they can improve profitability, stating that there is surplus in Pension Fund. Even Share Holders are also happy, as this method results in reduced outgo. But, laws do not provide for such a luxury. Provisions have to be made to Pension Fund as per Acturial investigation conducted every year.

It is also claimed that there is surplus in Pension Fund, because returns are in excess of outgo from the Pension Funds. This does not indicate that there is surplus. But, this only indicates that current liability towards payment of pension is far less, when compared to future liabilities.

Is it not true that pension outgo gets reduced on account of death of pensioners and consequent upon such deaths, a surplus is created in Pension Fund ? It is true that outgo is reduced on account of death of a pensioner. But, Actuarial valuation takes into account such deaths, as actuarial valuation takes into account such deaths based on mortality data. Therefore, death of pensioners does not create any surplus.

Private Banks have to purchase annuities from Life Insurance Corporation of India for payment of pension to retirees of these Banks. Therefore, there cannot be any surplus in Pension Funds of Private Banks. However, Public Sector Banks are allowed to manage Pension Funds duly following applicable norms. This provision is helping Public Sector Banks, as rate of return on investments of Pension Fund by these Banks is higher. Consequently, required provision gets reduced.

Bank Retirees should feel happy, if there is surplus in Pension Fund. This would ensure payment of Pension to every eligible pensioner as per Pension Regulations. It offers statutory safeguards. Any deficit or shortfall in Pension Fund should be a cause of concern.

With this background, one needs to consider what is stated in Circular No.2018/77 dated 30.07.2018. It is suggested in the circular that the demands of the retirees could be considered subject of availability of adequate funds. Though, it is not explicitly stated whether Funds position in Pension Fund or resources of the Bank that would decide improvement in pension. It is also stated that "By any standard, it is quite huge amount. It is being felt that despite availability of such huge funds, retirees' demand remain pending and unconsidered". Before dwelling on this issue following issues have to be considered :

Following sentences are extracted from Pension Settlement 27.04.2010 :

> *The UFBU pursued the demand inspite of the above position and offered to share a portion of the initial funding liability on one-time basis for extending pension to the non-optees. Protracted negotiations were held between the parties over a period of time. An actuarial valuation of liability by actuaries appointed by mutual consent of the parties was carried out and based on this, the funding gap was estimated as Rs.6000/- crores. The employees offered to contribute Rs.1800/- crores, being 30% of the estimated funding gap, for extending pension to those employees who were in the service of the bank prior to ……*

Following sentences are extracted from the Judgment of Karnataka High Court dated 8.3.2012, which is affirmed by the Hon'ble Supreme Court vide order dated 13.02.2018 :

> *'15. It is pointed out that in the Memorandum of Settlement the Management and the non-officer employees had compacted with each others to peg the pay increase at 12.25% of the wage bill and costing for the pension at 18.25% of the incremental pay.*

The funding gap of Rs.6,000/- crores and costing of pension at 18.25% denote amount to be provided for payment of pension. The amount provided means, amount to that extent have to be transferred to 'Pension Fund' to meet additional liabilities on account of increased outgo. In the 10th Bipartite Settlement, the concept of Special Allowance is introduced. It is stated that this Special Allowance is not included for calculation of 'Superannuation Benefits'. It is in public domain that this is on account of allocation of mere 2% of the load for Superannuation Benefits. The load and consequent decision/agreement is based on the outgo of the Banks, but not funds position in Pension Funds. One pertinent question is why this Special Allowance not counted for Superannuation benefits, even though there many of retirees claim 'surplus' in Pension Funds, because return on investment is more than the present outgo.

Banks have to provide as under for payment of additional pension of Rs.1/- at 8.5% p a discounting rate :

Sl. No.	Period	Amount of provision	Amount of provision reqd
1.	10 years	Rs.119.49	Rs.4,18,20,530/-
2.	12 years	Rs.143.26	Rs.5,01,42,064/-
3.	15 years	Rs.178.85	Rs.6,25,97,873/-

Even if we consider that the average period of survival is another 10 years, total amount of provision required for payment of additional average amount of monthly pension of Rs.500/- for a period of ten years, is Rs.2,091/- Crores. Upon increase in payment of monthly pension, augmenting pension fund to fill the gap is mandated. Therefore, there is no instance of Indian Banks' Association raising this issue of surplus/deficit while negotiating "pay" which affects superannuation benefits. The cost for the bank is additional provision they have to make.

In view of foregoing, it is clearly established that the funds in the Pension Fund account, irrespective of quantum, has no relevance to 'Pensioners' demands'. There is no reason to believe that IBA and Government are referring to 'pension funds' when they claim non-availability of funds. It is inadequate funds position of the Banks and their inability to provide further on account of their present mess.

In the said circular it is stated that Scattered funds do not reflect real strength and power it actually has. This statement is on the premise that the balance in Pension Fund gives power to retirees' organisations to seek improvement of pension. Whether it is scattered or consolidated or more money is available in pension funds, how does this matter ? Improvement in pension is dependent on Bank's ability to provide additional funds into the Pension Funds or strength of the Banks to provide more, but not on the strength of Pension Funds. It is reiterated that no Bank employees/officers' organisation has ever claimed improvement of superannuation benefits of its members' or existing pensioners based on pension fund balances. Is it not astonishing to find that a retiree organisation sees something, which present employees' organisations, with their members as trustees of Pension Funds see.

Even if the Government decides to consolidate pension funds of Banks, it is practically impossible to make provisions by banks as demography of each of the Bank is different from that of other Banks. Position of Pension Funds of Banks are quite different. In fact, Punjab National Bank had not taken into account accrued interest of investments, while computing the value of assets. Those who have idea must also present methodology for provision by the Banks in such a situation. It is suggested in the Circular that there could be manipulations of Pension Funds, including lower provisioning and

possible lower yield on account of investment pattern. In case, Banks through, interpretations or misinterpretations of rules/regulations/laws, provide lesser amount, such inadequate provisions do not play any role in payment of pension. This is because, Pension Fund is an account or a tool to implement provisions of Pension Regulations, 1995 and Pension Funds does not play any role in payment of Pension. Similarly, returns on investments depend on instruments of investment. Now, manipulations by a few Banks affect the Pension funds of the Banks which were manipulated. But, such manipulations by the consolidated fund affect all Banks adversely. There is a saying that all eggs should not be laid a basket. Diversification in investments only reduces the risk and diversification is an important tool in risk management. Pension Fund is a Public Trust. This independent Public Trust manages Pension Fund, as provided in Schedule IV of Income Tax Act. Investment by these Public Trusts is governed by Income Tax Act, in order to protect payment of Pension. There are specified instruments in which Pension Funds can invest. Most of the amount of Trust should be invested in Government Securities or such instruments which has highest rating. This provision is only to ensure discharge of liability by the Banks. On account of this the return on Pension Fund is always less than Fixed Deposit Interest rates. Even Banks would love to take the risk of earning more by using the monies in the Pension fund and they may have to provide only a portion of such higher earnings. As a pensioner, one should only be concerned with adequate availability of funds in Pension Funds, which ensure payment of pension even in the event of absence of the employer-Bank. These kinds of suggestions do not bring glory to largest bank retirees' organisation, when such opinions are expressed in public domain.

In the said Circular, it is stated that Consolidated Pension Fund would improve yield substantially. This is not true and one draw inference from Mutual Funds. Funds with large Assets under Management may or may not provide higher returns. If this statement is correct, then Life Insurance Corporation of India, which has professional Fund Manager and has funds in excess of several times of aggregate of funds available in Pension Funds of Banks, should be giving far better return than the funds managed by the Banks. If so, purchasing annuities from Life Insurance Corporation of India is still a better option.

It is unfortunate that issue of Pension Fund of Punjab National Bank is blown out of proportions, without even understanding whether any acts of omission or commissions have influenced provisions in Pension Fund. Following portion from the report is extracted, which provides for correct information :

C. Changes in Fair Valuation of Plan Assets (Page 225 of Annual Report)

In accordance with AS-15 issued by ICAI, during the year while considering the fair value of plan assets relating to pension and gratuity fund being long term benefits of employees, interest accrued on investments has also been taken into account as against principal amount in earlier years. Consequent to this, employer contribution to pension and gratuity funds representing excess of fair value of plan assets over present value of

obligation amounting to Rs.2026.60 crores has been credited to "Payments to and Provisions for Employees- Employee Cost " during the year. Figures of previous year are not comparable to that extent.

Emphasis of Matter (Page 240 of Annual Report)

7. Without qualifying our opinion, we draw attention to Note no. 15 C regarding valuation of Plan Assets of long-term benefits , resulting in excess of fair value of plan assets over present value of obligation amounting to Rs.2026.60 crores credited to "Payments to and Provisions for Employees-Employee Cost " with consequential impact on results for the year.

In this case, there is a need to appreciate and understand that Punjab National Bank has not taken into account interest accrual during earlier years and the Bank has rightfully accounted the same that year. It is unfortunate that aspirations have been cast without full information. Some pensioners in social media go to the extent of suggesting there is embezzlement and filing of FIR. Providing half or incomplete or wrong information is more harmful than not providing information.

In the said Circular, it is suggested that the independent authority would demand higher amount of allocation as per laws/statutory provisions forcing the Banks to allocate higher amount of funds. Whenever, Public Sector Banks earn profits, dividends are paid to the Government. Suggested Consolidated Fund would be managed by the authority appointed by the Government. To ensure payment of higher amount of dividend to the Government, Government could also manoeuvre lesser provision through this authority ensuring lower provisioning and thereby higher dividend payment. Therefore, solution is more dangerous than the problem.

It is suggested in the Circular that tailor made acturial reports could be obtained by the Banks, which may adversely affect the Pensioners. It is repeatedly stated in this note that balance in pension funds is not the basis for calculating the cost, but demography, amount of outgo, etc. decide the cost. Whenever, issue of improvement in pension is discussed, report from an independent actuary, who is acceptable to both Indian Banks Association and constituents of UFBU, is obtained. Negotiation takes place on the basis of this report, but not on the position of Pension Funds. This opinion is affirmed by the extract of following lines from Pension Settlement dated 27.04.2010 :

> *. . . . An actuarial valuation of liability by actuaries appointed by mutual consent of the parties was carried out and based on this, ...*

It is also suggested that pension related demands could be considered independently, in the event of formation of Consolidated Pension Fund. Unfortunately, time and again wrong inference is being drawn or misinterpretation is being carried out. Even now, pension related issues are being considered independent of balance in Pension Funds. So far, there is no occasion where pension demands are not considered based on availability of funds in the Pension Funds. There is no answer if one were to ask who is responsible for providing, if sufficient funds are not available in the pension

funds to meet obligation under Pension Regulations. Under present dispensation, individual Banks are obligated to meet shortfall out of their Profit and Loss. If there is liability arise in respect of only a few Banks (for example liability of payment of five year benefit to VRS retirees or Specialized Officers under Regulation 26, which are peculiar to certain Banks only), who would provide. Since, Funds are consolidated, how to find the deficit ?

Formation of such a Fund would be a historical blunder. There is a danger of Government misusing these Funds. As suggested by the President, amount laying in this Fund might be used for meeting Basel III norms liabilities. Without any hesitation, mere discussion of this suggestion would be mocked at, by anyone who has minimum knowledge of functioning of Pension Fund and laws relating to Pension Fund. It does not bode well, if a retiree organization itself takes a lead in propagating such a suggestion. Consolidated Pension Fund is more harmful. Such an eventuality provide good opportunity

What is required is discussion on recent amendments to Pension Regulations. Some amendments are harmful and not in the interest of pensioners. It is unfortunate that there are wrong priorities.

Bank Pension Funds are not ours – there cannot be any surplus

In the Dharana organized by All India Bank Retirees' Federation alongwith Co-Ordination of Bank Retirees' Organisations was held in front of Town Hall, on the 7th December, 2018, leaders including Shri Vishwanath Naik, Vice President, AIBRF and also General Secretary, Karnataka State Committee of All India Bank Retirees Federation claimed that Pension Funds have more than Rs.3.00 lakh crores. It was also stated that Pension Funds are in surplus and improvement in pension scheme could be made out of existing funds. Members of our Commune, who were present in the Dharana are enquiring regarding correctness of this information provided by the leaders. It is always an endeavour of our Commune to keep its members informed of correct position regarding various aspects which affect Bank Pensioners.

Pension in Bank is a defined benefit. Defined benefit means benefit payable is based on set/agreed parameter. Employer is obligated to honour his commitment in extending benefits which are entitled to receive in terms of Law, rules, regulation, agreements, etc. Bank employees' pension is governed by either pension regulations/rules amended from time to time or on account of implementation of provisions of settlement/agreement or benefits conferred on account of Settlement/Joint Note/Govt. of India directions, with or without amendments to pension regulations. Benefits available under Pension Regulations are the 'minimum' payable, but not the maximum. Therefore, if Pension in Banks is a Defined Benefit Plan, payment is dependent on Bank Employees' Pension Regulations, 1995 or Bipartite Settlement/Joint Notes, as the case may be. Payment or improvement of Pension is not on the basis of balance in Pension fund. But, payment in a Defined Contribution Plan, like New Pension Scheme, is based on the balance in the Fund. Only in such cases, returns, balance, etc. matter, but not in Bank Employees' Pension, which is not a defined benefit plan.

Now, the question is whether monies in Pension Fund belongs to whom. Is it that of Pensioners or employees or that of Banks ? Is it possible that Pension Funds have surplus ? Pension Fund belongs to the Bank and does not belong to either employees or pensioners. For that matter, it is not even that of the Bank, but owned by a irrevocable Trust. Even if, the Funds have surplus, there can be no claim of Pensioners/Employees on this Fund. In case of deficit, Banks cannot shrink their responsibility to pay pension. Pension Fund is a Sinking Fund for meeting statutory obligation of payment of periodical pension to existing pensioners and to employees on their retirement. Monies to meet future liabilities of payment of Pension are computed, earmarked and kept aside in Pension Fund. Pension payable is accrued from the day the employee or his/her spouse is entitled to receive pension. While computing liability during first ten years of service is nil as far as pension is concerned. But, possible liabilities for payment of family pension arises moment employees join the Bank (those who joined before 1.5.2010) and liabilities towards payment of pension, in respect of voluntary retirement commences after 20 years of service and in respect of all other modes of exist minimum service required is ten years, for entitlement of pension.

Pension Funds in Banks are separate entities which are created to ensure that funds position is independent of financial position of Banks. This system is in place to ensure payment of pension and meet statutory obligations, even in the event of liquidation of employer-companies, including Banks. It is also to prevent creditors from laying their hands on the Pension Funds, in such situations. Such Pension Funds are owned by irrevocable Trust, whether it is registered or not. These statutory provisions are not limited to Bank Pension Funds, but they cover every Superannuation Fund. As these Trusts which manage Pension Funds are independent entities and monies can be taken out of these Funds only to meet obligations as per Pension Regulations. This system is in the interest of stakeholders. Pension Fund's stakeholders, include present employees who have joined Banks before 1.5.2010. Further, if income of the Fund is more than the quantum of pension paid, it does not mean that there is surplus. Contribution to the Pension Fund would be over and above pension paid to Pensioners, as this income should be enough to meet liability of the Bank also towards existing Employees who are covered under Pension Regulations, 1995. The balance in Pension Fund, should be enough to pay every employee who is a Pension Optee, if the Bank is liquidated or every employee is

retrenched or retired compulsorily or voluntarily, today. This also mean pension fund also includes liability to over 3 lakh employees who are pension optees in Banks, in addition to present Pensioners. Commutation should also be paid to these employees, immediately upon their retirement. Fund should be enough to honour every commitment to pensioners and present employees till the last pensioner/family pensioner dies. Pension liability excluding payment of Commutation amount per pensioner who is going to retire during next few years is more than twice that of liability in respect of 7th/8th/9th Bipartite Settlement period.

On date, number employees covered under Pension Regulations, 1995 is over and above present pensioners. Till their retirement, Bank not only contributes 10% of 'Pay' in respect of present employees and also shortfall, if any in Pension fund. Once, last pension-optee employee retires, there will not be 10% contribution to Pension Fund. One major source of contribution ceases to exist. Gradually, number of pensioners increase and number of employees, on whose behalf the Banks contribute reduces. But, payment out of Pension Fund to all these pensioners increases. This also means income for the Pension Fund is out of return on Pension Fund and/or contribution by the Bank as per actuarial valuation, every year. Therefore, it is incorrect to say that there is surplus in Pension fund.

It is in public domain that the profitability of Banks is dependent on various expenditures such as provisioning. Such provisions include Superannuation liabilities. Provision over and above 10% of 'Pay' is dependent on assets of the Pension Fund and valuation by actuaries. In case of surplus, there is no necessity for further provision and such excess amount cannot be transferred from Pension Fund to Profit and Loss account. If Banks are providing for Superannuation Funds, despite incurring losses would only indicate that these funds have no surplus. Any prudent person would appreciate the fact that Executives and Shareholders do not allow further provisioning, if there is surplus already. Otherwise, they are decreasing the profits, for which no one works for.

Pension Fund of State Bank of Mysore

Amounts in Crs. - As on	**31.03.2015**	**31.03.2016**	**31.03.2017**
No. of Live Pensioners	4555	5003	5356
No. of Family Pensioners	1374	1430	1345
No. of Pension optees in Service	7538	6919	6380
Monthly average pay-out (including Commutation)	10.23	14.76	17.30
Investments of Pension Fund (Corpus)	1584.66	1823.97	2289.30
WTD average return on these investments (%age)	8.80	9.13	9.07
Provision by Bank	304.00	300.01	500.24

Any increase in Pension including payment of additional Dearness Relief, as and when it increase, compels the Bank Managements to make additional contribution to Fund, which should be enough to pay increased amount of pension, till pensioners and/or family pensioners, survive. Balance in Pension Fund is the present value of future pension liability. Pension is an annuity and balance in the fund together with additional amount required to be provided should be enough to meet future liabilities. Any additional contribution reduces profit of every Bank. But, every Bank is contributing every year, even if the Banks undergo loss. Therefore, additional contribution to pension fund increases expenditure of the Banks. Question which comes to mind is whether Banks can save monies, by not contributing to Pension fund. If they refrain from contributing to Pension Fund, they can improve profitability, stating that there is surplus in Pension Fund. Even Share Holders are also happy, as this method results in reduced outgo. But, laws do not provide for such a luxury. Provisions have to be made to Pension Fund as per Acturial investigation conducted every year.

It is also claimed that there is surplus in Pension Fund, because returns are in excess of outgo from the Pension Funds. This does not indicate that there is surplus. But, this only indicates that current liability towards payment of pension is far less, when compared to future liabilities. Without understanding or appreciating the fact that the future liabilities of Pension Fund and its outgo increase substantially, it is not prudent to conclude that there is surplus.

Is it not true that pension outgo gets reduced on account of death of pensioners and consequent upon such deaths, a surplus is created in Pension Fund ? It is true that outgo is reduced on account of death of a pensioner. But, Actuarial valuation takes into account such deaths, as actuarial valuation takes into account such deaths based on mortality data. Therefore, death of pensioners does not create any surplus.

Private Banks have to purchase annuities from Life Insurance Corporation of India for payment of pension to retirees of these Banks. Therefore, there cannot be any surplus in Pension Funds of Private Banks. However, Public Sector Banks are allowed to manage Pension Funds duly following applicable norms. This provision is helping Public Sector Banks, as rate of return on investments of Pension Fund by these Banks is higher. Consequently, required provision gets reduced.

Bank Retirees should feel happy, if there is surplus in Pension Fund. This would ensure payment of Pension to every eligible pensioner as per Pension Regulations. It offers statutory safeguards. Any deficit or shortfall in Pension Fund should be a cause of concern. Responsible Retirees' Organisations should demand more and more contribution to Pension Fund, to ensure payment of pension as per statutory provisions, till the last pensioner survives.

Claim for Pension updation in terms of Regulation 35(1) – Advantage or not ?

We have found that many are claiming pension updation based on Regulation 35(1). We do not whether it is going to be advantageous by advocating Pension Updation based on this ground. First, let us examine the background, why 35(1) has come in.

4th Bipartite period was upto 30.06.1987 and 5th Bipartite period was from 1.11.1987 leaving a gap of four months. Further, calculation of Dearness Allowance had different formula for different section of employees. It was 1.20% per slab for Sub-Staff and 1% per slab for others. There was a ceiling on Dearness Allowance per slab. It is not possible to have different Dearness Relief formula in Pension Regulations based on the cadre they belong to while in service, especially for a section of pensioners only. A brief period of 22 months had three categories of employees. To overcome these problems and to harmonise calculation, Regulation 35(1) was introduced. Regulation 35(1) is a deviation in method of calculation of basic pension, as Regulation 35(2) and 38 provides for reckoning last ten months pay and 50% of 'Pay'. When it was introduced, the clause was

Before amendment, Regulation 35(1) was :

35. Amount of Pension - (1) In respect of employee who retired between the Ist day of January,1986 but before the 31st day of October, 1987, basic pension and additional pension will be updated as per the formula given in Appendix - 1.

After amendment, Regulation 35(1) is :

35. Amount of Pension:- (1) Basic Pension and additional pension, wherever applicable, shall be updated as per the formulae given in Appendix I

Appendix - I
(See regulation 35)

The formula of updating basic pension and additional pension in respect of employees who retired between the Ist day of January 1986 and the 31st day of October 1987 shall be as under:

This portion of pension regulation was amended only with a view to refine and also it was already implemented, while paying pension during 1995/1996. The phrase 'in respect of employees who retired between the Ist day of January 1986 and the 31st day of October 1987' was already available in Appendix – I.

One has to understand what does this amended Regulation convey. Even if beneficial interpretation, as claimed, is adopted, one should consider what should be the formula to be reckoned while updating. Amended Regulation says that 'Basic Pension and additional pension, wherever applicable, shall be updated as per the formulae given in Appendix I'. While interpreting one needs to consider entire sentence, but not a portion of it. Cherry picking in anathema to law. The formula/formulae adopted in Appendix I is nothing but adding Dearness Allowance upto 600 points (earlier basic pay was upto 332 points) to the 'Pay'. This is the same method that is being adopted if last ten months' period spills over to two settlement period. The important point which should not be ignored is that calculation is based on 'Pay', but not pension. Consequently, even if same formula is adopted to update pension, the benefit of updation would be limited to enhancement on account of 'rounding off' effect only. The following table would demonstrate the difference, payable if pension is updated in terms of Regulation 35(1). Should we pursue on this ground, is a million dollar question now ?

Updation of pension in terms of Regulation 35(1) of Bank Employees' Pension Regulations, 1995
Benefit of such updation explained

BPS	DR merger at	Present slabs	No. of present slabs @ 6352	Basic Pension	Present DR	Present Pension	Present Basic Pension	DR thereon at 6352	Basic Pension @ 6352	DR thereon	Total	Increase
1	2	3	4	5	6	5 + 6	5	7	5 + 7	8	9	10
7th	1684	1167	297	9,250	22,103	31,353	9,250	17,619	26,869	5,586	32,455	1,102
8th	2288	1016	297	13,990	33,064	47,054	13,990	25,585	39,575	8,228	47,803	749
9th	2836	879	297	20,200	35,633	55,833	20,200	26,634	46,834	9,737	56,571	738
10th	4440	478	297	29,585	22,928	52,513	29,585	14,142	43,727	9,091	52,818	305

Claim for Pension updation in terms of Regulation 35(1) – Advantage or not ?

We have found that many are claiming pension updation based on Regulation 35(1). We do not whether it is going to be advantageous by advocating Pension Updation based on this ground. First, let us examine the background, why 35(1) has come in.

4th Bipartite period was upto 30.06.1987 and 5th Bipartite period was from 1.11.1987 leaving a gap of four months. Further, calculation of Dearness Allowance had different formula for different section of employees. It was 1.20% per slab for Sub-Staff and 1% per slab for others. There was a ceiling on Dearness Allowance per slab. It is not possible to have different Dearness Relief formula in Pension Regulations based on the cadre they belong to while in service, especially for a section of pensioners only. A brief period of 22 months had three categories of employees. To overcome these problems and to harmonise calculation, Regulation 35(1) was introduced. Regulation 35(1) is a deviation in method of calculation of basic pension, as Regulation 35(2) and 38 provides for reckoning last ten months pay and 50% of 'Pay'. When it was introduced, the clause was

Before amendment, Regulation 35(1) was :

35. Amount of Pension - (1) In respect of employee who retired between the Ist day of January,1986 but before the 31st day of October, 1987, basic pension and additional pension will be updated as per the formula given in Appendix - 1.

After amendment, Regulation 35(1) is :

35. Amount of Pension:- (1) Basic Pension and additional pension, wherever applicable, shall be updated as per the formulae given in Appendix I

Appendix - I

(See regulation 35)

The formula of updating basic pension and additional pension in respect of employees who retired between the Ist day of January 1986 and the 31st day of October 1987 shall be as under:
This portion of pension regulation was amended only with a view to add and refine. The phrase 'in respect of employees who retired between the Ist day of January 1986 and the 31st day of October 1987' was already available in **Appendix – I**. Those who had retired during this period was placed and numbered as **Appendix – I 1.** **Appendix – I 2.** Covers those workmen retired between 01.11.1992 and 30.09.1993 and Officers retired between 01.07.1993 and 30.05.1995.

Appendix – I 3 and Appendix – I 4 cover those workmen retired between 01.11.1992 and 31.10.1994 and Officers retired between 01.07.1993 and 31.10.1994 with regard to counting of Special Allowance in terms of Settlement dated 14.02.1995. **Appendix – I 5** covers those sub-ordinate staff retired between 01.11.1992 and 31.10.1994 and Officers retired between 01.07.1993 and 31.10.1994 with regard to counting of Special Allowance in terms of Settlement dated 14.02.1995. Therefore, Banks have amended Regulation 35(1) to cover those who retired during the period from 01.11.1992 to 31.10.1994 in terms of Bipartite Settlement dated 14.02.1995. Consequently, Banks have removed the period 01.01.1986 to 31.10.1987 from the Regulation 35(1), as those who retired during this period were already covered under Appendix – I. Sub-clauses, 1 to 4 are added in Appendix – 1. Therefore, the intention of amendment of Regulation 35(1) is only to enable Banks to add modification in method of computing Basic Pension only. Appendix – I 1 to Appendix – I 5 deals with modification of method of calculation of Basic Pension, wherever there is deviation in method of calculation of Basic Pension in terms of Regulation 35 (2) to 35 (7).

Hon'ble Supreme Court has settled the issue of interpretation of the Statute, like Bank Employees' Pension Regulations, 1995 in ***Commr. of Customs v. Dilip Kumar & Co.*****, (2018) 9 SCC 1 : 2018 SCC OnLine SC 747.** It is decided that when a Statute is unambiguous and only meaning can be inferred, irrespective of consequences only that meaning has the field. Any hardship or inconvenience cannot be the basis to alter the meaning employed by the legislation. Only in case of anomaly and/or absurdity, only intention and purpose will determine the meaning. Therefore, pensioners cannot claim or derive out of what is provided in Regulation 35(1). It is reiterated that any rule, regulation or provision in any Act needs to be read completely, but not in parts, conveniently.

Seven Judge Bench of Hon'ble Supreme Court in ***S.P. Gupta v. Union of India*****, 1981 Supp SCC 87** and Five Judge Bench of Hon'ble Supreme Court in ***Commr. of Customs v. Dilip Kumar & Co.*****, (2018) 9 SCC 1 : 2018 SCC OnLine SC 747** have decided that when there is clarity in the Statute, no other interpretation should have the field. Plain reading of Regulation 35(1) does not create any doubt. Regulation 35(1) only deals with fixation of Basic Pension in various circumstances of two Bipartite Settlement. To succeed in a Court of Law, as Petitioners, Bank Pensioners need to either prove that two interpretations are possible or regulations are with absurdity requiring for interference of the Court or amendment is intended to extend some benefit or has created contradiction. Whether the Regulation 35(1) reading 'Amount of Pension:- (1) Basic Pension and additional pension, wherever applicable, shall be updated as per the formulae given in Appendix I' creates two interpretations or any absurdity is present or two interpretation possible or has created any contradiction or contrary to the statute, would decide the legal battle.

One has to understand what does this amended Regulation convey. Even if beneficial interpretation, as claimed, is adopted, one should consider what should be the formula to be reckoned while updating. Amended Regulation says that 'Basic Pension and additional pension, wherever applicable, shall be updated as per the formulae given in Appendix I'. While interpreting one needs to consider entire sentence, but not a portion of it. Cherry picking in anathema to law. The formula/formulae adopted in Appendix I is nothing but adding Dearness Allowance upto 600 points (earlier basic pay was upto 332 points) to the 'Pay'. This is the same method that is being adopted if last ten months' period spills over to two settlement period. The important point which should not be ignored is that calculation is based on 'Pay', but not pension. Consequently, even if same formula is adopted to update pension, the benefit of updation would be limited to enhancement on account of 'rounding off' effect only. The following table would demonstrate the difference, payable if pension is updated in terms of Regulation 35(1). Should we pursue on this ground, is a million dollar question now ?

It is a duty of a Trade Union to negotiate for the benefits to its members. That is responsibility and duty of Pensioners' Association to secure benefits as per the statute or as per the Agreement/ Settlement or Joint Note. In the absence of ability to negotiate and deliver, for any reason, the Association should ensure delivery of legitimate benefits by approaching appropriate legal forum. Therefore, complete knowledge of conditions is an absolutely essential aspect of negotiation or fighting in Courts of Law. Is it possible to succeed in Court of Law by slicing the sentence, Amount of Pension:- "(1) Basic Pension and additional pension, wherever applicable, shall be updated as per the formulae given in Appendix I" conveniently in to two parts ? Can we ignore the portion "as per the formulae given in Appendix I" ?

Many Bank pensioners and leaders claim the benefit of updation based on the Regulation 56. This Regulation 56 are dealt in two Judgments, namely, ***P N Shukla v. Union of India*** **& Ors. 2016 SCC OnLine Del 5597 and P C Jain & Ors. Vs. Union of India (2015 SCC OnLine P&H 16526)** have dealt with provisions of Regulation 56 read with any one else.

Therefore, such organisations and individuals are inflicting more damage to the cause of Bank retiees, than those who are requesting the leaders of organisations not to press for this benefit through Courts (i.e High Courts). Basic principle of Trade Union is to protect the benefits already available. At no cost, watering down of this principle should be allowed. It is responsibility of Bank Retirees' Association to protect the benefits and effect of present rules. Finally, these leaders should be able to convince either Courts or employers (i.e Banks). Any leader or organisation who approaches Courts would cause permanent damage. Those who are pursuing pension updation on these grounds should understand that the convincing the Courts/Executives/IBA is quite different from convincing Bank pensioners. Bank pensioners believe any one who says they are entitled to updation of pension and they trust any one who say

it is possible based on some grounds, whether they are tenable or untenable. It is unfortunate situation.

Extracts from the Judgment regarding interpretation of statute and application of Regulation 56.

Seven Judge Bench of Hon'ble Supreme Court in ***S.P. Gupta v. Union of India*, 1981 Supp SCC 87** has decided that :

199. But there is one principle on which there is complete unanimity of all the courts in the world and this is that where the words or the language used in a statute are clear and cloudless, plain, simple and explicit unclouded and unobscured, intelligible and pointed so as to admit of no ambiguity, vagueness, uncertainty or equivocation, there is absolutely no room for deriving support from external aids. In such cases, the statute should be interpreted on the face of the language itself without adding, subtracting or omitting words therefrom.

Five Judge Bench of Hon'ble Supreme Court in ***Commr. of Customs v. Dilip Kumar & Co.*, (2018) 9 SCC 1 : 2018 SCC OnLine SC 747** has decided that :

15. We may passingly, albeit, briefly reiterate the general principles of interpretation, which were also adverted to by both the counsel. In his treatise, *Principles of Statutory Interpretation*, Justice G.P. Singh lucidly pointed out the importance of construction of statutes in a modern State as under:

> "Legislation in modern State is actuated with some policy to curb some public evil or to effectuate some public benefit. The legislation is primarily directed to the problems before the legislature based on information derived from past and present experience. It may also be designed by use of general words to cover similar problems arising in future. But, from the very nature of things, it is impossible to anticipate fully the varied situations arising in future in which the application of the legislation in hand may be called for, and, words chosen to communicate such indefinite "referents" are bound to be, in many cases lacking in clarity and precision and thus giving rise to controversial questions of construction."

16. An Act of Parliament/Legislature cannot foresee all types of situations and all types of consequences. It is for the Court to see whether a particular case falls within the broad principles of law enacted by the legislature. Here, the principles of interpretation of statutes come in handy. In spite of the fact that experts in the field assist in drafting the Acts and Rules, there are many occasions where the language used and the phrases employed in the statute are not perfect. Therefore, Judges and courts need to interpret the words.

17. In doing so, the principles of interpretation have been evolved in common law. It has also been the practice for the appropriate legislative body to enact the Interpretation Acts or the General Clauses Act. In all the Acts and Regulations, made either by Parliament or Legislature, the words and phrases as defined in the General Clauses Act and the

principles of interpretation laid down in the General Clauses Act are to be necessarily kept in view. If while interpreting a statutory law, any doubt arises as to the meaning to be assigned to a word or a phrase or a clause used in an enactment and such word, phrase or clause is not specifically defined, it is legitimate and indeed mandatory to fall back on the General Clauses Act. Notwithstanding this, we should remember that when there is repugnancy or conflict as to the subject or context between the General Clauses Act and a statutory provision which falls for interpretation, the Court must necessarily refer to the provisions of the statute.

19. The long title, the preamble, the heading, the marginal note, punctuation, illustrations, definitions or dictionary clause, a *proviso* to a section, explanation, examples, a schedule to the Act, etc., are internal aids to construction. The external aids to construction are parliamentary debates, history leading to the legislation, other statutes which have a bearing, dictionaries, thesaurus.

21. The well-settled principle is that when the words in a statute are clear, plain and unambiguous and only one meaning can be inferred, the courts are bound to give effect to the said meaning irrespective of consequences. If the words in the statute are plain and unambiguous, it becomes necessary to expound those words in their natural and ordinary sense. The words used declare the intention of the legislature.

22. In *Kanai Lal Sur* v. *Paramnidhi Sadhukhan* [*Kanai Lal Sur* v. *Paramnidhi Sadhukhan*, AIR 1957 SC 907] , it was held that if the words used are capable of one construction only then it would not be open to the courts to adopt any other hypothetical construction on the ground that such construction is more consistent with the alleged object and policy of the Act.

23. In applying rule of plain meaning any hardship and inconvenience cannot be the basis to alter the meaning to the language employed by the legislation. This is especially so in fiscal statutes and penal statutes. Nevertheless, if the plain language results in absurdity, the court is entitled to determine the meaning of the word in the context in which it is used keeping in view the legislative purpose. [*Commr.* v. *Mathapathi Basavannewwa*, (1995) 6 SCC 355] Not only that, if the plain construction leads to anomaly and absurdity, the court having regard to the hardship and consequences that flow from such a provision can even explain the true intention of the legislation. Having observed general principles applicable to statutory interpretation, it is now time to consider rules of interpretation with respect to taxation.

26. Next, we may consider the meaning and scope of "strict interpretation", as evolved in Indian law and how the higher courts have made a distinction while interpreting a taxation statute on one hand and tax exemption notification on the other. In *Black's Law Dictionary* (10th Edn.) "strict interpretation" is described as under:

Strict interpretation. (16c) *1*. An interpretation according to the narrowest, most literal meaning of the words without regard for context and other permissible meanings. *2*. An interpretation according to what the interpreter narrowly believes to have been the specific intentions or understandings of the text's authors or ratifiers, and no more. Also termed (in senses 1 & 2) strict construction, literal interpretation; literal construction; restricted interpretation; interpretatio stricta; interpretatio restricta; interpretatio verbalis. *3*. The philosophy underlying strict interpretation of statutes. Also termed as close interpretation; interpretatio restrictive. See strict constructionism under constructionism. Cf. large interpretation; liberal interpretation (2).

"Strict construction of a statute is that which refuses to expand the law by implications or equitable considerations, but confines its operation to cases which are clearly within the letter of the statute, as well as within its spirit or reason, not so as to defeat the manifest purpose of the legislature, but so as to resolve all reasonable doubts against the applicability of the statute to the particular case." Willam M. Lile et al., *Brief Making and the Use of Law Books* 343 (Roger W. Cooley & Charles Lesly Ames eds., 3d Edn. 1914).

"Strict interpretation is an equivocal expression, for it means either literal or narrow. When a provision is ambiguous, one of its meaning may be wider than the other, and the strict (i.e. narrow) sense is not necessarily the strict (i.e. literal) sense." John Salmond, *Jurisprudence* 171 n. (t) [Glanville L. Williams (Ed.), 10th Edn. 1947].

High Court of Punjab and Haryana has decided in a Writ Appeal regarding updation of pension of Bank Pensioners in **P C Jain & Ors. Vs. Union of India (2015 SCC OnLine P&H 16526),** has settled the issue of application of Regulation 56 vis-à-vis Central Civil Services (Pension) Rules, 1972 **:**

24. A perusal of Clause 12 of the settlement makes it abundantly clear that it only provides for further negotiations as regards "*applicability, qualifying service, amounts of pension, payment of pension, commutation of pension, family pension, updating and other general conditions etc.*" and cannot be read to provide for updation of pension. Similarly, Regulation 56 deals with a situation where a doubt arises in the matter of application of the pension scheme and mandates to clear that doubt by referring to the "*corresponding provisions of Central Civil Services Rules 1972 or Central Civil Services (Commutation of Pension) Rules, 1981 applicable for Central Government employees with such exceptions and modifications as the Bank, with the previous sanction of the Central Government, may from time to time determine.*". No such doubt is shown to exist as could necessitate a reference to corresponding provisions of Central Civil Services Rules 1972 or Central Civil Services (Commutation of Pension) Rules, 1981 applicable for Central Government employees. Thus Regulation 56 cannot be treated to confer certain benefits upon the appellants, which the Reserve Bank of India's Regulations or the Central Civil Services Pension Regulations provided for. Further, Clause 17 of the settlement provides that if there is difference of opinion with regard to interpretation of any of the provisions of the settlement, the matter can be taken

up at the level of IBA and All India Bank Employees Association for discussion and settlement. Presumably this clause impelled the learned Single Judge to observe that it would be open for the appellants to make demand for parity if they are so advised and use their bargaining skills through their associations.

This extract is taken from *P N Shukla v. Union of India* & Ors. 2016 SCC OnLine Del 5597

12. Regarding the first contention, our attention was drawn to Regulation 56 of the Pension Regulations. The said Regulation, under the heading "Residuary provisions" stipulates that in case of a doubt in the matter of application of these regulations, regard may be had to the corresponding provisions of Central Civil Services Rules, 1972 or the Central Civil Services (Commutation of Pension) Rules, 1981 applicable for Central Government employees. Learned counsel for the appellant has submitted that as per Rule 70 of the Central Civil Services (Pension) Rules, 1972, pension cannot be revised to the detriment of the employee after a period of two years. The said Rule would not be applicable per se to the Pension Regulation by invoking the "Residuary provisions". The residuary provisions would be applicable only when there is doubt regarding the application of these Regulations. In the present case, there is no doubt regarding the application. The question relates to the interpretation of Regulation 26 and its effect. There is no equivalent of Regulation 26 in the Central Rules, which could clarify any doubt or debate on the interpretation of Regulation 26. The residuary provision does not make the Central Rules applicable. They do not apply mutatis mutandis, albeit when there is doubt or debate about any provision in the Pension Regulation, reference can be made to the Central Rules.

In the absence of any enabling rule in Central Civil Services (Pension) Rules, 1972, there is no corresponding rule to refer regarding updation of pension.

APPENDIX - I[37]

(See Regulation 35)

1. The formula for updating basic pension and additional pension in respect of employees who retired during the period 01.01.1986 to 31.10.1987 shall be as under: -

(1) A. (a) 50 per cent of first Rs.1000 of the average emoluments reckonable for pension — Rs.__________

(b) 45 per cent of next Rs.500 — Rs.__________

(c) 40 per cent of the average emoluments reckonable for pension ceeding Rs.1500 — Rs.__________

Total of (a+b+c) — Rs.___________(A)

B. 50 per cent of the average monthly emoluments for the last 10 months in service prior to retirement — Rs.___________(B)

C. Dearness Relief at index number 600 in the All India Average Consumer Price Index for Industrial Workers in the series 1960=100, on basic pension calculated at (A) above, as per Table given below. — Rs.___________(C)

D. Total basic pension — Rs.____________(D)

$$= \frac{(B)+(C) \times \text{Number of years of qualifying service (Maximum of 33 years)}}{33}$$

E. Basic pension as on 01.11.1993 (Rounded off to the next higher rupee) — Rs.____________(E)

(2) Special allowances to the extent of the amount ranking for making contributions to the Provident Fund in terms of the Bipartite Settlement dated 10th April, 1989 or Officers' Service Regulations, as the case may be, corresponding to the special allowances drawn at the time of retirement shall be reckoned for the purpose of additional pension.

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[37] Amended w.e.f. 30.11.2002 ref Circular No.265/2002 dated 24.12.2002

TABLE

Rates of dearness relief worked out at index number 600 in the All India Average Consumer Price Index for Industrial Workers in the series 1960=100 for all classes of employees who retired during the period 01.01.1986 to 31.10.1987:

(a) Employees in subordinate staff cadre :	80.40 per cent of pension calculated at A (1) above.
(b) Employees in clerical staff cadre drawing pension upto Rs.756/-per month	67 per cent of pension calculated at A above.

(c) Employees in clerical staff cadre drawing pension of Rs.757/- per month and above will be eligible for dearness relief as under:

Amount of basic pension drawn per month Rs.	The amount of dearness relief admissible Rs.
757-796	508-00
797-804	534-00
805-824	540-00
825-844	553-00
845-864	567-00
865-884	580-00
885-904	593-00
905-924	607-00
925-944	620-00
945-964	634-00
965-984	647-00
985-1004	660-00
1005-1024	674-00
1025-1044	687-00
1045-1064	701-00
1065-1084	714-00
1085 above	727-00

(d) Employees in officer cadre shall be eligible for dearness relief as under:

[i] For those drawing basic pension Upto Rs.765/- per month	66 per cent of the amount of Pension calculated at A (1) above subject to a maximum of Rs.500/-
[ii] For those drawing basic pension : From Rs.766/- to Rs.1165/- per month	Rs.500/-
[iii] For those drawing basic pension Of Rs.1166/- per month or above;	42.90 per cent of amount of pension calculated as at A above Subject to a maximum of Rs.715/-.

2. The formula for updating basic pension in respect of workmen who have retired on or after the 1st day of November, 1992 but before the 1st day of September, 1993 and in respect of officers who have retired on or after the 1st of July, 1993 but before the 1st day of May, 1994 shall be as under: -

(1) Total of pay drawn as per the old scales for the month/s during the last 10 months of qualifying service.	Rs.
(2) Total of dearness allowance actually drawn or dearness allowance at 1148 points, whichever is less, for each month of pay calculated at (1) above.	Rs.
(3) Total of pay drawn as per (1) above plus total of dearness allowance drawn as per (2) above.	Rs.
(4) Total of pay drawn as per revised scales of pay for the month/s during the last 10 months of qualifying service including the month in which the employee retired.	Rs.

(5) Total of columns (3) and (4) Rs.

(6) Average emoluments for the purpose of Rs.
pension i.e., Total as per (5) above
10

(7) Updated basic pension 50% of (6) above
x Number of years of qualifying service (max. 33 years)
33

(8) Basic Pension (Rounded off to next higher Rs.
rupee)

3. In respect of workmen who have retired on or after the 1st day of November, 1992 but before the 1st day of November, 1994 and in respect of officers who have retired on or after the 1st day of July, 1993 but before the 1st day of November, 1994 the amount of special allowances in terms of Bipartite Settlement dated 14th February, 1995 or the Officers' Service Regulations, as the case may be, corresponding to the special allowances actually drawn at the time of retirement shall be reckoned for the purpose of computation of additional pension, w.e.f., 1st November, 1994:

Provided that for the period from 1st day of November, 1992 or from the date of retirement, whichever is later, till the 31st day of October, 1994 the amount ranking for provident fund at pre-revised rates shall be reckoned for the purpose of computation of additional pension.

4. In respect of employees who have retired on or after the 1st day of November, 1994 and have drawn special allowance both at the pre-revised and revised rates during the last 10 months of service before retirement, the amount of special allowance in terms of the Bipartite Settlement dated 14th February, 1995 or the Officers' Service Regulations, as the case may be, corresponding to the pre-revised special allowance actually drawn at the time of retirement shall be reckoned for the purpose of computation of additional pension.

Note:

The amount of revised special allowance drawn on or after the 1st day of November, 1994 shall be reckoned for computation of basic pension.

5. In respect of subordinate staff who have retired on or after the 1st day of November, 1992 and have drawn pre-revised special allowance as also those who have retired on or after the 1st day of November, 1994 and have drawn special allowance both at the pre-revised and revised rates during the last ten months of service before retirement, the amount of special allowance actually drawn at the pre-revised rates shall be reckoned for the purpose of computation of basic pension and shall draw dearness relief at the rates for every rise or fall of 4 points over 600 points in the quarterly average of All India Consumer Price Index for Industrial Workers in the series 1960=100.

Appendix II[38]

(See regulation 37)

Dearness relief on basic pension shall be as under:-

(1) In the case of employees who were in the workmen cadre and who retired on or after 1st day of January, 1986, but before the 1st day of November, 1992; and in the case of employees who were in the officers' cadre and who retired on or after 1st day of January, 1986, but before the 1st day of July, 1993, dearness relief shall be payable for every rise or be recoverable for every fall, as the case may be, of every 4 points over 600 points in the quarterly average of the All India Average Consumer Price Index for Industrial Workers in the series 1960=100. Such increase or decrease in dearness relief for every said four points shall be calculated in the manner given below:-

Scale of basic pension per month (1)	The rate of dearness relief as a percentage of basic pension (2)
(i) Up to Rs. 1250	0.67 per cent
(ii) Rs.1251 to Rs.2000	0.67 per cent of Rs.1250 plus 0.55 percent of basic pension in excess of Rs.1250.
(iii) Rs.2001 to Rs.2130	0.67 per cent of Rs.1250 plus 0.55 per cent of the difference between Rs.2000 and Rs.1250 plus 0.33 per cent of basic pension in excess of Rs.2000.
(iv) Above Rs.2130	0.67 per cent of Rs.1250 plus 0.55 per cent of the difference between Rs.2000 and Rs.1250 plus 0.33 per cent of the difference between Rs.2130 and Rs.2000 plus 0.17 per cent of basic pension in excess of Rs.2130.

[38] Amended w.e.f. 30.11.2002 ref Circular No.265/2002 dated 24.12.2002

(2) In the case of employees who are in workmen cadre and who retire on or after 1st day of November, 1992; and in the case of employees who are in the officers' cadre and who retire on or after 1st day of July, 1993, dearness relief shall be payable for every rise or be recoverable for every fall, as the case may be, of every 4 points over 1148 points in the quarterly average of All India Average Consumer Price Index for Industrial Workers in the series 1960=100. Such increase or decrease in dearness relief for every said four points shall be calculated in the manner given below:-

Scale of basic pension per month(1)	The rate of dearness relief as a percentage of basic pension (2)
(i) Upto Rs.2400	0.35 per cent
(ii) Rs.2401 to Rs.3850	0.35 per cent of Rs.2400 plus 0.29 percent of basic pension in excess of Rs.2400.
(iii) Rs.3851 to Rs.4100	0.35 per cent of Rs.2400 plus 0.29 per cent of the difference between Rs.3850 and Rs.2400 plus 0.17 per cent of basic pension in excess of Rs.3850.
(iv) Above Rs.4100	0.35 per cent of Rs.2400 plus 0.29 per cent of the difference between Rs.3850 and Rs.2400 plus 0.17 per cent of the difference between Rs.4100 and Rs.3850 plus 0.09 per cent of basic pension in excess of Rs.4100.

(3) In the case of employees who retire on or after the 1st day of April, 1998, dearness relief shall be payable for every rise or be recoverable for every fall, as the case may be, of every 4 points over 1616 points in the quarterly average of the All India Average Consumer Price Index for Industrial Workers in the series 1960=100. Such increase or decrease in dearness relief for every said four points shall be calculated in the manner given below:-

Scale of basic pension per month	The rate of dearness relief as a percentage of basic pension
(i) Upto Rs.3380	0.25 per cent
(ii) Rs.3381 to Rs.5420	0.25 per cent of Rs.3380 plus 0.21 per cent basic pension in excess of Rs. 3380
(iii) Rs.5421 to Rs.5770	0.25 per cent of Rs.3380 plus 0.21 per cent of the difference between Rs.5420 and Rs.3380 plus 0.12 per cent of basic pension in excess of Rs.5420.
(iv) Above Rs.5770	0.25 per cent of Rs.3380 plus 0.21 per cent of the difference between Rs.5420 and Rs.3380 plus 0.12 per cent of the difference between Rs.5770 and Rs.5420 plus 0.06 per cent of basic pension in excess of Rs.5770.

[4] Dearness relief shall be payable for the half year commencing from the 1st day of February and ending with 31st day of July on the quarterly average of the index figures published for the months of October, November and December of the previous year and for the half year commencing from the 1st day of August and ending with the 31st day of January on the quarterly average of the index figures published for the months of April, May and June of the same year.

[5] In the case of family pension, invalid pension and compassionate allowance, dearness relief shall be payable in accordance with the rates mentioned above.

[6] Dearness relief will be allowed on full basic pension even after commutation.

[7] Dearness relief is not payable on additional pension.

[8] Pensioner whose basic pension is less than minimum pension but the aggregate of basic pension and additional pension is more than the minimum pension shall draw dearness relief as applicable to minimum pension.

Regulation 35 (1) of BPR 1995 clearly states that "Basic Pension or additional pension, wherever applicable, shall be updated as per the formulae given in Appendix-1".

There is difference between updation and revision. Updation means adding DA/DR upto to agreed level to Basic Pay/Pension. What is included in Appendix-I is only adding DA upto a point. The Banks are calculating Pension by adopting same method when last 10 months' period falls in two settlement periods. Hon'ble High Court of Karnataka has already dismissed a Writ Petition claiming updation on this basis.

Regulation 56 of BPR 1995 further states that the Pension scheme in banks is similar to that of Central Civil Pension scheme where the pension gets updated along with the implementation of each Pay Commission. Thus, pension updation for bankers is to be done on similar lines with each bipartite settlement.

This is already considered and decided in PC Jain Vs. Union of India **2015 SCC OnLine P&H 16526**, wherein it is stated as under :

When the Regulations actually were introduced after further rounds of talks, it only provided through a residuary clause 56 that read as follows:-

"56. Residuary provisions: In case of doubt, in the matter of application of these regulations, regard may be had to the corresponding provisions of Central Civil Services Rules 1972 or Central Civil Services (Commutation of Pension) Rules, 1981 applicable for Central Government employees with such exceptions and modifications as the Bank, with the previous sanction of the Central Government, may from time to time determine."

It can be noticed that the Bank Regulation was not making any incorporation of either the Central Civil Services Rules or the Reserve Bank of India Pension Regulations but merely provided that in the matter of application of these regulations, regard could be had to the provisions with such exceptions and modifications when there existed any doubt in the manner of the application of the regulations. This Regulation 56 could not, therefore, be treated as making possible certain benefits which the Reserve Bank of India's Regulations or the Central Civil Services Pension Regulations provided for."

Similarly, Regulation 56 deals with a situation where a doubt arises in the matter of application of the pension scheme and mandates to clear that doubt by referring to the "corresponding provisions of Central Civil Services Rules 1972 or Central Civil Services (Commutation of Pension) Rules, 1981 applicable for Central Government employees with such exceptions and modifications as the

Bank, with the previous sanction of the Central Government, may from time to time determine.".

No such doubt is shown to exist as could necessitate a reference to corresponding provisions of Central Civil Services Rules 1972 or Central Civil Services (Commutation of Pension) Rules, 1981 applicable for Central Government employees. Thus Regulation 56 cannot be treated to confer certain benefits upon the appellants, which the Reserve Bank of India's Regulations or the Central Civil Services Pension Regulations provided for.

Under DBP plan, Pension and Pension updation are the integral parts of the Pension scheme. For example – Central Civil pensioners have been receiving the revised pensions as and when the new pay scales are implemented for the existing employees

Central Government updated Pension with effect from 1.1.1996 and revised twice with effect from 1.1.2006. **There was no updation or revision before**. This was introduced on account of the Judgment of Hon'ble Supreme Court in Nakara's case.

Nevertheless, Pension Fund may act as a cushion to the banks for making pension payments and thus it may be treated as Supplementary source only but not as a Substitute for pension payments to bank retirees. In this context an attempt is made to study the status and efficacy of pension funds of Government Banks (SBI & PSBs) with special reference to accounting prudence of Actuaries Loss or Gain as per Banking Companies Act.

Extracted from **Mysore Bank Shathayu** – December 2018 issue :

Now, the question is whether monies in Pension Fund belongs to whom. Is it that of Pensioners or employees or that of Banks ? Is it possible that Pension Funds have surplus ? Pension Fund belongs to the Bank and does not belong to either employees or pensioners. For that matter, it is not even that of the Bank, but owned by an irrevocable Trust. Even if, the Funds have surplus, there can be no claim of Pensioners/Employees on this Fund. In case of deficit, Banks cannot shrink their responsibility to pay pension. Pension Fund is a Sinking Fund for meeting statutory obligation of payment of periodical pension to existing pensioners and to employees on their retirement. Monies to meet future liabilities of payment of Pension are computed, earmarked and kept aside in Pension Fund. Pension payable is accrued from the day the employee or his/her spouse is entitled to receive pension. While computing liability during first ten years of service is nil as far as pension is concerned. But, possible liabilities for payment of family pension arises moment employees join the Bank (those who joined before 1.5.2010) and liabilities towards payment of pension, in respect of voluntary retirement commences after 20 years of service and in respect of all other modes of exist minimum service required is ten years, for entitlement of pension.

Pension Funds in Banks are separate entities which are created to ensure that funds position is independent of financial position of Banks. This system is in place to ensure payment of pension and meet statutory obligations, even in the event of liquidation of employer-companies, including Banks. It is also to prevent creditors from laying their hands on the Pension Funds, in such situations. Such Pension Funds are owned by irrevocable Trust, whether it is registered or not. These statutory provisions are not limited to Bank Pension Funds, but they cover every Superannuation Fund. As these Trusts which manage Pension Funds are independent entities and monies can be taken out of these Funds only to meet obligations as per Pension Regulations. This system is in the interest of stakeholders. Pension Fund's stakeholders, include present employees who have joined Banks before 1.5.2010. Further, if income of the Fund is more than the quantum of pension paid, it does not mean that there is surplus. Contribution to the Pension Fund would be over and above pension paid to Pensioners, as this income should be enough to meet liability of the Bank also towards existing Employees who are covered under Pension Regulations, 1995. The balance in Pension Fund, should be enough to pay every employee who is a Pension Optee, if the Bank is liquidated or every employee is retrenched or retired compulsorily or voluntarily, today. This also mean pension fund also includes liability to over 3 lakh employees who are pension optees in Banks, in addition to present Pensioners. Commutation should also be paid to these employees, immediately upon their retirement. Fund should be enough to honour every commitment to pensioners and present employees till the last pensioner/family pensioner dies. Pension liability excluding payment of Commutation amount per pensioner who is going to retire during next few years is more than twice that of liability in respect of 7th/8th/9th Bipartite Settlement period.

The steep fall of Actuarial loss estimations from Rs.16667 crore to Rs.10707 crore in one year (2017 & 2018) is giving scope to doubt the credibility of the Actuarial reports.

Actuarial gains or losses refer to the differences between an employer's actual pension payments relative to the expected payments. When the employer's payments are higher than expected, it is referred to as an actuarial loss. Contrary to statement made, steep fall in Actuarial loss means estimates by Actuaries are becoming closer to actual pay out. Which means lower the actuarial gain or loss, Actuarial valuations are tending towards the actual amounts. This is a positive development.

Diversion of Funds: There were reports that Punjab National Bank wrote back around Rs.2026 crore from Pension and Gratuity funds to show pseudo profit for the year ended March 2017 (Live Mint dated 17th May 2017) and Oriental Bank of Commerce diverted Rs.825 crore and Rs.2620 crore from Pension fund during the years 2017 and 2018 respectively (Malayalam daily Mathrubhumi report dated 29th December 2019). This is giving scope to doubt that similar incidents might have taken place in other banks also which need to be looked in to on priority to avert further dent to the existing pension funds. In order to protect the fund from unauthorised uses, the regulators should ensure that no debits be allowed to Pension Fund except Pension Payments

This accusation is wrong and neither of the Banks have transferred any money from Pension Fund. The Fair Value of Pension Fund has increased to Rs.24,660.65 Crores from Rs. 20,841.72 Crores. Actuarial gain is Rs.130 Crores. The Present Value of Asset increased from Rs.22,859.81 Crores to Rs.24,660.65 Crores on account of revaluation of asset which is due to taking into account accrued interest which was not reckoned during previous years. The Bank was expected to make provision of Rs.2,000/- for the year and consequently the Bank had provided for in Payments to and Provisions for Employees- Employee Cost Account. On account of revaluation of assets, there was no necessity to make provision and therefore, the Bank reversed the liability to the extent of Rs.2,026.60 Crores. All these information is available in Annual Report of the Bank can be downloaded from the Website. In fact, the Government has also clarified this position on the Floor of the Parliament. Still, we accuse diversion of Funds, without going through the information what is available in the Public Domain instead of unverified information published in newspapers.

Extracted from Page 160 of the Annual Report of Punjab National Bank for the year 2016-17 :

वार्षिक रिपोर्ट ANNUAL REPORT 2016-17

TABLE IX -Amount for the current Period

PENSION		
	31.03.2017	31.03.2016
Present value of Obligation	22859.81	20179.68
FAIR value of Plan Assets	24660.65	20841.72
Surplus / (Deficit) before unrecognised past service cost	1800.84	662.04
Experience Adjustments in Plan Liabilities -(loss) / Gain	313.46	(1476.60)
Experience Adjustments in Plan Assets (loss) / gain	1906.32	(53.78)
GRATUITY		
	31.03.2017	31.03.2016
Present value of Obligation	2930.07	2615.94
FAIR value of Plan Assets	3155.83	2666.75
Surplus / (Deficit) before unrecognised past service cost	225.76	50.81

In accordance with AS-15 issued by ICAI, during the year while considering the fair value of plan assets relating to pension and gratuity fund being long term benefits of employees, interest accrued on investments has also been taken into account as against principal amount in earlier years. Consequent to this, employer contribution to pension and gratuity funds representing excess of fair value of plan assets over present value of obligation amounting to Rs.2026.60 crores has been credited to "Payments to and Provisions for Employees- Employee Cost " during the year. Figures of previous year are not comparable to that extent.

Prepared by : Prasad C N

तालिका XII. अन्य दीर्घावधि कर्मचारी लाभ (गैर निधिक)

विवरण	आकस्मिक छुट्टी और बीमारी की छुट्टी (गैर निधिक)		एलएफसी (गैर निधिक)		सिलवर जुबली बोनस (गैर निधिक)	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016	31.03.2017	31.03.2016
दायित्व का वर्तमान मूल्य	64.65	60.86	138.55	108.32	12.83	12.05
संक्रमणशील देयता का प्रारम्भिक शेष	0	0	0	0	0	0
वर्ष के दौरान मान्य संक्रमणशील देयता	0	0	0	0	0	0
संक्रमणशील देयता का इतिशेष	0	0	0	0	0	0
तुलनपत्र में मान्य देयता	64.65	60.86	138.55	108.32	12.83	12.05

विवरण	धारणा का आधार
बट्टा दर	संशोधित लेखा मानक संख्या 15 के पैरा 78 के अनुसार दायित्वों की अनुमानित शर्तों के अनुरुप सरकारी बंध पत्रों पर तुलन पत्र की तिथि को बाज़ार प्राप्तियों के अनुसार बट्टा दर निर्धारित की गयी हैं
योजना आस्तियों पर प्रतिफल की संभावित दर	योजना आस्तियों पर संभावित प्रतिफल दर संबंधित दायित्व की पूरी आयु के रिटर्नों के लिए अवधि के आरम्भ में बाज़ार संभावनाओं पर आधारित हैं
वेतनवृद्धि दर	संशोधित लेखा मानक संख्या एएस15 के पैरा 83-91 के अनुसार भावी वेतनवृद्धि के अनुमानों के लिए कर्मचारी बाज़ार में आपूर्ति एवं माँग जैसे संबद्ध घटकों, महंगाई, वरिष्ठता, पदोन्नति आदि पर बीमांकिक मूल्यांकन पर विचार किया गया हैं
ह्रास दर	ह्रास दर का निर्धारण पिछले और संभावित भावी अनुभवों संदर्भ द्वारा किया गया है और उसमें मृत्यु को छोड़कर किंतु अशक्तता के कारण हुई अन्य सभी प्रकार की निकासियाँ सम्मिलित हैं

बी. परिभाषित अंशदान योजना :

बैंक ने अंशदान योजना परिभाषित की है जोकि 1.04.2010 को या उसके बाद ज्वाईन करने वाले सभी श्रेणियों के कर्मचारियों पर लागू होता है। यह योजना पेंशन फंड रेगुलेटरी व विकास प्राधिकरण के संरक्षण के अंतर्गत एनपीएस ट्रस्ट द्वारा प्रबंधित। एनपीएस के लिए राष्ट्रीय सिक्योरिटी डिपॉजिटरी लि. को केन्द्रीय रिकार्ड कीपिंग एजेंसी नियुक्त किया गया है। बैंक ने वित्तीय वर्ष 2016-17 के दौरान रू. 113.16 करोड़ का योगदान दिया है (पिछले वर्ष यह 87.17 करोड़ था)।

सी. योजना आस्तियों के उचित मूल्य में परिवर्तन :

आईसीएआई द्वारा जारी एएस-15 के अनुरूप बैंक ने वर्ष के दौरान पेंशन व उपदान फंड से सम्बन्धित योजना आस्तियों के उचित मूल्य पर विचार करते समय कर्मचारियों के दीर्घावधि लागू व निवेशों से प्राप्त ब्याज को भी पिछले वर्षों की मूल राशि के विरूद्ध खाते में लिया जाता है। इसके परिणामस्वरूप नियोक्ता के पेंशन में उपदान फंड में योगदान दायित्व के वर्तमान मूल्य के ऊपर योजना आस्तियों के उचित मूल्य का अधिक दर्शाता है, वर्ष के दौरान 'पेमेंट टू एण्ड प्रोविजन फॉर इम्पलॉई-इम्पलॉई कॉस्ट' में रुपये 2026.60 करोड़ राशि जमा कर दी गई है। पिछले वर्ष के आंकड़े इस हद तक तुलनीय नहीं है।

TABLE XII- Other Long Term employee benefits (Unfunded)

Particulars	Sick Leave & Casual leave (Unfunded)		Leave Fare concession (unfunded)		Silver Jubiliee Bonus (unfunded)	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016	31.03.2017	31.03.2016
Present Value of Obligation	64.65	60.86	138.55	108.32	12.83	12.05
Opening Balance of Transitional Liability	0	0	0	0	0	0
Transitional Liability recogized in the year	0	0	0	0	0	0
Closing Balance Of Transitional Liability	0	0	0	0	0	0
Liabity Recognized in balance Sheet	64.65	60.86	138.55	108.32	12.83	12.05

Particulars	Basis of assumption
Discount rate	Discount rate has been determined by reference to market yields on the balance sheet date on Government Bonds of term consistent with estimated term of the obligations as per para 78 of AS15R.
Expected rate of return on plan assets	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.
Rate of escalation in salary	The estimates of future salary increases considered in actuarial valuations taking into account inflation, seniority, promotion and other relevant factors mentioned in paras 83-91 of AS15R.
Attrition rate	Attrition rate has been determined by reference to past and expected future experience and includes all types of withdrawals other than death but including those due to disability.

B. Defined Contribution Plans

The Bank has Defined Contribution Plan applicable to all categories of employees joining the Bank on or after 01.04.2010. The scheme is managed by NPS trust under the aegis of the pension Fund Regulatory and Development Authority. National Securities Depository Limited has been appointed as the Central Record Keeping Agency for the NPS. During the FY 2016-17, the Bank has contributed Rs 113.16 crores (Previous year Rs 87.17 cr)

C. Changes in Fair Valuation of Plan Assets

In accordance with AS-15 issued by ICAI, during the year while considering the fair value of plan assets relating to pension and gratuity fund being long term benefits of employees, interest accrued on investments has also been taken into account as against principal amount in earlier years. Consequent to this, employer contribution to pension and gratuity funds representing excess of fair value of plan assets over present value of obligation amounting to Rs.2026.60 crores has been credited to "Payments to and Provisions for Employees- Employee Cost " during the year. Figures of previous year are not comparable to that extent.

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ANNUAL REPORT 2020 – 2021

b) **Accounting Standard – 15 "Employee Benefits"**

i. **Defined Benefit Plans**

1. **Employee's Pension Plan and Gratuity Plan**

The following table sets out the status of the Defined Benefit Pension Plan and Gratuity Plan as per the actuarial valuation by the independent Actuary appointed by the Bank:-

(₹ in crore)

Particulars	Pension Plans		Gratuity Plan	
	Current Year	Previous Year	Current Year	Previous Year
Change in the present value of the defined benefit obligation				
Opening defined benefit obligation at 1st April, 2020	1,09,830.37	95,362.15	12,852.56	12,189.05
Current Service Cost	970.09	953.34	440.06	447.17
Interest Cost	7,501.41	7,428.71	879.12	947.09
Past Service Cost (Vested Benefit)	-	-	-	-
Actuarial losses (gains)	15,822.32	13,619.61	1,185.34	1,224.38
Benefits paid	(3,475.67)	(3,914.34)	(1,909.91)	(1,955.13)
Direct Payment by Bank	(4,842.15)	(3,619.10)	-	-
Closing defined benefit obligation at 31st March, 2021	1,25,806.37	1,09,830.37	13,447.17	12,852.56
Change in Plan Assets				
Opening fair value of Plan Assets as at 1st April, 2020	97,458.52	90,399.61	10,570.95	10,326.00
Expected Return on Plan Assets	6,656.42	7,015.01	723.05	803.36
Contributions by employer	2,100.68	2,407.68	1,234.77	1,146.88
Expected Contributions by the employees	-	0.28	-	-
Benefits Paid	(3,475.67)	(3,914.34)	(1,909.91)	(1,955.13)
Actuarial Gains / (Loss) on plan Assets	3,705.91	1,550.28	331.37	249.84
Closing fair value of plan assets as at 31st March, 2021	1,06,445.86	97,458.52	10,950.23	10,570.95
Reconciliation of present value of the obligation and fair value of the plan assets				
Present Value of Funded obligation at 31st March, 2021	1,25,806.37	1,09,830.37	13,447.17	12,852.56
Fair Value of Plan assets at 31st March, 2021	1,06,445.86	97,458.52	10,950.23	10,570.95
Deficit/(Surplus)	19,360.51	12,371.85	2,496.94	2,281.61
Unrecognised Past Service Cost (Vested) Closing Balance	-	-	-	-
Unrecognised Transitional Liability Closing Balance	-	-	-	-
Net Liability/(Asset)	19,360.51	12,371.85	2,496.94	2,281.61
Amount Recognised in the Balance Sheet				

Particulars	Pension Plans		Gratuity Plan	
	Current Year	Previous Year	Current Year	Previous Year
Liabilities	1,25,806.37	1,09,830.37	13,447.17	12,852.56
Assets	1,06,445.86	97,458.52	10,950.23	10,570.95
Net Liability / (Asset) recognised in Balance Sheet	19,360.51	12,371.85	2,496.94	2,281.61
Unrecognised Past Service Cost (Vested) Closing Balance	-	-	-	-
Unrecognised Transitional Liability Closing Balance	-	-	-	-
Net Liability/(Asset)	19,360.51	12,371.85	2,496.94	2,281.61
Net Cost recognised in the profit and loss account				
Current Service Cost	970.09	953.34	440.06	447.17
Interest Cost	7,501.41	7,428.71	879.12	947.09
Expected return on plan assets	(6,656.42)	(7,015.01)	(723.05)	(803.36)
Expected Contributions by the employees	-	(0.28)	-	-
Past Service Cost (Amortised) Recognised	-	-	-	-
Past Service Cost (Vested Benefit) Recognised	-	-	-	-
Net actuarial losses (Gain) recognised during the year	12,116.41	12,069.33	853.97	974.54
Total costs of defined benefit plans included in Schedule 16 “Payments to and provisions for employees”	13,931.49	13,436.09	1,450.10	1,565.44
Reconciliation of expected return and actual return on Plan Assets				
Expected Return on Plan Assets	6,656.42	7,015.01	723.05	803.36
Actuarial Gain/ (loss) on Plan Assets	3,705.91	1,550.28	331.37	249.84
Actual Return on Plan Assets	10,362.33	8,565.29	1,054.42	1,053.20
Reconciliation of opening and closing net liability/ (asset) recognised in Balance Sheet				
Opening Net Liability/ (Asset) as at 1st April, 2020	12,371.85	4,962.54	2,281.61	1,863.05
Expenses as recognised in profit and loss account	13,931.49	13,436.09	1,450.10	1,565.44
Paid by Bank Directly	(4,842.15)	(3,619.10)	-	-
Debited to Other Provision	-	-	-	-
Recognised in Reserve	-	-	-	-
Employer’s Contribution	(2,100.68)	(2,407.68)	(1,234.77)	(1,146.88)
Net liability/(Asset) recognised in Balance Sheet	19,360.51	12,371.85	2,496.94	2,281.61

Investments under Plan Assets of Pension Fund & Gratuity Fund as on 31st March, 2021 are as follows:

Category of Assets	Pension Fund	Gratuity Fund
	% of Plan Assets	% of Plan Assets
Central Govt. Securities	21.21%	18.45%
State Govt. Securities	38.68%	40.32%
Debt Securities, Money Market Securities and Bank Deposits	30.01%	30.01%
Mutual Funds	6.43%	6.90%
Insurer Managed Funds	1.85%	2.57%
Others	1.82%	1.75%
Total	**100.00%**	**100.00%**

Principal actuarial assumptions

Particulars	Pension Plans	
	Current year	Previous year
Discount Rate	6.90%	6.83%
Expected Rate of return on Plan Asset	6.90%	6.83%
Salary Escalation Rate	5.60%	5.40%
Pension Escalation Rate	1.20%	0.80%
Attrition Rate	2.00%	2.00%
Mortality Table	IALM (2006-08) ULTIMATE	IALM (2006-08) ULTIMATE

Principal actuarial assumptions

Particulars	Gratuity Plans	
	Current year	Previous year
Discount Rate	6.82%	6.84%
Expected Rate of return on Plan Asset	6.82%	6.84%
Salary Escalation Rate	5.60%	5.40%
Attrition Rate	2.00%	2.00%
Mortality Table	IALM (2006-08) ULTIMATE	IALM (2006-08) ULTIMATE

Surplus/ Deficit in the Plan

Gratuity Plan

(₹ in crore)

Amount recognized in the Balance Sheet	Year ended 31-03-2017	Year ended 31-03-2018	Year ended 31-03-2019	Year ended 31-03-2020	Year ended 31-03-2021
Liability at the end of the year	7,291.02	12,872.60	12,189.05	12,852.56	13,447.17
Fair value of Plan Assets at the end of the year	7,281.18	9,140.76	10,326.00	10,570.95	10,950.23
Difference	9.84	3,731.84	1,863.05	2,281.61	2,496.94
Unrecognised Past Service Cost	-	2,707.50	-	-	-
Unrecognised Transition Liability	-	-	-	-	-
Amount Recognized in the Balance Sheet	9.84	1,024.34	1,863.05	2,281.61	2,496.94

Experience adjustment

(₹ in crore)

Amount recognized in the Balance Sheet	Year ended 31-03-2017	Year ended 31-03-2018	Year ended 31-03-2019	Year ended 31-03-2020	Year ended 31-03-2021
On Plan Liability (Gain) /Loss	10.62	399.62	(212.11)	382.17	1,053.04
On Plan Asset (Loss) /Gain	182.34	(25.96)	102.16	249.84	331.37

Surplus/Deficit in the plan

Pension

(₹ in crore)

Amount recognized in the Balance Sheet	Year ended 31-03-2017	Year ended 31-03-2018	Year ended 31-03-2019	Year ended 31-03-2020	Year ended 31-03-2021
Liability at the end of the year	67,824.90	87,786.56	95,362.15	1,09,830.37	1,25,806.37
Fair value of Plan Assets at the end of the year	64,560.42	85,249.60	90,399.61	97,458.52	1,06,445.86
Difference	3,264.48	2,536.96	4,962.54	12,371.85	19,360.51
Unrecognised Past Service Cost	-	-	-	-	-
Unrecognised Transition Liability	-	-	-	-	-
Amount Recognized in the Balance Sheet	3,264.48	2,536.96	4,962.54	12,371.85	19,360.51

Experience adjustment	Year ended 31-03-2017	Year ended 31-03-2018	Year ended 31-03-2019	Year ended 31-03-2020	Year ended 31-03-2021
On Plan Liability (Gain) /Loss	3,007.59	4,439.54	3,642.57	4,078.53	12,528.38
On Plan Asset (Loss) /Gain	2,246.60	(135.07)	109.65	1,550.28	3,705.91

The expected contribution to the Pension and Gratuity Fund for the next year is ₹ 3,190.72 crore and ₹ 1,610.61 crore respectively.

As the plan assets are marked to market on the basis of the yield curve derived from government securities, the expected rate of return has been kept the same as the discount rate.

The estimates of future salary growth, factored in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market. Such estimates are very long term and are not based on limited past experience / immediate future. Empirical evidence also suggests that in very long term, consistent high salary growth rates are not possible. The said estimates and assumptions have been relied upon by the auditors.

With a view to further strengthen the Pension Fund, it was decided to upwardly revise some of the assumptions.

2. **Employees' Provident Fund**

Actuarial valuation carried out in respect of interest shortfall in the Provident Fund Trust of the Bank, as per Deterministic Approach shows "Nil" liability, hence no provision is made in F.Y. 2020-21.

The following table sets out the status of Provident Fund as per the actuarial valuation by the independent Actuary appointed by the Bank:-

(₹ in crore)

Particulars	Provident Fund	
	Current Year	Previous Year
Change in the present value of the defined benefit obligation		
Opening defined benefit obligation at 1st April, 2020	31,188.49	30,487.93
Current Service Cost	3,289.62	1,017.99
Interest Cost	2,563.49	2,455.49
Employee Contribution (including VPF)	2,562.41	1,104.84
Actuarial losses/(gains)	63.43	208.49

14th position

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA

STARRED QUESTION NO. *354

TO BE ANSWERED ON 4TH JANUARY, 2019/PAUSHA 14, 1940 (SAKA)

Employees Pension and Gratuity Funds

Question

*354: DR KIRIT SOMAIYA:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government is aware of the misappropriation of Employees Pension Fund Trust and Gratuity Fund by the Punjab National Bank in the year 2016- 17 and if so, the details thereof;

(b) whether the Government has taken this issue seriously and issued direction for immediate audit to verify the quantum of misappropriation of money and if so, the details thereof; and

(c) whether any other action has been taken by the Government in this regard, if so, the details thereof and if not, the reasons therefor?

ANSWER

The Finance Minister
(Shri Arun Jaitley)

(a) to (c): A Statement is laid on the Table of the House.

LOK SABHA STARRED QUESTION NO. *354 FOR ANSWER ON THE 4TH JANUARY, 2019 REGARDING 'EMPLOYEES PENSION AND GRATUITY FUNDS TABLED BY DR KIRIT SOMAIYA, MEMBER OF PARLIAMENT

(a) to (c): A reference was received from the Hon'ble Member regarding misappropriation of Employees Pension Fund Trust and Gratuity Fund in Punjab National Bank (PNB). The same was referred to PNB for placing the matter before the bank's Audit Committee of the Board for necessary action. PNB has informed that there is no misappropriation of funds, and that the pension fund and gratuity fund trusts are separate entities and the bank is not authorised to operate the trusts' accounts or transfer any amount from the trust. It has further informed that adequate funds for pension and gratuity are maintained as per actuarial valuation report without any exception, that the same are in strict compliance of Accounting Standards AS-15, and that these funds are duly audited by the bank's Statutory Central Auditors every year. PNB has also apprised that no amount was taken back or withdrawn from the trusts' accounts. With regard to placement of the matter before the bank's Audit Committee of the Board (ACB), the bank has further apprised that the bank's annual financial accounts for the financial year 2016-17 are audited by the bank's Statutory Central Auditors and have already been approved by the ACB and the Board. The bank has reported that it has initiated steps to further lay the reference received as well before ACB.

***

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DBR.BP.BC.No.29/21.07.001/2018-19 **March 22, 2019**

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Madam / Dear Sir,

Deferral of Implementation of Indian Accounting Standards (Ind AS)

Please refer to paragraph 3 of the Statement on Developmental and Regulatory Policies issued with the First Bi-monthly Monetary Policy 2018-19 on April 5, 2018, wherein the implementation of Ind AS was deferred by one year pending necessary legislative amendments to the Banking Regulation Act, 1949 as also the level of preparedness of many banks.

2. The legislative amendments recommended by the Reserve Bank are under consideration of the Government of India. Accordingly, it has been decided to defer the implementation of Ind AS till further notice.

Yours faithfully,

(Saurav Sinha)
Chief General Manager-in-Charge

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Accounting Standard (AS) 15

Employee Benefits

Contents

OBJECTIVE	
SCOPE	**Paragraphs 1 – 6**
DEFINITIONS	**7**
SHORT-TERM EMPLOYEE BENEFITS	**8 – 23**
Recognition and Measurement	10 – 22
All Short-term Employee Benefits	10
Short-term Compensated Absences	11 – 16
Profit-sharing and Bonus Plans	17 – 22
Disclosure	23
POST-EMPLOYMENT BENEFITS: DEFINED CONTRIBUTION PLANS AND DEFINED BENEFIT PLANS	**24 – 43**
Multi-employer Plans	29 – 36
State Plans	37 – 39
Insured Benefits	40 – 43
POST-EMPLOYMENT BENEFITS: DEFINED CONTRIBUTION PLANS	**44 – 48**
Recognition and Measurement	45 – 46
Disclosure	47 – 48

Continued../..

POST-EMPLOYMENT BENEFITS: DEFINED BENEFIT PLANS **49 – 126**

Recognition and Measurement 50 – 63

Accounting for the Obligation under a Defined Benefit Plan 53 – 54

Balance Sheet 55 – 60

Statement of Profit and Loss 61 – 62

Illustrative Example 63

Recognition and Measurement: Present Value of Defined Benefit Obligations and Current Service Cost 64 – 99

Actuarial Valuation Method 65 – 67

Attributing Benefit to Periods of Service 68 – 72

Actuarial Assumptions 73 – 77

Actuarial Assumptions: Discount Rate 78 – 82

Actuarial Assumptions: Salaries, Benefits and Medical Costs 83 – 91

Actuarial Gains and Losses 92 – 93

Past Service Cost 94 – 99

Recognition and Measurement: Plan Assets 100 – 109

Fair Value of Plan Assets 100 – 102

Reimbursements 103 – 106

Return on Plan Assets 107 – 109

Curtailments and Settlements 110 – 116

Presentation 117 – 118

Offset 117

Financial Components of Post-employment Benefit Costs 118

Continued../..

Disclosure	119 – 126
Illustrative Disclosures	126
OTHER LONG-TERM EMPLOYEE BENEFITS	**127 – 132**
Recognition and Measurement	129 – 131
Disclosure	132
TERMINATION BENEFITS	**133 – 142**
Recognition	134 – 138
Measurement	139
Disclosure	140 – 142
TRANSITIONAL PROVISIONS	**143 – 146**
Employee Benefits other than Defined Benefit Plans and Termination Benefits	143
Defined Benefit Plans	144-145
Termination Benefits	146
ILLUSTRATIONS	
Illustration I	
Illustrative Disclosures	

Accounting Standard (AS) 15

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 General Instructions contained in part A of the Annexure to the Notification.*)

Objective

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard 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 Standard should be applied by an employer in accounting for all employee benefits, except employee share-based payments[1].

2. This Standard does not deal with accounting and reporting by employee benefit plans.

3. The employee benefits to which this Standard applies include those provided:

[1] 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.

(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. 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 Standard 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 Standard, employees include whole-time directors and other management personnel.

Definitions

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

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

7.2 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.

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

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

7.5 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.

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

7.7 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.***

7.8 ***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.***

7.9 ***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).***

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

7.11 ***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.***

7.11 ***Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.***

7.12 ***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.***

7.13 ***Plan assets comprise:***

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

(b) ***qualifying insurance policies.***

7.14 <u>Assets held by a long-term employee benefit fund</u> 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.

7.15 <u>A qualifying insurance policy</u> 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.

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

7.17** **The <u>return on plan assets</u> 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.

7.18** **<u>Actuarial gains and losses</u> 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.

7.19** **<u>Past service cost</u> 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 straight-forward 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.

Provided that a Small and Medium-sized Company, as defined in the Notification, may not comply with 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).

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 127-132).

Disclosure

23. Although this Standard 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 Standard 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

(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 obligation, 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 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 Standard; 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 information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating enterprises to actuarial risks associated with the current and former employees of other enterprises. The definitions in this Standard 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

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

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.

Provided that a Small and Medium-sized Company, as defined in the Notification, may not discount contributions that fall due more than 12 months after the balance sheet date.

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 Standard 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

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 120(f)(ii)).

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.

Illustration

63. Illustration I attached to the standard illustrates 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 benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

Examples Illustrating Paragraph 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 currency 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. [*Illustration 1* attached to the Standard 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 120(f)(iii) 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%	*1,025*
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*

Provided that a Small and Medium-sized Company, as defined in the Notification, may not apply the recognition and measurement principles laid down in paragraphs 50 to 116 in respect of accounting for defined benefit plans. However, such a company 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.***

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 Standard 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.

Provided that a Small and Medium-sized Company, as defined in the Notification, may not apply the presentation requirements laid down in paragraphs 117 to 118 of the Standard in respect of accounting for defined benefit plans.

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.

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.

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

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

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

(iv) the other amounts recognised in the balance sheet.

(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 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 paragraph 55 (if negative) exceeds the amount determined in accordance with 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.

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

(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 paragraph 103;

(iv) medical cost trend rates; and

(v) 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.

121. Paragraph 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.

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.

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

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.

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

126. Illustration II attached to the Standard contains illustrative disclosures.

Provided that a Small and Medium-sized Company, as defined in the Notification, may not apply the disclosure requirements laid down in paragraphs 119 to 123 of the Standard in respect of accounting for defined benefit plans. However, such a company should disclose actuarial assumptions as per paragraph 120(l) of the Standard.

Other Long-term Employee Benefits

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.

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 Standard 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

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.

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).***

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

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.

Provided that a Small and Medium-sized Company, as defined in the Notification, may not apply the 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 a company 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.***
>
> ***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.***

Disclosure

132. Although this Standard 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

133. This Standard deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

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.

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.

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.

137. Termination benefits are recognised as an expense immediately.

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

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.

Provided that a Small and Medium-sized Company, as defined in the Notification, may not discount amounts that fall due more than 12 months after the balance sheet date.

Disclosure

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.

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.

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

143. Where an enterprise first adopts this Standard for employee benefits, the difference (as adjusted by any related tax expense) between the liability in respect of employee benefits other than defined benefit plans and termination benefits, as per this Standard, existing on the date of adopting this Standard and the liability that would have been recognised at the same date, as per the pre-revised AS 15 issued by the ICAI in 1995, should be adjusted against opening balance of revenue reserves and surplus.

Defined Benefit Plans

144. On first adopting this Standard, 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.

145. The difference (as adjusted by any related 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 issued by the ICAI in 1995, should be adjusted immediately, against opening balance of revenue reserves and surplus.

Example Illustrating Paragraphs 144 and 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 issued by the ICAI in 1995. The enterprise adopts the Standard as of 1 April 20X6, when the present value of the obligation under the Standard 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

146. This Standard 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, the enterprise may choose to follow the accounting policy of deferring such expenditure for amortisation over its pay-back period. However, the expenditure so deferred cannot be carried forward to accounting periods commencing on

Illustration I

Illustration

This illustration is illustrative only and does not form part of the Standard. The purpose of this illustration is to illustrate the application of the Standard 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 Standard).

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 Standard	(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 in accordance with paragraph 120 (f), (g) and (j) of the Standard (the analyses required to be disclosed in accordance with paragraph 120(c) and (e) are given in the section of this Illustration '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**
Actual return on plan assets:			
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.

Illustration II

Illustrative Disclosures

This illustration is illustrative only and does not form part of the Standard. The purpose of this illustration is to illustrate the application of the Standard 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 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 Standard 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	400
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.