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Exposure Draft ED/2013/4

Defined Benefit Plans: Employee Contributions

Proposed amendments to IAS 19

Comments to be received by 25 July 2013

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(Proposed amendments to IAS 19)

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Introduction

The International Accounting Standards Board (IASB) has published this Exposure Draft to set out the proposed amendments to IAS 19 *Employee Benefits*. This Exposure Draft addresses the accounting for contributions from employees or third parties when the requirement for such contributions is set out in the formal terms of a defined benefit plan. It proposes that such contributions may be recognised as a reduction in the service cost in the same period in which they are payable if, and only if, they are linked solely to the employee's service rendered in that period. An example would be contributions that are a fixed percentage of an employee's salary, so the percentage of the employee's salary does not depend on the employee's number of years of service to the employer.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph or group of paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative that the IASB should consider, if applicable.

The IASB is not requesting comments on matters in IAS 19 that are not addressed in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than **25 July 2013**.

Questions for respondents

Question 1—Reduction in service cost

The IASB proposes to amend IAS 19 to specify that contributions from employees or third parties set out in the formal terms of a defined benefit plan may be recognised as a reduction in the service cost in the same period in which they are payable if, and only if, they are linked solely to the employee's service rendered in that period. An example would be contributions that are a fixed percentage of an employee's salary, so the percentage of the employee's salary does not depend on the employee's number of years of service to the employer. Do you agree? Why or why not?

Question 2—Attribution of negative benefit

The IASB also proposes to address an inconsistency in the requirements that relate to how contributions from employees or third parties should be attributed when they are not recognised as a reduction in the service cost in the same period in which they are payable. The IASB proposes to specify that the negative benefit from such contributions is attributed to periods of service in the same way that the gross benefit is attributed in accordance with paragraph 70. Do you agree? Why or why not?

Question 3—Other comments

Do you have any other comments on the proposals?

[Draft] Amendments to IAS 19 *Employee Benefits*

Paragraph 93 is amended and paragraph 175 is added. New text is underlined and deleted text is struck through. Paragraph 92 is included for reference only and is not proposed for amendment.

Actuarial assumptions: salaries, benefits and medical costs

...

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

93 Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or reduce remeasurements of the net defined benefit liability (asset) (eg if the contributions are required to reduce a deficit arising from losses on plan assets or actuarial losses). Contributions from employees or third parties that are linked to service ~~in respect of service~~ are attributed to periods of service as a negative benefit in the same way that the gross benefit is attributed ~~in accordance with paragraph 70 (ie the net benefit is attributed in accordance with that paragraph)~~. However, if, and only if, contributions from employees or third parties are linked solely to the employee's service rendered in the same period in which they are payable, the contributions may be recognised as a reduction in the service cost in that period. An example would be contributions that are a fixed percentage of the employee's salary, so the percentage of the employee's salary does not depend on the employee's number of years of service to the employer.

...

Transition and effective date

...

175 Defined Benefit Plans: Employee Contributions (Amendments to IAS 19), issued in [date to be inserted after exposure], amended paragraph 93. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure] retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

[Draft] Amendments to the Basis for Conclusions on IAS 19 *Employee Benefits*

The following footnote is added to paragraph BC150 (as marked in underline in the text):

¹ *Defined Benefit Plans: Employee Contributions*, issued in [date to be inserted after exposure], addressed an inconsistency in the requirements that relate to how contributions from employees or third parties should be attributed when they are not recognised as a reduction in the service cost in the same period in which they are payable. It specifies that the negative benefit from such contributions is attributed to periods of service in the same way that the gross benefit is attributed in accordance with paragraph 70. See paragraph BC5 of this Exposure Draft.

Other clarifications

BC150 The Board clarified the following points in the light of responses to the 2010 ED:

- (a) Contributions from employees in respect of service should be attributed to periods of service in accordance with paragraph 70 using the benefit formula, or on a straight-line basis (ie the back-end loading test and attribution in paragraph 70 should be based on the net benefit).¹ This reflects the Board's view that contributions from employees can be viewed as a negative benefit. In addition, the Board noted that a portion of future employee contributions may be connected with salary increases included in the defined benefit obligation. Applying the same method of attribution to that portion of the contribution and the salary increases avoids an inconsistency.
- (b) ...

Approval by the Board of *Defined Benefit Plans: Employee Contributions* (Proposed amendments to IAS 19) published in March 2013

The Exposure Draft *Defined Benefit Plans: Employee Contributions* was approved for publication by the fifteen members of the International Accounting Standards Board.

Hans Hoogervorst

Chairman

Ian Mackintosh

Vice-Chairman

Stephen Cooper

Philippe Danjou

Martin Edelmann

Jan Engström

Patrick Finnegan

Amaro Luiz de Oliveira Gomes

Prabhakar Kalavacherla

Patricia McConnell

Takatsugu Ochi

Darrel Scott

Mary Tokar

Chungwoo Suh

Wei-Guo Zhang

Basis for Conclusions on the Exposure Draft *Defined Benefit Plans: Employee Contributions* (Proposed amendments to IAS 19)

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Contributions from employees or third parties: amendments issued in 2013

- BC1 The IASB proposes to amend IAS 19 *Employee Benefits* to specify that contributions from employees or third parties set out in the formal terms of a defined benefit plan may be recognised as a reduction in the service cost in the same period in which they are payable if, and only if, they are linked solely to the employee's service rendered in that period.
- BC2 The issue originated from a submission to the IFRS Interpretations Committee (the Interpretations Committee), which recommended that the IASB amend IAS 19. The Interpretations Committee discussed, by considering some examples, whether certain types of employee contributions to a defined benefit plan reduce short-term employee benefits cost instead of reducing post-employment benefits cost. The Interpretations Committee observed that the wording in paragraph 93 of IAS 19 seemed to suggest that all employee contributions in respect of service should be attributed to periods of service as a negative benefit. However, employee contributions that are linked solely to the employee's service rendered in the same period in which they are payable (for example, if the contributions are a fixed percentage of salary throughout the period of the employment) might also be considered to reduce the cost of short-term employee benefits.
- BC3 The IASB observed that contributions from employees or third parties to a defined benefit plan form part of the post-employment benefit rather than the short-term employee benefit. Consequently, the IASB is not proposing that the contributions be treated as a reduction in short-term employee benefits cost.
- BC4 The IASB noted that contributions from employees or third parties to a defined benefit plan should be attributed to periods of service as a negative benefit. This is because the measurement of the defined benefit obligation should consider (the present value of) those future contributions that relate to the employee's service before the reporting date. However, the IASB noted the general concern about the complexity of the required calculations and the potential confusion that these could introduce to practice.
- BC5 Consequently, the IASB decided to add a practical expedient to paragraph 93. The IASB proposes to amend paragraph 93 so that contributions from employees or third parties may be excluded from being attributed to periods of service as a negative benefit and recognised as a reduction in the service cost in that period if, and only if, they are linked solely to the employee's service rendered in the same period in which they are payable. An example of a situation that qualifies for the practical expedient would be contributions that are a fixed percentage of an employee's salary, so the percentage of the employee's salary does not depend on the employee's number of years of service to the employer. In this case, the

contributions are in proportion to the salary and thus it could be considered that they are linked solely to the employee's service rendered each year. On the other hand, if there is, for example, an increase in the percentage of the salary that an employee is required to contribute relative to the number of years of service, then higher contributions would be required in the latter years. These higher contributions could be considered to be linked not only to the service in the current year but also to the service in other years. In this second case, the contributions are not linked solely to the employee's service that is rendered in the same period in which the contributions are payable.

- BC6 The IASB considered whether it should require the disclosure of the amount by which the service cost is reduced when applying the proposed amendment, but decided that it should not do so. It noted that contributions from employees or third parties in the scope of paragraph 93 are contributions to a defined benefit plan and thus are subject to the disclosure requirements that are already set out in IAS 19. For example, paragraph 141(f) requires a disclosure of contributions to the plan in the reconciliation for the net defined benefit liability (asset), showing separately those by the employer and those by the plan participants.
- BC7 In the discussion of the proposed amendments above, the IASB observed that paragraph 93 first states that contributions from employees or third parties in respect of service are attributed to periods of service as a negative benefit in accordance with paragraph 70, and then states that the net benefit is attributed in accordance with paragraph 70. This has caused confusion because paragraph 93 is unclear as to whether the back-end loading test in paragraph 70 should be performed on the net benefit, or on the gross benefit and the negative benefit separately. The IASB observed that performing the test on the net benefit will result in added complexity. Depending on how the attribution test is applied, the outcome of the test may be influenced by changes in the assumptions from one year to another. Consequently, the IASB proposes to specify in paragraph 93 that the negative benefit from contributions from employees or third parties should be attributed to periods of service in the same way that the gross benefit is attributed in accordance with paragraph 70, when they are not recognised as a reduction in the service cost in the same period in which they are payable.

