IAS 19 ***Employee Benefits*** (July 2011)

Defined contribution plans with vesting conditions

The Interpretations Committee received a request seeking clarification on the effect that vesting conditions have on the accounting for defined contribution plans. The Committee was asked whether contributions to such plans should be recognised as an expense in the period for which they are paid or over the vesting period. In the examples given in the submission, the employee's failure to meet a vesting condition could result in the refund of contributions to, or reductions in future contributions by, the employer.

The Committee noted from the definition of a defined contribution plan in paragraph 7 of IAS 19 and the explanation in paragraph BC5 of IAS 19 that vesting conditions do not affect the classification of a plan as a defined contribution plan if the employer is not required to make additional contributions to cover shortfalls because of these vesting conditions. In addition, the Committee noted from the guidance in paragraph 43 of IAS 19 that accounting for defined contribution plans is based on accounting for the reporting entity's obligation to pay contributions to the separate entity that runs the plan, but not accounting for the obligation to the employees who benefit from the plan. As such, the Committee noted that accounting for defined contribution plans under IAS 19 focuses on the employer's obligation to make a contribution to the separate entity that runs the plan.

Consequently, paragraph 44 of IAS 19 requires, and paragraph IN5 of IAS 19 explains, that each contribution to a defined contribution plan is to be recognised as an expense or recognised as a liability (accrued expense) over the period of service that obliges the employer to pay this contribution to the defined contribution plan. This period of service is distinguished from the period of service that entitles an employee to receive the benefit from the defined contribution plan (ie the vesting period), although both periods may be coincident in some circumstances. Refunds are recognised as an asset and as income when the entity/employer becomes entitled to the refunds, eg when the employee fails to meet the vesting condition.

The Committee noted that there is no significant diversity in practice in respect of the effect that vesting conditions have on the accounting for defined contribution post-employment benefit plans, nor does it expect significant diversity in practice to emerge in the future. Consequently, the Committee decided not to add this issue to its agenda.