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**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: November 2007, London

Project: Review of tentative agenda decision published in September IFRIC Update: IAS 19 *Employee Benefits* – Treatment of employee contributions (Agenda Paper 6A, Addendum)

Staff comments on KPMG's comments on the tentative agenda decision published in September 2007 IFRIC Update

1. KPMG agrees with the commentary provided on the first issue i.e., how employee contributions should be accounted for in general.
2. However, KPMG is concerned that, regarding the second issue on defined benefit plan with cost-sharing arrangements, 'the wording in the second bullet may imply that the defined benefit obligation is reduced to reflect the employee's future contributions in respect of future services' (emphasis added).
3. The staff note that, in the last sentence of the first paragraph, the tentative agenda decision states that the second issue is 'how to account for a pension plan in which the cost of providing the benefits is shared between the employees and the employer' (emphasis added). Further, in the third paragraph, it quotes paragraph 85 of IAS 19: 'if the formal terms of a plan (or a constructive obligation that goes

beyond those terms) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes' (emphasis added).

4. The staff are of the view that the wording used in the third paragraph of the tentative agenda decision (second bullet included) is appropriate. Unlike employee contributions to specific costs incurred in specific periods, such as in health care plans, employee contributions to pension plans do not relate to specific services (past, present or future). And, except in rare circumstances, employer contributions to the plan are similarly fungible. Rather, the employees contribute to the overall cost of providing their pension benefits in the future, thereby reducing the cost to be borne by the employer. To the extent that the terms of the plan entitle an employer to require additional employee contributions, those contributions are not in connection with future services. Rather, the additional contributions alter or re-establish the proportions in which the cost of future benefits are shared between the employees and employer.
5. **Therefore, the staff do not recommend any change to the wording. Does the IFRIC agree with the staff recommendation?**