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Our ref MT/288

Contact Mary Tokar
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18 October 2007

Dear Bob

IAS 19 *Employee Benefits* – Treatment of employee contributions

We note from the September 2007 *IFRIC Update* that the IFRIC tentatively decided to remove from its agenda the issue of treatment of employee contributions.

We agree with the commentary provided on the first issue i.e., how employee contributions should be accounted for in general. However, with respect to the second issue regarding the defined benefit plan with cost-sharing arrangements, we are concerned that the wording in the second bullet may imply that the defined benefit obligation is reduced to reflect the employees' future contributions in respect of future services. This is in contrast to, for example, a contribution towards future medical expense (IAS 19.91) or a contribution towards a current deficit. It is our understanding that a reduction of the obligation may be appropriate if the employees are obligated to cover a share of a deficit but not in the case of schemes with employee contributions in respect only of current service. We believe that the last bullet should be amended to clarify how and to what schemes it applies (see attached proposed wording).

* * *

Please contact Mary Tokar at +44 (20) 7694 8288 or Thomas Schmid at +44 (20) 7694 8566 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited
cc. Andrew Vials

Appendix

IAS 19 *Employee Benefits*—Treatment of employee contributions

The IFRIC received a request to clarify the treatment of employee contributions in accordance with IAS 19. The first issue is how employee contributions should be accounted for in general. 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.

On the first issue, the IFRIC noted that paragraph 7 of IAS 19 defines current service cost and that paragraph 120A of IAS 19 implies that contributions by employees to the ongoing cost of the plan reduce the current service cost to the entity. The IFRIC also noted that in accordance with paragraph 91 of IAS 19, employee contributions payable when benefits are paid, such as contributions to a post-employment health care plan, are to be taken into account in determining the defined benefit obligation.

On the second issue, the IFRIC noted that paragraph 85 of IAS 19 states that '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'. Therefore, the IFRIC noted that:

- If the terms of a defined benefit plan include surplus-sharing provisions, the employer's obligation to use any surplus in the plan for the benefit of plan participants (eg adjusting participants' benefits or required contributions) should be taken into account when measuring the obligation;

- If the terms of a defined benefit plan include cost-sharing provisions, the employer's right to increase required employee contributions should be taken into account when measuring the obligation <u>only if the employees are obliged to contribute to the cost of benefits earned for past service (for example, to cover a share of a deficit or to contribute to medical costs) but not in the case of schemes with employee contributions in respect only of current service</u>.

For these reasons, and because the IFRIC did not expect divergence in practice, the IFRIC [decided] not to take this item on to the agenda.