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International Accounting Standards Board

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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)**

Tentative agenda decision published in September 2007 IFRIC Update

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.

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.