Project	**Agenda decision**
Topic	**IAS 19 *Employee Benefits*—Defined contribution plans with vesting conditions**

Introduction

1. The IFRS Interpretations Committee (the Committee) received a submission seeking clarification on the effect that vesting conditions have upon the accounting for defined contribution plans. Are contributions to such a plan recognised as an expense in the period for which they are paid, or are they recognised over the vesting period?

2. The Committee discussed the issue at its meeting in May 2011 and made a tentative decision not to take the issue onto its agenda.

3. Our full analysis that was presented at the Committee meeting in May 2011 was set out in agenda paper 11, which can be found on the public website[1].

Comment letters analysis

4. Three comments letters were received. One of them agreed[2] with the Committee's tentative decision not to take the issue onto its agenda and two of them did not object[3] to it. While all three comment letters suggest editorial

[1] http://www.ifrs.org/NR/rdonlyres/F8DF6091-7D68-4C1C-9361-CF7E8E24F43B/0/111105ob11IAS19Definedcontributionplanswithvestingconditions.pdf

[2] Canadian Accounting Standards Board (AcSB)

[3] KPMG and PwC

changes, two constituents[3] make substantive comments. We recommend incorporating some of the proposed editorial changes for clarification purposes in the wording of the final agenda decision and analyse the substantive comments in the paragraphs below.

5. We reproduce for ease of reference in Appendix B the paragraphs from the standards that we used to perform our analysis.

Vesting period as indicator

6. One constituent[4] believes that the existence of a vesting condition will not always result in a contribution being recognised as an expense over the vesting period, but that it is instead an indicator that should be considered in determining the period over which an employee renders service in exchange for a specific benefit.

7. This constituent argues that this conforms to the principle in IAS 19 that employee benefit expense is recognised when an employee renders service in exchange for the benefit and notes that vesting conditions are one of the factors that are considered to determine the period over which an employee renders service to earn a particular benefit.

8. The constituent illustrates its point of view by means of the example of a bonus of $10,000 granted based on performance in the current year. However, the bonus might be subject to a three-year-service vesting period. The employee must render service for the three years to receive the bonus, although the agreement with the employer might specify that the bonus was granted ‘for’ services delivered in year one.

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[4] PwC

9. From this example, the constituent concludes that the expense should be recognised over the three-year-service period and believes that the same principle should be applied if the bonus was paid in the form of a one-off contribution to a defined contribution plan at the end of year one, but was refunded to the entity if the employee did not remain employed for the remainder of the service period.

10. We agree with the constituent that the bonus of $10,000 in the example (ie the bonus that the employer pays directly to the employee) should be recognised over the three year service vesting period, because we do not consider this bonus to be an other long term employee benefit as defined in IAS 19, rather than a post-employment benefit.

11. We agree with the constituent that IAS 19 requires an entity to recognise contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions (see paragraphs IN5, 44 and 45 of IAS 19). However, we disagree that a bonus contribution to a defined contribution plan should also be recognised over the three-year-service vesting period if it is paid in the form of a one-off contribution to a defined contribution plan at the end of year one, even if it will be refunded if the employee does not remain employed for the remainder of the service period. Instead, we think that the bonus contribution should be recognised entirely in year one, because this is the sole period whose service gives rise to the obligation of the employer to make the still-potentially-refundable contribution to the separate entity that runs the defined contribution plan.

12. Our conclusion is based on the distinction between the following two periods when accounting for defined contribution plans as defined in IAS 19:

    (a) the period of service that **obliges the employer** to pay contributions to the separate entity that runs the defined contribution plan (**contribution period** as specified in paragraphs 43 and 44 of IAS 19); and

(b) the period or service that **entitles the employee** to receive benefits from the separate entity that runs the defined contribution plan (see for example paragraphs 68 and 69 of IAS 19).

13. We understand that the **vesting period** is the period of service that **entitles the employee** to receive benefits from the separate entity that runs the defined contribution plan (see paragraph 13 of IAS 19).

14. Paragraph 44 of IAS 19 instead requires an employer, as explained by paragraph IN5 of IAS 19, to recognise contributions to a defined contribution plan over the period of service that **obliges the employer** to pay contributions to the separate entity that runs the defined contribution plan (the **contribution period**). This is the service that the employee has rendered in exchange for the contributions to the defined benefit plan (see paragraph IN5 and 44 of IAS 19).

15. Focusing on the contribution period aligns with the principle that accounting for defined contribution plans means 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. This was explained in the tentative agenda decision published in *IFRIC Update*, May 2011.

16. Circumstances may arise when the two periods, the contribution period and the vesting period, coincide, but even in these circumstances it is the contribution period that determines the period over which the expense is recognised. Any refunds or reductions in future contributions are recognised as income when the entity or employer becomes entitled to them, eg by the employee failing to meet the vesting conditions.

17. Accordingly we disagree with the proposal of the constituent to highlight the vesting period as a strong indicator for the period over which the contributions to a defined contribution plan are recognised as an expense..

Alternative reading of paragraph 44(a) of IAS 19

18. One constituent[5] believes that there is an alternative interpretation to that taken by the Committee and that this alternative view should not be precluded.

19. The constituent argues that paragraph 44(a) requires an entity to recognise an asset for any excess of the contribution paid over 'the contribution due for service before the end of the reporting period' and that this might be read as meaning that the contributions are 'due' partly for service over the remainder of the vesting period when there are vesting conditions that could lead to an employee forfeiting contributions. For the constituent, this would result in a contribution payable in the period being recognised as an expense over the vesting period as a whole, rather than solely in the period whose service gave rise to the obligation to make the still-potentially-refundable contribution to the separate entity which runs the defined contribution plan.

20. Because the constituent believes that this view should not be precluded it proposes to amend the agenda decision accordingly.

21. We have already acknowledged in paragraph 25 of agenda paper 11 presented at the Committee meeting in May 2011[1] that paragraph 44(a) of IAS 19 might be read as meaning that a vesting condition may require an entity to distinguish between the portion of contributions paid that is attributable to the service rendered by the employee in the current period and the portion of contributions paid that is attributable to future service and that is therefore a prepayment. However, we concluded that this is not the intention of the paragraph.

22. We still think that our analysis is correct. In our view, the alternative interpretation presented by the constituent is contrary tour understanding of the concept of defined contribution accounting, including the guidance and explanation in other paragraphs, such as paragraphs IN5 and 43 of IAS 19, and the guidance in the first part of paragraph 44 of IAS 19.

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[5] KPMG

23. As set out above, we believe that an employer recognises a contribution to a defined contribution plan over the period of service that obliges it to pay contributions to the separate entity that runs the defined contribution plan (contribution period) and that this period of service may not coincide with the vesting period.

24. Consequently, we believe that paragraph 44(a) of IAS 19 addresses prepayments to the defined contribution plans when it requires the recognition of an asset if 'the contribution already paid exceeds the contribution due for service before the end of the period'. This analysis is supported insofar as paragraph 44(a) of IAS 19 specifies that asset as prepaid expense.

25. We understand that a prepayment or prepaid expense, as addressed in paragraph 44(a) of IAS 19, is a payment to the separate entity that runs the defined contribution plan from the employer before the employee has rendered the service in exchange for this contribution payment.

26. Accordingly, we continue to think that the alternative interpretation presented by the constituent should be rejected.

Update on outreach request

27. Since the May 2011 Committee Meeting, we have received responses from two more national standard-setters. Both standard-setters considered the issue to be prevalent in practice, but neither of them noted significant divergent interpretations (either emerging or existing in practice). In both countries, employers or entities usually recognise the contributions as an expense in the period for which they are paid instead of recognising them over the vesting period.

Staff recommendation

28. On the basis of the comments received and of the further results of the outreach to the National Standard Setters group, we recommend that the Committee should finalise the agenda decision as proposed in Appendix A.

Question to the Committee

Question—final agenda decision
Does the Committee agree with our recommendation for finalising this agenda decision?

Appendix A—proposed wording for agenda decision

A1 We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through):

IAS 19 *Employee Benefits*—defined contribution plans with vesting conditions

The Interpretations Committee received a request seeking clarification on the effect~~impact~~ that vesting conditions have on the accounting for defined contribution plans. The Committee has been asked whether~~Are~~ contributions to such plans should be recognised as an expense in the period for which they are paid ~~for are they recognised~~ 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~~have an impact on~~ 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 means 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. The Committee noted that accounting for defined contribution plans under IAS 19 focuses on the employer's obligation to make a contribution. Consequently, paragraph 44 of IAS 19 requires and paragraph IN5 of IAS 19 explains that each contribution~~s~~ to a defined contribution plan~~s~~ ~~are~~is recognised as an expense or recognised as a liability (accrued expense) over the period of service that obliges the employer to pay this contributions to the defined contribution plan. This period of service has to be distinguished from the period of service that entitles an employee to receive the benefit from the defined contribution (ie the vesting period), although both periods may be coincident in some circumstances. ~~when they fall due and r~~Refunds are recognised as an asset and income when the entity/employer becomes entitled to them, eg by the employee failing to meet the vesting condition.

The Committee noted that there is no significant diversity in practice in respect of defined contribution post-employment benefit plans, ~~and~~ 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.

Appendix B—relevant IFRS literature

Extracts from IAS 19 *Employee Benefits*

IN4 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. The Standard gives specific guidance on the classification of multi-employer plans, state plans and plans with insured benefits.

IN5 Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Standard requires an entity to recognise contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions.

7 ***Defined contribution plans*** **are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.**

13 Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recognised, even if the compensated absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

43 Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

44 When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IAS 2 and IAS 16).

45 Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 78.

128 The amount recognised as a liability for other long-term employee benefits shall be the net total of the following amounts:

(a) the present value of the defined benefit obligation at the end of the reporting period (see paragraph 64);

(b) minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102–104).

In measuring the liability, an entity shall apply paragraphs 49–91, excluding paragraphs 54 and 61. An entity shall apply paragraph 104A in recognising and measuring any reimbursement right.

129 For other long-term employee benefits, an entity shall recognise the net total of the following amounts as expense or (subject to paragraph 58) income, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

(a) current service cost (see paragraphs 63–91);

(b) interest cost (see paragraph 82);

(c) the expected return on any plan assets (see paragraphs 105–107) and on any reimbursement right recognised as an asset (see paragraph 104A);

(d) actuarial gains and losses, which shall all be recognised immediately;

(e) past service cost, which shall all be recognised immediately; and

(f) the effect of any curtailments or settlements (see paragraphs 109 and 110).

BC5 The old IAS 19 defined:

(a) **defined contribution plans** as retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to contributions to a fund together with investment earnings thereon; and

(b) **defined benefit plans** as retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and/or years of service.

The Board considers these definitions unsatisfactory because they focus on the benefit receivable by the employee, rather than on the cost to the entity. The definitions in paragraph 7 of the new IAS 19 focus on the downside risk that the cost to the entity may increase. The definition of defined contribution plans does not exclude the upside potential that the cost to the entity may be less than expected.

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Mr Robert Garnett
Chairman
IFRS Interpretations Committee
30 Cannon Street
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Our ref MT/288
Contact Mary Tokar

13 June 2011

Dear Mr Garnett

Tentative agenda decision: IAS 19 *Employee Benefits* – defined contribution plans with vesting conditions

We appreciate the opportunity to comment on the IFRS Interpretations Committee's publication in the May 2011 IFRIC Update of the tentative decision relating to defined contribution plans with vesting conditions. We do not object to the decision not to add this issue to the Committee's agenda. However, we believe that there is an alternative interpretation to that taken by the Committee that should not be precluded.

Paragraph 44(a) describes the accounting for defined contribution plans and states that an asset should be recognised for any excess of the contribution paid over "the contribution due for service before the end of the reporting period". When there is a vesting condition that could lead to an employee forfeiting contributions, the alternative reading would be that the contributions are "due" partly for service over the remainder of the vesting period. This would result in a contribution payable in a period being expensed over the vesting period as a whole, rather than solely in the period whose service gave rise to the obligation to make the still-potentially-refundable contribution to the separate entity.

We attach a mark-up of the Committee's tentative decision wording showing some suggested changes to note the majority practice but not to preclude the alternative.

Please contact either Mary Tokar (on +44 (0)20 7694 8871) or Lynn Pearcy (on +44 (0)20 7694 8075) if you wish to discuss this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

IFRS Interpretations Committee – tentative agenda decision

IAS 19 *Employee Benefits* – defined contribution plans with vesting conditions

Wording suggested by Interpretations Committee

The Interpretations Committee received a request seeking clarification on the impact that vesting conditions have on the accounting for defined contribution plans. Are contributions to such plans recognised as an expense in the period they are paid for or are they recognised 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 have an impact on 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 means 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. The Committee noted that accounting for defined contribution plans under IAS 19 focuses on the employer's obligation to make a contribution. Consequently, contributions to defined contribution plans are recognised as an expense or recognised as a liability (accrued expense) when they fall due and refunds are recognised as an asset and income when the entity/employer becomes entitled to them, e.g. by the employee failing to meet the vesting condition.

The Committee noted that there is no significant diversity in practice, and 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.

KPMG suggested revised wording

The Interpretations Committee received a request seeking clarification on the impact that vesting conditions have on the accounting for defined contribution plans. Are contributions to such plans recognised as an expense in the period they are paid for or are they recognised 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 have an impact on 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~~ that the guidance in paragraph 43 of IAS 19 ~~that~~ regarding accounting for defined contribution plans ~~means~~ focuses 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. The Committee noted that ~~accounting for defined contribution plans under IAS 19 focuses~~ this wording supports an approach based on the employer's obligation to make a contribution. Consequently, one interpretation of the standard is that contributions to defined contribution plans are recognised as an expense or recognised as a liability (accrued expense) when they fall due and refunds are recognised as an asset and income when the entity/employer becomes entitled to them, e.g. by the employee failing to meet the vesting condition.

However, the Committee noted also that paragraph 44(a) of IAS 19 refers to contributions paid in excess of the contribution due for service before the end of the reporting period being recognised as a prepayment asset, to the extent that they will lead to, for example, a reduction in future payments or a cash refund. Therefore, a second interpretation of the standard is that contributions should be recognised over the period of related service – ie, over the vesting period.

The Committee noted that ~~there is no significant~~it believes that there is not widespread diversity in practice~~, and 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.

pwc

IFRS Interpretations Committee
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13 June 2011

Dear Sirs

IAS 19, *'Employee Benefits'* defined contribution plans with vesting conditions

We welcome the opportunity to comment on the draft agenda decision on defined contribution pension plans with vesting conditions. Following discussion with members of the PwC network of firms, this response summarises the views of the member firms that commented on the draft agenda decision. 'PwC' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We are concerned that the draft agenda decision does not take into account the wide range of conditions that can arise in employee benefit plans and as a result presents a conclusion that is too definitive and might lead to inappropriate accounting.

The principle in IAS 19 is that employee benefit expense is recognised when an employee renders service in exchange for the benefit. Vesting conditions are one of the factors considered to determine the period over which an employee renders service to earn a particular benefit. IAS 19 paragraph BC 14 states that an obligation exists for an employee benefit that is unvested even though it is contingent on the employee rendering further service.

We do not believe that vesting terms should always affect the attribution of employee benefit expense to accounting periods as they would for share-based payments under IFRS 2. However, they will often be a factor in determining the period over which a benefit is earned.

For example, a bonus of $10,000 granted based on performance in the current year might be subject to a three-year-service vesting condition. The employee must render service for the three years to receive the bonus, although the agreement with the employer might specify that the bonus was granted 'for' services delivered in year one. We believe the expense should be recognised as an expense over the three-year-service period. The same principle should be applied if the bonus was paid in the form of a one-off contribution to a defined contribution plan at the end of year one but was refunded if the employee did not remain employed for the remainder of the service period. The draft agenda decision suggests in these situations that the expense should be recognised entirely in year one.

We suggest that this implication is further considered. The agenda decision should be amended to state that a vesting period or a vesting condition often provides evidence of the period over which service is rendered to earn a benefit and therefore the period over which the expense should be recognised, but may not be the sole determinant.

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We also believe that the reference to recognition of an expense 'when [contributions] fall due' in the final sentence of the second paragraph is inconsistent with IAS 19 paragraphs IN5 and 45, and may lead to confusion and inconsistent application.

IAS 19 paragraph 45 requires the recognition of a liability where contributions 'do not fall due wholly within twelve months after the end of the period in which the employees render the related service'. The definitions of short-term benefits and other long-term benefits in IAS 19 paragraph 7 use the term 'due to be settled'. We believe that in both these paragraphs, 'due' refers to the timing of the cash payment and not the time at which the benefit is earned.

We believe that the sentence should read 'Contributions to defined contribution plans are recognised as an expense or recognised as a liability (accrued expense) when an employee has rendered service in exchange for those contributions'. This would be consistent with the language in IAS 19 paragraph IN 5.

We have suggested in the appendix to this letter some amendments to the tentative agenda decision that might address these issues.

If you have any questions in relation to this letter, please do not hesitate to contact John Hitchins, Global Chief Accountant (+44 20 7804 2497) or Tony de Bell on (+44 20 7213 5336).

Yours faithfully

PricewaterhouseCoopers LLP

Appendix

IAS 19 Employee Benefits—defined contribution plans with vesting conditions

The Interpretations Committee received a request seeking clarification on the impact that vesting conditions have on the accounting for defined contribution plans. Are contributions to such plans recognised as an expense in the period they are paid for or are they recognised 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 have an impact on 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 means 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. The Committee noted that accounting for defined contribution plans under IAS 19 focuses on the employer's obligation to make a contribution. Consequently, contributions to defined contribution plans are recognised as an expense or recognised as a liability (accrued expense) when an employee has rendered service in exchange for those contributions ~~when they fall due and refunds are recognised as an asset and income when the entity/employer becomes entitled to them, e.g. by the employee failing to meet the vesting condition~~. The existence of a vesting condition will not always result in a contribution being recognised as an expense over the vesting period but is an indicator that should be considered in determining the period over which an employee renders service in exchange for a specific benefit.

The Committee noted that there is no significant diversity in practice, in respect of defined contribution post-employment benefit plans ~~and~~ 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.

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June 15, 2011

(by e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IAS 19 *Employee Benefits* – defined contribution plans with vesting conditions

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the accounting for a defined contribution plan with vesting conditions under IAS 19 *Employee Benefits*. This tentative agenda decision was published in the May 2011 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision. The Appendix provides our drafting suggestions.

We would be pleased to provide more detail if you require. If so, please contact me or Nancy Estey, Principal, Accounting Standards at +1 416 204-3271 (e-mail nancy.estey@cica.ca) or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail kathryn.ingram@cica.ca).

Yours truly,

Peter Martin

Peter Martin, CA
Director,
Accounting Standards

Appendix

We suggest clarifying the tentative agenda decision as follows:

IAS 19 *Employee Benefits* – defined contribution plans with vesting conditions

The Interpretations Committee received a request seeking clarification on the effect~~impact~~ that vesting conditions have on the accounting for defined contribution plans. The Committee has been asked whether ~~Are~~ contributions to such plans should be recognised as an expense in the period they are paid ~~for~~ or ~~are they recognised~~ 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 ~~have an~~ affect ~~impact on~~ 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 means accounting~~ the reporting entity's obligation for a defined contribution plan is determined by the amounts to be ~~pay~~ contributed~~ions~~ to the separate entity that runs the plan, and therefore is ~~but~~ not ~~accounting for~~ determined by the obligation to the employees who benefit from the plan. The Committee noted that accounting for defined contribution plans under IAS 19 focuses on the employer's obligation to make a contribution. Consequently, contributions to defined contribution plans are recognised as an expense or recognised as a liability (accrued expense) when they fall due and refunds are recognized as an asset and income when the entity/employer becomes entitled to them, e.g. by the employee failing to meet the vesting condition.

The Committee noted that there is no significant diversity in practice, and 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.