STAFF PAPER

September 2012

IFRS Interpretations Committee Meeting

Project	IAS 19 *Employee Benefits*		
Paper topic	Measurement of the net DBO for post-employment benefit plans with employee contributions		
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Introduction

1. In May 2012, the IFRS Interpretations Committee (the Committee) received a request seeking clarification on paragraph 93 of IAS 19 *Employee Benefits*. The Standard was issued in 2011 and will be effective from annual periods beginning on or after 1 January 2013. In this paper, we call IAS 19 issued in 2011 'IAS 19 (2011)' and IAS 19 issued in 1998 and currently effective 'IAS 19 (1998).'

2. This paper provides the Committee with background on the issue. This paper also provides a summary of comments received from the outreach we conducted as well as our analysis on these comments. Finally, we are seeking views and guidance from the Committee as to how it would like to proceed with the issue.

3. This agenda paper is organised as follows:

   (a) Background information on the issue

   (b) Summary of comments received from outreach to the International Forum of Accounting Standard-Setters (IFASS) and the IASB's Employee Benefits Working Group (EBWG).

   (c) Summary of discussions at the 1st and 2nd February 2011 IASB meeting

   (d) Staff analysis

   (e) Assessment of the issue against the Committee's agenda criteria

(f) Staff recommendation and question for the Committee

(g) Appendix A—Submission received

(h) Appendix B— Analysis by the submitter of their concern about front-loaded and back-loaded

(i) Appendix C— Details of comments received from the IFASS and the EBWG

Background

4. Paragraph 93 of IAS 19 (2011) refers to the accounting for contributions from employees to defined benefit plans, as follows (emphasis added):

> Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or reduce remeasurements of the net defined benefit liability (asset) (eg if the contributions are required to reduce a deficit arising from losses on plan assets or actuarial losses). *Contributions from employees or third parties in respect of service are attributed to periods of service as a negative benefit in accordance with paragraph 70* (ie the net benefit is attributed in accordance with that paragraph).

5. Paragraph 70 of IAS 19 (2011) states:

> In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
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> a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until
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> b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

6. The submitter thinks that paragraph 93 of IAS 19 (2011) was intended to address measurement of the net Defined Benefit Obligation (DBO) for plans where the risk of plan deficits and/or surplus is shared with employees through their contributions to the plan. However, the submitter is concerned that the guidance would affect any plan with employee contributions, resulting in a change in measurement of the net DBO for virtually all of those plans. The submitter thinks that this is an unintended consequence of the language in paragraph 93 of IAS 19 (2011).

7. According to the submitter, in current practice under IAS 19 (1998), employee contributions reduce the gross service cost in the period in which they are received. Therefore, an employer's current service cost is the total cost of benefits attributed to service in the current period, less the portion of that cost borne by employee contributions for the period.

8. The submitter is concerned that, in periods in which the discount rate increases, employee contributions made in earlier periods have higher value, which may cause the net DBO to be back-loaded and increase the DBO (refer to Appendix B to this paper for details). The submitter thinks that the resulting DBO is higher than under IAS 19 (1998), which seems contrary to the IASB's intent based on paragraph BC150 (a) of IAS 19 (2011).

9. An entity shall apply IAS 19 (2011) retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* other than in some exceptional cases, as set out in paragraph 173 of IAS 19 (2011). The submitter is concerned with the determination of the opening balance of the net DBO under IAS 19 (2011). According to the submitter, in most cases, data on employees' past contributions no longer exists to determine the effect on the net DBO of those contributions. And even if the data does exist, without re-running valuations for prior years, the effect of pay growth different to that assumed in earlier years and the effect of plan changes would have to be arbitrarily split between amounts that would have affected profit or loss and amounts that would have affected other comprehensive income. Further, the submitter thinks that, because in current practice employee contributions are deducted from the gross service cost in the period in which they are received, it is not clear whether

amounts contributed in prior years by employees should be assumed to grow at the discount rate or at the actual rate of return on the plan assets.

10. The submitter understands that some advisors have already indicated they intend to ignore paragraph 93, because they believe IAS 19 (2011) was not intended to change the method used to calculate the DBO. Those advisors' views are based on statements by the IASB that measurement issues will be addressed in a later phase of the project. Accordingly, the submitter thinks that application of paragraphs 93 and 70 of IAS 19 (2011) will be mixed.

Outreach to IFASS and EBWG

11. Specifically, we asked:

Q1. Under IAS 19 (1998), what is the prevalent approach to account for contributions from employees to defined benefit plans, (1) where the actuarial and investment risks are shared between the employees and the employer and (2) where such risks are not shared among them?

Q2. If you have already applied IAS 19 (2011), what is the prevalent approach to account for contributions from employees to defined benefit plans, (1) where the actuarial and investment risks are shared between the employees and the employer and (2) where such risks are not shared among them?

Q3. Based on your response to Q1 or Q2, would your view be that there is diversity in practice for such contributions from employees? If yes, please explain the basis for your view.

Q4. If you have not yet applied IAS 19 (2011), do you have the same concern as the submitter that there will be diversity on the interpretation of paragraph 93 of IAS 19 (2011)?

12. We received 19 responses on these questions, of which a summary is provided below. Details of each response are introduced in Appendix B to this paper.

    (a) Seven respondents answered that the issue is not relevant to their jurisdictions. Nine respondents expressed concern that there will be diversity in the interpretation of paragraph 93 of IAS 19 (2011).

(b) Accounting for employee contributions to defined benefit plans varies by jurisdiction. However, we perceive that deducting employee contributions from the gross service cost in the period in which they are received is prevalent in both where the actuarial and investment risks are shared between the employees and the employer and where such risks are not shared among them. Some respondents noted that 'risk sharing' should be properly defined.

(c) Respondent F thinks that, under paragraph 93 of IAS 19 (2011), current obligation will be reduced by expected employee contributions in future years, which they do not think is a logical approach. This is because contributions to service costs in future periods do not relate to the current obligation but relate to increase in the obligation each year as a result of service in those years. They think that a literal interpretation of that paragraph, especially the last sentence, will produce a non-sensible result. They refer to an actuary's comments that were received during their outreach activities: "… it seems non-sensible to treat expected employee contributions under a funded pension plan as negative benefit payments when calculating the DBO, thereby generating an amount that represents only the company portion of the obligation and then comparing that to full assets, which include both company and employee contributions. Doing so would grossly overstate the funded position of such a pension plan."

(d) Respondent G thinks that the intention of paragraph 93 of IAS 19 (2011) was to make a clarification rather than changing the measurement of the DBO, however they are concerned that the clarification could lead to some fundamental changes in practice. They think, under paragraph 93 of IAS 19 (2011), that, for plans where employee contributions are not a fixed percentage of the total defined benefit contributions (eg employee contributions are determined as a percentage of salary), the defined benefit liability would be determined in the following manner:

- DBO recognised would be equal to “entire DBO” minus “unpaid” employee DBO
- Pension Plan Assets include assets resulting from the investment of both employee and employer contributions

The “unpaid employee” DBO can be approached by a calculation similar to “DBO_employee - Assets_employee, where DBO_employee and Assets_employee are the DBO and the pension plan assets resulting from the employee contributions. The defined benefit liability would be (assuming no unrecognised items):

- IAS 19 (1998):

  DBO - Assets = (DBO_employer + DBO_employee) - (Assets_employer + Assets_employee)
- IAS 19 (2011):

  DBO - Assets = (DBO_employer + DBO_employee - “unpaid employee DBO”) - (Assets_employer + Assets_employee), or - in a first approach:

  DBO - Assets = DBO_employer - Assets_employee

Accordingly, depending on the result of “DBO_employee - Assets_employee”, the defined benefit liability may vary. The extent of the difference may become significant in some cases and might invite entities to choose divergent interpretations. The practical difficulties in determining the “unpaid employee DBO” may also invite some to keep the current practice.

(e) According to respondent L, the requirement in paragraph 93 of IAS 19 (2011) that employee contributions should be treated as a negative benefit could be interpreted as either:

(i) actual contributions for a given year should be accounted for in the year that they are due. The attribution to service would be that any contributions received before the current reporting period are attributable to past service, contributions received during the reporting period are attributable to that period and contributions received after the period are attributable to future service. The contributions would be added to the employer component of the service cost when undertaking a reconciliation of the defined benefit obligation. For example:

DBO 1/1/20x1	150,000
Employer service Cost	10,000
Employee Contributions	5,000
Benefit Payments	-20,000
Actuarial losses/(gains)	10,000
DBO 1/1/20x2	155,000

The contributions are treated as a "negative benefit" because the entry in the reconciliation in this case is positive and increases the DBO unlike benefit payments which are negative and decrease the DBO. The respondent thinks that this is consistent with the current practice. Or:

(ii) all contributions over all periods would be valued and attributed to periods of service in accordance with the benefit formula or a straight line basis in accordance with paragraph 70 of IAS 19 (2011). However, even where contributions are a level percentage of salary over all service, attribution on a straight line basis does not reflect the contributions actually paid in a particular year. This interpretation would also be problematic if it results in an increase in the DBO for contributions not yet received from employees. There would need to be some offsetting adjustment to Plan assets (a contribution receivable). Clearly, doing this retroactively is messy in practice and at best dubious in practical value.

(f) Respondent N was not convinced that they share the submitter's concern about the interpretation of paragraph 93 of IAS 19 (2011). The respondent thinks that the requirements in that paragraph are essentially the same as in IAS 19 (1998). The respondent thinks that accounting for employee contributions will not be changed under IAS 19 (2011) if they are linked to service but have no risk sharing features.

(g) Respondent R stated that, in accordance with paragraph 93 of IAS 19 (2011), most entities in their jurisdiction will identify some risk sharing features and may consider the employee contributions as a reduction in their DBO (negative benefit). However, overall they neither expect a significant impact regarding the remeasurement of the DBO nor a significant diversity in practice.

Summary of discussions at the 1st and 2nd February 2011 IASB meeting

13. At its 1st and 2nd February 2011 meetings, the IASB discussed various aspects of risk sharing features based on the comments received from Exposure Draft *Defined Benefit Plans* published in March 2010. The Agenda Paper used at that meeting can be found on the public website[1]. One of the aspects discussed was how the effect of employee contribution should be accounted for.

14. According to the Agenda Paper, the IASB had been informed that practice varies on how the requirements of IAS 19 (1998) apply to arrangements with risk-sharing features, such as employee contributions. Some expressed the view that IAS 19 (1998) does not address plans with such features because the Standard makes no distinction between an employer that bears all the actuarial and investment risk in a plan, and an employer that reduces these risks by sharing them with other stakeholders. Both are classified as defined benefit plans. They also stated that the IASB should provide guidance on how entities should account for risk-sharing features.

15. Accordingly, the ED proposed to clarify that risk-sharing features should be incorporated in the determination of the best estimate of the defined benefit obligation. The ED also proposed to clarify the treatment of employee contributions in the light of a question rejected by the IFRIC (at that time) in November 2007 – Treatment of employee contributions[2]. The ED included the

[1] http://www.ifrs.org/Meetings/Documents/PEB02111st2ndb05Aobs.pdf

[2] http://www.ifrs.org/Updates/IFRIC-Updates/2007/Documents/IFRIC0711.pdf

following proposed amendments (paragraph 64A was added and paragraph 85 was amended—new text was underlined and deleted text was struck through):

> 64A Contributions by employees to the ongoing cost of the plan reduce the amount of the current service cost recognised as an expense by the entity. The present value of contributions that will be receivable from employees in respect of current service cost or past service cost are included in the determination of the defined benefit obligation. The measurement of the defined benefit obligation includes the effect of any requirement for employees to reduce or eliminate an existing deficit.
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> 85 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. This is the case if ~~when~~, for example:
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> …
>
> (c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

16. Most respondents supported the intention to clarify how employee contributions should be taken into account, however there were concerns about how the proposed amendments would be applied, particularly on how employee contributions could be allocated to periods of service and how to account for changes in the rates of employee contributions. Some respondents disagreed with this clarification, preferring that the Board address risk-sharing features as part of a fundamental review of measurement.

17. The staff at that time referred to the requirements in paragraph 91 of IAS 19 (1998) and stated that the requirements in that paragraph could be made to apply more explicitly to all benefits. Paragraph 91 of IAS 19 (1998) states (emphasis added):

Some post-employment health care plans require employees to contribute to the medical costs covered by the plan. *Estimates of future medical costs take account of any such contributions*, based on the terms of the plan at the end of the reporting period (or based on any constructive obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments. The cost of meeting claims may be reduced by benefits from state or other medical providers (see paragraphs 83(c) and 87).

18. According to the staff, the contributions required by the employees could be considered a negative benefit and therefore, the attribution of the contributions should be determined in accordance with the benefit formula, or on a straight line basis (ie the back-end loading test and attribution in paragraph 67 IAS 19 (1998) should be based on the net benefit). Further, attributing the employee contributions on the same basis as the benefits will also address the concerns of those respondents who argued that the defined benefit obligation includes the cost of future increases in salaries but not the benefit of future contributions related to those salary increases.

19. The staff raised two questions to the IASB in respect of employee contributions, which all the IASB members present at the meeting agreed. According to the IASB Update[3], the IASB tentatively decided (emphasis added):

- to clarify that *the benefit to be attributed in accordance with paragraph 67 of IAS 19[4] is the benefit net of the effect of the employee contributions*;
- to confirm the proposal that *the effect of employee contributions should be deducted in determining the defined benefit obligation*, but to withdraw the proposal that the effect of employee contributions should always be presented as a reduction in service cost.

[3] http://www.ifrs.org/Updates/IASB-Updates/2011/Documents/IASBUpdate1and2Feb2011.pdf

[4] IAS 19 (1998)

Staff analysis

20. In our view, requirements of paragraph 64A of the ED, the second bullet of the IASB's decision in February 2011 and paragraph 93 of IAS 19 (2011) are all the same. They all require that employee contributions, including expected future contributions resulting from employee service in the current and prior periods, should be considered in calculating the defined benefit obligation.

21. We think that such requirement is theoretically correct. This is because the measurement of the defined benefit obligation should include (the present value of) those future contributions that relate to employee service before the reporting date. Ignoring future contributions that relate to past service would impair the concept of accrual accounting. Timing of payment of employee contributions should not affect recognition of service costs in profit or loss. We note that future contributions that relate entirely to future service are not relevant in our argument.

22. We note that the requirement is already implied in IAS 19 (1998). Paragraph 7 of IAS 19 (1998) defines that:

> the present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

'Expected future payments required to settle the obligation' are benefits paid to employees that consist of contributions from both employees and the employer resulting from employee service in the current and prior periods.

23. Employee contributions linked to employee service, regardless of whether they are a lump sum payment or a payment based on an index (eg percentage of salary), are part of the funding of the total benefits paid to employees. In other words, the ultimate cost of a defined benefit plan is shared between employees and the employer. In addition, such contributions have the effect of reducing service cost for the corresponding periods and thus the cost included in profit or loss is only the entity's share and not the total cost of the total benefit.

Accordingly, employee contributions in respect of service are attributed to periods of service as a negative benefit[5].

24. On the other hand, not all employee contributions are linked to service of the employee. Some plans require employees to contribute to the reduction of a deficit. If a deficit results from negative returns on plan assets, or changes in the actuarial assumptions used to measure the liability, then employee contributions reducing such a deficit have the effect of reducing the loss on plan assets, or reducing actuarial losses and not reducing service cost. Accordingly, such employee contributions should affect the remeasurements component of defined benefit cost.

25. Consequently, we think that the requirements in paragraph 93 of IAS 19 (2011) are a clarification of the requirements in IAS 19 (1998), rather than the change in accounting for measurement. Therefore, we think that using the argument that the IASB stated that measurement issues will be addressed in a later phase of the project to justify disregarding the measurement effects of the amended paragraphs is not one that we agree with.

26. The revisions to IAS 19 in 2011 did not change the fundamental measurement approach that an entity estimate the ultimate cost of the benefits and attribute those benefits to periods of service. Rather, the revisions clarified how particular features (including employee contributions) should be considered when estimating that ultimate cost. Although we think that the fundamental measurement approach did not change in the 2011 amendments, we do note the fact that clarification was requested and was given on how particular features should be reflected in the measurement. We think it is likely that entities might need to revise their accounting policy in the light of the amendments.

27. The result of the outreach activities indicates that employee contributions are deducted from the gross service cost in the period in which they are received. We think that typical entries to reflect the accounting are to debit to service cost and credit to defined benefit obligation to recognise gross service cost, and then to

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[5] If employee contributions to fund service cost are not linked to particular years of service, or to salaries, they should be attributed on the same basis as benefits that are not linked to particular years of service or to salaries.

debit to plan asset and credit to service cost to reflect receipt of employee contributions. Under IAS 19 (2011), an entity follows the several steps to account for defined benefit plans in accordance with paragraph 57. In those steps, in accordance with paragraph 93 and 70 of IAS 19 (2011), the entity is required to consider employee contributions in respect of service in calculating the defined benefit obligation and to attribute the employee contributions to periods of services as a negative benefit. As a result, the benefit net of employee contributions will be attributed to periods of service (in other words, the net service cost recognised in profit or loss is reduced to the entity's share only).

28. Having said that, we acknowledge that many are concerned that there will be diversity on the interpretation of paragraph 93 of IAS 19 (2011). The result of the outreach indicates that the prevalent approach to account for employee contributions is to deduct them from service cost when received, as opposed to include them in measuring the defined benefit obligation.

29. We also acknowledge the submitter's concern that attribution of employee contributions fluctuate between front-loaded and back-loaded if the attribution changes due to assumption changes such as the relationship between the discount rate and the salary growth rate.

30. In addition, when entities apply IAS 19 (2011) retrospectively, they need to obtain the information about employee contribution paid in the past (ie what was actually paid) only for the purpose of calculating the attribution to the service period. The payment pattern may have varied in the past. Although we acknowledge that there are general concerns for retrieving data, we think that a reasonable estimate should be made if it is necessary in meeting the requirements of standards. We note that the paragraph 4.41 of the Conceptual Framework states that the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

31. In summary, we think that paragraph 93 of IAS 19 (2011) is a clarification of the requirements in IAS 19 (1998), and not a change in measurement approach of the defined benefit obligation. If employee contributions are linked to employee service, the ultimate cost (and therefore risk) of a defined benefit plan is shared between employees and the employer. Accordingly, we think that employee

contributions in respect of service, including expected future contributions resulting from employee service in the current and prior periods, should be considered in calculating the defined benefit obligation. As a consequence of that approach, employee contributions are attributed to periods of services as a negative benefit and as a result, the benefit net of employee contributions will be attributed to periods of service.

Question for the Committee

Question to the Committee
Does the Committee agree with the staff analysis on this issue?

Agenda criteria

32. In this section, we assess the submission against the agenda criteria of the Committee as follows:

(a) *The issue is widespread and has practical relevance.*

Yes. According to the result of outreach, IAS 19 (2011) has not yet been early applied in most jurisdictions. However, there are general concerns that paragraph 93 of IAS 19 (2011) will be interpreted differently. The issue has practical relevance because it is not clear how to account for employee contributions in accordance with that paragraph.

(b) *The issue indicates that there are significant divergent interpretations (either emerging or existing in practice).*

Yes, for the same reasons as stated above.

(c) *Financial reporting would be improved through the elimination of the diverse reporting methods.*

Yes.

(d) *The issue can be resolved efficiently within the confines of existing IFRSs and the Conceptual Framework, and the demands of the interpretation process.*

We are of the opinion that the issue could be resolved by the Committee, however that will depend on how the scope of the issue is defined.

(e) *It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.*

Again, this will depend on how the scope of the issue is defined.

(f) *If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?*

Because there is currently no project relating to employee benefits on the IASB's agenda, this does not apply.

Staff recommendation to the Committee

33. We think that there are three options that the Committee could choose:

    (a) Option 1: reject the issue because the IASB's intention is clear

    (b) Option 2: provide guidance to clarify more the IASB's intention

    (c) Option 3: amend IAS 19 (2011) and change its requirements to make the accounting more operational (ie to minimise the impact to current practice)

34. Based on our analysis, we think that the language in paragraph 93 of IAS 19 (2011) is not an unintended consequence as the submitter points out. However, there are general concerns by the submitter and other constituents that it is not clear how to account for employee contributions in accordance with that paragraph and thus this might cause divergent interpretations. Consequently, we recommend that the Committee choose Option 2 and provide guidance (eg adding examples to the Standard) based on the staff analysis in this paper.

35. However, considering the impact that may have on current practice, we would like to seek the views of and guidance from the Committee as to how it would like to proceed with the issue.

Question for the Committee

Question to the Committee
How would the Committee like to proceed with this issue?

Appendix A—Submission received

We received the following request from Towers Watson. All information has been copied without modification.

IFRS INTERPRETATIONS COMMITTEE POTENTIAL AGENDA ITEM REQUEST

<u>The issue:</u>

Paragraph 93 of IAS 19 (2011) states:

> Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or reduce remeasurements of the net defined benefit liability (asset) (eg if the contributions are required to reduce a deficit arising from losses on plan assets or actuarial losses). *Contributions from employees or third parties in respect of service are attributed to periods of service as a negative benefit in accordance with paragraph 70* (ie the net benefit is attributed in accordance with that paragraph). [Emphasis added.]

It is our understanding that paragraph 93 was intended to address measurement of the net DBO for plans where the risk of plan deficits and/or surplus is shared with employees through their contributions to the plan. As written, however, the guidance would affect any plan with employee contributions, resulting in a change in measurement of the net DBO for virtually all of those plans. We believe this is an unintended consequence of the language in paragraph 93.

Attribution of employee contributions and expected benefits are based on a set of assumptions, including the discount rate. In periods in which the discount rate increases, employee contributions made in earlier periods have higher value, which may cause the net DBO to be back-loaded and increase the DBO. For example, even very simple contributory plans with a benefit based on a level percent of pay and employee contributions also based on a level percent of pay may be considered back-loaded if, as is common, the assumed salary growth rate is lower than the assumed discount rate. This is because, after allowing for the effect of interest on employee contributions, the pattern of employee contributions will be front-loaded, causing the net benefit to be back-loaded. The resulting DBO is higher DBO than under IAS 19 (2008), which seems contrary to the IASB's intent based on paragraph BC150(a) of IAS 19 (2011). Further complexity and cost is added when the attribution changes due to assumptions changes, most notably shifts in the relationship between the discount rate and the salary growth rate. For example, a shift from discount rate > assumed salary growth rate to assumed salary growth rate > discount rate can cause the employee contributions to change from being considered front-loaded (as described above) to back-loaded, and vice versa, with an offsetting change in the attribution of the net benefit.

An additional concern is the determination of the effect of employee contributions for periods prior to the date IAS 19 (2011) is adopted. In most cases, data on employees' past contributions no longer exists to determine the effect on the net DBO of those contributions. And even if the data does exist, without re-running valuations for prior years, the effect of pay growth different than assumed in those earlier years and the effect of plan changes would have to be arbitrarily split between amounts that would have affected P&L and amounts that would have affected OCI. Further, it is not clear whether amounts contributed in prior years by employees should be assumed to grow at the discount rate or the actual rate or return on the plan assets.

Current practice:

Under IAS 19 (2008), employee contributions reduce the gross service cost in the period in which they are received. Thus, an employer's current service cost is the total cost of benefits attributed to service in the current period, less the portion of that cost borne by employee contributions for the period.

It is our understanding that application of paragraphs 93 and 70 of IAS 19 (2011) will be mixed, as some advisors have already indicated they intend to ignore paragraph 93 because they believe IAS 19 (2011) was not intended to change the method used to calculate the DBO. Their views are based on statements by the IASB that measurement issues will be addressed in a later phase of the project.

Reasons for the Interpretations Committee to address the issue:

As noted above, paragraph 93 of IAS 19 (2011) would affect any plan with employee contributions, resulting in a change in measurement of the DBO for virtually all of those plans. We believe that is an unintended consequence of the new standard. IAS 19 (2011) was a limited scope project that we understood was not intended to change measurement of the DBO, except in certain areas where clarification was needed (e.g., contributory plans with true risk-sharing of plan surpluses and deficits).

We also note that the cost recognition for a typical contributory plan would, if paragraph 93 is taken at face value, differ from the effect of the situation where employees are paid less, but are participants in an employer-provided noncontributory pension plan. In the noncontributory plan, the employer is effectively making the contributions on behalf of the employees by paying them less and bearing the cost that would have been contributed by those employees if they were paid more but had to contribute to the pension plan. Similar disparities arise in the UK for salary sacrifice arrangements.

Based on the above concerns we ask that IASB and/or the Interpretations Committee provide guidance on how paragraph 93 should be interpreted and applied to avoid those issues.

Submitted by

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Appendix B— Analysis by the submitter of their concern about front-loaded and back-loaded

Example 1 - Flat benefit and contribution

Discount rate	Contribution: front-loaded	4%	
Salary growth assumption	Net benefit: back-loaded	3%	Actual salary growth follows assumption
Lump sum benefit at retirement		10,000	
Member contribution		1,000	pa

Attribution of salary related benefits: the effect of salary growth is anticipated in projection and attribution
All payments happen at year start

Year starting at timepoint:	***0***	***1***	***2***	***3***	***4***	***5***
Salary	10,000	10,300	10,609	10,927	11,255	
Projected benefit at retirement						10,000
Projected benefit at retirement attributed to year of service	2,000	2,000	2,000	2,000	2,000	
Contribution	1,000	1,000	1,000	1,000	1,000	
Contribution plus interest to retirement	1,217	1,170	1,125	1,082	1,040	
Net benefit attributed to year of service	783	830	875	918	960	

Example 2 - Average salary benefit, member contributions are a percentage of salary

CASE A

Contribution: front-loaded
Net benefit: back-loaded

Discount rate	4%	
Salary growth assumption	3%	Actual salary growth follows assumption
Lump sum benefit at retirement	100%	of average salary over career
Member contribution	10%	of salary

Attribution of salary related benefits: the effect of salary growth is anticipated in projection and attribution
All payments happen at year start

Year starting at timepoint:	***0***	***1***	***2***	***3***	***4***	***5***
Salary	10,000	10,300	10,609	10,927	11,255	
Projected benefit at retirement						10,618
Projected benefit at retirement attributed to year of service	2,124	2,124	2,124	2,124	2,124	
Member contribution	1,000	1,030	1,061	1,093	1,126	
Member contribution plus interest to retirement	1,217	1,205	1,193	1,182	1,171	
Net benefit attributed to year of service	907	919	930	942	953	

CASE B

Contribution: flat
Net benefit: flat

Discount rate	3%	
Salary growth assumption	3%	Actual salary growth follows assumption
Lump sum benefit at retirement	100%	of average salary over career
Member contribution	10%	of salary

Attribution of salary related benefits: the effect of salary growth is anticipated in projection and attribution
All payments happen at year start

Year starting at timepoint:	***0***	***1***	***2***	***3***	***4***	***5***
Salary	10,000	10,300	10,609	10,927	11,255	
Projected benefit at retirement						10,618
Projected benefit at retirement attributed to year of service	2,124	2,124	2,124	2,124	2,124	
Member contribution	1,000	1,030	1,061	1,093	1,126	
Member contribution plus interest to retirement	1,159	1,159	1,159	1,159	1,159	
Net benefit attributed to year of service	964	964	964	964	964	

CASE C

Contribution: back-loaded
Net benefit: front-loaded

Discount rate	2%	
Salary growth assumption	3%	Actual salary growth follows assumption
Lump sum benefit at retirement	100%	of average salary over career
Member contribution	10%	of salary

Attribution of salary related benefits: the effect of salary growth is anticipated in projection and attribution
All payments happen at year start

Year starting at timepoint:	***0***	***1***	***2***	***3***	***4***	***5***
Salary	10,000	10,300	10,609	10,927	11,255	
Projected benefit at retirement						10,618
Projected benefit at retirement attributed to year of service	2,124	2,124	2,124	2,124	2,124	
Member contribution	1,000	1,030	1,061	1,093	1,126	
Member contribution plus interest to retirement	1,104	1,115	1,126	1,137	1,148	
Net benefit attributed to year of service	1,020	1,009	998	987	976	

Appendix C—Details of comments received from the IFASS and the EBWG

We received 19 responses on the questions below:

Q1. Under IAS 19 (1998), what is the prevalent approach to account for contributions from employees to defined benefit plans, (1) where the actuarial and investment risks are shared between the employees and the employer and (2) where such risks are not shared among them?

Q2. If you have already applied IAS 19 (2011), what is the prevalent approach to account for contributions from employees to defined benefit plans, (1) where the actuarial and investment risks are shared between the employees and the employer and (2) where such risks are not shared among them?

Q3. Based on your response to Q1 or Q2, would your view be that there is diversity in practice for such contributions from employees? If yes, please explain the basis for your view.

Q4. If you have not yet applied IAS 19 (2011), do you have the same concern as the submitter that there will be diversity on the interpretation of paragraph 93 of IAS 19 (2011)?

Below are details of the responses, which are edited to the extent that respondents are kept anonymous.

Respondent A

We have not seen plans with employee contributions, except for one case which is being phased out.

Respondent B

Plans which require contributions from employees, such as described in the submission, are not developed in our jurisdiction.

Respondent C

Q1: The prevalent approach is to deduct them from service cost (not observable) or include them as a negative item in net periodic pension cost (observable).

Q2: We are not aware of early adopters in our jurisdiction.

Q3: There have been no early adopters to our best knowledge.

Q4: Yes, not only for the reasons stated by the submitter (which case description is very common for pension plans in our jurisdiction) but also based on our position paper in this respect.

Respondent D

Q1: First of all we would like to point out that there are only a few instances observable in which it is agreed that employees contribute to defined benefit plans (such agreements are more exception than rule). Further, according to our knowledge, under IAS 19 (1998) there is no such differentiation in terms of sharing the investment risks between the employees and the employer – at least not in terms of applying IAS 19 (1998). In other words – under IAS 19 (1998) there is no prevalent view of what a "risk-sharing feature" is or how it is to be understood. Such a differentiation is not applied under IAS 19 (1998).

a) In instances, in which the contributions by employees lead to Plan Assets, the current service costs are deducted by these contributions.

b) In other instances, in which a reduction in salary is agreed but not used to build up Plan Assets, two approaches have been observed in practice of how they are accounted for:

- simply a reduction in personnel expenses, and
- full personnel expenses but a reduction in current service costs;

However, for both approaches the reduction is accounted for the same time the contribution is made.

Q2: Not applicable.

Q3: Not applicable.

Q4: Yes, we do. According to our observations:

- the term “risk-sharing feature” has neither been properly defined nor is there a consistent understanding of the term.
- the current discussion proofs that different understandings are evolving (also with respect to the two terms “contributions from employers ... linked to service” on one hand and “contributions from employers, which are required to reduce a deficit arising from losses on plan assets or actuarial losses” on the other hand).
- IAS 19.93 (2011) should be further explained or interpreted – specifically the interaction of IAS 19.70 (2011) and IAS 19.93 (2011).
- divergent interpretations are emerging.

Respondent E

Q1: Since IFRSs have been adopted by a very few entities, I don't think we have enough examples for this question. Additionally, although most entities in our jurisdiction have defined benefit plans, there are relatively few plans with employee contributions. Under our local GAAP, the contributions from employees to defined benefit plans are largely accounted by reducing the total defined benefit cost for the amount of the contribution.

I feel that 'risk sharing' should be defined for the purpose of IAS 19 more carefully because there are several meanings for it generally. In the cash balance plans, it is stipulated in the terms of the plan to apply the specified market yield in order to calculate the individual credit account. This feature has some risk sharing effect of investment while the specified market yield does not necessarily stand for actual investment risks strictly. Or, it is negotiable taking into account the whole economical environments including investment performance between the employer and the labour union to update the price unit of the accumulated points of the individual account under the point system of defined benefit plan. Or, it is virtually negotiable to share contribution between employer and employees or to reduce the benefits when the catastrophic turmoil of financial market takes place. Many argue that the lump sum plan has the risk sharing feature where the longevity risk is born by the employee individually while the investment risks are born by the employer.

And some argue that the risks are always shared by the employees and employer within the total personnel expenses.

Q2: Not applicable.

Q3: I don't think that there is significant diversity in practice under the IAS 19 (1998). But, I am strongly afraid that there will be diversity in practice under the IAS 19 (2011). Basis of my view is that it looks almost impossible to apply in practice straight the wording of paragraph 93 of the IAS 19 (2011), so that the adventurous interpretation is to be necessary.

Q4: Yes

Why don't you discuss the third parties' contribution? This is very controversial in practice, too. I believe that this point was discussed at the IASB regarding the case of Employees' Pension Funds in a particular jurisdiction.

Respondent F

Q1: Under IAS 19 (1998), the prevalent approach to account for contributions from employees to defined benefit pension plans in our jurisdiction is to deduct either actual or expected employee contributions for the period from the total current service cost for the period and use the net amount as the current service cost in the calculation of pension expense. This is the prevalent approach in both (1) where the actuarial and investment risks are shared between the employees and the employer and (2) where such risks are not shared among them.

In our jurisdiction, many defined benefit pension plans require members to contribute to the plan while actively employed and participating in the plan. However, it is very rare for these plans to share actuarial and investment risks between employees (whether active or inactive) and the employer. We have some defined benefit pension plans with cost-sharing arrangements under which the level of active member contributions will fluctuate year by year depending on the funded position of the plan, but those contributions are made only by active members of the plan for future service.

Q2: We are not aware of any plans that have early adopted IAS 19 (2011), and thus, we have no comment on the question asked

Q3: Based on our response to Q1, we think that there is very little, if any, diversity in practice in our jurisdiction for such contributions from employees using IAS 19 (1998).

Q4: Our interpretation of the words italicised in the submission is that the current obligation is reduced by the expected employee contributions in future years. This interpretation does not seem logical. Contributions to service costs in future periods do not relate to the current obligation, but to the increase in the obligation each year as a result of service in those years. A literal interpretation of this paragraph, especially the emphasized sentence, seems to produce a non-sensible result. An actuary with a leading benefit consulting firm that was part of the staff's outreach explains:
"… it seems non sensible to treat expected employee contributions under a funded pension plan as negative benefit payments when calculating the DBO, thereby generating an amount that represents only the company portion of the obligation and then comparing that to full assets, which include both company and employee contributions. Doing so would grossly overstate the funded position of such a pension plan."
We do not think that paragraph 93 of IAS 19 (2011) was included in the exposure draft. If our interpretation of the paragraph is correct, it seems to produce a result that is not representationally faithful. If our interpretation is incorrect, we would like clarification as to how the paragraph should be applied.

We will not be surprised if diversity in practice emerges on the interpretation of paragraph 93 of IAS 19 (2011). Our interpretation, which seems to be shared by others, is a significant change from previous practice. It is difficult to understand and no adequate explanation has been provided. Therefore, we think that some companies will strive to find a justification to continue with their previous accounting while some will feel constrained to follow the accounting described above.

Addendum for defined benefit non-pension post-retirement plans

We would also like to note that for defined benefit non-pension post-retirement plans, the prevalent approach under IAS 19 (1998) is to account for payments by retirees of a portion of the premium as a negative benefit when determining the defined benefit obligation.

Respondent G

Q1: The practice usually observed is the following:

a) Where the employee contributions are a fixed percentage of the total DB contributions (say 10% of the total DB contributions), the share of the employer only (so, 90% in the example) is used considered to compute the DBO. So, it actually means that the DBO that will be recognised in the financial statements will be 90% of the "total" DBO (i.e. calculated as if the entire benefit were charged to the employer)

b) In the other cases (typically, the employer contribution is determined as a percentage of the employee salary, say: 2% of the annual salary), the DBO is measured with respect with the total obligation (irrespective of who funds what) and offset (where applicable) by the entire value of plan assets (resulting from the investment of both employee and employer contributions).

Q2: I have not been asked to apply IAS 19 (2011) anticipatively, essentially because of the uncertainty related to some topics such as the treatment of taxes (no guidance given) and … the employee contributions

Q3: As far as the plans covered by the first bullet of my answer to Q1 are concerned, the practice is likely to be kept.

As far the plans covered by the second bullet point of my answer to Q1
I understand that paragraph 93 was considered to be clarification rather than a new measurement rule. And this, in spite of the practice I have observed (see my answer in Q1). Conscious of the fact that these "clarifications" could lead to some fundamental changes with respect to current practices, I had asked for some (informal) confirmation of the consequences of paragraph 93, some months ago. The answer received confirmed my understanding and also confirmed that it was the Board's intention to clarify the treatment of the employee contributions to make sure that only those related to past service are deducted. From these informal exchanges,

I also understood that it was acknowledged that benefits funded through employee contributions and employer contributions usually grow at different paces and that the net benefit approach was a “pragmatic/feasible” way of dealing with the employee contribution issue.

Based on these considerations, in the example given in Q1, second bullet point, I understand that under IAS 19 (revised 2011) the defined benefit liability would be determined following the net defined benefit approach, and :

- DBO recognised would be equal to “entire DBO” - “unpaid” employee DBO
- Pension Plan Assets include assets resulting from the investment of both employee and employer contributions

The “unpaid employee” DBO can be approached by a calculation similar to “DBO_employee - Assets_employee, where DBO_employee and Assets_employee are the DBO and the pension plan assets resulting from the employee contributions. When comparing to the current practice, we can see that the defined benefit liability would be (assuming no unrecognised items) under the current text:

- Current IAS 19 : DBO - Assets = (DBO_employer + DBO_employee) - (Assets_employer + Assets_employee)
- Amended (2011) IAS 19 :

  DBO - Assets = (DBO_employer + DBO_employee - “unpaid employee DBO”) - (Assets_employer + Assets_employee), or - in a first approach: DBO - Assets = DBO_employer - Assets_employee

Hence, depending on the result of “DBO_employee - Assets_employee”, the defined benefit liability may be different.

The extent of the difference may become significant in some cases and might, so, invite employers to choose for one interpretation rather than for another one.

The practical computational difficulties met by some in determining the “unpaid employee DBO” may also invite some to keep the current practice (see Q4).

Q4: The practical issue (front- or back-end loading features depending on the value of assumptions) is clearly one of the practical difficulties that an employer can meet.

It also true that for some plans funded through a collective capitalisation system, it may be difficult to retrieve individual past employee contributions.

The Board clearly wanted to clarify a point but the amendment is far more than a clarification for many entities and for the latter ones, it indeed may be a real change in the measurement method.

Respondent H

In our jurisdiction we are not aware of any DB Plans where the risk of plan deficits and/or surplus is shared with employees through their contributions to the plan.

A literal reading of the wording of paragraph 93 may suggest that compulsory superannuation contributions in our jurisdiction (currently 9% of salary) might be considered to be an 'employee contribution'. However, we are not aware of anyone making this interpretation in practice.

Respondent I

We are not aware that this is an issue for defined benefit plans in our jurisdiction.

Respondent J

Q1: No situation of contributions from employees where the actuarial and investment risks are shared between the employees and the employer was found.

Q2: IAS 19 (2011) has not yet applied.

Q3: We have not come across situations where diversity would exist

Q4: We have not come across situations where diversity would exist.

Respondent K

We have made enquiry around and in our jurisdiction and it appears that not many preparers have yet applied IAS 19 (2011) and, if they have done so they have (as your submitter has suggested) ignored paragraph 93 because as suggested, this version of IAS

19 was not intended to address measurement. It is also our understanding that measurement will be addressed in the longer term IASB project.

We are therefore not sure how much diversity in practice there will be as a result of paragraph 93. We are with the submitter that the paragraph was intended to apply to defined benefit obligations and not to other plans – perhaps it would be advantageous if the IASB clarified this matter.

<u>Respondent L</u>

Q1: (1) Where the actuarial and investment risks are shared between the employees and the employer: we understand that there is varying practice under IAS 19 (1998) and that was part of the motivation for the amendments to IAS 19.

(2) Where such risks are not shared among them: we understand that typical practice is for the member contributions to be deducted from a "gross service cost" in the calculation of the cost attributable to the employer. The defined benefit obligation is also measured on a gross basis i.e. on a basis that includes the component of the obligation funded from member contributions, because there is no risk sharing it is the total defined benefit obligation that the employer is underwriting.

Q2: We are not aware of any significant early adoption of IAS 19 (2011) hence we are not able to provide any comment at this time. In discussions with auditors and clients, though, many are taking a view contrary to the new wording in IAS 19 (2011), arguing that the IASB stated that it did not want to change measurement principles.

Q3: As indicated in our response to Q1 we believe that there may be varying practice where there is risk sharing under IAS 19 (1998). We are not aware of significantly varying practice where risks are not shared. We are not in a position to comment on actual variation in practice under IAS 19 (2011) at this stage.

Q4. We share the concern of the submitter that there is a potential for significant diversity in interpretation of paragraph 93 of IAS 19 (2011), in particular where risks are not shared. The requirement in paragraph 93 that contributions should be treated as a negative benefit could be interpreted as either:

(a) Actual member contributions for a given year should be accounted for in the year that they are due. The attribution to service would be that any contributions received before the current reporting period are attributable to past service, contributions received during the reporting period are attributable to that period and contributions received after the period are attributable to future service. The contributions would be added to the employer component of the service cost when undertaking a reconciliation of the defined benefit obligation. For example:

DBO 1/1/20x1	150,000
Employer service Cost	10,000
Member Contributions	5,000
Benefit Payments	-20,000
Actuarial losses/(gains)	10,000
DBO 1/1/20x2	155,000

The member contributions are treated as a "negative benefit" because the entry in the reconciliation in this case is positive and increases the DBO unlike benefit payments which are negative and decrease the DBO. This is consistent with our understanding of current practice.

- or, alternatively:

(b) All member contributions over all period would be valued and attributed to periods of service in accordance with the benefit formula or a straight line basis in accordance with paragraph 70. We note that even where contributions are a level percentage of salary over all service, attribution on a straight line basis does not produce the contributions actually paid in the particular year. This interpretation would also be problematic if it results it in an increase in the DBO for contributions not yet received from employees. We assume that there would need to be some offsetting adjustment to Plan assets (a contribution receivable). Clearly, doing this retroactively is messy in practice and at best dubious in practical value.

Below is a table (still work in progress) that Respondent L provided to staff based on their own outreach activities to date in the light of the issue.

	Do employees make contributions to DB plans where there is risk sharing?	How are member contributions currently treated in the calculation of the service cost	How are benefits financed from member contributions treated in the defined benefit obligation	How are assets financed from member contributions treated in the fair value of assets	Are there any other adjustments to the surplus/deficit of accounting for member contributions
US	No or very rarely and there is no general practice	N/A	N/A	N/A	N/A
Japan	No or very rarely and there is no general practice	N/A	N/A	N/A	N/A
Australia	Very rarely and there is no general practice	N/A	N/A	N/A	N/A
India	No or very rarely and there is no general practice	N/A	N/A	N/A	N/A
Spain	No or very rarely and there is no general practice	N/A	N/A	N/A	N/A
Finland	No or very rarely and there is no general practice	N/A	N/A	N/A	N/A
Mexico	Very rarely	Deducted from the gross service cost	No distinction	No distinction	No
Germany	Yes - significant but not in the majority of cases	(i) Deducted from the gross service cost (ii) sometimes, a net approach is used	(i) Included in the DBO (ii) excluded from the DBO	(i) Included in Plan Assets (ii) excluded from Plan Assets	Generally not - but possible when taking account of the Asset Ceiling
UK	No or very rarely and there is no general practice	N/A	N/A	N/A	N/A

	Do employees make contributions to DB plans where there is no risk sharing?	How are member contributions currently treated in the calculation of the service cost	How are benefits financed from member contributions treated in the defined benefit obligation	How are assets financed from member contributions treated in the fair value of assets	Are there any other adjustments to the surplus/deficit of accounting for member contributions
US	We believe there is common practice although the number of cases is small.	Typically subtracted from total service cost	No distinction	No distinction	No
Japan	This is sufficiently common that there is generally accepted practice	Subtracted from total service cost (in line with the Japanese GAAP)	No distinction	No distinction	No
Australia	This is sufficiently common that there is generally accepted practice	Subtracted from total service cost	No distinction	No distinction	No
India	No or very rarely and there is no general practice	N/A	N/A	N/A	N/A
Spain	No or very rarely and there is no general practice	N/A	N/A	N/A	N/A
Finland	Very rarely	Subtracted from total service cost	No distinction	No distinction	No
Mexico	Very rarely	Deducted from the service cost	No distinction	No distinction	No
Germany	Yes - but rare. Also, such benefits are generally dealt with by the net approach	Net approach is used	Excluded from the DBO	Excluded from Plan Assets	No
UK	This is normal practice	Subtracted from total service cost	No distinction	No distinction	No

Respondent M

In our jurisdiction, contributions from employees to defined benefit plans are not allowed except for some public pension plans, which are not required to apply IAS 19 as of now.

Respondent N

Q1: As the paper notes it seems that employee contributions have, in terms of IAS 19(2008), been used to reduce service costs. This applies in plans where actuarial and investment risks are borne by the employer. This issue was not clear in IAS 19(1998). In the table of concordance for IAS 19(2011) the new paragraphs 92-94 refer to the old paragraph 91, which applies to post-retirement medical costs and not to other defined benefit plans, whereas this query relates to all defined benefit plans. In our jurisdiction it doesn't seem that we have plans that employees and employers share all actuarial and investment risks. However, there are schemes where employees share in the upside risks but not the downside risks as a result of legislation dealing with surpluses in pension funds making provision for those surpluses to be split between employers and employees. Where these surpluses are not allocated they are not included in the employer's asset. In these cases the net funding of the defined benefit plan is looked at to determine the liability or the extent of any asset. It appears that this legislation hasn't changed how employee contributions are accounted for.

Q2:As noted in the response to question 1 there does not seem to be schemes in our jurisdiction where all actuarial and investment risks are shared between employers and employees and so while only a few companies have adopted IAS 19 (2011) the accounting for employee contributions does not seem to have changed.

Q3: As noted above there doesn't seem to be any diversity in practice.

Q4: We are not convinced we share the submitter's concern as the concern is not clearly expressed. The submitter highlights certain wording in paragraph 93, which seems to be, in essence, the same as how the accounting in terms of IAS 19 (1998) is described; so what is different is not clear. Paragraph 93 deals with two possible methods of accounting, with the submitter not discussing when one approach would apply and not the other. It seems that the argument is that the second method (i.e.

reduce measurement of liability) should apply when fund surpluses and/or deficits are shared with employees, but there is no discussion on how to distinguish this from the other method (i.e. reduce service cost). It would seem that if one was able to argue that contributions are linked to service then there is no change in accounting; whereas the submitter seems to argue that if there is a sharing of risks then the second method should be applied, regardless of whether the contributions are linked to service. Accordingly it seems that generally a 'no change' status can be achieved if an entity is able to show a linkage to service, even if there is a sharing of risks. This means that the submitter's comment that paragraph 93 could be ignored by some is not entirely correct - it seems this comment is based on a presumption that a change required by IAS 19(2011) was not intended, whereas based on the above we would submit that based on the wording a change would not be required if the contribution is linked to service. Thus if any clarity is needed it is more to distinguish between when the various methods should be applied, particularly when there are elements of service and sharing of risks. It is also questionable whether the submitter is correct in assuming the wording applies when surpluses and deficits are shared between employer and employee as the wording in paragraph 93 only refers to deficits and actuarial losses. Until now we have only had to cover the situation where employees are required to pay an additional amount for a while to make up a deficit, but because this is unlikely in our jurisdiction, we didn't perceive this method being used in this country.

Respondent O

Given the fact that the number of entities that have adopted IFRSs is limited and that only an employer bears that kind of risks under the typical defined benefit plans in our jurisdiction, we are afraid we are not able to provide you detail information on the general approach to account for the contributions by employees.

Respondent P

In the cases we have observed among entities in our jurisdiction, employee contributions have been based on a percentage of salary, i.e. actuarial and investment risks are not shared between the employees and the employer. Those employee contributions have been accounted for as a reduction in salary, not as reduced service cost.

Based on the input we have received, we have not observed other kinds of contributions from employees, i.e. not made any observations where the actuarial and investment risks are shared between the employees and the employer.

Respondent Q

Q1: We received two comments that the prevalent approach was to deduct the contributions from service cost. One comment noted that an alternative seen in practice was also to include them as a negative item in net periodic pension cost.

We received two comments that they did not have experience with contributions from employees where the actuarial and investment risks are shared between the employees and the employer.

Q2: We have not seen early application of IAS 19 (2011).

Q3: We have not seen diversity in practice in this respect.

Q4: We received one comment that they have a similar concern as the submitter on interpretation of paragraph 93 of IAS 19 (2011).

Respondent R

Q1: In our jurisdiction, employee contributions are currently accounted for as a reduction of service cost under IAS 19 (1998) for all defined benefit plans. We are not aware of significant diversity in practice.

Q2: We have so far not seen an early adoption of IAS 19 (2011) in our jurisdiction.

Q3: No, we are not aware of diversity in practice among entities in our jurisdiction based on the currently applied rules of IAS 19 (2008).

Q4: Based on our present information, we understand that the new guidance in paragraph 93 of IAS 19 causes most entities to perform a detailed analysis of allocation of the actuarial and investment risks between the employer and the employees. We expect that most entities will identify some risk sharing according to that paragraph and may consider the employee contributions as a reduction in their DBO (negative benefit).

The overall impact and significance of the risk sharing effect will depend on the specific terms of the pension plan (e.g. growth rate of contributions) and the structure (ageing). However, overall we do not expect a significant impact regarding the remeasurement of the DBO. We do neither expect a significant diversity in practice.

Respondent S

Q1: In terms of IAS 19 (1998), the contributions from employees to defined benefit plans are treated as a reduction of the service cost of the entity, including when there is a provision in the defined benefit plan that the employee participates in actuarial losses and low returns in investments.

Q2: We have not yet applied IAS 19 (2011) in our jurisdiction.

Q3: Since we have not yet applied IAS 19 (2011) in our jurisdiction, to date we have not observed any diversity in practice, nor are we aware of any diversity in interpretation of the cited paragraph of the standard

Q4: Yes, we share the concern of the submitter regarding potential diversity in the interpretation of the cited paragraph. Although the first lines of paragraph 93 of IAS 19 are not subject to misinterpretation, the final part of the paragraph is confusing where contributions from employees to defined benefit plans are considered to be a "negative benefit"; we believe the term should be changed to "negative service cost", which would not be subject to misinterpretation.