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Wayne Upton
Chairman of the
IFRS Interpretations Committee
30 Cannon Street
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United Kingdom

Berlin, 31 July 2012

Dear Wayne,

IAS 19 Employee Benefits – Accounting for contribution-based promises – Impact of the 2011 amendments to IAS 19

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IFRS Interpretations Committee's publication in the May 2012 *IFRIC Update* of the tentative agenda decision not to take onto the IFRSIC's agenda our request for an Interpretation of IAS 19 *Employee Benefits* with respect to providing guidance on the 'Accounting for contribution-based promises – Impact of the 2011 amendments to IAS 19'.

We accept the IFRS IC's decision not to take this item onto its agenda for the reasons set out in the tentative agenda decision. However, we believe the agenda decision should have additional wording to clarify the following terms used in the tentative agenda decision

- 'risk-sharing features' and
- 'elements of risk-sharing arrangements between employees and employers'.

In our view, it would be helpful if the agenda decision included a reference to the wording of IAS 19.BC144 (2011). Specifically we refer to the statement in BC144 that (only) features that share the benefits of a surplus or the cost of a deficit between the entity and the plan participants included in defined benefit plans are risk-sharing features. It is our understanding of BC144 that this refers to situations in which additional payments must be made to eliminate a plan deficit or in which a surplus is distributed by the plan, and where these additional payments or the distributions, respectively, are shared by employer and employee.

We understand that contribution-based promises as we had described them in the *potential agenda item request* do not include risk-sharing features as described above. This is because all assets, including the returns generated by them, will be used to provide employee benefits so that no surplus can arise. Also, there is no risk-sharing in the context of a deficit – should the return generated on the contributions fall short of the guaranteed minimum return, the employer fully covers any balance. Put differently, there is no risk which will be shared between the employer and the plan participants.

In fact, contribution based promises are characterised by a variability relating to the contributions (payments) to be made into the plan on one hand and a variability relating to the amount of employee benefits to be received by plan participants on the other hand – however, the agenda decisions should make clear that these two types of variability do not constitute 'risk-sharing features'.

Because IAS 19 (2011) does not define the term 'risk-sharing features' we see a risk that some constituents may raise the question whether the type of promise on which our *potential agenda item request* is based may be deemed to contain 'risk-sharing features' which might be affected by the amendments to IAS 19. However, in our view, these changes do not affect the accounting for the plans described in our submission for the following reasons:

- The standard measurement procedure of IAS 19 (ie 'project and pro-rate') is likely to lead to the recognition of a DBL which lacks the definition criteria of a 'liability' (cf Conceptual Framework 4.15) and which does not constitute a 'present obligation' (as the entity is at present obliged only to use the current 'surplus' in the plan to provide employee benefits (cf IAS 19.88 (2011)).

- Using the fair value of the plan assets so as to approximate the DBO (IAS 19.8 (2011) 'the present value ... of expected future payments required to settle the obligation') is consistent with the central aim of measurement and the setting of assumptions under IAS 19 (2011) (IAS 19.76 (2011) 'Actuarial assumptions are an entity's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits.').

Based on this analysis, it is appropriate in our view to apply accounting based on the guidance provided by IFRIC D9 to the type of promise on which our *potential agenda item request* is based.

If you would like further clarification of the issues set out in this letter, please do not hesitate to contact me.

With best regards,

Liesel Knorr

President

Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

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July 17, 2012

(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* — Accounting for contribution-based promises – Impact of the 2011 amendments to IAS 19

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 contribution-based promises in light of the 2011 amendments to IAS 19 that clarified the treatment of risk-sharing features related to defined benefit obligations. This tentative agenda decision was published in the May 2012 IFRIC Update.

The view expressed in this letter takes into account comments from individual members of the AcSB staff but does 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.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail peter.martin@cica.ca), or Nancy Estey, Principal, Accounting Standards at +1 416 204-3271 (e-mail nancy.estey@cica.ca).

Yours truly,

Peter Martin

Peter Martin, CA
Director,
Accounting Standards

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Mr Wayne Upton
Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
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Email: ifric@ifrs.org

18 July 2012

Dear Mr Upton,

Tentative agenda decision: IAS 19 Employee Benefits – Accounting for contribution-based promises - Impact of the 2011 amendments to IAS 19

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the May 2012 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda a request for interpretation of the effect, if any, of the 2011 amendments to IAS 19 *Employee Benefits* on the accounting for contributions-based promises.

Whilst we agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the principal reason set out in the tentative agenda decision that the Board have made it clear that the measurement of contribution-based promises was outside the scope of the 2011 amendments, we note that the tentative agenda decision also includes comments on contribution-based promises with elements of risk-sharing arrangements and on the presentation of contribution-based promises. These issues are not fully explained by IAS 19(2011) and we believe that they should be dealt with as part of the fuller consideration of such contribution-based promises proposed elsewhere in the May 2012 *IFRIC Update*.

Accordingly, we recommend that the tentative agenda decision be amended to read as follows:

"The Committee received a request seeking clarification about the accounting in accordance with IAS 19 (2011) for contribution-based promises. An underlying concern in the submission was whether the revisions to IAS 19 in 2011, which for example clarified the treatment of risk sharing features related to defined benefit obligations, affect the accounting for contribution-based promises.

~~"The Committee noted that the 2011 amendments to IAS 19 that clarified the treatment of risk-sharing features address arrangements in which the cost of a pension promise is shared between the employee and the employer. It did not intend to address elements specific to contribution-based promises. Accordingly, the Committee does not expect the 2011 amendments to cause changes to the accounting for contribution-based promises, unless such promises also include elements of~~

~~risk-sharing arrangements between employees and employers. The Committee also noted that the amendments in 2011 might affect how changes in contribution-based promises are presented. Finally,~~ T~~t~~he Committee noted that the Board expressed, in paragraph BC148 of the revised standard, that addressing concerns about the measurement of contribution-based promises and similar promises was beyond the scope of the 2011 amendments. Accordingly, the Committee does not expect the 2011 amendments to cause changes to the accounting for purely contribution-based promises, although the clarifications on the treatment of risk-sharing features will be applicable to any risk sharing feature included in such a promise."

On the basis of the analysis described above, the Committee decided not to add the issue to its agenda, it will however decide, at a future meeting, whether to address the accounting for contribution-based promises (see Committee work in progress below)."

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,

Veronica Poole
Global IFRS Leader
Technical

pwc

IFRS Interpretations Committee
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30 Cannon Street
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26 July 2012

Dear Sirs

IAS 19 *Employee benefits*—Accounting for contribution-based promises – Reconsideration of Draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*

Tentative agenda decision relating to:

IAS 19 *Employee Benefits*—Accounting for contribution-based promises - Impact of the 2011 amendments to IAS 19

We are responding to the above tentative agenda decision, published in the May 2012 edition of the IFRS Interpretations Committee Update, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms that commented on the tentative agenda decision. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Reconsideration of Draft Interpretation D9

We support the Interpretations Committee's decision that the accounting for employee benefit plans with a promised return on contributions or notional contributions explored in Draft Interpretation D9 (IFRIC D9) should be further considered.

Many funded contribution-based promise arrangements promise employees a benefit based on the higher of a fixed or actual return on employer and employee contributions. Some believe that IAS 19 requires an entity to determine the defined benefit obligation by estimating the future return on plan assets to determine the benefits to be paid to employees, and then discounting this amount using the yield on high-quality corporate or government bonds. This approach generally results in the entity recording a liability because the return on plan assets is usually higher than the discount rate. However, there will be no additional outflow of economic benefits to settle the obligation for many of these plans, because any payment to the employees will be funded from the investment returns.

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Recording a liability does not reflect the economic substance of the arrangements or provide useful information to the users of the financial statements. We believe the principles proposed in IFRIC D9 reflect the economic substance of these plans and provide useful information about the obligations of these types of plan. We are aware that there remains divergence in the accounting for these arrangements under the existing version of IAS 19, and we believe that divergence is likely to continue under the 2011 amendments to IAS 19. Some entities apply the principles in IFRIC D9, but others recognise a liability. We would therefore welcome further clarification that the accounting proposed in IFRIC D9 is appropriate for these types of plan.

However, we are concerned by the statement in the tentative agenda decision that the IASB did not intend to change the accounting for these types of promise unless they include elements of risk-sharing. For the reasons described below, we believe the 2011 amendments to IAS 19 might have implications for entities that currently apply the principles in IFRIC D9.

Accounting for contribution based promises – Impact of the 2011 amendments to IAS 19

We are concerned that the tentative agenda decision addresses only contribution-based promises that do not contain elements of risk-sharing between the employer and the employee. We are also concerned that the tentative agenda decision does not address the specific changes to the words in IAS 19, which we believe might change the accounting for the types of plan addressed by IFRIC D9. The tentative agenda decision might not therefore reduce diversity in practice.

The tentative agenda decision states that the Committee does not expect the 2011 amendments to IAS 19 to cause changes to the accounting for contribution-based promise arrangements unless such promises also include elements of risk-sharing between employees and employers. Many of these types of plan share the risks of investment performance between the employer and the employee. It is therefore not clear that the tentative agenda decision applies to these plans. We believe that the tentative agenda decision should be revised to be clear about implications of the 2011 amendments to IAS 19 for plans that share investment risk.

The tentative agenda decision also states that the IASB did not intend to change the accounting for contribution-based promise arrangements. We are concerned that the accounting for many of the plans addressed by IFRIC D9 might have been changed inadvertently by some additional wording included in the 2011 amendments to IAS 19 and that the Board's intention is therefore not relevant. Paragraph 88(c) of IAS 19 now states, "The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria". This suggests that the measurement of the defined benefit obligation should reflect the present value of benefits to be paid on the basis of expected returns. This would be a change for those entities that have previously applied the guidance in IFRIC D9.

The basis for conclusions in paragraph BC143(c) now states that "any conditional indexation should be reflected in the measurement of the defined benefit obligation, whether the indexation or changes in benefits are automatic or are subject to a decision by the employer, the employee or a third party, such as trustees or administrators of the plan". Paragraph BC148 also states that "In the Board's view, projecting the benefit on the basis of current assumptions of future investment performance (or other criteria to which the benefits are indexed) is consistent with estimating the ultimate cost of the benefit, which is the objective of the measurement of the defined benefit obligation, as stated in paragraph 76". Both of these statements appear to preclude applying the guidance in IFRIC D9.

We believe that the Committee should reconsider whether these specific amendments to IAS 19 require entities applying the principles in IFRIC D9 to change the accounting for the types of plan addressed by IFRIC D9. The tentative agenda decision should then be revised to address the implications of these amendments.

If you have any questions in relation to this letter, please do not hesitate to contact John Hitchins (020 7804 2497) or Tony de Bell (020 7213 5336).

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers