

STAFF PAPER

13-18 September 2013

IASB Meeting

Project	Exposure Draft <i>Defined Benefit Plans: Employee Contributions</i>		
Paper topic	Comment letter analysis		
CONTACT(S)	Kazuhiro Sakaguchi	ksakaguchi@ifrs.org	+44 (0)20 7246 6930

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Introduction

1. In March 2013, the IASB published for comment the Exposure Draft *Defined Benefit Plans: Employee Contributions* (Proposed amendments to IAS 19).¹ The issue originated from two submissions to the IFRS Interpretations Committee (the ‘Interpretations Committee’), which recommended that the IASB amend the Standard. The comment period ended on 25 July 2013.
2. The Interpretations Committee will discuss the comment letter analysis at its meeting on 10 September 2013. Because IAS 19 (Revised 2011) is effective for annual periods beginning on or after 1 January 2013, we have decided to present the comment letter analysis to the IASB in the same month as we present the analysis to the Interpretations Committee. In our view, quick finalisation of this project would help entities implement the proposed amendments before the end of the reporting period for 2013 (subject to earlier application and endorsement in jurisdictions). We will orally present the views of the Interpretations Committee to the IASB.
3. This paper presents a summary of the feedback received and the staff proposal. Please refer to Staff Paper 15A for detail, which is a copy of Staff Paper 3 presented at the September 2013 IFRS Interpretations Committee meeting.

¹ <http://www.ifrs.org/Current-Projects/IASB-Projects/Defined-Benefit-Plans-Employee-Contributions/Pages/IAS-19-Employee-Benefits.aspx>

Feedback summary

4. 63 comment letters were received from six continents and global organisations including global accounting firms. All comment letters received can be found on the IASB's website.²

5. The IASB invited comments on the following specific questions:

Q1: The IASB proposes to amend IAS 19 to specify that contributions from employees or third parties set out in the formal terms of a defined benefit plan may be recognised as a reduction in the service cost in the same period in which they are payable if, and only if, they are linked solely to the employee's service rendered in that period. An example would be contributions that are a fixed percentage of an employee's salary, where the percentage of the employee's salary does not depend on the employee's number of years of service to the employer. Do you agree? Why or why not?

Q2: The IASB also proposes to address an inconsistency in the requirements that relate to how contributions from employees or third parties should be attributed when they are not recognised as a reduction in the service cost in the same period in which they are payable. The IASB proposes to specify that the negative benefit from such contributions is attributed to periods of service in the same way as the gross benefit is attributed in accordance with paragraph 70. Do you agree? Why or why not?

Q3: Do you have any other comments on the proposals?

6. For Q1, almost all of the respondents supported the proposed practical expedient to reduce complexity of the required calculations. One respondent that explicitly disagreed with the proposed amendments commented "we do not agree as we feel that all contributions from employees or third parties be attributed on the same basis".³ For those who agreed, about half of them agreed with the proposed amendments as worded in the Exposure Draft, whereas others requested further

² <http://www.ifrs.org/Current-Projects/IASB-Projects/Defined-Benefit-Plans-Employee-Contributions/Exposure-Draf-March%202013/Pages/Comment-letters.aspx>

³ International Association of Consultants, Valuators and Analysts

clarification of the proposed wording or more examples or application guidance to be added.

7. For Q2, the vast majority of the respondents supported the proposed amendments as worded in the Exposure Draft. Some respondents requested further clarification of the proposed wording or requested examples to be added when the proposed practical expedient is not applicable or an entity decides not to apply it.
8. For Q3, some respondents commented on the transition requirement.

Staff proposal for the revised wording of the proposed amendments

9. On the basis of the comment letter analysis (see Staff Paper 15A), we have identified the following points to be considered in the proposed amendments toward the final amendments:

Paragraph 93

- (a) age-based contributions should be included in the scope of the proposed practical expedient;
- (b) it should be noted that contributions are linked to salary as well as service;
- (c) contributions, if qualified for the proposed practical expedient, should be accounted for in the same way regardless of the timing of the payment to reflect accrual accounting; and
- (d) whether the attribution is based on straight-line or benefit formula should be determined for the gross benefit, and the negative benefit is to be separately attributed to employee service periods following either the straight-line or benefit formula as determined for the gross benefit, with the resulting net amount reported as the current service cost.

Paragraph 175

- (e) no change is necessary.

Footnote of paragraph BC150

- (f) the same clarification about attribution of negative benefit to be included in paragraph 93 should be included.

Paragraph BC143(b)

- (g) the same footnote for paragraph BC150 should be added to the term ‘net benefit’.

10. To reflect the points above, we think that the wording of the proposed amendments should be revised as follows (new text is underlined and deleted text is struck through). They show changes from the proposed wording in the Exposure Draft.

Paragraph 93

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 that are linked to service are attributed to periods of service as a negative benefit applying the same attribution method that paragraph 70 requires for the gross benefit ~~in the same way that the gross benefit is attributed in accordance with paragraph 70~~. However, if, and only if, contributions from employees or third parties are linked only solely to the employee’s salary and service rendered in the same period in which they are accrued payable, and independent of the number of years of service, the contributions may be recognised as a reduction in the service cost in that period. An example would be contributions that are a fixed percentage of the employee’s salary or contributions whose percentage depends on the employee’s age, so the percentage of the employee’s salary does not depend on the employee’s number of years of service to the employer.

Footnote of paragraphs BC150 and BC143(b)

- ¹ *Defined Benefit Plans: Employee Contributions*, issued in [date to be inserted after exposure], addressed an inconsistency in the requirements that relate to how contributions from employees or

third parties should be attributed when they are not recognised as a reduction in the service cost in the same period in which they are accrued payable. It specifies that the negative benefit from such contributions is attributed to periods of service applying the same attribution method that paragraph 70 requires for the gross benefit ~~in the same way that the gross benefit is attributed in accordance with paragraph 70~~. See paragraph BC5 of this Exposure Draft.

Question 1

Does the IASB agree that the wording of the proposed amendments should be revised as above?

Due process consideration

Re-exposure

11. Paragraph 6.25 of the IASB and the IFRS Interpretations Committee *Due Process Handbook* (the '*Due Process Handbook*') sets out the following guidance on determining whether re-exposure is necessary:

In considering whether there is a need for re-exposure, the IASB:

- (a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;
 - (b) assesses the evidence that it has considered;
 - (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and
 - (d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.
12. We note that the significant issues that respondents raised on the Exposure Draft are related to clarification of the wording (or scope) of the proposed amendments.

Our analysis in Staff Paper 15A addresses those issues. In our view, re-exposure is not necessary based on the re-exposure criteria.

Effective date

13. The IASB's due process requirement states that "the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements".⁴
14. IAS 19 is effective for annual periods beginning on or after 1 January 2013. The objective of the proposed amendments is to provide a relief in the accounting for contributions from employees or third parties. Consequently, we think that the mandatory effective date should be set as early as possible, while considering the fact that jurisdictions have sufficient time to prepare for the new requirements.
15. According to the IASB's work plan as at 29 July 2013,⁵ the proposed amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* is targeted to be finalised in Q4 2013. In this respect, we recommend that the mandatory effective date is set at 1 July 2014, with earlier application permitted.

Question 2

Does the IASB agree that:

- (1) re-exposure is not necessary based on the re-exposure criteria; and
- (2) the mandatory effective date is set at 1 July 2014, with earlier application permitted?

⁴ Paragraph 6.35 of IASB and IFRS Interpretations Committee *Due Process Handbook*.

⁵ <http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx>