

## STAFF PAPER

May 2014

## IFRS Interpretations Committee Meeting

Project	IAS 19 <i>Employee Benefits</i>		
Paper topic	Employee benefits plans with a guaranteed return on contribution or notional contributions		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

1. The IFRS Interpretations Committee (the ‘Interpretations Committee’) received a request seeking clarification about the accounting in accordance with IAS 19 *Employee Benefits* (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.
2. In May 2012, the Interpretations Committee decided to reconsider the work it had done when it issued Draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*. The Interpretations Committee had previously referred the issue to the IASB to be included in the IASB’s project on post-employment benefits. Although the IASB had initially intended to address contribution-based promises in that project, it later decided to defer this work to a future broader project on employee benefits.
3. The Interpretations Committee had attempted to develop a solution to improve the financial reporting for employee benefit plans with a guaranteed return on contributions or notional contributions.
4. However, the Interpretations Committee was unable to reach a consensus in identifying a suitable scope for an amendment that would both:

- (a) improve the accounting for a sufficient population of plans such that the benefits would exceed the costs; and
  - (b) limit any unintended consequences that would arise from making an arbitrary distinction between otherwise similar plans.
5. The Interpretations Committee observed that the accounting for the plans is an important issue. These plans are part of a growing range of plan designs that incorporate features that were not envisaged when IAS 19 was first developed.
  6. The accounting for these plans in accordance with IAS 19 is problematic and has resulted in diversity in practice. In the Interpretations Committee's view, developing accounting requirements for these plans would be better addressed by a broader consideration of accounting for employee benefits, potentially through the research agenda of the IASB.
  7. The Interpretations Committee acknowledged that reducing diversity in practice in the short term would be beneficial. However, because of the difficulties encountered in making progress with the issues, the Interpretations Committee tentatively decided to remove the project from its agenda in January 2014.

### **Comments received on the tentative agenda decision**

8. We received three comment letters on the tentative agenda decision that was published in February 2014.
9. One respondent (the Accounting Standards Committee of Germany (ASCG)) notes the Interpretations Committee's view that this issue is too broad to be addressed in an efficient manner. It also thinks that the plans are part of a growing range of plan designs and the accounting for these plans results in diversity in practice. Therefore, the ASCG welcomes guidance on how to account for these plans.
10. The ASCG urges the IASB to carry out a comprehensive review of IAS 19 rather than a piecemeal approach, because the current and past issues discussed by the Interpretations Committee imply that a more fundamental review of IAS 19 by the IASB is warranted in the near future.

11. Furthermore, the ASCG suggests that the IASB clearly define the scope of issues that the Interpretation Committee is able to solve, to answer issues more rather than rejecting them for formal reasons. This suggestion may result in amendments to the IFRS Foundation Due Process Handbook (the ‘Due Process Handbook’).
12. Another respondent (Deloitte Touche Tohmatsu Limited (DTTL)) states that it agrees with the Interpretations Committee’s tentative decision: if the Interpretations Committee is unable to reach a consensus on the accounting for such plans, it agrees with the decision to remove this project from its agenda.
13. The DTTL would encourage the IASB to address employee benefit plans with a guaranteed return on contributions or notional contributions ahead of any future, broader research project on employee benefits, because divergent practices are likely to develop as the range of such plans grows, in the absence of standard-setting activity.
14. The other respondent (the European Securities and Markets Authority (ESMA)) has concerns and states that ESMA strongly agrees that reducing diversity in practice in the short term would be beneficial. ESMA believes that the issue is sufficiently limited and diversity in the application of the IAS 19 is widespread in order to be addressed by the IASB as a separate project in the near future and urges the Interpretations Committee to recommend this course of action to the IASB.

## Staff analysis

15. We note that the points described in paragraphs 9 and 12 are in line with the tentative decision.
16. We note that the point described in paragraph 11 is beyond the scope of this specific issue. We think that the Interpretations Committee should not modify its specific agenda decision in respect of this point. We think that this point could be considered when the IASB and the Interpretations Committee next review their procedures and interactions.

17. The points described in paragraphs 10 , 13 and 14 imply that we should clarify the Interpretations Committee’s suggestion that the IASB start a research on IAS 19 in the near future.
  
18. Consequently, we think that the Interpretations Committee should clarify its suggestion that the IASB progress its research on IAS 19 in the near future. We think that the IASB should consider prioritising work on employee benefit plans with a guaranteed return on contributions or notional contributions if it does not have the resource to address the accounting for employee benefits more broadly in the medium term.

### Staff recommendation

19. On the basis of the comments received on the tentative agenda decision and our analysis of them, we recommend that the Interpretations Committee should finalise the agenda decision with clarification of its suggestion to the IASB. The proposed wording of the final agenda decision is presented in **Appendix A** of this Agenda Paper.

### Questions for the Interpretations Committee

Questions
<ol style="list-style-type: none"> <li>1. Does the Interpretations Committee agree with the staff’s recommendation that the Interpretations Committee should finalise its decision clarifying its suggestion that the IASB progress its research on IAS 19 in the near future?</li>   <li>2. If the answer to Question 1 is ‘Yes’, does the Interpretations Committee agree with the wording of the final agenda decision in <b>Appendix A</b> of this Agenda Paper?</li> </ol>

## Appendix A—Proposed wording for the final agenda decision

### **The Interpretations Committee continued its discussion of employee benefit plans with a guaranteed return on contributions or notional contributions.**

The Interpretations Committee observed that the accounting for the plans that fall within the scope of the project is an important issue. These plans are part of a growing range of plan designs that incorporate features that were not envisaged when IAS 19 was first developed. The accounting for these plans in accordance with IAS 19 is problematic and has resulted in diversity in practice.

The Interpretations Committee attempted to develop a solution to improve the financial reporting for such plans. However the Interpretations Committee was unable to reach a consensus in identifying a suitable scope for an amendment that would both:

- improve the accounting for a sufficient population of plans such that the benefits would exceed the costs; and
- limit any unintended consequences that would arise from making an arbitrary distinction between otherwise similar plans.

In the Interpretations Committee's view, developing accounting requirements for these plans would be better addressed by a broader consideration of accounting for employee benefits, potentially through the research agenda of the IASB. The Interpretations Committee acknowledged that reducing diversity in practice in the short term would be beneficial. However, because of the difficulties encountered in progressing the issues, the Interpretations Committee {decided} to remove the project from its agenda. In the light of the increasing use of these plans, the Interpretations Committee thinks that the IASB should consider prioritising work on employee benefit plans with a guaranteed return on contributions or notional contributions if it does not have the resource to address the accounting for employee benefits more broadly in the medium term.



Deutsches Rechnungslegungs Standards Committee e.V.  
Accounting Standards Committee of Germany



IFRS-Fachausschuss

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Chairman of the  
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Berlin, 7 April 2014

Dear Wayne,

#### **IFRS IC tentative agenda decisions in its January 2014 meeting**

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on several IFRS IC tentative agenda decisions, published in the January 2014 *IFRIC Update*. We list the decisions and our detailed comments in appendix A to this letter.

Further, we comment on one issue on which a final agenda decision has been made (see appendix B). We are particularly concerned about the short and probably incomplete rationale for this (final) decision as conveyed in the *IFRIC January 2014 Update*.

If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

*Liesel Knorr*  
President

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Dr. h.c. Liesel Knorr (Präsidentin), Dr. Christoph Hütten (Vizepräsident)

## Appendix A – Comments on recent tentative agenda decisions

[Extracted]

### ***IAS 19 – Guaranteed return on contributions or notional contributions***

We note the IFRS IC's view that this issue is too broad to be addressed in an efficient manner. Nevertheless, as the IFRS IC observed, these plans are part of a growing range of plan designs and the accounting for these plans results in diversity in practice. Therefore, we would welcome guidance on how to account for these plans.

This issue is the second IAS 19 issue recently removed from the IFRS IC's agenda because it was deemed too broad to be addressed by the IFRS IC. In addition, there are other issues relating to IAS 19 that are, or have recently been, under discussion (e.g. discount rates, regional market issue, etc.). This shows that a more fundamental review of IAS 19 by the IASB is warranted in the near future. Thus, we urge the IASB to carry out a comprehensive review of IAS 19 rather than a piecemeal approach.

Furthermore, we suggest that the IASB clearly define the scope of issues the IFRS IC is able to solve. This should allow for a process that leads to answering issues rather than rejecting them for formal reasons; and it may result in adjustments to the due process hand-book in order to clarify the borderline of responsibilities between the IASB and the IFRS IC, either in a general sense or, at least, with regard to potential minor "narrow-scope amendments" and/or interpretations.

Wayne Upton  
Chairman  
IFRS Interpretations Committee  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

Email: [ifric@ifrs.org](mailto:ifric@ifrs.org)

7 April 2014

Dear Mr Upton

**Tentative agenda decision - IAS 19 *Employee Benefits*: Employee benefit plans with a guaranteed return on contributions or notional contributions**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the January IFRIC Update of the tentative decision to remove from its agenda the accounting for employee benefit plans with a guaranteed return on contributions or notional contributions.

If, as stated in the tentative agenda decision, the committee is unable to reach a consensus on the accounting for such plans we agree with the decision to remove this project from its agenda. However, noting that as stated in the tentative agenda decision there is a growing range of plans with such features referred to in the tentative agenda, we would encourage the IASB to address employee benefit plans with a guaranteed return on contributions or notional contributions ahead of any future, broader research project on employee benefits. In the absence of standard-setting activity, divergent practices are likely to develop as the range of such plans grows.

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

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**Wayne Upton  
Chair  
IFRS Interpretations Committee  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom**

**Re: The IFRS Interpretations Committee's tentative agenda decision on IAS 19 - Employee benefits: Employee benefit plans with a guaranteed return on contributions or notional contributions**

Dear Mr. Upton,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

ESMA has considered the IFRS Interpretations Committee's (IFRS IC) tentative decision to remove from its agenda the project addressing the request for clarification it received related to accounting for employee benefit plans with a guaranteed return on contributions or notional contributions, because of the difficulties encountered in progressing on the issues.

ESMA is concerned that the IFRS IC was unable to reach consensus on the scope of the amendments to IAS 19 - *Employee Benefits* considering the current diversity in practice in accounting for employee benefit plans with a guaranteed return on contributions or notional contributions and consequently decided to remove the project from its agenda. ESMA points out that these types of plans are widespread in some jurisdictions, including some countries of the EU. ESMA strongly agrees with the IFRS IC that reducing diversity in practice in the short term would be beneficial.

Consequently, ESMA has concerns about referring this issue to the International Accounting Standards Board (IASB) and recommending adding it to the IASB's research agenda, as that would imply it is unlikely to be addressed in the foreseeable future. ESMA believes that the issue is sufficiently limited and diver-



sity in the application of the IAS 19 is widespread in order to be addressed by the IASB as a separate project in the near future and urges the IFRS IC to recommend this course of action to the IASB.

We would be happy to discuss these issues further with you.

A handwritten signature in blue ink, consisting of a large, stylized 'S' followed by a horizontal line.

Steven Maijoor

Chair

European Securities and Markets Authority

Cc: Hans Hoogervorst, Chairman, International Accounting Standards Board