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STAFF PAPER

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Project	**Effect of a potential discount on plan classification (IAS 19)**
Paper topic	Initial Consideration

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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the classification of a post-employment benefit plan applying IAS 19 *Employee Benefits*. The submitter asked whether a potential discount on plan contributions made by the sponsoring entity (the entity) affects the classification of the plan as either a defined contribution plan or a defined benefit plan.

2. The objective of this paper is to:

   (a) provide the Committee with background information on the matter;

   (b) present our research and analysis; and

   (c) ask the Committee whether it agrees with our recommendation not to add the matter to its standard-setting agenda.

Structure of the paper

3. This paper includes:

   (a) background information;

   (b) outreach;

(c) staff analysis; and

(d) staff recommendation.

4. There are three appendices to this paper:

(a) Appendix A—proposed wording of the tentative agenda decision;

(b) Appendix B—classification requirements in IAS 19; and

(c) Appendix C—submission.

Background information

The fact pattern

5. In the fact pattern described in the request, an entity sponsors a post-employment benefit plan (the plan) that is administered by a third party. The relevant terms and conditions of the plan are as follows:

(a) the entity has an obligation to pay fixed annual contributions to the plan. The entity has determined that it will have no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

(b) the entity is entitled to a potential discount on its annual contributions. The discount arises if the ratio of plan assets to plan liabilities exceeds a set level. Thus, any discount might be affected by actuarial risk and investment risk related to the plan.

The submission

6. Applying IAS 19, a post-employment benefit plan is classified as either a defined contribution plan or a defined benefit plan. Paragraph 8 of IAS 19 states:

> *Defined contribution plans* are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (fund) and will have no legal or constructive obligation to

pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

7. The submitter says there are differing views as to whether the entity classifies the plan as a defined contribution plan or a defined benefit plan.

8. Appendix C to this paper reproduces the submission and provides further details on these views.

Outreach

9. We sent information requests to members of the International Forum of Accounting Standard-Setters, securities regulators and large accounting firms.

10. The request asked those participating to provide information based on their experience about:

    (a) the prevalence of post-employment benefit plans requiring annual contributions from an entity and which are subject to a potential discount, rebate or refund; and

    (b) whether entities with these types of plans classify them as defined contribution plans or defined benefit plans applying IAS 19.

11. We received nine responses—six from large accounting firms and three from national standard-setters. The views received represent informal opinions, rather than formal views of those responding.

Prevalence

12. Almost all respondents said the fact pattern is not common. However, one national standard-setter and some of the other respondents said post-employment benefit plans

of the type described in the submission exist in the Netherlands. Some respondents said similar plans might also exist in Canada and Germany.

Accounting treatment applied

13. All respondents who had experience with post-employment benefit plans of the type described in the submission said entities generally classify such plans as defined benefit plans. This is because, in their view:

    (a) the existence of the potential discount means that the entity's contributions are not fixed—accordingly, applying paragraph 8 of IAS 19 the plan would not meet the definition of a defined contribution plan.

    (b) the possibility of the potential discount means that the plan exposes the entity to actuarial and/or investment risk—paragraph 30 of IAS 19 specifies that, in defined benefit plans, actuarial risk and investment risk fall in substance on the entity.

14. One respondent said although the entity has no legal obligation to make additional payments, a period of receiving refunds might create a constructive obligation to make additional contributions if the plan were in deficit. Therefore, in that respondent's view, the plan would not meet the definition of a defined contribution plan.

Staff analysis

Requirements in IAS 19

15. Paragraph 8 of IAS 19 states:

    > *Defined benefit plans* are post-employment benefit plans other than defined contribution plans.

16. Accordingly, applying IAS 19 an entity first assesses whether a post-employment benefit plan meets the definition of a defined contribution plan.

17. Paragraph 8 of IAS 19 states:

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

18. Paragraphs 27–30 of IAS 19 include requirements to help entities assess the classification of a post-employment benefit plan as a defined contribution or defined benefit plan. Paragraphs BC28–BC30 of IAS 19 explain the basis for these requirements. For ease of reference, Appendix B to this paper reproduces these paragraphs, and we refer to them collectively in this paper as the 'classification requirements in IAS 19'.

Applying IAS 19 to the fact pattern described in the submission

19. In the fact pattern described in the submission (see paragraph 5 of this paper), the entity has determined that it will have no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. However, the entity is entitled to a potential discount on its annual contributions.

20. The definition of a defined contribution plan in IAS 19 requires that an entity pays fixed contributions into a separate entity (fund) and will have no legal or constructive obligation to pay further contributions. The submitter asks whether the existence of the potential discount means that the entity's contributions to the plan are not fixed. In other words, the submitter asks whether the existence of the potential discount means that the plan is a defined benefit plan, even though the entity has no further legal or constructive obligation relating to employee service in the current and prior periods.

Classification of the plan

21. Based on our assessment of the classification requirements in IAS 19, we think the existence of the potential discount would not, in isolation, preclude classifying the plan as a defined contribution plan. This is because, in our view, IAS 19 focuses only on downside risk to the entity in distinguishing between defined contribution plans and defined benefit plans. Consequently, if an entity has upside potential (in this case, in the form of the potential discount) but will have *no* obligation to pay further contributions in respect of employee service in the current and prior periods, then the plan is a defined contribution plan. Our view aligns with View 2 in the submission (see Appendix C).

22. We reached our view on the grounds that:

    (a) the definition of defined contribution plans refers to the entity having 'no legal or constructive obligation to pay further contributions…'. Paragraph BC29 of IAS 19 explains that 'the definitions…focussed on the downside risk that the cost to the entity may increase. The definition of defined contribution plans does not exclude the upside potential that the cost to the entity may be less than expected'.

    (b) paragraphs 28 and 30 of IAS 19 specify that (emphasis added):

        (i) 'under defined contribution plans…actuarial risk (that *benefits will be less than expected*) and investment risk (that *assets invested will be insufficient to meet expected benefits*) fall, in substance, on the employee'; and

        (ii) 'under defined benefit plans…actuarial risk (that *benefits will cost more than expected*) and investment risk fall, in substance, on the entity'.

        The description of actuarial risk and investment risk in paragraphs 28 and 30 focuses only on downside risk, and not any upside potential, for the entity.

    (c) paragraph BC30 of IAS 19 discusses a plan under which the benefit payments, in effect, are based on the lower of a benefit formula and the plan assets available. In other words, the entity sponsoring the plan does not have any downside risk. That paragraph clarifies that such a plan is a defined contribution plan.

23. In support of the alternative view (View 1 in the submission), the submission and respondents to our outreach note that the definition of a defined contribution plan requires that an entity pays 'fixed contributions'. Because the entity might receive a discount, its contributions may not be 'fixed' and ultimately could be lower than the annual contribution made. In our view, the term 'fixed contributions' within the definition of defined contribution plans refers to contributions in relation to employee service in the current and prior periods that cannot be increased. The first part of the definition ('an entity pays fixed contributions into a separate entity (a fund)') should not be read in isolation of the second part ('will have no legal or constructive obligation to pay further contributions…'). Those two parts of the definition are connected by 'and', which is important in that the definition is identifying plans for which the entity has no downside risk, ie will not have to make further contributions for employee service in the current or prior periods (as explained in paragraphs 28-30 and BC29-BC30 of IAS 19).

24. Our view is also consistent with a previous Committee discussion on a related matter. In July 2011, the Committee published the agenda decision *Defined Contribution Plans with Vesting Conditions*. That agenda decision discusses a plan for which an entity could receive a refund of prior contributions (or a reduction in future contributions) if employees fail to meet a vesting condition. The agenda decision first considers whether the possible refund resulting from a failure to meet the vesting conditions would affect the plan's classification as a defined contribution plan. The agenda decision states (emphasis added):

> The Interpretations Committee received a request seeking clarification on the effect that vesting conditions have on the accounting for defined contribution plans. The Committee was asked whether contributions to such plans should be recognised as an expense in the period for which they are paid or over the vesting period. In the examples given in the submission, the employee's failure to meet a vesting condition *could result in the*

> *refund of contributions to, or reductions in future contributions by, the employer*.
>
> The Committee noted from the definition of a defined contribution plan in paragraph [8] of IAS 19 and the explanation in paragraph[s] [BC28–BC29] of IAS 19 that vesting conditions *do not affect the classification of a plan as a defined contribution plan* if the employer is not required to make additional contributions to cover shortfalls because of these vesting conditions. …

Paragraph 50 of IAS 19

25. Paragraph 50 of IAS 19 states:

> Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. …

26. The submission refers to this paragraph and asks whether it is relevant to the classification of a post-employment benefit plan.

27. Paragraph 50 discusses the accounting for defined contribution plans, and is included within the section that specifies the recognition, measurement and disclosure requirements for defined contribution plans. Accordingly, in our view, this paragraph is not relevant when determining *whether* a post-employment benefit plan is a defined contribution plan or a defined benefit plan.

Staff conclusion

28. A defined contribution plan is one under which an entity pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. In the fact pattern described in the

submission, the existence of the potential discount on contributions would not, in isolation, preclude classification of the plan as a defined contribution plan.

29. Importantly, we highlight that we reached this conclusion considering the facts and circumstances specified in the submission; in particular, that the entity has determined that it will have no legal or constructive obligation to pay further contributions (as described in the definition of defined contribution plans in IAS 19). Assessing whether an entity will have any legal or constructive obligation to pay further contributions requires consideration of the particular facts and circumstances, derived from the principal terms and conditions of the post-employment benefit plan (paragraph 27 of IAS 19). To be classified as a defined contribution plan, there must be *no* obligation to pay further contributions should the fund (for whatever reason) not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. For example, it might be important to consider:

   (a) whether there is any possibility that the entity might be required to pay back any discount received; or

   (b) how future contributions are set—to be a defined contribution plan, there should be no possibility that future contributions could be set to cover shortfalls in funding employee benefits relating to employee service in the current and prior periods.

Question 1 for the Committee

1. Does the Committee agree with the staff's analysis of the requirements of IAS 19 outlined in paragraphs 15–29 of this paper?

Should the Committee add this matter to its standard-setting agenda?

Is it necessary to add to or change IFRS Standards to improve financial reporting?[1]

30. Based on our analysis, we think the requirements in IAS 19 provide an adequate basis for an entity to determine the classification of a post-employment benefit plan as a defined contribution plan or a defined benefit plan.

Staff recommendation

31. Based on our assessment of the Committee's agenda criteria in paragraphs 5.16-5.17 of the Due Process Handbook (discussed in paragraph 30 above), we recommend that the Committee does not add this matter to its standard-setting agenda. Instead we recommend publishing a tentative agenda decision that outlines how an entity applies the requirements in IAS 19 in classifying a post-employment benefit plan.

32. Appendix A to this paper sets out the proposed wording of the tentative agenda decision.

Questions 2 and 3 for the Committee
2. Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda? 3. Does the Committee have any comments on the proposed wording of the tentative agenda decision set out in Appendix A to this paper?

[1] Paragraph 5.16(b) of the *Due Process Handbook*.

Appendix A—proposed wording of the tentative agenda decision

Effect of a potential discount on plan classification (IAS 19 *Employee Benefits*)

The Committee received a request about the classification of a post-employment benefit plan applying IAS 19. In the fact pattern described in the request, an entity sponsors a post-employment benefit plan (the plan) that is administered by a third party. The relevant terms and conditions of the plan are as follows:

(a) the entity has an obligation to pay fixed annual contributions to the plan. The entity has determined that it will have no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

(b) the entity is entitled to a potential discount on its annual contributions. The discount arises if the ratio of plan assets to plan liabilities exceeds a set level. Thus, any discount might be affected by actuarial risk and investment risk related to the plan.

The request asked whether the existence of the potential discount results in a defined benefit plan classification applying IAS 19.

Paragraph 8 of IAS 19 defines defined contribution plans as post-employment benefit plans under which an entity pays fixed contributions into a separate entity (fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Paragraphs 27–30 of IAS 19 specify requirements relating to the classification of post-employment benefit plans as defined contribution or defined benefit plans.

The Committee observed that:

(a) the definition of defined contribution plans requires that an entity will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Accordingly, to meet the definition of a defined contribution plan, the entity must not be obliged to pay further contributions relating to employee service in the current and prior periods under any circumstance. Paragraph BC29 of IAS 19 explains that the definition of defined contribution plans focusses on the downside risk that the cost to the entity may increase; the definition does not exclude the upside potential that the cost to the entity may be less than expected.

(b) paragraphs 28 and 30 of IAS 19 specify that, under defined contribution plans, actuarial risk and investment risk fall in substance on the employee whereas, under defined benefit plans, those risks fall in substance on the entity. The description of actuarial risk (that benefits will cost more than expected for the entity or be less than expected for the employee) and investment risk (that assets invested will be insufficient to meet expected benefits) focusses only on downside risk to the entity.

Consequently, the Committee concluded that, in the fact pattern described in the request, the existence of the potential discount would not, in isolation, preclude classifying the plan as a defined contribution plan applying IAS 19.

The Committee concluded that the requirements in IAS 19 provide an adequate basis for an entity to determine the classification of a post-employment benefit plan as a defined contribution plan or a defined benefit plan. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Appendix B––classification requirements in IAS 19

B1. Paragraphs 27–30 of IAS 19 state:

> 27. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.
>
> 28. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.
>
> 29. Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:
>
> (a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;
>
> (b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or
>
> (c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.
>
> 30. Under defined benefit plans:
>
> (a) the entity's obligation is to provide the agreed benefits to current and former employees; and
>
> (b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment

experience are worse than expected, the entity's obligation may be increased.

B2. Paragraphs BC28–BC30 of the Basis for Conclusions on IAS 19 state:

Defined contribution plans

BC28. IAS 19 before its revision in 1998 defined:

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

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

BC29. IASC considered these definitions unsatisfactory because they focused on the benefit receivable by the employee, rather than on the cost to the entity. The definitions introduced in 1998 focused on the downside risk that the cost to the entity may increase. The definition of defined contribution plans does not exclude the upside potential that the cost to the entity may be less than expected.

Defined benefit plans: amendments issued in 2011

BC30. The amendments made in 2011 clarify that the existence of a benefit formula does not, by itself, create a defined benefit plan, but rather that there needs to be a link between the benefit formula and contributions that creates a legal or constructive obligation to contribute further amounts to meet the benefits specified by the benefit formula. This amendment to paragraph 29 addressed a concern that can arise when a plan has a benefit formula determining the benefits to be paid if there are sufficient plan assets, but not requiring the employer to pay additional contributions if there are insufficient plan assets to pay those benefits. In effect, the benefit payments are based on the lower of the benefit formula and the plan assets available. The amendments clarify that such a plan is a defined contribution plan.

Appendix C––submission

As part of their monitoring and supervisory activities, ESMA and national enforcers have identified divergent application of accounting requirements with regards to post- employment benefits in scope of lAS 19. This particular issue relates to the distinction between defined contribution (DC) and defined benefit (DB) pension plans.

Description of the issue

An Issuer's pension plan is executed by a Company Pension Fund (Pension Fund). The funding agreement between the Issuer and the Pension Fund stipulates that the Issuer's obligation is to pay fixed contributions on a yearly basis. The issuer has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The funding agreement also entails a discount arrangement, which entitles the Issuer to a potential discount on its annual contributions. This discount is calculated based on strict (retrospective) conditions including elements that are affected by economic, actuarial and investment risks related to the Pension Fund.

Paragraph 27 of lAS 19 states that post-employment benefit plans are classified as either DC plans or DB plans, depending on the economic substance of the plan as derived from its principal terms and conditions . Under lAS 19, every post-employment benefit plan is a DB plan unless it meets the characteristics of a DC plan. Paragraph 8 of lAS 19 defines DC plans as post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

This submission focusses on whether the right to potential discounts affects the classification of an entity's pension plan as either a DB plan or a DC plan. In particular, the submission questions whether the definition of a DC plan (paragraph 8 of lAS 19) should be read as two cumulative criteria or whether the second part of the sentence should be read only as an clarification as to what qualifies as a fixed contribution.

View 1: The definition of a DC plan in paragraph 8 of lAS 19 comprises two cumulative criteria

Proponents of view 1 are of the opinion that the definition of a DC plan provides two cumulative criteria that both need to be met. Criterion 1 is that an entity pays fixed contributions. Criterion 2 is that an entity will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. In the described issue, criterion 1 of the DC definition is not met, since the contributions to the Pension Fund over the lifetime of the plan are variable due to the potential discounts the Issuer may receive under the discount arrangement. Hence the pension plan should be accounted for as a DB plan.

The other paragraphs of lAS 19 explain that the distinction between fixed and variable contributions made by an entity should be linked to the allocation of actuarial and/or investment risks. If an entity's yearly base contribution can vary upwards and/or downwards because of actuarial and/or investment circumstances, the relevant plan should be classified as a DB plan. If lAS 19 would not be explained in this way DB plans would unambiguously be restricted to plans under which an entity pays contributions that can be increased if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The distinctive principle between DB and DC plans is whether there is variability in future contributions (as a result of retrospective elements) in whichever way structured. Given the definition of, and rationale behind the DC/DB distinction, the main question under lAS 19 is whether an entity's contributions are in any way dependent on the actuarial, investment and economic circumstances of the pension plan. If such dependency exists, the contributions are not fixed and hence the plan cannot be classified as a DC plan under lAS 19.

Proponents of view 1 find support for their view in paragraph 50 of lAS 19, which describes the accounting of DC plans and clearly states that "there is no possibility of any actuarial gain or loss".

View 2: The definition of a DC plan in paragraph 8 of lAS 19 comprises a single criterion

Proponents of view 2 are of the opinion that the second part of the definition of a DC plan is not a separate criterion, but should only be read as a clarification as to what qualifies as a fixed contribution.

The entity's right to future discounts results in an upside potential rather than a downside risk. Therefore, the right to future discounts, being only a refund of previous contribution, is not relevant for the classification of a post-employment benefit plan and does not prevent classification as a DC plan. As a result, the pension plan should be accounted for as a DC plan.

Paragraph 28 to 30 of lAS 19 provide further guidance as to the requirements of paragraph 27 of lAS 19. These regulations show that the classification of a DC plan focusses on the downside risk that the cost to the entity may increase. This follows from the following provisions of lAS 19:

- paragraph 8 of lAS 19 defines DC plan with reference to "no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods."
- paragraph 28 of lAS 19 states that "Under DC plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund."
- paragraph 29 of lAS 19 states that: "Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through: (a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula; [...]"
- paragraph 30 of lAS 19 states that "Under defined benefit plans: [...] (b) actuarial risk (that benefits will cost more than expected) [...] fall, in substance, on the entity.

Proponents of view 2 find further support for the consideration that the classification of a DC plan focusses on the downside risk that the cost to the entity may increase in the following phrases from the basis for conclusions (BC) accompanying lAS 19:

- Paragraph BC 29 of lAS 19 states that: "The definitions introduced in 1998 focused on the downside risk that the cost to the entity may increase. The definition of defined contribution plans does not exclude the upside potential that the cost to the entity may be less than expected."
- Paragraph BC 30 of lAS 19 states that: "The amendments made in 2011 clarify that the existence of a benefit formula does not, by itself, create a defined benefit plan, but rather that there needs to be a link between the benefit formula and contributions that creates a legal or constructive obligation to contribute further amounts to meet the benefits specified by the benefit formula."
- "This amendment to paragraph 29 addressed a concern that can arise when a plan has a benefit formula determining the benefits to be paid if there are sufficient plan assets, but not requiring the employer to pay additional contributions if there are insufficient plan assets to pay those benefits. In effect, the benefit payments are based on the lower of the benefit formula and the plan assets available. The amendments clarify that such a plan is a defined contribution plan."

lAS 19 and the accompanying BC state that the classification of a postemployment benefit plan as either a DC or a DB plan depends on the question whether the entity's legal or constructive obligation is limited to the amount that the entity agreed to contribute to the fund. The definition of DC plans does not exclude the upside potential that the cost to the entity may be less than expected. A contribution is fixed if the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. The BC support this understanding. As a result the second part of the sentence should be read as a clarification as to what qualifies as a fixed contribution , hence future (potential) discounts are not relevant in qualifying whether a contribution is fixed or not.

Paragraph 50 of lAS 19 explains how to account for a DC plan, not whether it is a DC or DB plan. Classification of a plan is dealt with in paragraph 8 and further clarified in paragraphs

27 to 30 of lAS 19. Therefore, in the view of proponents of view 2, paragraph 50 of lAS 19 is not relevant in the classification as DB or DC.

Request

ESMA seeks clarification on whether the definition of a DC plan should be read as two cumulative criteria or whether the second part of the sentence should be read as an interpretation as to what qualifies as a fixed contribution, and that the classification of a post-employment benefit plan as either a DC or a DB plan focusses on the downside risk that the contribution of the entity may increase.

Furthermore, ESMA seeks clarification as to whether or not paragraph 50 of lAS 19 is relevant to the classification of a post-employment benefit plan as either a DC or a DB plan.

ESMA is of the view that the lack of clarity of lAS 19 can lead to divergent practices in various European jurisdictions and in other jurisdictions with significant DB pension plans. Accordingly, ESMA kindly suggests that the IFRS Interpretations Committee considers clarifying the accounting requirements in this respect.