



European Financial Reporting Advisory Group ■

ED/2013/4 *Defined Benefit Plans: Employee Contributions*
(Proposed amendments to IAS 19)

Feedback to constituents

July 2013

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the IASB ED/2013/4 *Defined Benefit Plans: Employee Contributions* on 17 July 2013. This feedback statement summarises the main comments received by EFRAG on its Draft Comment Letter and explains how those comments were considered by the EFRAG Technical Expert Group (EFRAG) during its technical discussions.

Background to the Exposure Draft

In March 2013, the IASB published the ED with a request for comments by 25 July 2013.

The ED proposed to introduce a practical expedient in IAS 19 (2011) *Employee contributions* by specifying 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.

In addition, the ED also proposed 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, i.e. when the practical expedient does not apply. In particular, the ED proposed to specify that the negative benefit from such contributions is attributed to periods of service in the same way that the gross benefit is attributed in accordance with paragraph 70 of IAS 19 (2011).

EFRAG's draft comment letter

EFRAG published its draft comment letter on the ED in April 2013.

EFRAG agreed with the IASB's proposals on the basis that they clarified the existing requirements in IAS 19 (2011) on accounting for contributions from employees or third parties and provided relief to preparers.

EFRAG also supported the IASB in addressing the existing inconsistency in IAS 19 (2011) in relation to the attribution of these contributions as this would reduce potential divergence in practice.

Further details are available on the [project page](#) on the EFRAG website.

EFRAG's final comment letter

In its final comment letter, EFRAG supported the proposed amendments. However, EFRAG believed that the IASB should ensure that the wording of the proposed amendments does not lead to confusion and uncertainties in its practical application.

EFRAG also recommended the IASB to provide application guidance as part of the ED to illustrate the calculations required by IAS 19 (2011) when the practical expedient cannot be applied or entities choose not to apply the practical expedient.

Comments received from constituents

Nine comment letters were received from constituents in time to be considered for the July EFRAG TEG meeting and are available on the EFRAG [webpage](#).

The comment letters received came from national standard-setters, professional organisations and EU authorities. The following table provides an overview of the respondents by type and country.

<i>Respondent by type</i>		<i>Respondent by country</i>	
National Standard Setters	7	UK	2
Professional organisations	1	European respondents	1
EU authorities	1	Belgium	1
	<u>9</u>	Germany	1
		Italy	1
		Netherlands	1
		Portugal	1
		Spain	<u>1</u>
			<u>9</u>

The appendix to the feedback statement lists the respondents who commented on EFRAG’s draft comment letter.

All respondents expressed their general support for the IASB’s proposed amendments and particularly noted that the ED:

- (a) Clarifies the existing requirements in IAS 19 (2011) on accounting for contributions from employees or third parties and/or provides relief to preparers on this topic; and

- (b) Addresses an existing inconsistency in IAS 19 (2011) regarding the attribution of contributions from employees or third parties.

However, a few respondents believed that the proposed practical expedient is merely a clarification of the existing requirements in paragraph 93 and suggested that the Basis for Conclusions be amended rather than the standard itself.

In addition, nearly half of the respondents raised a number of specific concerns, including changes in the scope and wording of the practical expedient, which are described in the next sections.

Reduction in service cost – Practical expedient proposed

EFRAG's tentative views and respondents' comments

EFRAG's tentative position

EFRAG supported the IASB's proposed amendment on the basis that it is a clarification to the existing requirements in IAS 19 (2011) and provides helpful relief for preparers. As a consequence, the proposed amendment would address diversity in practice that otherwise would arise on the accounting for contributions from employees or third parties to defined benefit plans as introduced by the amendments in 2011 to IAS 19.

Respondents' comments

All respondents supported the proposed amendment that contributions from employees may be recognised as a reduction in the service cost if they are linked to the employee's service rendered in the same period in which they are payable.

However, a few respondents believed that the proposed practical expedient is available currently within the boundaries of the current wording of paragraph 93 and recommended that the IASB amends the Basis for Conclusions of IAS 19 (2011) rather than the standard itself. One respondent additionally believed that paragraph BC2 of the ED is inconsistent with the paragraphs thereafter where the IASB indicates that contributions from employees or third parties to a defined benefit plan should be attributed to periods of service as a negative benefit.

Some respondents provided a number of suggestions to change the wording and scope of the practical expedient so as to avoid confusion about what schemes the practical expedient may apply to and also to broaden its application.

One respondent believed that the contributions under the scope of the practical expedient should be considered to reduce the cost of short-

EFRAG's response to respondents' comments

EFRAG maintained its tentative support on the proposed amendments and clearly stated that it agreed with the proposed amendment on the basis that it provides relief to preparers.

However, based on the feedback from its constituents, EFRAG believed that the IASB should clarify the wording of the practical expedient and provided the following drafting recommendation:

However, if, and only if, contributions [from employees or third parties] that are linked to service arise as a result of service rendered by employees in the same period in which they result payable, the contributions may be recognised as a reduction in the service cost in that period.

EFRAG did not share the view that the IASB should amend the Basis for Conclusions of IAS 19 (2011) to clarify that the proposed practical expedient was already available in the existing requirements of paragraph 93. In particular, EFRAG agreed with the IASB's reasoning in the Basis for Conclusions of the ED that unless a practical expedient was provided, contributions from employees or third parties to a defined benefit plan should be attributed to periods of service as a negative benefit.

However, EFRAG recommended in its final comment letter that the IASB explain in the Basis for Conclusions that – in addressing the accounting for contributions from employees and third parties set out in the formal terms of a plan – it clarified how paragraph 93 was intended to apply in practice.

EFRAG did not agree that contributions from employees and third parties within the scope of the practical expedient should be presented as a reduction in the cost of short-term employee

EFRAG's tentative views and respondents' comments

term benefits rather than the service cost as proposed by the ED.

Some other respondents suggested that the IASB issues illustrative examples which could be based on the supporting material discussed by the IFRS Interpretations Committee during its discussions. These respondents found the calculations required by paragraph 93 complex when the practical expedient does not apply or entities choose not to apply it.

EFRAG's response to respondents' comments

benefits, as these contributions form part of the terms of defined benefit plans.

In its final comment letter EFRAG also noted that its constituents found the calculations underlying the attribution of benefits complex in practice when the practical expedient does not apply. Accordingly, EFRAG recommended the IASB to provide specific application guidance as part of the proposed amendments based on the illustrative examples already discussed by the IFRS Interpretations Committee.

Attribution of negative benefit – Addressing an inconsistency

EFRAG's tentative views and respondents' comments

EFRAG's tentative position

EFRAG supported the proposed amendment on the basis that it addresses an existing inconsistency in IAS19 (2011).

Respondents' comments

All respondents supported the IASB's proposal to specify in IAS 19 (2011) that the negative benefit from contributions should be attributed to periods of service in the same way that the gross benefit is attributed in accordance with paragraph 70 unless the practical expedient applies.

However, one respondent noted that the wording used in the proposed amendment was unclear as the term '*in the same way*' could be read to mean that each of the gross benefit and the contributions are separately attributed under paragraph 70. This could lead to one being attributed on a straight line and one on a benefit formula basis. In order to avoid adding complexity, the respondent suggested changing the wording of the proposed amendment

Another respondent was concerned that the term 'negative benefit', which is used in paragraph 93, was not defined in the standard. In addition, this respondent thought that the footnote proposed in paragraph BC150 could lead to confusion and suggested that paragraph BC150 be amended to be in line with paragraph 93, or provide adequate reasoning for the contradiction on whether the 'net' or the 'gross' benefit should be used.

EFRAG's response to respondents' comments

In its final comment letter EFRAG continued to support the IASB's intention to address an existing inconsistency in IAS 19 (2011).

EFRAG already noted in its draft comment letter that if the gross benefit is attributed on a straight-line basis because of a materially higher level of benefit in later years, then employee contributions should also be attributed on a straight-line basis.

In the light of the comments received, EFRAG further emphasised in its final comment letter that both the gross benefit and the contributions should be attributed to periods of service using the same attribution method that paragraph 70 requires for the gross benefit. In this respect, EFRAG proposed the following drafting to the IASB to improve the wording of the ED:

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.

EFRAG also considered the other concerns raised by constituents. Specifically, in EFRAG's view, the term 'negative benefits' is well understood in practice and that the footnote proposed by the IASB facilitates constituents to keep track of all the changes made to the Basis for Conclusions.

List of respondents

National Standard Setters:

Accounting Standards Committee of Germany (ASCG)

Comissão de Normalização Contabilística (CNC)

Comissie voor Boekhoudkundige Norme (CBN)

Dutch Accounting Standards Board (DASB)

Financial Reporting Council (FRC)

Instituto de Contabilidad y Auditoría de Cuentas (ICAC)

Organismo Italiano di Contabilità (OIC)

Professional organizations:

Institute of Chartered Accountants in England and Wales (ICAEW)

Authorities:

European Securities and Markets Authority (ESMA)