



13 June 2013

Our ref: ICAEW Rep 83/13

Your ref: ED/2013/4

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Hans

ED/2013/4 *Defined Benefit Plans: Employee Contributions*

ICAEW is pleased to respond to your request for comments on ED/2013/4 *Defined Benefit Plans: Employee Contributions*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

ED/2013/4 DEFINED BENEFIT PLANS: EMPLOYEE CONTRIBUTIONS

Memorandum of comment submitted in June 2013 by ICAEW, in response to IASB's exposure draft ED/2013/4 *Defined Benefit Plans: Employee Contributions* published in March 2013.

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft ED/2013/4 *Defined Benefit Plans: Employee Contributions* published by the IASB on 25 March 2013, a copy of which is available from this [link](#).

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

We support the proposals as they offer a pragmatic solution

5. We agree with the introduction of the proposed practical expedient for the recognition of certain contributions from employees and third parties as a reduction in service cost in the period in which they are payable. This will significantly simplify the accounting for many such contributions, allowing existing practice to continue.

More clarity is needed

6. We do, however, have some concerns about the detail of the proposals as the phrase 'linked solely to the employee's service rendered in the same period in which they are payable' is open to interpretation. We have suggested some alternative wording in our response to question 1 below.
7. We believe that application guidance should be issued to illustrate the accounting for those contributions not eligible for the practical expedient.

RESPONSES TO SPECIFIC QUESTIONS

Question 1

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, so 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?

8. We support the introduction of a practical expedient that allows entities to choose between accounting for contributions from employees or third parties that are linked solely to the

employee's service rendered in that period either as a reduction in service cost for that period or by attribution to periods of service as a negative benefit. The proposals offer a pragmatic solution that will simplify the accounting for many preparers.

9. We are, however, concerned that the phrase 'linked solely to the employee's service rendered in the same period in which they are payable' is open to interpretation. The only example provided of a scheme that qualifies for the proposed relief is where contributions are a fixed percentage of current year salary. If the intention is that this is the only arrangement within scope of the practical expedient, it would be better for paragraph 93 to refer specifically to such schemes. However, we do not believe that this would be appropriate since we can envisage other patterns of contribution that might be eligible and we imagine that, in introducing this practical expedient, the board is intending it to be widely available. We recommend that the board redrafts and expands upon this requirement to make it clear exactly when the practical expedient can be applied.
10. While the inclusion of additional examples might be seen as providing this clarity, it would be impossible to cover all potential situations and might be seen as inappropriately adding rules to an aspect of a standard that should be determined by the exercise of judgement. Therefore, it is essential that the board instead finds a form of wording that eliminates the uncertainty that is inherent in the current drafting. We would recommend replacing 'linked solely to the employee's service rendered in the same period in which they are payable' with 'payable at a level that reflects only the employee's service rendered in the period in respect of which they are payable, regardless of the length of service'.
11. We believe that the board's intention is that the entire amount of a contribution from an employee or third party that is linked to service is treated in one way or the other, rather than being bifurcated. It would reduce the risk of diverse interpretations if this were clarified.

Question 2

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 that the gross benefit is attributed in accordance with paragraph 70. Do you agree? Why or why not?

12. We support the standard being amended to clarify that the contributions should be attributed in the same way as the gross benefit, provided that by this the board means that the decision on whether attribution should be done on a straight line basis or to reflect the benefit formula should be done only once, for the gross benefit, as using different attributions would distort the measurement of the defined benefit obligation. Some have read the phrase 'in the same way' to mean that each of the gross benefit and the contributions are separately attributed under paragraph 70, which could lead to one being attributed on a straight line basis and one on a benefit formula basis and which we do not believe would reduce complexity as the board is aiming to do. It would be helpful if the drafting of the proposed footnote to BC150 could be revised to clarify that our interpretation, as explained in the first sentence of this paragraph, is the one intended.

Question 3

Do you have any other comments on the proposals?

13. Those entities that do not qualify for the proposed relief – or that choose not to elect to take advantage of it – will find that the attribution of contributions under paragraph 93 will be complex. It would therefore be useful for the board to issue illustrative examples based on those discussed by the IFRS Interpretations Committee in November 2012 as application guidance or educational material.

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