



European Financial Reporting Advisory Group ■

17 July 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam,

Re: Exposure Draft Defined Benefit Plans: Employee Contributions

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft *Defined Benefit Plans: Employee Contributions (Proposed amendments to IAS 19)* issued by the IASB on 25 March 2013 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

EFRAG agrees with the IASB's proposals on the basis that they provide relief to preparers on accounting for contributions from employees or third parties. We also support 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.

EFRAG believes, however, that the IASB should ensure that the wording of the proposed amendments does not lead to confusion and uncertainties in its practical application. We also recommend 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.

Our detailed comments and responses to the questions in the ED are set out in the appendix.

If you would like to discuss our comments further, please do not hesitate to contact Apostolena Theodosiou or me.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Françoise Flores'.

Françoise Flores

EFRAG Chairman

Appendix

EFRAG's responses to the questions raised in the Exposure Draft

Question 1: Reduction in service cost

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?

EFRAG's response

EFRAG supports the IASB's proposal on the basis that it clarifies existing requirements in IAS 19 (2011) and provides helpful relief for preparers. However, we believe that the IASB should clarify the wording of the proposed amendment so as to avoid any confusion and uncertainty in its practical application.

- 1 EFRAG supports the amendment of IAS 19 (2011) on the basis that the ED provides relief to preparers on the accounting for contributions from employees and third parties in certain circumstances. We believe that the proposed amendment to paragraph 93 would address diversity in practice that otherwise would likely arise regarding the accounting for contributions from employees or third parties to defined benefit plans.
- 2 EFRAG agrees with paragraph BC4 of the ED which explains that contributions from employees or third parties to a defined benefit plan should be attributed to the periods of service as a negative benefit, since entities should recognise service cost in profit or loss according only to its share on the total cost of the employee's benefit.
- 3 EFRAG, in its comment letter on the Exposure Draft *Amendments to IAS 19 Employee Benefits*, already noted that risk sharing (and conditional indexation) features should be considered more fully in the measurement of the pension obligation to ensure that financial statements reflect the best estimate of the ultimate cost of providing the pension benefit. Accordingly, we agree that the measurement of the defined benefit obligation should consider the present value of those future contributions that relate to the employees' service before the reporting date.
- 4 EFRAG is however aware that constituents have raised concerns about the complexity of the calculations required by paragraph 93 of IAS 19 (2011). We understand that this is because entities should consider all future contributions that relate to the employee's service in the current and prior periods when measuring the defined benefit obligation.
- 5 Therefore, we agree to a practical expedient that allows entities to choose between accounting for contributions from employees or third parties either as a reduction in service cost or considering them as a negative benefit when applying the projected unit method, provided that these contributions are linked to the employee's service rendered in that period.

- 6 We believe that the practical expedient will provide helpful relief to constituents in the accounting for simple and widespread plans like those where employees' contributions are a reduction in salary. However, in our view, the practical expedient could be improved by amending the drafting as follows:

'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'.

- 7 The wording proposed above would avoid uncertainties on whether contributions should be bifurcated for the purposes of applying the practical expedient and makes clearer that entities could also apply the practical expedient when the contribution is paid in a reporting period after the service is rendered.
- 8 Finally, although EFRAG agrees with the rationale and conclusions in paragraphs BC3 and BC4 of the ED, we recommend that the IASB better articulate the divergent views of the Interpretations Committee and the Board. In particular, the Basis for Conclusions should explain that the IASB – in addressing the accounting for contributions from employees and third parties set out in the formal terms of a plan – clarified how paragraph 93 of IAS 19 (2011) was intended to apply in practice.

Question 2: Attribution of negative benefit

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?

EFRAG's response

EFRAG supports the IASB's proposal on the basis that it addresses an existing inconsistency in IAS 19 (2011). However, we believe that the IASB should ensure that the gross benefit and contributions are attributed to periods of service using the same attribution method and recommend that it issues specific application guidance for entities that would not qualify for the practical expedient (or choose not to apply it).

- 9 EFRAG supports the amendment, because we believe that attribution should be consistent between gross benefit and employee contributions to arrive at a net benefit. Using different attributions would distort the measurement of the defined benefit obligation.
- 10 We believe however that the IASB should clarify the wording used in the amendment to ensure that the gross benefit and contributions are attributed using the same attribution method that paragraph 70 requires for the gross benefit. For example, if the gross benefit is attributed on a straight-line basis because of a materially higher level of benefit in later years (as required by paragraph 70 of IAS 19 (2011)), then employee contributions should also be attributed on a straight-line basis.

- 11 In this context, we believe that the wording of the proposed amendment could be improved by amending the drafting as follows:

'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'.

- 12 In addition, we agree with the argument in paragraph BC7 that performing the test on the net benefit would result in added complexity.
- 13 Notwithstanding the previous comments, EFRAG is aware that constituents find the attribution of benefits required under paragraph 93, when the practical expedient does not apply, complex in practice. We recommend 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.

Question 3: Other comments

Do you have any other comments on the proposals?

EFRAG's response

- 14 EFRAG does not have any other comments on the proposals.