

Jonathan Faull
Director General
European Commission
Directorate General for the Internal Market
Rue de Spa 2
1049 Brussels

30 January 2014

Dear Mr Faull

Adoption of amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (“the Amendment”)

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the amendments to IAS 19 *Employee Benefits* entitled *Defined Benefit Plans: Employee Contributions* (‘the Amendment’), which was issued by the IASB on 21 November 2013. The Exposure Draft was issued in March 2013 and EFRAG commented on that draft.

The objective of the Amendment is to clarify and to simplify the accounting for employee contributions. The Amendment becomes effective annual periods beginning on or after 1 July 2014. Earlier application is permitted, however entities shall disclose that fact.

EFRAG has carried out an evaluation of the Amendment. As part of that process, EFRAG issued its initial assessment for public comment and, when finalising its advice and the content of this letter, it took the comments received into account. EFRAG’s evaluation is based on input from standard setters and preparers.

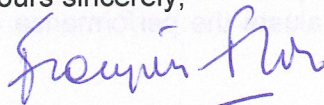
EFRAG supports the Amendment and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that it:

- is not contrary to the principle of ‘true and fair view’ set out in Article 4(3) of Council Directive 2013/34/EU; and
- meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG is not aware of any reason to believe that it is not conducive to the European public good to adopt the Amendment and, accordingly, EFRAG recommends its adoption. EFRAG’s reasoning is explained in the Appendix.

On behalf of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,



Françoise Flores
EFRAG Chairman

APPENDIX BASIS FOR CONCLUSION

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions ('the Amendment').

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the technical criteria for the European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Amendment meet the technical criteria for EU endorsement?

- 1 EFRAG has considered whether the Amendment meets the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002, in other words that the Amendment
 - (a) is not contrary to the principle of 'true and fair view' set out in Article 4(3) of Council Directive 2013/34/EU; and
 - (b) meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG also considered, based only on evidence brought to its attention by constituents, whether it would be not conducive to the European public good to adopt the Amendment.

Relevance

- 2 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.
- 3 EFRAG considered whether the Amendment would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.
- 4 EFRAG notes that the Amendment removes the ambiguity from paragraph 93 of IAS 19 (2011), which deals with employee or third party contributions linked to service. Therefore, it improves the ability of users to evaluate the performance of entities and enhances the quality of financial statements.
- 5 Furthermore, under the Amendment contributions from employees or third parties that are required by the terms of a defined benefit plan are post-employment benefits rather than short-term employee benefits. Consequently, such

contributions should be attributed to periods of service as a reduction of service cost. This results in the recognition of service costs that only reflect an entity's net share of the employee's benefit and, therefore, improves the ability of users to evaluate the performance of the entity.

- 6 The Amendment addresses also a general concern about the complexity of the required calculations and introduces a practical expedient that permits an entity to recognise employee or third party contributions linked to service that are independent of the number of years of service, as a reduction in the service cost in the period in which the related service is rendered. This approach was common practice prior to the 2011 amendments to IAS 19. In EFRAG's opinion, therefore, this approach will also provide relevant financial information to users of financial statements.
- 7 EFRAG's assessment is that the Amendment would not result in the material omission of relevant information; and therefore it satisfies the relevance criterion.

Reliability

- 8 EFRAG also considered the reliability of the information that will be provided by applying the Amendment. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.
- 9 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.
- 10 EFRAG believes that introduction of the practical expedient to paragraph 93 of IAS 19 (2011) reduces the complexity of calculations and will limit the use of judgement. In EFRAG's opinion the Amendment does not raise any new issues and will limit the existing issues under IAS 19 (2011) regarding the reliability of accounting for employee contributions.
- 11 EFRAG's overall assessment is that the Amendment would raise no concerns about risk of error or bias; and therefore it satisfies the reliability criterion.

Comparability

- 12 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.
- 13 EFRAG has considered whether the Amendment results in transactions that are:
 - (a) economically similar being accounted for differently; or
 - (b) economically different being accounted for as if they are similar.
- 14 As noted in paragraph 4 above, the Amendment removes the ambiguity from paragraph 93 of IAS 19 (2011). Furthermore, the Amendment adds certain application guidance.
- 15 The Amendment introduces, as noted in paragraph 6 above, a practical expedient that could reduce comparability of financial information. EFRAG expects, however, that this practical expedient will be applied to simple contributory plans and will, therefore, have only an insignificant impact on the financial information.
- 16 In EFRAG's opinion, therefore, the Amendment will improve comparability of financial information.

- 17 The Amendment requires entities to apply the Amendment retrospectively in accordance to IAS 8. It allows entities to apply an accounting practice that was allowed under IAS 19 before the 2011 amendments (i.e. employee contributions independent of the number of years of service reduced the service cost in the period in which they were paid).
- 18 For the reasons stated above, EFRAG's assessment is that the Amendment satisfies the comparability criterion.

Understandability

- 19 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.
- 20 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.
- 21 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of the Amendment is understandable, is whether that information will be unduly complex.
- 22 The overall objective of the Amendment is to clarify and to simplify the requirements of paragraph 93 of IAS 19 (2011). EFRAG notes that the Amendment does not involve new concepts or notions and does not introduce any new complexities that may impair understandability rather it simplifies and clarifies the guidance in paragraphs 93 and 94 and adds application guidance.
- 23 EFRAG's overall assessment is that the Amendment satisfies the understandability criterion in all material respects.

True and Fair

- 24 EFRAG's assessment is that the information resulting from the application of the Amendment would not be contrary to the true and fair view principle.

European public good

- 25 EFRAG is not aware of any reason to believe that it is not conducive to the European public good to adopt the Amendment.

Conclusion

- 26 For the reasons set out above, EFRAG's assessment is that the Amendment satisfies the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement.