

The costs and benefits of implementing the amendments to IAS 19 *Employee Benefits* entitled *Defined Benefit Plans: Employee Contributions*

Introduction

- 1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG would gather that information in the case of the amendments to IAS 19 *Employee Benefits* entitled *Defined Benefit Plans: Employee Contributions* ('the Amendment').
- 2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendment, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. The results of the consultations that EFRAG has carried out seem to confirm this. Therefore, as explained more fully in the main sections of this report, the approach that EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing the Amendment in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

EFRAG's endorsement advice

- 3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

A SUMMARY OF THE AMENDMENT

Background

- 4 In June 2011, the IASB issued the amended IAS 19 *Employee Benefits* (IAS 19 (2011)) to address a limited number of areas in most need of improvement. The amended IAS 19 (2011) became effective for annual periods beginning on or after 1 January 2013. Earlier application was permitted.
- 5 The IFRS Interpretations Committee was asked to clarify the accounting requirements set out in paragraph 93 of IAS 19 (2011) for employee or third party contributions to a defined benefit plan.

The issue

- 6 IAS 19 (2011) requires attributing employee or third party contributions linked to service to periods of service as a negative benefit in accordance with paragraph 70 of IAS 19 (2011), and paragraph 93 clarifies that the net benefit is attributed in accordance with paragraph 70. Paragraph 93 of IAS 19 (2011) is ambiguous as it does not make clear whether entities should attribute employee contributions linked to service on a gross basis, or jointly with service cost on a net basis.
- 7 Paragraph 93 of IAS 19 (2011) implies that all employee contributions that are linked to service should be attributed to periods of service as a reduction of service cost. This leads to complex attribution calculations, the costs of which outweigh the benefits for simple plans that require contributions from employees.

What has changed?

- 8 The Amendment clarifies the guidance on attributing employee or third party contributions linked to service and requires entities to attribute the contributions linked to service in accordance with paragraph 70 of IAS 19 (2011). Therefore, such contributions are attributed using plan's contribution formula or on a straight line basis. Furthermore, the Amendment adds certain application guidance in an appendix.
- 9 The Amendment addresses the issue of complexity by introducing 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.

When does the Amendment become effective?

- 10 The Amendment becomes effective for annual periods beginning on or after 1 July 2014. Earlier application is permitted.
- 11 The Amendment shall be applied by entities retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

EFRAG's initial analysis of the costs and benefits of the Amendment

- 12 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing the Amendment, both in year one and in subsequent years. The results of EFRAG's initial assessment can be summarised as follows:
 - (a) *Costs* – EFRAG's initial assessment was that the Amendment was likely to result only in insignificant costs for users to bring information into a comparable format. For preparers, the Amendment was likely to result in ongoing cost savings and insignificant one-off costs of implementing the Amendment. The benefit of adopting the Amendment outweighs its cost.
 - (b) *Benefits* – EFRAG's initial assessment was that users and preparers were likely to benefit from the Amendment. The Amendment was likely to reduce the costs of preparing the financial statements. The Amendment was likely to reduce the costs for users in analysing the required disclosures and in clarifying paragraph 93 of IAS 19 (2011) as the information did not need to be adjusted to a comparable format.

- 13 EFRAG published its initial assessment and supporting analysis on 22 December 2013. It invited comments on the material by 17 January 2014. In response, EFRAG received eight comment letters.
- 14 All the respondents agreed with EFRAG's initial assessment that the Amendment would meet the technical criteria for endorsement.
- 15 All four preparers and two National Standard Setters agreed with EFRAG's initial assessment of the benefits of implementing the Amendment and the associated costs involved for users and preparers.
- 16 Two other National Standard Setters stated that they were not in a position to comment on EFRAG's initial assessment of the benefits of implementing the Amendment and the associated costs involved for users and preparers.

EFRAG'S EVALUATION OF THE COSTS AND BENEFITS OF THE AMENDMENT

- 17 Based on its initial analysis and stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of the Amendment is presented in the paragraphs below.

Cost for preparers

- 18 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendment.
- 19 EFRAG notes that the Amendment does not impose capturing or tracking new information as entities already collect this information for current accounting purposes.
- 20 EFRAG notes that before the 2011 amendments to IAS 19, contributions from employees or third parties were generally deducted from service cost without being attributed to periods of service. If contributions are independent of the number of years of service, the Amendment provides relief so that entities are permitted to deduct contributions from service cost in the period in which the service is rendered. EFRAG believes that the impact of retrospective application will therefore be minimal in those cases and entities will incur only insignificant one-off costs in adopting the Amendment and applying its requirements retrospectively.
- 21 Moreover, EFRAG believes that introduction of this practical expedient to paragraph 93 of IAS 19 (2011) is likely to reduce the ongoing costs arising from complex calculations on attributing the employee contributions to periods of service.
- 22 Overall, the EFRAG's assessment is that the Amendment is likely to result in ongoing cost savings and insignificant one-off costs of implementing the Amendment.

Costs for users

- 23 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendment.
- 24 EFRAG notes that the Amendment introduces an option to use a practical expedient to paragraph 93 of IAS 19 (2011) when accounting for employee contributions. EFRAG believes that this option is not likely to significantly affect the reported figures. Moreover, EFRAG notes that the Amendment reflects the common accounting practice for employee contributions under IAS 19 prior to 2011 amendments. EFRAG believes therefore that the Amendment is not likely to

significantly affect the ongoing costs of users to bring the information on post-employment benefit plans into a comparable format.

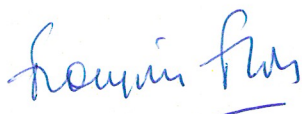
- 25 Overall, EFRAG's assessment is that the Amendment is likely to result only in insignificant costs for users to bring information into a comparable format.

Benefits for preparers and users

- 26 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendment.
- 27 EFRAG's assessment is that users and preparers will likely benefit from the Amendment as it clarifies the requirements of paragraph 93 of IAS 19 (2011) dealing with employee or third party contributions linked to service.
- 28 EFRAG's assessment is that preparers will benefit from the practical expedient to paragraph 93 of IAS 19 (2011) introduced by the Amendment which is likely to reduce the ongoing costs arising from complex calculations on attributing the employee contributions to periods of service. Overall, EFRAG's initial assessment is that users and preparers are likely to benefit from the Amendment. The Amendment is likely to reduce the costs of preparing the financial statements. The Amendment is likely to reduce the costs for users in analysing the required disclosures and in clarifying paragraph 93 of IAS 19 (2011) as the information does not need to be adjusted to a comparable format.

Conclusion

- 29 EFRAG's overall assessment is that the overall benefits for preparers and users are likely to outweigh one-off implementation costs for preparers and limited ongoing costs for users.



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