

DEFINED BENEFIT PLANS: EMPLOYEE CONTRIBUTIONS (AMENDMENTS TO IAS 19) INTERNATIONAL FINANCIAL REPORTING BULLETIN 2013/26



Background

In May and September 2012, the IFRS Interpretations Committee (IFRS IC) received submissions seeking clarification about the treatment of employee contributions to a defined benefit plan, when these contributions are set out in the formal terms of that plan. The International Accounting Standards Board (IASB) subsequently addressed this submission at its January 2013 meeting.

Paragraph 93 of IAS 19 *Employee Benefits* addressed the accounting for contributions from employees (or third parties) to an entity's defined benefit plan, when the requirement for such contributions is set out in the formal terms of a defined benefit plan. IAS 19.93 required that these contributions to be accounted for either:

- As a reduction to service cost (if they are linked to service)
- As a reduction in the remeasurement of the net defined benefit liability (asset).

IAS 19.93 also required contributions from employees or third parties in respect of service to be attributed to periods of service as a negative benefit (in accordance with IAS 19.70).

The question raised in the submissions to the Interpretations Committee was whether these contributions from employees or third parties should instead be accounted as reduction in entity's short term benefit cost (i.e. netted off against 'salaries paid'), rather than being treated as a reduction in the post-employment benefit cost (i.e. a 'negative benefit').

Because the contributions made by employees or third parties are related to an entity's defined benefit plan, the IASB concluded that these contributions form part of the post-employment benefit rather than part of the cost of short-term employee benefits, and therefore from a technical perspective a reduction in entity's short term benefit cost would not be appropriate. However, the IASB did acknowledge various practical concerns regarding the complexity and confusion in relation to attributing this 'negative benefit' to the periods of service. Consequently, it was considered appropriate to amend IAS 19 to include a practical expedient for some simple contributory plans (see IAS 19.BC150C).

The amendment to IAS 19 permits certain contributions from employees or third parties (only those contributions that are independent of the number of years of service) to be recognised as a reduction in the service cost in the period in which the employee's services are rendered, rather being attributed to periods of service as a 'negative benefit'.

STATUS

Final

EFFECTIVE DATE

1 July 2014, with earlier application permitted

ACCOUNTING IMPACT

Limited to entities with defined benefit plans where employees and/or other third-parties make contributions to the plans.

Summary

On 21 November 2013, the IASB published *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*. The amendments address the accounting for contributions from employees or third parties to an entity's defined benefit plan, when the requirement for such contributions is set out in the formal terms of the defined benefit plan.

The amendments to IAS 19.93 would:

- i. Provide a practical expedient to a restricted range of contributions from employees or third parties to a defined benefit plan, being those contributions that are independent of the number of years of service.
- ii. Clarify the accounting for contributions from employees or third parties to a defined benefit plan that are not subject to the practical expedient.

i. Practical Expedient

The practical expedient that has been added to IAS 19.93 (b) applies only to contributions from employees or third parties that are independent of the number of years of service.

For example, contributions from employees or third parties that are based on a fixed percentage of the employee's salary that do not depend on the employee's number of years of service to the employer, would be considered contributions that are independent of the number of years of service. This is because these contributions are in proportion to the salary paid, and therefore can be considered to be independent of the number of years of service that has been provided by the employee at any point over their service period.

In contrast, contributions from employees or third parties where the percentage contributed increases relative to the number of years of service would result in higher contributions being required in the latter years. These higher contributions could be considered to be linked not only to the service in the current year, but also to the service in other years. In this case, the contributions are instead clearly dependent of the number of years of service that has been provided by the employee. Therefore the practical expedient cannot be applied to these contributions from employees or third parties.

Other examples of contributions from employees or third parties that are independent of the number of years of service identified in IAS 19.93 (b) include:

- Contributions of a fixed amount throughout the service period, or
- Contributions that are dependent on the employee's age.

This means that the practical expedient extends to cover schemes where the contribution increases relative to an employee's age, regardless of the number of years of service.

ii. Clarification - treatment of contributions not subject to the practical expedient

The IASB also acknowledged that the wording of IAS 19.93 prior to the amendment (that first states that contributions from employees or third parties in respect of service are attributed to periods of service as a negative benefit in accordance with IAS 19.70, and then states that the net benefit is attributed in accordance with IAS 19.70) has caused confusion about whether the back-end loading test in IAS 19.70 should be performed on the net benefit, or on the gross benefit and the negative benefit separately.

In observing how the performance of the test on the net benefit would be carried out in practice, the IASB concluded that this would result in added complexity. This is because, depending on how the attribution test was applied, the outcome of the test might be influenced by changes in the assumptions year-on-year.


Consequently, the amendments to IAS 19 introduce sub-paragraph (a) to paragraph 93, which clarifies that the negative benefit from contributions from employees or third parties should be attributed to periods of service in the same way that the gross benefit is attributed in accordance with IAS 19.70, when the amount of the contributions is dependent on the number of years of service (i.e. when the practical expedient is not applicable).

Disclosures

The amendment does not introduce any additional disclosures. Consequently, disclosure of the amount by which the service cost is reduced when the practical expedient in IAS 19.93 (b) is applied, is not required.

Effective date and transition

The effective date for the amendments is for annual periods beginning on or after 1 July 2014. The amendments require retrospective application in accordance with of IAS 8 *Accounting Policies and Changes in Accounting Estimates and Errors*, with early application permitted.



This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2013 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdointernational.com

