

IFRS in Focus

IASB proposes amendments to IAS 19 (2011) to clarify the accounting for employee contributions

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The Bottom Line

- The ED proposes that contributions from employees or third parties that are linked solely to the employee's service rendered in the same period in which they are paid may be treated as a reduction in the service cost and accounted for in that same period.
- Other employee contributions would be attributed to periods of service in the same way as the gross benefits under the scheme.
- Comments on the proposals are due by 25 July 2013.

Introduction

In March 2013, the International Accounting Standards Board (IASB) published exposure draft ED/2013/4 *Defined Benefit Plans: Employee Contributions* (Proposed amendments to IAS 19) ('the ED'). The proposed amendments attempt to clarify the accounting for employee contributions set out in the formal terms of a defined benefit plan.

The proposals

Defined benefit plans may require employees or third parties to make contributions to the plan. Common practice under IAS 19 *Employee Benefits* (1998) is to account for employee contributions as a reduction in the gross service cost in the period in which they are received. Therefore, an employer's current service cost is the total cost of benefits attributable to service in the current period less employee contributions for the period.

IAS 19 *Employee Benefits* (2011), which is effective for annual periods commencing on or after 1 January 2013, was intended to clarify formally the treatment of contributions from employees or third parties. However, submissions have been made to the IFRS Interpretations Committee ('the Committee') requesting clarification of the accounting for employee contributions under IAS 19 (2011), and in particular, whether contributions from employees or third parties can be treated as a reduction in short-term employee benefit or service costs instead of reducing post-employment benefit costs.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

The IASB observed that contributions from employees or third parties to a defined benefit plan form part of the post-employment benefit rather than the short-term employee benefit and should be attributed to periods of service as a negative benefit. However, the IASB recognised the complexity of the required calculations associated with this decision and so decided to propose a practical expedient to IAS 19 (2011). Specifically, the ED proposes that contributions from employees or third parties may be recognised as a reduction in the service cost in the same period in which they are payable if they are linked solely to the employee's service rendered in that period.

Observations

The proposals would permit, but not require, many entities to continue accounting for employee contributions in a manner consistent with their existing accounting policy.

The proposals also specify how contributions 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 ED proposes that the negative benefit from such contributions should be attributable to periods of service consistent with the application of the gross benefit in accordance with paragraph 70 of IAS 19 (2011).

Observations

The ED does not include a clear definition of when employee contributions would be considered to be 'linked solely to the employee's service in the period'. Instead, it provides an example of contributions that would (a fixed percentage of the employee's salary) and an example of contributions that would not (an increasing percentage of salary over the years of service).

Effective date and comment period

The ED does not specify an effective date. The IASB will determine the effective date after considering the comments they receive on the ED.

Entities would be required to apply the proposals retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Comments on the ED are due by 25 July 2013.

Key contacts

IFRS global office

Global IFRS Leader – Clients and Markets

Joel Osnoss

ifrsglobalofficeuk@deloitte.co.uk

Global IFRS Leader – Technical

Veronica Poole

ifrsglobalofficeuk@deloitte.co.uk

Global IFRS Communications Co-Directors

Mario Abela and Neil Lavery

ifrsglobalofficeuk@deloitte.co.uk

IFRS centres of excellence

Americas

Canada

Karen Higgins

iasplus@deloitte.ca

LATCO

Fermin del Valle

iasplus-LATCO@deloitte.com

United States

Robert Uhl

iasplusamericas@deloitte.com

Asia-Pacific

Australia

Anna Crawford

iasplus@deloitte.com.au

China

Stephen Taylor

iasplus@deloitte.com.hk

Japan

Shinya Iwasaki

iasplus-tokyo@tohmatu.co.jp

Singapore

Shariq Barmaky

iasplus-sg@deloitte.com

Europe-Africa

Belgium

Thomas Carlier

BEIFRSBelgium@deloitte.com

Denmark

Jan Peter Larsen

dk_iasplus@deloitte.dk

France

Laurence Rivat

iasplus@deloitte.fr

Germany

Andreas Barckow

iasplus@deloitte.de

Italy

Franco Riccomagno

friccomagno@deloitte.it

Luxembourg

Eddy Termaten

luisiasplus@deloitte.lu

Netherlands

Ralph ter Hoeven

iasplus@deloitte.nl

Russia

Michael Raikhman

iasplus@deloitte.ru

South Africa

Graeme Berry

iasplus@deloitte.co.za

Spain

Cleber Custodio

iasplus@deloitte.es

United Kingdom

Elizabeth Chrispin

iasplus@deloitte.co.uk

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