

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
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Dear Mr Hoogervorst

Exposure Draft ED 2013/4 – Defined Benefit Plans: Employee Contributions

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Defined Benefit Plans: Employee Contributions* ('the exposure draft').

We welcome the IASB's proposals to address the issue of employee contributions to defined benefit plans and agree that the proposed practical expedient would provide an appropriate simplification that would be available for the majority of plans with employee and third party contributions.

However, we believe that the amendments could be made clearer in some respects, particularly by including further guidance on how to determine whether employee or third party contributions are "linked solely to the employee's service rendered in the same period in which they are payable" and on the treatment of any difference between cumulative negative service cost and cumulative contributions received when the practical expedient is not applied.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader

Appendix

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?

We agree with the proposal to amend IAS 19 to allow this practical expedient because, as noted in paragraphs BC2 to BC4 of the Basis for Conclusions on the exposure draft, these contributions are conceptually part of the long-term benefit (rather than a separate, negative short-term benefit) but application of a 'pure' projected unit credit method approach to all contributions from employees or third parties would add undue complexity to the preparation of financial statements with limited additional value provided to users.

We also agree that use of the practical expedient should be limited as we do not believe it would be appropriate to apply this simplified approach to, for example, employee contributions with an element of risk-sharing. However, we believe that more clarity is needed on how to determine whether contributions "are linked solely to the employee's service rendered in the same period in which they are payable". The majority of employee contributions are set at a fixed percentage of salary, so would clearly qualify for the practical expedient, but there are schemes for which this is less clear (for example when the percentage of salary payable depends on the employee's age rather than their number of years of service).

As a minimum, we recommend that the comparison between a situation that qualifies for the practical expedient and one that does not included in paragraph BC5 of the Basis for Conclusions on the exposure draft be incorporated into the main body of IAS 19. In addition to that, we would welcome clarification of the principle to be applied in determining whether employee and third party contributions that vary as a function of something other than the number of years of service can be considered to be linked solely to service rendered in the period.

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?

We agree with this amendment as it provides a clearer method for measuring the negative benefit resulting from employee or third party contributions when the practical expedient is either not available or not used by the entity. However, we note that use of this approach may result in a difference between the cumulative negative service cost recognised and the cumulative contributions received from the employee or third party. We recommend that the treatment of such a difference (presumably resulting in a debit or credit somewhere in the statement of financial position) be addressed by the amendments to IAS 19.

Question 3 – Other comments

Do you have any other comments on the proposals?

We suggest that the amendments could usefully be supplemented by worked examples of the possible treatments of employee and third party contributions. This would be particularly helpful in clarifying the approach required when the practical expedient is not applied.