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Berlin, 12 July 2013

Dear Hans,

Exposure Draft ED/2013/4 Defined Benefit Plans: Employee Contributions (proposed amendments to IAS 19)

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the IASB Exposure Draft ED/2013/4 'Defined Benefit Plans: Employee Contributions (proposed amendments to IAS 19)'. We appreciate the opportunity to respond to the Exposure Draft.

In general, we agree with the Board's proposed amendments to IAS 19 on the basis that they clarify existing requirements in IAS 19 and provide helpful relief to preparers regarding the accounting for contributions from employees or third parties in certain circumstances.

However, we think that the scope for the application of the practical expedient should be broader and not as strict as set out in the ED. This view is mainly based on our opinion that the complex and extensive calculations required by paragraph 93 lead to

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IBAN-Nr. DE26 1007 0000 0070 0781 00, BIC (Swift-Code) DEUTDE33HAN

Vereinsregister: Amtsgericht Berlin-Charlottenburg, VR 18526 Nz

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costs exceed the benefits resulting from the required presentation of the contributions from employees or third parties.

Furthermore, we would welcome general application guidance on attributing the contributions by employees or third parties to periods of service when the practical expedient is not applied. We see the possibility that diversity in practice will emerge due to the overly complex calculations required as well as due to missing guidance on the application of the requirements.

Additionally, we would like to point out that the proposed amendment of paragraph BC150 is rather more confusing than helpful, as paragraph BC150 refers to 'net benefit' and the footnote refers to 'gross benefit'. Thus, the text in paragraph BC150 should be amended to make clear that the back-end loading test should be performed for the 'gross benefit'. Further, paragraph BC143 (b) refers also to 'net benefit'. Hence, this paragraph should be amended as well.

Please find our detailed comments on the questions raised in the invitation to comment in the appendix to this letter. If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President



Appendix – ASCG’s detailed answers to the questions in the Invitation to Comment – ‘Defined Benefit Plans: Employee Contributions (proposed amendments to IAS 19)’

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?

In general, we support the IASB’s proposal because this amendment of paragraph 93 provides helpful relief for preparers in recognising contributions by employees or third parties (in the following ‘employee contributions’) set out in the formal terms of a defined benefit plan as a reduction in the service cost in the same period in which they are payable. Nevertheless, we would welcome a broader scope for the application of the practical expedient especially for the reason detailed below.

We acknowledge the IASB’s intention to attribute the benefits resulting from employee contributions to periods of service in the same way as the gross benefits are attributed to periods of service. This approach could result in an improved presentation of the company’s post-employment obligations. On the other hand, the requirements in paragraph 93 lead to very complex and extensive calculations which often can not be conducted because the necessary information relating to previous periods is not available. In our view it is not entirely certain that the benefits from the required reporting of employee contributions exceed the costs incurred to present the required information.

Another issue relates to the phrase “linked solely to the employee’s service”. This phrase is, in our opinion, in many instances not appropriate since the service may not be the only reference basis for determining the employee contributions. Another relevant reference basis is, for example, often the salary.

In our opinion, the scope for the application of the practical expedient is not specific enough to be free of doubt in terms of situations and circumstances it is intended to



apply to. For example, quite often employees use parts of their bonus payments as a contribution to the plan. Regularly these bonus payments are made in the year after the service has been rendered (e.g. a bonus for the service rendered in 2012 is paid in 2013). We would recommend a clarification that the practical expedient is also applicable in such situations, i.e. bonus payments are classified as 'linked to service' and the employee contributions could be recognised as a reduction in the service costs. Otherwise the complex requirements of paragraph 93 have to be used to attribute these simple form of employee contributions to the periods of service.

Furthermore, we would welcome general application guidance on attributing the employee contributions to periods of service when the practical expedient is not applied. We see the possibility that diversity in practice will emerge due to the overly complex calculations required as well as due to missing guidance on the application of the requirements. For example:

- How should the benefit obligation resulting from employee contributions be calculated, i.e. which steps are necessary? What assumptions should be used to calculate this obligation, e.g. which interest rate should be used to project the obligation? Shall this be the discount rate according to paragraph 83 or an expected rate of return on the plan assets?
- Are the explanations in paragraph BC143 (a) to be to understand in a way that the DBO and the plan assets need to be split into a part resulting from employee contributions and into a part resulting from employer contributions? In this context, problems arise because with respect to the DBO companies typically do not differentiate between the benefits resulting from employee contributions and from employer contributions. Further, such differentiation is often not made between plan assets resulting from contributions made by employees or employers. The same situation is relevant for past periods. Thus, companies are usually unable to separate the DBO and the plan assets between the parts resulting from contributions by employees or by employers. Hence, the IASB should clarify that a separation of DBO and plan assets between the parts resulting from contributions by employees and employer is not required.



- In case employee contributions are separately allocated to plan assets, the view could be held that the employee is entitled to the return on these plan assets and thus, the return should to be classified as a kind of employee contribution. In this case, does the return need to be recognised as a ‘negative benefit’?
- We would appreciate further explanations with respect to the differentiation between employee contributions set out in the formal terms of the plan and discretionary contributions. Collective agreements in the company often allow employees to use their bonus payments as a contribution to the plan. When an employee makes use of this possibility, a discrete agreement is concluded, i.e. every year a new agreement with different formal terms is entered into. A clarification would be very helpful, that in this case the employee contributions are discretionary contributions.

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 the IASB’s proposal since it addresses an existing inconsistency in IAS 19 and adds clarity. A separate back-end loading test for the gross benefit and the benefit resulting from employee contributions could result in different ways of attributing gross benefits and benefits resulting from employee contributions to periods of service. This would not be in line with IASB’s intention to attribute benefits resulting from employee contributions to periods of service in the same way as the benefits resulting from employer contributions. Additionally, the requirement to perform the back-end loading test in paragraph 70 only for the gross benefit decreases the complexity and thus reduces sources of error.



However, we are concerned that the back-end loading test in paragraph 70 is not applied in a consistent way. For example, it is not clear if the term ‘gross benefit’ refers to the benefits resulting from employee and employer contributions or solely to the benefits resulting from employer contributions. Therefore, we would welcome application guidance to illustrate how to perform exactly the back-end loading test in paragraph 70.

Furthermore, the term ‘negative benefit’ is only used in paragraph 93 and is not defined in IAS 19. Therefore, we would suggest to use instead of the term ‘negative benefit’ a more precise term. Neither from the employee’s nor from the employer’s point of view the benefit can be considered to be negative. For the employee it is a regular benefit, financed by him-/herself and for the employer it is a reduction in service cost.

With regard to the proposed amendment to the Basis of Conclusions on IAS 19, we would like to point out that adding a footnote with the current wording to paragraph BC150 is rather confusing. Paragraph BC150 still refers to ‘net benefit’ although this term is deleted in the amended paragraph 93. At first glance, there is a contradiction between the text in paragraph BC150 and in the footnote, as paragraph BC150 refers to ‘net benefit’ and the footnote refers to ‘gross benefit’. Hence, we suggest amending the text in paragraph BC 150 in a way that it is in line with paragraph 93. If this is not possible, at least the reasoning for the obvious contradiction should be considerably explained.

Additionally, we would like to mention that paragraph BC143 (b) of IAS 19 also refers to ‘net benefit’. We suggest that this paragraph is also amended to be in line with paragraphs 93 and BC150.

Question 3 — Other comments

Do you have any other comments on the proposals?

We do not have any other comments on the proposals.