



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

25 July, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

E-mail: CommentLetters@iasb.org

Dear Sir or Madam,

We appreciate the opportunity to comment on the IASB's proposed amendments to IAS 19, *Defined Benefit Plans: Employee Contributions*. I am pleased to transmit, on behalf of the International Actuarial Association (IAA), our comments and recommendations.

These comments have been prepared by the Pensions and Benefits Accounting Subcommittee of the Pensions and Employee Benefits Committee of the IAA. If, upon reading these comments, you identify any points that you wish to discuss or obtain further insight regarding them, please do not hesitate to contact Alf Gohdes, chairperson of the Pensions and Benefits Accounting Subcommittee, care of the [IAA Secretariat](#). The IAA will be pleased to develop these ideas further with you.

Yours sincerely,

Kurt Wolfsdorf
President

Attachment: IAA comments

Comments by the International Actuarial Association on the IASB's Proposed amendments to IAS 19, *Defined Benefit Plans: Employee Contributions*

International Actuarial Association and its Due Process

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our sixty-four Full Member actuarial associations, listed in [Appendix A](#) to this statement, represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

We appreciate the opportunity to comment on the IASB's proposed amendments to IAS 19, *Defined Benefit Plans: Employee Contributions* and provide our comments below. These comments have been prepared by the Pensions and Benefits Accounting Subcommittee of the Pensions and Employee Benefits Committee, the members of which are listed in [Appendix B](#) to this statement. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA's official web site.

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?

To date, the (net) employer service cost was generally determined by simply deducting the employees' contribution from an actuarially determined gross service cost for the total benefit promised by the plan. The intention of IAS 19 (2011) was to change this practice in order to synchronize the attribution of the employee-financed benefits to periods of employee service with those financed by the employer. IAS 19 (2011) gives guidance on the following two aspects:

1. Service Cost: A first additional layer of complexity was introduced by the 2011 amendment by requiring the benefits arising from employee contributions to be attributed to service in accordance with IAS 19.70. A second additional layer of complexity was introduced by having to perform the calculations on the net rather than the gross benefit.
2. Defined Benefit Obligation (DBO): IAS 19.BC.143f clarifies that the "negative benefit" calculations are also to be performed for the DBO. If this is so, then should one not assume that the plan assets should also be separated into a portion financed by the employer and one financed by the employees? Although this may be conceptually consistent with the

calculation approach required for the Service Cost, it is often practically impossible to do. The reason is that the portion of assets or liabilities accrued in the past is seldom separately identifiable since the proportion of employees' or employer's contributions were often changed in the past (e.g. contribution holidays in the late 1990s; different proportions allotted for funding any deficits).

The ED only deals with the Service Cost and not the DBO issue.

We comment on the proposed amendments as follows:

Adding a practical expedient for simply constructed employee contribution arrangements can only be applauded. This also applies to the proposal for the attribution having to be in line with that taken for the gross rather than the net benefit.

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?

BC 2 of the ED defines that the practical expedient applies only to

“ ... contributions linked solely to the employee's service rendered in the same period ...”.

BC 5 provides some guidance but the definition is unclear to us still, for example when we try to apply it to real-life constructions which, for example, include:

- Contribution rates increasing with attained age (can also cease at a specified age)
- Contribution rates increasing with completed service
- Contributions that are a fixed percentage of salary (but capped, or stepped as a function of salary bands, or rounded by some formula, etc.)
- Contributions that are fixed in LCU terms, e.g. LCU 200 per annum per employee
- Contribution rates related to the funding level as defined by regulatory rules or agreement between employer and employees
- Other
- Any combination of the above. For example, a plan where employee contributions are a fixed percentage of salary plus additional (shared) contributions to recover a funding deficit.

We propose that the IASB considers further its definition of what constructions are to fall under the practical expedient. Subtleties in the way employee contributions are defined, could have implications that were not intended when the plan design was set: for example, are service related employee contributions and age related employee contributions practical proxies for one another? In arriving at a definition, the IASB may consider a requirement that employee contributions also fulfill the characteristics of defined contribution arrangements.

We can envisage that the proposed definition together with BC 5 could be taken to mean that the practical expedient would apply to all constructions except those under which the employee contributions increase with completed service. Is this the Board's intention?

We also propose that a reference be made in the Basis for Conclusions (expanding somewhat on BC 143f) that a separation of the DBO and plan assets into an employer and employee portion need not be performed, if there is insufficient data to do so.

Question 3: Other Comments

Do you have any other comments on the proposals?

Finally, we also consider that a reference in the Basis for Conclusions would be useful stating that, in general, a test need not be conducted to zero-out the (net) employer service cost or DBO if these become negative in individual cases, so that an aggregation is possible in determining the total (net) employer service cost and DBO.

This is desirable, not least because the additional work required to carry out member-by-member calculations every year could in many cases be considerable. In this context it should be remembered that this issue can arise not only as a result of financial conditions but also as a result of certain features of the benefit design, e.g. a lengthy vesting period.

We would be happy to discuss our views with you further or answer any questions you may have.

Appendix A

Full Member Organizations - 64

Caribbean Actuarial Association
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Actuaries Institute Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Institut des Actuaire en Belgique (Belgique)
Aktuarsko Drustvo U Bosni I Hercegovini (Bosnia and Herzegovina)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)
China Association of Actuaries (China)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Asociación Colombiana de Actuarios (Colombia)
Institut des Actuaire de Côte d'Ivoire (Côte D`Ivoire)
Hrvatsko Aktuarsko Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárù (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuaire (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Íslenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktuariju Draugija (Lithuania)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuaire (Morocco)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)

Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Russian Guild of Actuaries (Russia)
Udruzenje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Society of Actuaries of Thailand (Thailand)
Institute and Faculty of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)

Appendix B

Members of the Pensions and Benefits Accounting Subcommittee

Alfred E. Gohdes, Chairperson
Timothy Angelo Furlan, Vice-Chairperson
Charles Anthony Cowling
Guillermo Ezcurra Lopez De La Garma
Yasuyuki Fujii
Henry Peter John Karsten
Esko Kivisaari
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Arpan N Thanawala
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Gary Ryan Hibbard, Ex-officio