



Australian Government
**Australian Accounting
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25 July 2013

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans

AASB comments on IASB Exposure Draft ED/2013/4
Defined Benefit Plans: Employee Contributions

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on ED/2013/4 *Defined Benefit Plans: Employee Contributions*. In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation. The comment letters received are published on the AASB's website.

The AASB acknowledges the IASB's efforts to address any potential confusion that could arise in practice on the application of paragraph 93 of IAS 19 *Employee Benefits* in relation to employee contributions or third party contributions that are required in the formal terms of a defined benefit plan. However, the AASB is concerned that there is insufficient clarity provided in the Basis for Conclusions to ED/2013/4, including in relation to underlying principles, to enable the AASB to form a view on the merits of the proposals. This is particularly in respect to the proposed treatment of employee contributions or third party contributions that are linked solely to the employee's service rendered in the period in which payments are made. In addition, without further guidance in the standard, it is also not clear to the AASB how an employer would determine under which circumstances employee contributions or third party contributions would be *linked solely to the employee's service in that period*.

The AASB's responses to the specific matters for comment in ED/2013/4 are included in the Appendix to this letter.

If you have queries regarding any matters in this submission, please contact Kala Kandiah (kkandiah@asb.gov.au).

Yours sincerely

A handwritten signature in black ink that reads 'K.M. Stevenson'.

Kevin M Stevenson
Chairman & CEO

APPENDIX

AASB comments on IASB ED/2013/4 *Defined Benefit Plans: Employee Contributions*

Question 1 – Reduction in service cost

The AASB is concerned that there is insufficient clarity provided in the Basis of Conclusions to ED/2013/4, including in relation to underlying principles, for the AASB to form a view on the merits of the proposals. This is particularly in respect of the proposed treatment of employee contributions or third party contributions that are linked solely to the employee's service rendered in the period in which payments are made.

In addition, without further guidance in the standard, it is not clear to the AASB how an employer would determine under which circumstances employee contributions or third party contributions are *linked solely to the employee's service rendered in that period*. Furthermore, the AASB disagrees with developing guidance on such contributions via only an example (i.e. contributions that are a fixed percentage of an employee's salary). The AASB thinks that the use of a specific example does not adequately facilitate analysis of other patterns of employee contributions or third party contributions.

Question 2 – Attribution of negative benefit

The AASB agrees with the IASB proposal to specify in paragraph 93 of IAS 19 that when contributions from employees or third parties are not recognised as a reduction in the service cost in the same period in which they are payable (and they are instead treated as a negative benefit), they should be attributed to periods of service in the same way that the gross benefit is attributed in accordance with paragraph 70 of IAS 19. The AASB thinks that attribution should be consistent between gross benefit and employee contributions to arrive at a net benefit. The AASB agrees that the clarification proposed should help remove any confusion on this matter that currently exists in practice.

Question 3 – Other comments

The AASB has no other comments.