International Accounting Standards Board
IFRS Foundation
1st Floor
30 Cannon Street
London
EC4M 6XH

25 July 2013

Dear Sir/Madam

**Exposure Draft – Defined Benefit Plans: Employee Contributions Proposed amendments to IAS 19**

This response is submitted jointly on behalf of the Institute and Faculty of Actuaries (IFoA) and the Association of Consulting Actuaries (ACA). We appreciate the opportunity to respond to the Exposure Draft.

**About IFoA:**

The Institute and Faculty of Actuaries (IFoA) is the chartered professional body for actuaries in the United Kingdom. IFoA provides a rigorous examination system that is supported by a programme of continuous professional development. It also maintains a professional code of conduct for actuaries promoting high standards, reflecting the significant role of actuaries in society.

**About ACA:**

The ACA is the UK representative body for consulting actuaries. Members of the ACA provide advice to thousands of pension schemes of all types, including most of the country's largest schemes. Members of the Association are all qualified actuaries and are subject to the Actuaries' Code of the IFoA. Advice given to clients is independent and impartial.

**Summary:**

IFoA and ACA welcome the proposal to amend paragraph 93 of IAS 19 to clarify that contributions from employees (or third parties) which are linked solely to employee service in a period, are recognised as a reduction in the service cost in that period.

However, we do not believe the proposed amendments are clear on what form of employee contributions would not be linked solely to employee service in a period. Further, if employee contributions are not linked solely to employee service in a period, it is not clear how to calculate the defined benefit obligation and service cost. In our view, this is likely to lead to confusion and variation in practice and, thus, additional implementation guidance will be required.

More fundamentally, our concerns around paragraphs 92 and 93 are:

- They may lead to plans which provide the same benefit appearing to have a different accounting liability due to technicalities rather than any genuine difference in value.

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- The calculations required (for plans where employee contributions are not linked solely to employee service in a period) are complicated and disproportionate to any additional theoretical correctness of the approach.
- Users of the accounts are unlikely to be able to understand the methodology.

Specific responses to the questions asked in the Exposure Draft are below.

**Question 1 – Reduction in service cost**

We agree that contributions which are linked solely to service in that period should be recognised as a reduction in the service cost in the same period. This avoids complicating the accounting for the vast majority of UK pension plans where contributions tend to be a fixed percentage of an employee's salary.

However, it is unclear which forms of contributions would not be considered as being linked solely to service in that period. BC5 explains that contributions that are payable because of current service, but where the amount payable is related to salary, would count as linked solely to service, whereas contributions that are payable because of current service, but where the amount payable is related to total past service would not count as linked solely to service in the period. This leaves uncertainty as to what formulae count as being linked solely to current service and what formulae do not.

More widely, the first sentence of paragraph 93 refers to contributions from employees either reducing service cost (if linked to service) or offsetting the net defined benefit liability or asset (if linked to eliminating a plan surplus or deficit). For example, some pension plans require employees to contribute to make good a deficit in respect of past service, or pay reduced contributions when there is a surplus. It is not clear whether the intention of the amendment is that employee contributions would first be split between contributions that offset service cost and those that offset the net defined benefit liability, before applying only the proposed new test to the first element of the employee contributions to consider whether that part of the contributions is linked solely to service in each period. Alternatively, if part of the contributions relate to any past service or deficit, does that mean that the employee contributions as a whole do not meet the criterion of being solely linked to service in each period?

**Question 2 – Attribution of negative benefit**

The attribution of a negative benefit raises complex issues. There are no existing generally accepted practices for dealing with these in line with the principles of IAS19. There is, in our view, likely to be significant variation in practice unless more detailed implementation guidance is provided.

Paragraph BC7 confirms that both the gross benefit and the negative benefit of employee contributions should be uniformly attributed separately. That is, the uniform attribution is not applied to the net benefit.

The gross benefit is defined benefit in nature and the main principles for calculating this under IAS 19 are clear, although there is still considered to be uncertainty around the benchmark for back-end loading (e.g. whether projected salary growth should be considered).

However, the negative benefit of employee contributions is defined contribution in nature and it is not clear how to value and uniformly attribute this under the principles of IAS 19.

We note that the first sentence of BC150 is internally inconsistent on this point. The first part of the sentence suggests that it is the amount of contribution that is uniformly attributed, whereas the second part of the sentence implies that it is the benefit secured by the contribution that is uniformly attributed.

Our understanding is that employee contributions to a defined contribution scheme which increase as service increases would not have to be uniformly attributed. There would therefore appear to be an inconsistency in the treatment of economically identical (negative) benefits.

**Question 3 – Other comments**

This issue has caused a significant amount of debate among actuaries who provide results under IAS 19. In our view, the approach proposed by the IASB is unnecessarily complicated. It will lead to confusion among users of accounts who will be less able to understand what the defined benefit obligation and service cost represent.

We note that it will also lead to a GAAP difference between IAS 19 and other global accounting standards such as FRS 17 in the UK and ASC 715 in the USA.

It is also likely to lead to variation in practice unless more detailed implementation guidance is provided. However, we do not think that the complexity of such an approach is justified; it would lead to costly, complex calculations which would not be understood by users.

In our view, paragraph 93 should be amended more fundamentally so that the complications introduced by treating employee contributions as a negative benefit are removed and all employee contributions (other than in relation to past service deficit or surplus) are recognised as a reduction in service cost in the period in which they are paid.

On a drafting point, we note that the revised paragraph 93 directly contradicts BC150 and BC143 which both refer to applying uniform attribution to the net benefit rather than separately to the gross benefit and the contribution offset. The footnote to BC150 which is proposed to be inserted does not address this point (and even if it did it seems more satisfactory to remove the inconsistency than to try and override it).

Yours faithfully

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