

Need to know

Amendments to IAS 19 (2011) to clarify the accounting for contributions that are linked to service

This edition of 'Need to know' outlines the recent amendments to the accounting under IAS 19 (2011) *Employee Benefits* for contributions from employees or third parties that are linked to service.

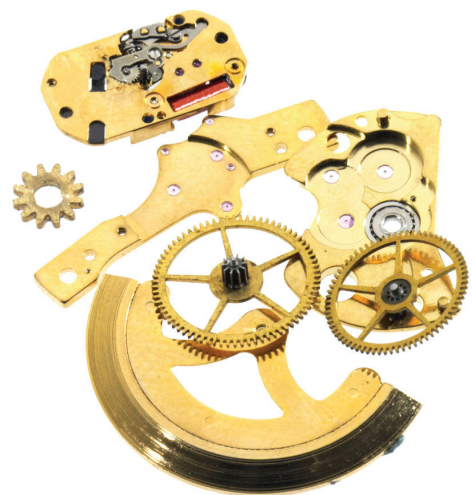
In a nutshell

- The amendments to IAS 19 (2011) permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to periods of service.
- Other contributions by employees or third parties are required to be attributed to periods of service either using the plan's contribution formula or on a straight-line basis.
- The amendments are effective from 1 July 2014, with earlier application permitted.

Why has this amendment been issued?

Defined benefit plans may require employees or third parties to make contributions to the plan. IAS 19 (2011) treats such contributions as part of the post-employment benefit and requires them to be attributed to periods of service as a negative benefit. In 2012, the IFRS Interpretations Committee (the Committee) received requests for clarification from constituents concerned about the potential complexity of attributing such contributions to periods of service using the projected unit credit method as required by IAS 19 (2011).

The International Accounting Standards Board (IASB) acknowledged these concerns and, in March 2013, published exposure draft ED/2013/4 *Defined Benefit Plans: Employee Contributions* (Proposed amendments to IAS 19) proposing a practical expedient to simplify the accounting for some employee and third party contributions. These amendments have now been finalised.



What are the changes introduced by the amendment?

The methods permitted for attributing contributions from employees or third parties to periods of service now differ depending on whether those contributions are dependent on the number of years of service provided by the employee.

Contributions that are independent of the number of years of service (and, as such, are considered to be linked solely to the employee's service rendered in the same period in which they are payable) may be recognised as a reduction in the service cost as they fall due. This would be the case for contributions that are a fixed percentage of the employee's salary, contributions that are fixed throughout the service period or contributions that depend on the employee's age.

Observations

Entities are permitted, but not required, to account for such contributions as a reduction in the service cost in the same period in which they are payable, instead of attributing them to periods of service using the projected unit credit method. This is an accounting policy choice that should be applied consistently to all defined benefit plans.

For contributions that are not solely linked to current year service, the negative benefit arising from those contributions should be attributed to periods of service either using the plan's contribution formula or on a straight-line basis, consistent with the attribution method applied to the gross benefit in accordance with paragraph 70 of IAS 19 (2011).

Observations

The amendment does not include a definition of when employee contributions would be considered to be 'independent of the number of years of service'. Instead, it provides examples of contributions that would (a fixed percentage of the employee's salary, a fixed amount or an amount depending on the employee's age) and an example of contributions that would not (an increasing percentage of salary over the years of service).

When do the new requirements apply?

The amendments apply retrospectively to annual periods beginning on or after 1 July 2014. Earlier application is permitted.

Contacts

If you would like to discuss any of the above with one of our experts, please contact your local Deloitte office.

Resources

Further information on the amendment to IAS 19 (2011), as well as other UK accounting, reporting and governance news, can be found at www.ukaccountingplus.co.uk

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2013 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. 31385A