

International Accounting Standards Board
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Cologne, 22 July 2013

IASB's Proposed amendments to IAS 19, *Defined Benefit Plans: Employee Contributions*

Dear Sir or Madam,

We appreciate the opportunity to comment on the IASB's Proposed amendments to IAS 19, *Defined Benefit Plans: Employee Contributions* and do so as follows:

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 recognized 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?"

We welcome the proposed practical expedient for recognising typical arrangements with employee contributions that do not vary with age or service. The proposal would allow most benefit arrangements that include employee contributions to be measured as before. When the practical expedient does not apply, we also welcome the proposal for attribution having to be in line with the approach 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 recognized 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?"

From a theoretical perspective we agree with the requirement in IAS 19.93 (rev. 2011), namely with the proposal to treat benefits arising from employee contributions consistently with the calculation approach required for the gross service cost. This is because the approach ensures that the benefits arising from employee contributions are attributed to years of service in the same way as the total benefits of the plan are.

However, to comply with this principle is typically technically burdensome, since the determination will have to follow a new and different measurement routine than that currently applied to calculate the gross service cost.

We point out that the ED could be considered to be silent on a particular type of risk-sharing construction typically called "salary sacrifice arrangements" that is in wide use in Germany. Similar constructions also exist in the UK and other countries and may be considered to be widespread.

We discuss here only the situation in Germany: Under IAS 19 these arrangements are usually regarded as quite separate from employee contributions "set out in the formal terms of a plan". These "salary sacrifice arrangements" can be described as follows: the employee and the employer enter into an agreement under which the employee agrees to reduce the salary (the "first leg"). In return the employer grants the employee a deferred benefit "of equivalent value" and payable upon later death, disability or retirement as the case may be (the "second leg"). The equivalent value may be determined in any number of ways, typically not one that is based on IAS 19 methodology. There is no legal requirement to fund these benefits so that, in practice, they are funded fully, partially or not at all. In any case, the employer is charged with the responsibility of financing, administering and ensuring insolvency protection of the benefits granted under the second leg.

Local tax law, local labour law and local financial reporting rules all classify these arrangements as employer-financed occupational retirement arrangements, sometimes requiring additional layers of security for the beneficiary in comparison with normal employer-financed arrangements. However, under IAS 19, current treatment diverges. Some recognise the cost of the second leg of such arrangements under short term benefits, usually by not reducing "salary". Others recognise the cost of the second leg as a post-employment benefit, thus taking it into account in service cost (if treated as a defined benefit plan) or as defined contribution cost (if treated as a DC plan) and reduce "salary" by the sacrificed amount.

We believe that such salary sacrifice arrangements, although in economic substance employee contributions, do not necessarily qualify as employee contributions under IAS 19 but can also, more appropriately, be classified as employer-financed post-employment benefits.

We would therefore appreciate if such arrangements could be explicitly described and addressed in the basis for conclusions accompanying the amendment, as follows:

"The entity exercises its judgement in deciding whether an employee short term benefit contractually converted into an employee post-employment benefit granted by the employer is to be treated either as employer service cost for post employment benefits or as an employee contribution."

Question 3: Other Comments

Do you have any other comments on the proposals?

We believe that an example illustrating the DBO measurement and the effect of the negative benefit approach applying for employee contributions would help the reader to understand IAS 19.93 better. The example contained in the staff paper (Agenda ref 9) of November 2012 could serve as a useful start.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'H. Zimmermann', with a horizontal line extending to the right.

Dr. Horst-Günther Zimmermann
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