

May 8, 2019

Ms. Sue Lloyd, Chair
International Financial Reporting Standards Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

Tentative Agenda Decision—Effect of a Potential Discount on Plan Classification (IAS 19)

The Financial Accounting Issues Task Force of the Taiwan Financial Reporting Standards Committee (TFRSC) of Accounting Research and Development Foundation in Taiwan appreciates the opportunity to respond to the above tentative agenda decision.

The attachments (Attachment 1) are our comments to this tentative agenda decision. The comments are those of the Financial Accounting Issues Task Force and do not necessarily represent official opinions of the TFRSC.

If you have any question about our comments, please contact me (via my email: ccliu@management.ntu.edu.tw) or Ms. Margaret Tsui (via her email: margaret@ardf.org.tw).

Sincerely Yours,



Chi-Chun Liu, Ph.D.
Chairman,
Taiwan Financial Reporting Standards Committee,
Accounting Research and Development Foundation, Taiwan



Attachment 1

Comments from ARDF Taiwan on Tentative Agenda Decision—Effect of a Potential Discount on Plan Classification (IAS 19)

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Tentative Agenda Decision

The Committee received a request about the classification of a post-employment benefit plan applying IAS 19. In the fact pattern described in the request, an entity sponsors a post-employment benefit plan (the plan) that is administered by a third party. The relevant terms and conditions of the plan are as follows:

the entity has an obligation to pay fixed annual contributions to the plan. The entity has determined that it will have no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

the entity is entitled to a potential discount on its annual contributions. The discount arises if the ratio of plan assets to plan liabilities exceeds a set level. Thus, any discount might be affected by actuarial assumptions and the return on plan assets.

The request asked whether the existence of the potential discount would result in a defined benefit plan classification applying IAS 19.

Paragraph 8 of IAS 19 defines defined contribution plans as ‘post-employment benefit plans under which an entity pays fixed contributions into a separate entity (fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.’ Defined benefit plans are ‘post-employment benefit plans other than defined contribution plans.’

Paragraphs 27–30 of IAS 19 specify requirements relating to the classification of post-employment benefit plans as either defined contribution plans or defined benefit plans.

The Committee observed that the definition of defined contribution plans requires that an entity will have no legal or constructive obligation to pay further contributions if the fund



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does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. To meet the definition of a defined contribution plan, the entity must therefore (a) have an obligation to pay fixed contributions; and (b) not be obliged to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current or prior periods. For example, there should be no possibility that future contributions could be set to cover shortfalls in funding employee benefits relating to employee service in the current and prior periods.

The Committee also observed that paragraphs 28 and 30 of IAS 19 specify that, under defined contribution plans, actuarial risk and investment risk fall in substance on the employee whereas, under defined benefit plans, those risks fall in substance on the entity. Paragraphs 28 and 30 describe (a) actuarial risk as the risk that benefits will cost the entity more than expected or will be less than expected for the employee; and (b) investment risk as the risk that assets invested will be insufficient to meet expected benefits. Paragraph 28 of IAS 19 states that ‘under defined contribution plans the entity’s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.’ Paragraph BC29 of IAS 19 explains that the definition of defined contribution plans focuses on the downside risk that the cost to the entity may increase; the definition does not exclude the upside potential that the cost to the entity may be less than expected.

Consequently, the Committee concluded that, in the fact pattern described in the request, the existence of the potential discount would not in itself result in classifying the plan as a defined benefit plan applying IAS 19.

The Committee noted that, applying paragraph 122 of IAS 1 Presentation of Financial Statements, an entity would disclose judgements that its management has made regarding the classification of post-employment benefit plans if those are part of the judgements that had the most significant effect on the amounts recognised in the financial statements.

The Committee concluded that the requirements in IAS 19 provide an adequate basis for an entity to determine the classification of a post-employment benefit plan as a defined

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contribution plan or a defined benefit plan. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Response to the above Tentative Agenda Decision:

According to our observations in Taiwan, the entity has established a defined contribution pension plan under the Labor Pension Act. For defined contribution plan in Taiwan, when the entity pays fixed contributions to the employees' individual pension accounts at the Bureau of Labor Insurance, the entity has no further legal or constructive obligations. As mentioned above, we don't have further discussion on "potential discount" in Taiwan.

Paragraph 8 of IAS 19 Employee benefits sets out the definitions relating to classification of plans. The criteria for a classification as defined contribution plan is that the entity (i) pays a fixed contribution into a fund and (ii) will have no legal or constructive obligation to pay further contributions. In addition, paragraph BC29 contains the following text: "The definition of defined contribution plans does not exclude the upside potential that the cost to the entity may be less than expected." We agree with the existence of the potential discount would not result in classifying the defined contribution plan as defined benefit plan applying IAS 19.