
Project	Agenda decision
Topic	IAS 19 <i>Employee Benefits</i>—Accounting for a statutory profit-sharing arrangement

Introduction

1. At the September 2010 IFRS Interpretations Committee (‘Committee’) meeting, the Committee published a tentative agenda decision not to add to its agenda a request for clarification of the accounting for a statutory employee profit-sharing arrangement. The tentative agenda decision is presented below:

The Committee received a request for clarification of the accounting for a statutory employee profit-sharing arrangement that requires an entity to share 10 per cent of profit, calculated in accordance with tax law (subject to specific exceptions), with employees.

The Committee noted that although such a statutory employee profit-sharing arrangement calculates amounts to be payable to employees in accordance with tax law, it meets the definition in IFRSs of an employee benefit and is required to be accounted for in accordance with IAS 19.

The Committee observed that any amounts that will be payable to, or receivable from, employees, relating to temporary differences between accounting and taxable profit, similar to those defined in IAS 12 Income Taxes, relate to future services to be provided by the employee. However, the Committee noted that the objective of IAS 19 is that an entity is only required to recognise a liability when an employee has provided service, as reflected in the recognition requirements of paragraph 128 of IAS 19.

The Committee noted that the statutory employee profit-sharing arrangement described in the request should be accounted for in accordance with IAS 19, and that IAS 19 provides sufficient guidance on amounts that should be recognised and measured, with the result that significantly divergent interpretations are not expected

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRS Interpretations Committee or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*.

Interpretations are published only after the IFRS Interpretations Committee and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

in practice. Consequently, the Committee [decided] not to add this issue to its agenda.

Comments received

2. The Committee received four comment letters¹ on this issue.
3. Three comment letters agreed with the tentative agenda decision made by the Committee, while some of them offered alternative wordings and also made other suggestions.
4. The comment letter from CINIF, the Mexican accounting standard-setter, disagreed with the tentative agenda decision. It made the following technical arguments against the tentative agenda decision:
 - (a) The deferred component meets a definition of a provision in accordance with paragraph 14 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
 - (b) A liability relating to the deferred component exists because temporary differences occur as a result of past events and there will be outflows of economic resources as a result of the temporary differences.
 - (c) The employees, as a group, have already provided their services that created benefits relating to the deferred portion and these services were provided in a specific year in the past.

Staff analysis

What accounting standard should apply?

5. The Committee tentatively decided that the statutory employee profit-sharing arrangement is an employee benefit within the scope of IAS 19. Consequently, it should be accounted for in accordance with IAS 19.

¹ Deloitte Touche Tohmatsu, Accounting Standards Board (AsSB, Canada), Consejo Mexicano para la Investigacion y Desarrollo de Normas de Informacion Financiera (CINIF, Mexico) and Michael Straut.

6. IAS 37.5(d) clearly excludes employee benefits as a provision, contingent liability or contingent asset from its scope. The staff therefore believe that application of IAS 37 to the statutory employee profit-sharing arrangement is inappropriate.

Does a liability relating to the deferred component exist?

7. CINIF's argument is based on its understanding that a liability would exist if IAS 37 were to be applied. It is also based on an understanding that a liability should be recognised in the light of the definition of *Liability* in accordance with the *Framework*.
8. IAS 37 requires the existence of a present obligation in order to recognise a liability. The staff believe that the same is true to meet the definition of *Liability* in the *Framework*.
9. In the case of the Mexican profit-sharing, an entity will be able to avoid paying the deferred component to employees by closing its business or transferring them to a service company. The staff believe that the strict application of IAS 37 and the definition of *Liability* in the *Framework* would lead to a conclusion that a present obligation does not exist until a future year in which temporary differences will reverse and will then be included in the computation of taxable profit.
10. Despite the definition of *Liability* in the *Framework*, IAS 19 provides a specific requirement in recognition of a liability when an employee provides a service. For example, in accordance with IAS 19.69, a liability for employee benefit is recognised even if the payments of the benefits are conditional on future employment or other specific event².
11. If a liability does not exist under IAS 19, the staff believe that a liability relating to the statutory employee profit-sharing arrangement does not exist in accordance with IFRSs.

² IAS 19.69

Has a service been provided?

12. The staff have identified two views regarding whether a service has been provided in relation to the deferred component.

View A (the view in the tentative agenda decision)

13. The Committee tentatively decided in the September meeting that the deferred component is a compensation for a service to be provided by employees in future. Consequently, an entity does not have an obligation for a future payment until individual employees have provided their services in exchange for the benefits relating to the deferred component.
14. This view sees employees as individuals and considers the obligation to be a result of services that provide the individual employee with entitlement to the benefit. This view could be supported from the employee's perspective, which is that the employee is providing a service in order to receive the benefit.

View B (CINIF's view)

15. CINIF, on the other hand, argues that employees provided services in the past that created the temporary differences. The temporary differences will crystallise as a payment in the future, at which point they reverse. The obligation for the future payment already exists as a result of past services because those services created the temporary differences.
16. This view considers the obligation to be a result of services to generate accounting profit, which will be eventually included in taxable profit and result in a payment of the benefit in future. This view could be supported from the employer's perspective that it has a present obligation if it cannot avoid the future payment.
17. The staff recommend View A. The staff believe that View A is consistent with a view that a service is provided in exchange for employee benefit. This view is included in the objective of IAS 19, which states:

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

IASB Staff paper

- (a) a liability when an employee has provided *service in exchange for employee benefits* to be paid in the future; and
 - (b) an expense when the entity consumes the economic benefit arising from *service* provided by an employee *in exchange for employee benefits*. (*emphasis added*)
18. View B considers employees as a group in order to argue that the employee benefits have been paid to the same person(s) who provided the service, therefore they are in exchange for the service. However, the staff believe that IAS 19 requires an entity to recognise a liability when **an** employee has provided service. Although some actuarial assumptions are made on an entity level, the staff think that IAS 19 generally recognises a liability for each individual employee rather than a group of employees.
19. The staff also think that View A is consistent with the way that other profit-sharing arrangements based on non-IFRS measures are accounted for.

Staff recommendation

20. Although the staff acknowledge some technical merits in the arguments made by CINIF, the staff do not believe that it is consistent with the view that is included in the objective of IAS 19. The staff do not believe that CINIF's view is consistent with the way that other profit-sharing arrangements based on a non-IFRS index are currently accounted for.
21. Consequently, the staff recommend finalising the agenda decision in September 2010. The staff included in Appendix A, proposed change in the wording of the agenda decision reflecting some drafting suggestions raised by other respondents.

Question to the Committee

22. The staff would like to put the following questions to the Committee:

Staff recommendation and proposed wording of the final agenda decision

1. The staff recommend that the Committee should finalise the tentative agenda decision in September 2010, subject to some drafting changes. Does the Committee agree with the recommendation?

2. Appendix A includes the staff's proposed wording for the final agenda decision. Does the Committee agree with the proposed wording?

Appendix A – Proposed wording for agenda decision

IAS 19 Employee Benefits—Accounting for a statutory employee profit-sharing arrangement

The Committee received a request for clarification of the accounting for a statutory employee profit-sharing arrangement that requires an entity to share 10 per cent of profit, calculated in accordance with tax law (subject to specific exceptions), with employees.

The Committee noted that although such a statutory employee profit-sharing arrangement calculates amounts to be payable to employees in accordance with tax law, it meets the definition in IFRSs of an employee benefit and ~~is required to be accounted for in accordance~~ falls within the scope of IAS 19.

The Committee observed that ~~any~~ the effect of temporary differences will be included in amounts that will be payable to, or receivable from, employees who will work for the entity in future, relating to temporary differences between accounting and taxable profit, similar to those defined in IAS 12 Income Taxes; ~~Consequently, any future amount payable relate to~~ is a result of future services to be provided by the employee rather than past services that created temporary differences. ~~However, the~~ The Committee noted that one of the objectives of IAS 19 is that an entity is only required to recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future, as reflected in the recognition requirements of paragraph 428 of IAS 19.

The Committee noted that the statutory employee profit-sharing arrangement described in the request should be accounted for in accordance with IAS 19, and that IAS 19 provides sufficient guidance on amounts that should be recognised and measured, with the result that significantly divergent interpretations are not expected in practice. Consequently, the Committee ~~{decided}~~ not to add this issue to its agenda.

October 8, 2010

(by e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IAS 19 *Employee Benefits* – Accounting for a statutory employee profit-sharing arrangement

This letter is the response of the staff of the Canadian Accounting Standards Board to the IFRS Interpretation Committee's tentative agenda decision on the accounting for a statutory employee profit-sharing arrangement under IAS 19 *Employee Benefits*. This tentative agenda decision was published in the September 2010 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the staff of the Canadian Accounting Standards Board. They do not necessarily represent the view of the Canadian Accounting Standards Board or a common view of its staff. Views of the Canadian Accounting Standards Board are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda because an obligation under the profit-sharing arrangement does not exist until the taxable profit has been earned and the employee has provided the related service. However, we think the third paragraph of the tentative agenda decision is confusing and does not clearly explain this rationale. Therefore, the Appendix to this letter provides suggested amendments to the tentative agenda decision.

We proposed amendments to the tentative decision because we find the description in the third paragraph confusing for the following additional reasons:

- This paragraph explains that an obligation does not exist by using an analogy to IAS 12 *Income Taxes* even though IAS 12 is not applicable.
- Without the context of the request, it is difficult to understand that the “amounts that will be payable to...employees” is not referring to a current liability under the profit-sharing arrangement and that the “temporary differences between accounting and taxable profit” is not a deferred tax impact of recording the profit-sharing liability.
- The reference to amounts “receivable from employees” is confusing because we do not understand how the profit-sharing arrangement could ever result in an amount being owed by the employees.
- The second sentence in the third paragraph only focuses on the employee providing a service.

Also, we think the tentative agenda decision needs to state clearly that the statutory employee profit-sharing arrangement should not be accounted for by analogy to IAS 12. We think this modification is important because, as noted in the IFRS Interpretations Committee staff agenda paper 13, it is considered acceptable under US GAAP to account for these types of employee profit-sharing arrangements by analogy to Accounting Standard Codification Topic 740 *Income Taxes*.

We would be pleased to provide more detail if you require. If so, please contact Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail kathryn.ingram@cica.ca).

Yours truly,



Peter Martin, CA
Director,
Accounting Standards

Appendix

We suggest clarifying the tentative agenda decision as follows:

IAS 19 *Employee Benefits* – Accounting for a statutory employee profit-sharing arrangement

The Committee received a request for clarification of the accounting for a statutory employee profit-sharing arrangement that requires an entity to share 10 per cent of profit, calculated in accordance with tax law (subject to specific exceptions), with employees.

The Committee noted that although such a statutory employee profit-sharing arrangement calculates amounts to be payable to employees in accordance with tax law, it meets the definition ~~in IFRSs~~ of an employee benefit and is ~~required to be accounted for in accordance with within the scope of IAS 19. Therefore, the employee profit-sharing arrangement described in the request should not be accounted for by analogy to IAS 12 *Income Taxes*.~~

The Committee observed that ~~profit-sharing for amounts that will be included in or deducted from taxable profit in a future period should not be recognized as an obligation in the current period. An obligation does not exist until the taxable profit has been earned and the employee has provided the related service in that future period. any amounts that will be payable to, or receivable from, employees, relating to temporary differences between accounting and taxable profit, similar to those defined in IAS 12 *Income Taxes*, relate to future services to be provided by the employee. However, the Committee noted that the objective of IAS 19 is that an entity is only required to recognise a liability when an employee has provided service, as reflected in the recognition requirements of paragraph 128 of IAS 19.~~

The Committee noted that the statutory employee profit-sharing arrangement described in the request should be accounted for in accordance with IAS 19, and that IAS 19 provides sufficient guidance on amounts that should be recognised and measured, with the result that significantly divergent interpretations are not expected in practice. Consequently, the Committee [decided] not to add this issue to its agenda.



7 October, 2010

Mr. Mitsuhiro Takemura
Visiting Fellow, IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mitsuhiro:

As a follow up to the meeting we held in London on September 20, 2010, to discuss the issue of Mexican employee profit sharing and its deferred effects, we would like to confirm our viewpoint on some of the matters discussed at such meeting.

Nature of the employee profit sharing liability

The employee profit sharing liability is composed of two items. One is represented by outflows of resources that will occur in the year subsequent to that of the related taxable income, and the other is represented by outflows of resources that will occur in future years, as the temporary differences, which reduced current year taxable income, reverse.

For instance, if an entity took accelerated depreciation of equipment for tax purposes, taxable income will increase in future years vis a vis book income, since a portion of the book depreciation will not be deductible. Therefore, as outflows of resources will occur to settle a present obligation arising from past events (the effect of the reduction in taxable income), it is clear that a liability exists.

Another way to look at it, is as a past event in which the employees helped create income in a given year, which generates employee profit sharing. However, if due to the provisions of the tax law or due to a tax strategy, a portion of taxable income is deferred, a portion of the payment of employee profit sharing will also be deferred until it is included in the taxable income of a future year. Therefore, the employees, as a group, have already earned the profit sharing that will be paid in future years.

Accordingly, a liability for deferred employee profit sharing exists, based on the definition of a liability in IAS 37, as *“a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.”*

Accrual or provision

It can be debated whether deferred employee profit sharing payable should be an accrual or a provision. As discussed in paragraph 11 of IAS 37, *“accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay).”* It could be argued that due to the fact that the existence of future taxable income is uncertain, deferred employee profit sharing payable should not be considered an accrual.

However, it is clear that it should be a provision, hence a liability, as indicated in paragraph 13(a) of IAS 37, which states that provisions *“are recognized as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations...”*

Analyzing the principle stated in paragraph 14 of IAS 37, we can conclude that:

“A provision shall be recognized when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;”*** - In this case the legal obligation exists to pay the deferred employee profit sharing when the temporary items reverse and the event that created the income is a past event as indicated above;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and”*** - As indicated in paragraph 17 of IAS 37, *“A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case onlywhere the settlement of the obligation can be enforced by law.”* The obligation to pay employee profit sharing is established by the law with the highest hierarchy in Mexico, the Mexican Constitution, and subsequently in the Labor Law and the Income Tax Law. Therefore, it is clear that, when future taxable income includes the temporary items that reverse, the payment will be enforced by law;
- (c) a reliable estimate can be made of the amount of the obligation.”*** - The estimate can be made based on the temporary items that resulted in the deferral of taxable income and, therefore, employee profit sharing, at a rate of 10%.

Regarding the possible outflow, we have to consider what is indicated in paragraph 23 of IAS 37, which states that *“For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purposes of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability it will not.”* In this regard, we believe that the probability there will be taxable income in the future is greater than the probability there will not for all entities that are on a going concern basis.

The probability there will not be taxable income in the future would then apply to entities that are not on a going concern basis and those that are implementing a viable plan to transfer the employees to a service entity. In the latter case, as a restructuring will occur, it will be necessary to take into consideration what is stated in paragraph 75 of IAS 37, which requires that the entity should have *“...announced the main features of the restructuring plan to those affected by it in a sufficient specific manner to raise a valid expectation in them that the entity will carry out the restructuring”*. Therefore, the

plan to transfer the employees to a service entity must be communicated to and accepted by the employees that will be affected. We believe that in most cases it will not be realistic to expect to obtain the approval from the employee unions. If the entity undertakes a restructuring, *“...its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes changes to the plan unlikely.”* (see paragraph 74).

Notwithstanding, if there is a probability that there will not be an outflow of resources embodying economic benefits, the last part of paragraph 23 indicates; *“Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility on an outflow of resources embodying economic benefits is remote”*. However, the probability should be evidenced. If not, disclosure is not an alternative to proper accounting.

Employee group as a whole

As we discussed, the employee profit sharing to be paid to employees is determined based on a percentage of taxable income. Such amount is payable to the employee group as a whole. In the first step of the computation, which is the one that entails accounting issues, the amount payable to each employee is not yet determined. That will be made in a second step, through an arithmetic computation based on salaries and days worked by each employee, to distribute the amount determined in the first step. Therefore, this second step does not pose any accounting issues.

Therefore, to determine the expense, it is necessary to consider that employee profit sharing is payable to the group of employees who will be working in any given year. Consequently, the employee profit sharing that was generated by creating wealth in a specific year is payable to the employees working at the entity in future years. These employees may not be those that were working when the wealth was generated, due to normal employee turnover at entities, since it is paid to the employee group working in the entity at the time of payment.

As in the case of income tax, the payment to the government is deferred and, in the case of employee profit sharing, the payment to the employee group as a whole is also deferred. It is not an employee-by-employee computation in the first step, as indicated above, but to a group of employees.

In this respect, IAS 37 does not require knowing the identity of each the employee to record a liability, and paragraph 20 indicates: *“An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed—indeed the obligation may be to the public at large”*. In the case of employee profit sharing, the obligation is to the employee group as a whole.

Measurement issue

As we discussed, the recognition of employee profit sharing has two issues. One relates to presentation in the income statement and the other relates to measurement. The presentation in the income statement does not present any problem, as it is clearly an operating expense as prescribed by IAS 19. Regarding measurement, the problem is whether IAS 19 should be used or if instead IAS 12 should be used.

The principle underlying IAS 12 is that the deferral does not mean that an expense does not exist for the amount being deferred, but that an expense has to be recorded for such liability that will generate cash outflows in the future. We believe that this same principle should apply when an amount of employee profit sharing is deferred and will generate cash outflows when later paid to the employees as a group.

We also believe that IAS 19 is geared to the employee benefits that an entity agrees with its employees as a result of negotiations held with them, such as pensions, or due to laws that establish certain benefits such as vacation pay, maternity leave, etc. However, IAS 19 does not consider an employee benefit based on taxable income. Therefore, it should not be considered the standard applicable to the measurement of this liability.

We believe that the measurement of an expense derived from a taxable profit determined on what is prescribed by an income tax law should be based on IAS 12, irrespective if the amount is to be paid to the government or to the employees, since it is the only way to make the reasonable estimate requested by paragraph 14(c) of IAS 37. This will result in consistent measurement of the effect of deferred items in both cases, since recognizing them in one case and not in the other would represent inconsistent application of a principle.

Conclusion

We understand the IFRS Interpretations Committee evaluated how statutory employee profit sharing should be presented and measured, but did not evaluate if the deferred portion represents a liability or not. We believe that as the deferred portion of employee profit sharing *“is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits”*, it is indeed a liability as defined by IAS 37.

The fact that the deferred employee benefit is not an income tax does not change its nature as a liability. Therefore, we firmly believe that such liability should not disappear from the statement of financial position simply because the standard for employee benefits does not deal with statutory employee profit sharing based on taxable income.

Considering the above, we believe that the tentative decision reached by the IFRS Interpretations Committee should be revised in order to determine if they agree with us that there is a liability, which should be recognized as such.

Should you require additional information on our comments listed above, please contact Juan M. Gras at (52) 55 5596 5633 ext. 105 or me at (52) 55 5596 5633 ext. 103 or by e-mail at jgras@cinif.org.mx or fperezcervantes@cinif.org.mx, respectively.

Sincerely,

C.P.C. Felipe Perez Cervantes
President of the Mexican
Financial Reporting Standards Board – MFRSB
Consejo Mexicano para la Investigacion y Desarrollo
de Normas de Informacion Financiera (CINIF)

cc: Jan Engstrom
Amaro Gomes
Wayne Upton
Michael Stewart
David Humphreys
Denise Gómez

Encl. example

Employee profit sharing example

Entity A had a pre-tax book profit of \$1,000 in year 1. Based on such amount the expense for employee profit sharing is of \$100, equivalent to 10% of the pre-tax book income.

The taxable income amounts to \$800, since Entity A recognized a revenue that was not taxable, as the invoice to the customer was issued after year end, when the service was fully rendered. Therefore, the amount payable to the employees in the month of May of year 2, amounted to \$80.

The accounting entry that Entity A made at year end of year 1 was as follows:

Employee profit sharing expense	\$100	
Profit sharing payable		\$80
Deferred employee profit sharing		20

In year 2, Entity A has a book profit of \$2,000. Based on such amount the expense for employee profit sharing is \$200. However, the taxable income is \$2,200, since the amount of revenues of year 1, that was invoiced in year 2 is now taxable. At year end entity A has the following accounting entry for employee profit sharing expense:

Employee profit sharing expense	\$200	
Deferred employee profit sharing	20	
Profit sharing payable		\$220

As the profit sharing is payable to the group of employees, irrespective if they worked at Entity A in the prior year, employees who started to work in year 2, will receive profit sharing on an amount that was not earned by Entity A in year 2, but in year 1. As well, those employees who left entity A during year 1, will not receive any portion of such amount earned in year 1. However, the total employee profit sharing generated is eventually paid to the employees and the expense has to be recognized when the entity generates a profit.

Mr Robert Garnett
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: ifric@iasb.org

10 October 2010

Dear Mr Garnett,

Tentative agenda decision: IAS 19 Employee Benefits — Accounting for a statutory employee profit sharing arrangement

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September 2010 IFRIC Update of the tentative decision not to take onto the IFRS Interpretations Committee's agenda a request for a clarification of IAS 19 *Employee Benefits* with respect to the accounting for a statutory employee profit-sharing arrangement that requires an entity to share 10 per cent of profit, calculated in accordance with tax law (subject to specific exceptions), with employees.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,



Veronica Poole
Global IFRS Leader - Technical

IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom

9 October 2010

Dear Committee Members,

Tentative Agenda Decision: IAS 19 Employee Benefits — Accounting for a statutory employee profit sharing arrangement

I am writing to comment on the tentative agenda decision published in the IFRIC update of September 2010 concerning accounting for a statutory employee profit sharing arrangement.

The Committee received a request for clarification of the accounting for a statutory employee profit-sharing arrangement that requires an entity to share 10 per cent of profit, calculated in accordance with tax law (subject to specific exceptions), with employees. The Committee noted that although such a statutory employee profit sharing arrangement calculates amounts to be payable to employees in accordance with tax law, it meets the definition in IFRS of an employee benefit and is required to be accounted for in accordance with IAS 19 “Employee Benefits”. Further the Committee noted that IAS 19 provides sufficient guidance in this regard and consequently, the Committee decline to add the issue to its agenda.

Though the Committee had considered the specific fact pattern and since the benefit concerned are payable / receivable from employees of the entity therefore the arrangement are to be accounted for under IAS 19 “Employee Benefits” and not under IAS 12 “Income Taxes”. I agree with the Committee’s decision for not adding the issue to its agenda for the reason mentioned there in.

However I would like to bring to the attention of the Committee certain statutory profit sharing arrangements prevailing in many jurisdictions where charges are levied based on higher of accounting profit (i.e. accounting profit before tax) or taxable profit calculated in accordance with tax laws of the jurisdiction concerned and are collected under the name of Workers’ Welfare Fund or Workers’ Profit Participation Fund. The levy so collected are payable to the Government concerned and are not necessarily paid / shared with the employees of the entity from which such charged are collected. Hence such levies are served for the well being of Workers at large and not necessarily workers / employees specific to the entity concerned.

I would urged the Committee to consider such profit sharing arrangement in broader context rather than limiting to specific fact pattern described in the submission to clarify whether any arrangement where the amount is levied on the net basis (i.e. either accounting profit or taxable profit) under whatever name called and the amount so collected are not shared with the employees of the entity, would be considered to be with in the scope of IAS 12 “Income Taxes” as the charges are in the nature of tax rather than under IAS 19 “Employee Benefits”. Conversely

where the beneficiaries of such arrangements are the employees of the entity as in the case of Mexican statutory profit sharing arrangement the arrangement meets the definition in IFRS of an employee benefit and is required to be accounted for in accordance with IAS 19 “Employee Benefits”.

Should you require any clarification or any input concerning my comment feel free to contact and I shall be pleased to furnish the same.

Yours sincerely,

Michael Straut