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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 Canada

30 April 2016

Dear Sir/Madam

**COMMENT ON EXPOSURE DRAFT 59: AMENDMENTS TO IPSAS 25,
*Employee Benefits***

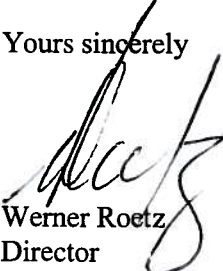
We welcome the opportunity to comment on Exposure Draft 59: *Amendments to IPSAS 25, Employee Benefits*.

Overall, we are supportive of the IPSASB's proposed amendments to IPSAS 25. Minor issues were however identified in some of the Parts. These issues, along with our proposals, are reflected in the responses for comment.

Responses to each Part for Comment are set out in the Appendix to this letter.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely



Werner Roetz
Director

KPMG Services Proprietary Limited is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Services Proprietary Limited is not a Registered Auditor in terms of the Auditing Profession Act, 26 of 2005 and does not provide audit services as defined in Section 1 of this Act.

Registration number: 1999/012876/07

Policy Board
Chief Executive: TH Hoole

Executive Directors: N Dlamu, M Letsitsi, SL Louw, NKS Malaba, M Oddy, M Saloojee, CAT Smit

Other Directors: ZA Beseti, ZH De Beer, LP Fourie, N Fubu, AH Jaffer (Chairman of the Board), FA Karreem, ME Magondo, F Mall, GM Pickering, JN Pierce, T Rossouw, GCC Smith

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

APPENDIX

Responses to each Part for comment

Specific Matter for Comment 1 – Amendments to IPSAS 25

1. Removing the “corridor approach”

The ED proposes recognising actuarial gains or losses in full in the year that they arise, and that these gains or losses are recognised in the statement of changes in net assets. By removing the current three options and requiring entities to recognise changes immediately enhances the comparability and understandability of information related to defined benefit plans.

We agree with the proposed changes above as this will ensure alignment with IFRS.

2. New components of defined benefit cost

Changes are proposed in the way in which interest revenue or interest expense is calculated. The proposed revisions require that an entity reflects a net interest expense or net interest revenue in surplus or deficit. It is anticipated that the change will make the measurement of defined benefit obligations easier.

Whilst we agree that the proposed revisions will make the measurement of the defined benefit obligations easier, we are concerned that the proposed change will not reflect the substance of the transactions. If an entity reflects a net interest expense or net interest revenue, the users of the financial statements may not fully understand the transactions and conditions that have occurred.

Since IPSAS 1, *Presentation of Financial Statements*, allow for offsetting of expenses and revenue if required or permitted by that IPSAS, the net interest expense/revenue may be reflected and disaggregated information be disclosed by way of a disclosure note to explain the substance of the transaction or other event.

3. Amending certain disclosure requirements for defined benefit plans and multi-employer plans

The disclosure requirements have been re-structured and refined according to disclosure objectives that explain the characteristics of plans, the risks associated with them, and their relationship with the entity’s financial statements.

We agree with the proposed changes above.

4. Simplification of requirements for contributions from employees or third parties to a defined benefit plan, when those contributions are applied to a simple contributory plan that is linked to service

The revisions to IPSAS 25 provide guidance on accounting for risk-sharing features of defined benefit plans. For instance if contributions from employees or third parties are linked to service and the amount of the contributions is independent of the number of years of service, the entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered or by being attributed to periods of service.

We agree with the proposed changes above.

5. Basis for conclusion

We agree with the proposed changes to Basis for Conclusion *except for the following:*

- **BC4** under the heading “Composite Social Security Programs and State Plans” suggests that composite social security programs for benefits that are not in consideration for service rendered by employees or past employees is still considered relevant by IPSASB. This is inconsistent with the proposed amendments as the ED proposes to delete the composite social security programs section. Recommendation is to remove/delete this BC should the composite social security programs section be deleted (**Page 64**).

BC10 under the heading “Actuarial Gains and Losses – the Corridor” suggests that the “corridor approach” is still applicable. This is inconsistent with the proposed amendments as the ED proposes to remove the “corridor approach”. Recommendation is to remove/delete this BC as the proposed BC10A contradicts this paragraph (**Page 65**).

Specific Matter for Comment 2 – Deleting Composite Social Security Programs section

The IPSASB proposes to delete the abovementioned section as is not aware that it has been applied in any jurisdiction. This is a concern because although it may not be known to be currently applied by any jurisdiction, there could possibly be other jurisdictions that could apply this section in future. This would mean that the section would have to be included again, which would be another administrative burden.

Under **BC4** the IPSASB concluded that such social security programs should be defined and the requirements for their treatment be provided considering their significance in some jurisdictions. IPSAS 25 only addresses obligations in composite social security programs that arise as consideration in exchange for service rendered by employees and past employees of the reporting entity. However, it is not clear whether composite social security programs for

benefits that are not consideration in exchange for service rendered by employees are within the scope of Social Benefits and thus recognised and measured in terms of that Consultation Paper.

In terms of the Consultation Paper on Social Benefits, social security is social insurance that arises outside of an employer-employee relationship, and provides benefits to the community as a whole, or large sections of the community. Social security is imposed and controlled by a government entity. Some benefits are mandatory which are regulated by the government while others are voluntarily offered to fulfill the need of a specific employee population which would not limit the entity to social insurance.

Taking the above into consideration, we *do not agree* with the proposed deletion but rather recommend the retention of composite social security programs that arise as consideration in exchange for service rendered by employees and past employees of the reporting entity in the Standard and moving composite social security programs for benefits that are not consideration in exchange for service rendered by employees to be included in the Social Benefits Consultation Paper.

Other comments

We also noticed inconsistencies in the Exposure Draft. These are highlighted below:

1. Inconsistencies in the amendments to wording in IPSAS 25.14(a) - In the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated paid absences (Page 11).
2. IPSAS 25.50 – First paragraph should remove “to” in this sentence “a legal or constructive obligation to either” as subparagraphs also have “to” when starting the sentences (Page 17).
3. Inconsistencies in the amendments to wording in IPSAS 25.86(b)(iv) - Taxes payable by the plan on contributions relating to service before the reporting date. Replace “before the reporting date” with “before the end of the reporting period” (Page 24).
4. Inconsistencies in the amendments to wording in BC8 - IAS 19 requires adoption of a discount rate based on the market yields at the reporting date on high quality corporate bonds. Replace “at the reporting date” with “at the end of the reporting period” (Page 64).

