

## *Query No. 21*

***Subject: Accounting for employee benefits covered under DPE Guidelines.<sup>1</sup>***

### **A. Facts of the Case**

1. A Company is a Central Public Sector Enterprise (CPSE) (hereinafter referred to as 'the Company'), registered under the Companies Act, listed in Stock Exchanges, and thereby governed under the relevant regulations. It is engaged in the business of refining and marketing of petroleum products, petrochemicals, gas and alternate energy.

2. The Department of Public Enterprises (DPE), which is now a part of the Ministry of Finance, is the nodal department for all the CPSEs and it formulates policy pertaining to CPSEs including policy guidelines on personnel management. In the extant DPE Guidelines on pay revision (a copy of which has been separately provided by the querist for the perusal of the Committee), CPSEs are allowed to contribute up to 30% of Base Pay (Basic + DA) towards superannuation benefits for its executives. The Company, being a CPSE, is governed by these DPE Guidelines and accordingly, provident fund, gratuity, post-superannuation medical benefits and pension benefits to its executives are covered within 30% ceiling.

3. Although the salary and wages to workmen are not covered under DPE Guidelines, but agreement entered with workmen Union also caps the superannuation benefits within 30% of base pay to maintain parity within the organisation.

4. The brief description of these schemes is as follows:

- i. Provident Fund (PF): Contribution towards PF @ 12% is governed by statute and same is transferred to PF trusts on monthly basis. PF in normal case is a defined contribution scheme. However, the Company has its own recognised provident fund trust based on regulatory approvals and is managed by the Company itself; and there exists a liability against shortfall with reference to statutory rate of return. The Company values interest shortfall liability (if any) through actuarial valuation and funds for it.
- ii. Gratuity: The benefit towards gratuity is governed by the Payment of Gratuity Act and is presently capped at Rs. 20 Lakh per employee, which will increase by 25% whenever DA increases by 50% (as per DPE Guidelines). This is a defined benefit scheme as the quantum of benefit is derived from statutory enactments, and actuarial valuation is carried out for ascertaining obligation under the scheme.
- iii. Post-Superannuation Medical Benefits (PRMB): The entitlements are based on assistance scheme adopted by the Company and the obligation under the scheme depends upon various factors like life expectancy, medical cost, future returns, etc. It is a defined benefit scheme which is governed by the terms of engagement and actuarial valuation is carried out for ascertaining obligation under the scheme. Increase in obligation under the scheme towards post-retirement medical expenses of both retired as well as active employees are funded through the contribution based on base pay of active employees.

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<sup>1</sup> Opinion finalised by the Committee on 15.12.2021.

- iv. Pension Fund: Contribution towards pension scheme is made to the individual employee's account on monthly basis and no further liability exists on the Company. Thus, the same is defined contribution scheme and is being administered based on balance available out of 30% cap after adjusting for first 3 schemes mentioned above. At present, the Company makes monthly contribution towards pension scheme and actualises the liability at the year-end based on actuarial valuation by making necessary adjustments in the books.

5. As mentioned above, DPE has restricted superannuation benefits to 30% of Base Pay. Though actuarial valuation is carried out in case of gratuity and PRMB Schemes for ascertaining obligation, the overall contribution under all schemes is governed by the DPE Guidelines/Agreement with Collectives and is limited to 30% of Base Pay as employer's maximum obligation. Hence, superannuation schemes, for practical purposes and for net impact in the Statement of Profit and Loss, have the effect of defined contribution scheme on overall basis.

6. The querist has stated that as per Indian Accounting Standard (Ind AS) 19, 'Employee Benefits', *payment towards defined contribution plan is recognised as an expense as the contribution is fixed and no additional obligation persists*. In case of defined benefit plan, the entity's obligation is to provide for the agreed benefits and make good for any actuarial risk and investment risk, if any. However, such a unique combination of schemes of different nature under an overall ceiling, thus taking a combined form/nature as defined contribution scheme is not envisaged in Ind AS. (Emphasis supplied by the querist.)

*Financial facts of the issue:*

7. DPE had introduced the ceiling on superannuation benefits earlier w.e.f. 01.01.2007. Accordingly, the obligation under various schemes was valued as on 31.12.2006 and provided for. Thereafter, contributions from 01.01.2007 have been brought under the purview of 30% ceiling. Statutory contribution towards PF and net obligation as per actuarial valuation for gratuity and PRMB schemes were initially adjusted from the ceiling of 30% and residual amount was contributed towards the pension scheme.

8. In the past, the Company has observed huge fluctuations in contribution towards residual pension scheme caused by variation in obligation towards gratuity (primarily due to increase in statutory obligation) and PRMB schemes (due to various factors mentioned in paragraph 4(iii) above). To elaborate further, the contribution towards pension scheme which is generally expected to be in the range of 9-11%, fell sharply to 6.63% during the financial year (F.Y.) 2014-15 and rose significantly to 14.39% in F.Y. 2015-16.

9. In order to prevent such huge fluctuations in contributions under various superannuation benefit schemes and to adhere to the fixed ceiling of 30%, block concept for contributions was devised by the Company. As per this concept, percentage contribution under various schemes is fixed for five years block based on historical average. This concept was adopted by the Company for maintaining consistency and to avoid year-on-year fluctuation in the contribution towards the residual pension fund.

10. During initial two years of introduction of block concept, the cost as per actuarial valuation under PRMB scheme was lower than percentage as per block in the initial years. Yet the Company continued contributing higher amount as per block to mitigate any possible increase in liability. However, during last two years, due to sharp fall in discount rates coupled with increase in life expectancy rate, the obligation under the gratuity and PRMB

schemes increased significantly over the percentage fixed under block. In case the percentage as per the block is not considered, PF contribution and net obligation under gratuity and PRMB schemes aggregating to 37% of Base Pay, by itself would have surpassed the 30% ceiling in the F.Y. 2019-20 and in the F.Y. 2020-21, the contribution toward pension would be meagre 6% after adjustment for three schemes.

*Accounting treatment by the Company:*

11. The querist has further stated that in line with the requirements under Ind AS 19, the Company recognises net obligation under the gratuity and PRMB scheme, including variation due to change in actuarial assumptions, as liability in the financial statements. This net obligation as per actuarial report, which is recognised as liability in the financial statements, is settled by the Company by funding the respective trusts.

12. However, due to the restrictions as per DPE Guidelines, the expenditure charged in the Statement of Profit and Loss towards the overall contribution under the schemes is limited to 30% under the block concept. The balance amount over and above percentages considered under the block is shown as advance to trusts which is recoverable from future contribution through adjustment of percentage contribution to various schemes under the block.

13. The querist has further elaborated on the advances and its recoverability in subsequent years after expiry of the current block period that, if the actuarial liability of a specific scheme is lower than the percentage assigned for contribution, the amount of outstanding advance to trusts shall be set off, otherwise the same shall be recovered by way of downward revision in contribution to residual pension scheme. Thus, in any case, the Company intends to and shall be able to recover the amount from the future contributions. It is worth mentioning here that the Company revised its contribution to PRMB scheme from 4% to 5% under the existing block period itself with commensurate reduction in pension scheme when the circumstances so demanded.

*Justification towards accounting by the Company:*

14. Actuarial valuation of net obligation is not limited to any ceiling but is based on the benefits extended under the scheme and actuarial assumptions, but the entitlement of employees has been fixed at 30%. Recognition of net obligation as per actuarial report by debit to profit and loss account will lead to deviation from service conditions and disbursements of benefits to employees beyond their entitlement as per the DPE Guidelines/Agreement with Union.

15. It is pertinent to note that though liabilities have been accounted for based on actuarial valuation in case of gratuity and PRMB Schemes, overall cap of 30% as per DPE Guidelines/Agreement with Collectives makes the overall superannuation scheme as defined contribution. Accordingly, the impact on the Statement of Profit and Loss has been limited to 30% as per the entitlement and the difference is accounted for as advance to trust, recoverable from employees, by way of adjustments from future contributions.

16. The accounting treatment and the block concept have been formulated to take care of the requirements of DPE Guidelines/Agreement with Collectives and Ind AS 19. In this way, the Company was able to meet the requirements of Ind AS 19 and was also able to restrict the contribution as mandated by DPE.

17. The querist has separately submitted the following clarifications:

- As mentioned above, CPSEs are governed by the DPE Guidelines on personnel policies, which include the Periodic Pay Revisions for Officers. The ceiling was fixed as part of the DPE Guidelines on Pay Revision w.e.f. 01.01.2007 and on same lines pay revision agreements have been entered with the Unions for workmen. The limit on superannuation benefits is to regulate and maintain uniformity in overall benefits available to employees in CPSEs. The range of Base Pay (Basic + DA) for each grade is fixed and other benefits (HRA, superannuation, etc.) are determined as percentage of Base Pay. As per the latest Pay Revision Guidelines, maximum amount allowed for contribution under superannuation benefits as per DPE is 30% of Base Pay.  
The superannuation benefit schemes covered under the DPE Guidelines include provident fund and gratuity, which are governed by statutes, as well as pension and post-retirement medical benefits, which are not covered under any statute. The contributions under the statutory schemes, namely, provident fund and gratuity are adjusted from the 30% ceiling first, then the contribution under/towards post-retirement medical benefit scheme is adjusted and balance amount is used for contribution towards pension. Generally, sufficient amount is available for contribution to pension and post-retirement medical benefit schemes after contribution to PF @ 12% and gratuity fund. In order to prevent huge fluctuation in the contribution towards pension fund year on year, the block concept was introduced. However, there were huge increase in obligations under PRMB and gratuity schemes during F.Y. 2019-20 and F.Y. 2020-21 due to fall in the rate of returns and increase in life expectancy, which gave rise to advances of employee trusts.
- For the Company, the limit on the payment of post-employment benefits is applicable at overall entity-wide level. The curtailment was done w.e.f. 01.01.2007 vide DPE OM dated 26.11.2008.
- The amount of contribution under PF scheme is statutory and is settled as per statute; contribution under Gratuity Trust is computed by actuary on the basis of statute and PRMB on the basis of scheme extended by the Company. Thus, any excess requirement under these schemes will be funded by curtailing contribution under Pension Scheme. Thus, excess amount in the employee trust will not be repatriated but will be adjusted through reduced contribution of future period.
- The ceiling was fixed as part of pay revision w.e.f. 01.01.2007 for officers (based on DPE Guidelines) and workmen (based on pay revision agreements).

As far as the disbursement of the benefits is concerned, the following practice is followed:

Sl. no	Employee benefit	During Service	On retirement of employee
1.	Provident Fund	Company's PF contribution is released to recognised PF trusts based on statute (presently 12% of base pay) and credited to individual employee account.  As recognised PF trusts are managed	The total contribution (including employee contribution) during the service alongwith the interest is settled by the Company and is reimbursed by the PF trust.

		by the Company, interest shortfall, if any, is separately funded as per the statute (which is outside 30% ceiling).	
2.	Gratuity	Contribution to gratuity is released to Gratuity trust as per rate for the block. At the end of each F.Y., actuarial valuation is carried out to ascertain additional liability, if any which is released subsequently.	Gratuity, as per statute (Rs. 20 lakh) is paid to employee by the Company and is reimbursed by the gratuity trust.
3.	PRMB	Contribution towards PRMB is released to trust regularly. At the end of each F.Y., actuarial valuation is carried out to ascertain additional liability, if any, which is released subsequently.	The entitlement for medical benefits of retired employees is fixed based on their grades at the time of retirement. The medical costs to retirees/hospital is paid by the Company and reimbursed by the trust.
4.	Pension	Contribution towards pension is released to NPS or SABF trust and credited to individual employee account.	Annuities are purchased based on the individual employees account balances as on date of retirement.

## B. Query

18. On the basis of the above, the querist has sought the opinion of the Expert Advisory Committee on the following issues:

- (i) Whether the accounting treatment carried out by the Company for superannuation schemes as summarised below is in order and in line with the accounting requirements as per Ind AS 19:
  - (a) Recognition of entire liability as per actuarial valuation report
  - (b) Providing of expenditure within cap of 30% as per DPE Guidelines
  - (c) Treatment of differential amount (liability less expenditure) as 'Advance to Trust' which is recoverable from employees, by way of adjustments from future contributions.
- (ii) In case the accounting treatment carried out by the Company is not in order, what should be the accounting treatment for contribution under the superannuation schemes considering the above-mentioned constraints?

### C. Points considered by the Committee

19. The Committee notes that the basic issue raised by the querist relates to the accounting treatment of the above-mentioned employee superannuation benefit schemes of the Company. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting in the books of PRMB/gratuity/provident fund trusts, valuation of defined benefit plan assets, whether the ceiling laid down by the DPE Guidelines would result into any curtailment under Ind AS 19 and accounting for curtailment (if any), measurement of liability for Provident Fund only to the extent of shortfall in interest rates with reference to statutory rate of return, etc. The Committee has only examined the issue from Ind AS perspective and has not examined the regulatory or legal aspects, including those arising under Income-tax Act, PF Act, Gratuity Act, DPE Guidelines etc.

20. The Committee notes that Ind AS 19 states as follows:

***“Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a 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.”***

“26 Post-employment benefits include items such as the following:

- (a) retirement benefits (eg pensions and lump sum payments on retirement); and
- (b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

27 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

28 Under defined contribution plans the entity’s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.”

- “51 When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:**
- (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.**
  - (b) as an expense, unless another Ind AS requires or permits the inclusion of the contribution in the cost of an asset (see, for example, Ind AS 2 and Ind AS 16).**
- 52 When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 83.”**
- “56 Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity’s ability, and willingness, to make good any shortfall in the fund’s assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.
- 57 Accounting by an entity for defined benefit plans involves the following steps:
- (a) determining the deficit or surplus. This involves:
    - (i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 67–69). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70–74) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 75–98).
    - (ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 67–69 and 83–86).
    - (iii) deducting the fair value of any plan assets (see paragraphs 113–115) from the present value of the defined benefit obligation.

- (b) determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 64).
- (c) determining amounts to be recognised in profit or loss:
  - (i) current service cost (see paragraphs 70–74 and paragraph 122A).
  - (ii) any past service cost and gain or loss on settlement (see paragraphs 99–112).
  - (iii) net interest on the net defined benefit liability (asset) (see paragraphs 123–126).
- (d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:
  - (i) actuarial gains and losses (see paragraphs 128 and 129);
  - (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 130); and
  - (iii) any change in the effect of the asset ceiling (see paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

**58 An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.”**

**“63 An entity shall recognise the net defined benefit liability (asset) in the balance sheet.**

**64 When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:**

- (a) the surplus in the defined benefit plan; and**
- (b) the asset ceiling, determined using the discount rate specified in paragraph 83.**

65 A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognises a net defined benefit asset in such cases because:

- (a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;
- (b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and

- (c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.”

“127 Remeasurements of the net defined benefit liability (asset) comprise:

- (a) actuarial gains and losses (see paragraphs 128 and 129);
- (b) the return on plan assets (see paragraph 130), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 125); and
- (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 126).

128 Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:

- (a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;
- (b) the effect of changes to assumptions concerning benefit payment options;
- (c) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and
- (d) the effect of changes in the discount rate.

129 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

130 In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 76). Other administration costs are not deducted from the return on plan assets.”

**“156 For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another Ind AS requires or permits their inclusion in the cost of an asset:**

- (a) service cost (see paragraphs 66–112 and paragraph 122A);**
- (b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126); and**

**(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130).”**

The Committee notes that under defined benefit plans, the employer’s obligation is not limited to the amount that it agrees to contribute to the employee benefit funds; rather, employer is obliged to provide the agreed benefits to current and former employees. If actuarial or investment experience is worse than expected, the employer’s obligation is increased because the employer is in substance underwriting the actuarial and investment risks associated with the plan. Therefore, the expense recognised for a defined benefit plan is not necessarily the amount of contribution due for the period.

Ind AS 19 draws the distinction between defined contribution plans and defined benefit plans. The determination is made based on the economic substance of the plan as derived from its principal terms and conditions. Under defined contribution plans, the benefits received by the employee are determined by the amount of contributions paid (either by the employer, the employee or both) to the benefit plan or insurance company, together with investment returns, and hence actuarial and investment risk fall in substance on the employee.

For employee benefits classified as other long-term benefits under Ind AS 19, the amount recognised as a liability for other long-term employee benefits should be the net total, at the end of the reporting period, of the present value of the obligation and the fair value of plan assets out of which the obligations are to be settled directly. The net total of the following amounts should be recognised in profit or loss, except to the extent that another Ind AS requires or permits their inclusion in the cost of an asset (refer paragraph 156, reproduced above):

- (a) service cost;
- (b) net interest on the net defined benefit liability (asset); and
- (c) remeasurements of the net defined benefit liability (asset).

All assets, liabilities, income and expenditure relating to such benefits should be accounted for in the same way, and subject to the same restrictions on the recognition of assets and income, as those relating to a defined benefit plan, except that remeasurements are recognised in profit or loss.

21. The Committee further notes that clauses 12 and 12.1 of the DPE Guidelines provided by the querist state as follows:

“12. **Superannuation Benefits:** The existing provisions regarding superannuation benefits have been retained as per which CPSEs can contribute upto 30% of BP plus DA towards Provident Fund (PF), Gratuity, Post-Superannuation Medical Benefits (PRMB) and Pension of their employees.

12.1 The ceiling of gratuity of the executives and non-unionised supervisors of the CPSEs would be raised from Rs. 10 Lakhs to Rs. 20 Lakhs with effect from 01.01.2017 and the funding for the entire amount of Gratuity would be met from within the ceiling of 30% of BP plus DA. Besides, the ceiling of gratuity shall increase by 25% whenever IDA rises by 50%.”

Therefore, the Company can contribute up to 30% of the Base Pay (BP) plus Dearness Allowance (DA) towards Provident Fund, Gratuity, Post-retirement medical benefits and

Pension to the employees. The Committee notes that the cap is not on the post retirement benefit entitlement of the employees of the Company under the various laws/regulations and, as such, the employees continue to be entitled to their benefits even after the extant DPE Guidelines becoming applicable. However, the Guidelines have capped the Company's contributions to fund the benefits towards the superannuation benefits. The employees' entitlement towards the employee benefits towards gratuity and provident fund schemes continue to be governed under the respective laws. Therefore, the Company's obligation towards gratuity and provident fund are not restricted to the Company's contributions and, therefore, should be continued to be classified as defined benefit plan.

The Committee further notes that the effect of 30% ceiling is mainly given to the benefits under pension scheme and further in order to prevent fluctuations in contributions under various superannuation benefit schemes and to adhere to the fixed ceiling of 30%, block concept for contributions was devised by the Company, wherein, percentage contribution under various schemes is fixed for five years block based on historical average. The Committee is of the view that although a ceiling on contribution to superannuation benefits by the Company may lead to curtailment of some of the benefits, it does not change the nature of obligation of the Company towards employees. The Company is still liable to provide the agreed benefits to its employees. Further, the block concept of contribution is merely an arrangement of administering cash flows and consistent funding towards the obligations of the Company towards its employees; and does not change its obligations as such.

Therefore, the Company should continue to measure its obligations towards the superannuation benefits plans as per the above-mentioned requirements of Ind AS 19 based on the classification as defined benefit plan, defined contribution plan and other long-term benefit plan. In case of defined benefit plan and other long-term benefit plan, the charge in the profit or loss/other comprehensive income cannot be limited to the amount that the Company contributes to the employee benefit funds. Accordingly, the recognition of expense towards employee benefits in the profit or loss shall also be based on the requirements of Ind AS 19 and not limited to the amount that the Company is contributing.

Further, the difference between the liabilities towards each of the defined benefit superannuation plan as determined under Ind AS 19 and the fair value of the plan assets in each plan shall be recognised as a net defined benefit plan obligation in the balance sheet. In case there is a net surplus, the same should be recognised as an asset subject to the requirements of paragraphs 64 and 65 of Ind AS 19.

The Committee further notes that, in one of the illustrations that the querist has submitted, the Company recognises the actuarial remeasurement gain/loss on Post-Superannuation Medical Benefits in other comprehensive income. The querist has submitted that the increase in obligation under the scheme towards post-retirement medical expenses of both retired as well as active employees are funded through the contribution based on base pay of active employees. The Committee notes that it is not very clear that whether the employees would be entitled to these benefits subsequent to their employment or even active employees shall be entitled to these benefits during the course of their employment. The Committee is of the view that if the nature of this benefit is such that the employees are entitled to medical benefits subsequent to their employment, these benefits would be classified as post-employment defined benefit plan since the Company has obligation that is not limited to the amount that it has agreed to contribute to the fund as per the DPE Guidelines. In such case, the Company shall measure such benefits as per the requirements of paragraphs 56-60 of Ind AS 19. However, in case the current employees are also entitled to these benefits, the Company

should evaluate whether these benefits are in the nature of other long-term employee benefit plan under Ind AS 19. In case these benefits are in the nature of other long-term employee benefit plan under Ind AS 19, the actuarial remeasurement gain/loss should be recognised in the profit or loss as per paragraph 156 of Ind AS 19 and not in other comprehensive income.

22. The Committee also notes that as per the facts submitted by the querist, contribution towards pension scheme is made to the individual employee's account on monthly basis and no further liability exists on the Company. The pension benefits are being administered based on balance available out of 30% cap after adjusting for the other three schemes mentioned above. Based on this, it appears that the Company's obligation towards pension benefits are restricted to the fixed contributions towards the same and there is 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. Therefore, pension benefit plan should be classified as defined contribution plan and should be recognised and measured as per paragraphs 51-52 of Ind AS 19.

23. The Committee further notes that the Company has surplus funds in the superannuation trusts. It has been stated that the balance amount over and above percentages considered under block is shown as recoverable from future contribution through adjustment of percentage contribution to various schemes under block. Further, the querist has submitted that if the actuarial liability of a specific scheme is lower than the percentage assigned for contribution, the amount of outstanding advance to trusts shall be set off, otherwise, the same shall be recovered by way of downward revision in contribution to residual pension scheme. Thus, the Company intends to and shall be able to recover the amount from the future contributions. In this context, the Committee notes from the requirements of Ind AS 19 that net defined benefit balance determined under the Standard may be an asset. Ind AS 19 states that an asset may arise where a defined benefit plan has been over-funded or when actuarial gains have arisen. When there is a surplus in a defined benefit plan, Ind AS 19 requires the net asset recognised to be restricted to the lower of the surplus in the plan and the asset ceiling discounted using the same discount rate used for determining the defined benefit obligation. The Committee is of the view that this differential of net asset or net obligation shall be determined on an individual plan-by-plan basis and not on an overall basis, as the surplus under one superannuation benefits plan would not be available for being utilised for the purpose of funding another plan.

#### **D. Opinion**

24. On the basis of the above, the Committee is of the following opinion:

- (i) and (ii) Although, a ceiling on contribution to superannuation benefits by the Company may lead to curtailment of some of the benefits, it does not change the nature of obligation of the Company towards employees. The Company is still liable to provide the agreed benefits to its employees. Further, the block concept of contribution is merely an arrangement of administering cash flows and consistent funding towards the obligations of the Company towards its employees; and does not change its obligations as such. Therefore, the Company should continue to measure its obligations towards the superannuation benefits plans as per the requirements of Ind AS 19 based on the classification as defined benefit plan, defined contribution plan and other long-term benefit plan, as discussed in paragraphs 20-23 above.