

Query No. 34

Subject: Accounting for Company's Liability towards Social Security Scheme Fund as per the requirements of Ind AS 19, 'Employee Benefits'.¹

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') is a Navratna company under the Ministry of Petroleum and Natural Gas, Government of India and is engaged in the business of exploration, development and production of crude oil and natural gas and production of liquid petroleum gas (LPG). The Company is also engaged in the business of transportation of crude oil and finished petroleum products. The Company is also engaged in the business of renewable energy (wind and solar).

2. The Company has a Social Security Scheme for providing specific financial assistance to dependent family members of the employee who dies during service period. Up to financial year (F.Y.) 2021-22, this scheme was serviced through purchase of an appropriate insurance policy from approved life insurance companies.

3. The salient features of this Social Security Scheme till F.Y. 2021-22 were as follows:

- a) The insurance companies were selected every year based on an open tender at the beginning of each financial year.
- b) A base premium of Rs. 4.29 crore was borne by the Company.
- c) Any premium above Rs. 4.29 crore for any particular year was borne by the Company and Executives/Unionised Employees in the ratio of 50:50 and the employees' share was deducted from their salary.
- d) The contribution by the employees was non-refundable and there were no superannuation benefits / survival benefits in any form.
- e) The annual contribution from employees was variable and determined every year based on the premium quoted by the insurance companies.
- f) The financial assistance from F.Y. 2018-19 and onwards is Rs. 60 lakh for executives and Rs. 30 lakh for unionised employees.
- g) On death of any employee of the Company, claim as per entitlement was lodged to the insurance company and on receipt of the same, it was paid to the nominee dependent of the deceased employee.
- h) The Company had no liability other than Rs. 4.29 crore base premium and monthly contribution of 50% of the additional premium over and above Rs. 4.29 crore.

4. In the year 2022-23, the Company has approved formation of the Company's Social Security Scheme Trust Fund (SSS Fund) to carry out the activities as envisaged in the earlier Social Security Scheme. The Trust Fund was registered with the Registrar of Trusts through its Trust Deed and Rules which were framed in accordance with the objectives of the Trust Fund.

5. The objectives of the Trust Fund as laid down in the Trust Rules are as follows:

- a) To provide cash benefits (as mentioned below) to the dependent(s) in the event of the death of a member while in service with the Company.

¹ Opinion finalised by the Committee on 16.10.2023.

Grade of Employees	Benefit (Rs. Lakh)
All Executives including Board Level Executives and Unionised Employees from Grade IX to EG-4	60.00
Other Unionised Employees	30.00

- b) To do all such things as are incidental to, necessary for, conducive to or required to attain the aforesaid objective.

6. The management of the Trust Fund has been vested in the Board of Trustees, who shall manage the funds collected in the Trust Fund and make necessary investments of the Trust Fund.

7. The salient features of the Trust Fund are as follows:

- a) The Company is to contribute Rs. 4.29 crore annually, at the beginning of the year.
- b) Monthly employer contribution and employee's contribution shall be as follows:

Grade of Employees	Employee Contribution p.m. (Rs.)	Employer Contribution p.m. (Rs.)
All Executives including Board Level Executives and Unionised Employees from Grade IX to EG-4	1,808	1,808
Other Unionised Employees	904	904

- c) The Company agreed to contribute an amount of Rs. 15 crore as Seed Capital to maintain the initial solvency and liquidity of the Trust Fund. The Seed Capital shall be recoverable from Trust Fund by the Company in 5 equal instalments.
- d) The monthly contributions made by the members shall be non-refundable. No amount is payable to the employee on his/her superannuation/resignation from the services of the Company.
- e) All the contributions received by the Trust Fund shall be invested with Life Insurance Corporation of India (LIC).
- f) As and when any death claim is registered, the amount shall be withdrawn from LIC and paid to the nominee dependents of the member.
- g) If in any financial year, the cash required for meeting the liabilities of the Trust Fund is less than the assets available, the shortfall shall be made good by the Company by making an additional contribution equivalent to the amount of deficit.

8. As per paragraph 8 of Ind AS 19, 'Employee Benefits', Defined Benefit Plans are post-employment benefit plans other than defined contribution plans. Post-employment benefit plans are defined as employee benefits (other than termination benefits and short-term

employee benefits) that are payable *after the completion of employment*. (Emphasis supplied by the querist.)

9. SSS Fund has been created to provide financial assistance to dependent family members of the employee who dies during service period. If an employee dies after service life, the dependent members are not eligible for any financial assistance from the Trust and accordingly, the Company is of the opinion that it is neither a defined benefit plan nor a defined contribution plan as stated in paragraph 8 of Ind AS 19.

10. Accordingly, the Company during the financial year 2022-23, has not carried out the actuarial valuation of the Company's liability towards SSS Fund for any deficit in the Fund Assets. Further, the disclosure requirements of paragraph 135 of the Ind AS 19 'Employee Benefits', was also not provided in the notes to financial statements for the year ended 31.03.2023.

11. Comptroller and Auditor General of India (C&AG) auditors during supplementary audit of financial statements of the Company for the year 2022-23 pointed out that as per Ind AS 19, 'Employee Benefits', the above scheme is a Defined Benefit Plan and accordingly provision of Ind AS 19 should be followed. However, the Company in its reply stated that as per paragraph 8 of Ind AS 19, post-employment benefits means, employee benefits (other than termination benefits and short-term employee benefits) that are payable *after the completion of employment*. However, SSS Fund is created only to provide financial assistance to the nominees of the employee in case of employee's demise *during the continuation of the employment*. Accordingly, SSS Trust Fund is neither a Defined Benefit Plan nor a Defined Contribution Plan as stated in paragraph 8 of Ind AS 19. (Emphasis supplied by the querist.)

12. Further, the Company, considering the amount of contributions collected from the Company and employees vis-à-vis claim settled over the years, envisages that it will be very unlikely for the SSS Fund to encounter deficit in near future.

B. Query

13. In view of the above, the opinion of the Expert Advisory Committee is sought on the following issues:

- (a) Whether SSS Trust Fund should be classified as Defined Contribution Plan or Defined Benefit Plan.
- (b) If, it is classified as Defined Benefit Plan, whether an actuarial valuation is required every year to ascertain the actuarial liability of the Trust Fund.

C. Points considered by the Committee

14. The Committee notes that the issues raised by the querist relate to whether the Social Security Scheme Fund is a defined benefit plan as per the requirements of Ind AS 19, 'Employee Benefits' and whether an actuarial valuation is required to determine the liability under the Scheme at each reporting period. The Committee has, therefore, considered only these issues and has not considered any other issue that may arise from the Facts of the Case, such as, accounting in the books for Social Security Scheme Trust Fund, whether Fund is to be consolidated or included in the financial statements of the Company, detailed aspects of measurement of liability of the company towards the scheme/fund, accounting for Social Security Scheme up to F.Y. 2021-22 and impact of changes in such scheme, etc. Further, the

Standards referred hereinafter are the Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as revised or amended from time to time. Furthermore, the opinion expressed hereinafter is purely from accounting perspective and not from the perspective of legal interpretation of the Scheme etc.

15. The Committee notes the following paragraphs of Indian Accounting Standard (Ind AS) 19, 'Employee Benefits':

“6 Employee benefits include benefits provided either to employees or to their dependants or beneficiaries and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.”

“Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.”

“Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.”

“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.

29 Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

- (a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;
- (b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or
- (c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.

30 Under defined benefit plans:

- (a) the entity's obligation is to provide the agreed benefits to current and former employees; and
- (b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased."

"46 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation either:

- (a) to pay the employee benefits directly when they fall due; or**
- (b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.**

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan."

"Recognition and measurement

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.”

“Other long-term employee benefits

153 Other long-term employee benefits include items such as the following, if 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:

- (a) long-term paid absences such as long-service or sabbatical leave;
- (b) jubilee or other long-service benefits;
- (c) long-term disability benefits;
- (d) profit-sharing and bonuses; and
- (e) deferred remuneration.”

The Committee notes from the Facts of the Case that the benefits under the Social Security Scheme (Scheme) are defined and payable not during continuation or on termination or post-employment of an employee, rather only on death of employee while he/she is in service. Such benefits are given under a separate Scheme and *not as a part of any existing post-employment plan*. Therefore, considering the requirements of Ind AS 19, reproduced above, the Committee is of the view that the benefits under the Scheme do not meet the definition of post-employment benefits or termination benefits and rather these are of the nature of ‘other long-term employee benefits’.

16. The Committee further notes from the above-reproduced requirements that 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 fund or insurance company, together with investment returns, and hence actuarial and investment risk fall in substance on the employee. Thus, in defined contribution plans, the entity’s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund/insurance company.

Whereas 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. When an entity pays contribution to a fund or insurance premium under a benefit plan, but retains legal or constructive obligation to pay the employee benefits directly when they fall due; or to pay further amounts if the insurer does not pay or if the fund is not sufficient to pay all future employee benefits relating to employee service in the current and prior periods, the plan is a defined benefit plan.

17. In this context, the Committee notes that in the extant case, the Scheme is administered through a Trust Fund and the Company’s contribution to Trust Fund is Rs. 4.29 crore annually, at the beginning of the year along with monthly employer and employee contribution. If in any financial year, the cash required for meeting the liabilities of the Trust

Fund is less than the assets available, the shortfall shall be made good by the Company by making an additional contribution equivalent to the amount of deficit. Thus, the employer (the Company) guarantees a specified financial assistance to dependent family members of the employee who dies during service period and the liability of the Company under the scheme is not limited to any fixed contribution. Therefore, considering the above-reproduced requirements of Ind AS 19, the Committee is of the view that the employee benefit plan in the extant case is of the nature of a defined benefit plan. The Committee further notes that though the definitions reproduced in paragraph 15 above use the concept of defined benefit plans in the context of post-employment benefits, this concept is relevant in the context of other long-term employee benefits also, as evident from paragraphs 155 and 156 and other requirements of Ind AS 19 as reproduced below:

“Recognition and measurement

- 155 In recognising and measuring the surplus or deficit in an other long-term employee benefit plan, an entity shall apply paragraphs 56–98 and 113–115. An entity shall apply paragraphs 116–119 in recognising and measuring any reimbursement right.**
- 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).”**

“Recognition and measurement: present value of defined benefit obligations and current service cost

- 66 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post employment benefit obligations and the related current service cost, it is necessary:**
- (a) to apply an actuarial valuation method (see paragraphs 67–69);**
 - (b) to attribute benefit to periods of service (see paragraphs 70–74); and**
 - (c) to make actuarial assumptions (see paragraphs 75–98).**

Actuarial valuation method

- 67 An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.”**

68 The projected unit credit method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 70–74) and measures each unit separately to build up the final obligation (see paragraphs 75–98).”

18. Accordingly, in the extant case, the Committee is of the view that the Company should account for the scheme as per the above-reproduced requirements of Ind AS 19 in respect of ‘Other long-term employee benefits’, which inter alia requires to measure the present value of the defined benefit obligations and the related current service cost, applying an actuarial valuation method.

D. Opinion

19. On the basis of the above, the Committee is of the following opinion on the issues raised by the querist in paragraph 13 above:

- (a) SSS Trust Fund should be classified as Defined Benefit Plan in line with Ind AS 19 requirements, as discussed in paragraphs 15 to 17 above.
- (b) Actuarial valuation is required every year to measure the present value of the defined benefit obligations and the related current service cost, as discussed in paragraphs 18 above.
