

Query No. 10

Subject: Appropriateness of considering Employees' Family Benefit Scheme as Defined Benefit Scheme as per Ind AS 19.¹

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') is a Mini Ratna Category-I company incorporated on 9th September 1964 under the erstwhile Companies Act, 1956 (now Companies Act, 2013). Pursuant to Initial Public Offer, equity shares of the Company are listed and traded on both Bombay Stock Exchange (BSE) Limited and National Stock Exchange (NSE) of India Limited w.e.f. March 29, 2019. The core activity of the Company has been divided into two operational divisions, i.e. e-commerce and trading. The Company undertakes trading activities, disposal of ferrous and non-ferrous scrap, surplus stores, minerals, agricultural and forest produces, etc. mostly for public sector undertakings, government departments and leading private sector entities and other e-commerce services. The mode of disposal includes e-auction, e-tender, e-reverse auction etc. Besides, the Company undertakes e-auctions of coal for coal mining entities. Apart from these, the Company also provides e-procurement and other platform development and maintenance solution. The trading division handles domestic trade of mainly bulk industrial raw material. It looks after sourcing, purchase and sales of industrial raw materials like heavy melting scrap, low ash metallurgical coke, HR coil, crude oil, naphtha, coking coal, steam coal etc. for supply to Indian industries in steel, infrastructure, power sector, etc.

2. The source of revenue is currently the service charges income from its customers. Although operating in trading and e-commerce segment also, currently, the Company is predominantly an e-commerce service provider.

3. The financial performance for the last three years and six months ending 30.09.2024 is given below:

Particulars	Figures in Rs. Crores			
	2021-22 (Audited)	2022-23 (Audited)	2023-24 (Audited)	2024-25 (Six months)
Revenue from Operations	470.64	324.72	316.25	140.96
Profit before Tax	220.04	313.48	284.44	111.50
Profit after Tax	200.05	239.23	171.91	83.48

4. *Comptroller and Auditor General of India (CAG) comments:*

“The Company manages a scheme namely the Employees' Family Benefit Scheme. This scheme provides financial benefits to employees in the event of *permanent total disability* and to *their families in the event of the employee's death while in service*. The Company is requested to explain whether this scheme is Defined Benefit Scheme or not and in this regard, the opinion from Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) may be sought.”

¹ Opinion finalised by the Committee on 12.9.2025.

5. *Management's Submission:*

The benefit is available under the circumstances of death and permanent disability. (A copy of the Employees' Family Benefit Scheme (EFBS) has been separately provided by the querist for the perusal of the Committee.) As per the scheme, "*On the separation of an employee from the service of the Company on account of death or permanent total disablement, his nominee/the employee, as the case may be, on depositing with the Company the entire PF and Gratuity amounts of the employee, would be entitled to monthly payment equivalent to his basic pay plus DA last drawn. Such monthly payment shall continue till the date on which the employee concerned would have attained the age of superannuation, had the employee been in the service of the Company*".

In nutshell, the benefits are as under:

- (a) Last drawn basic pay and daily allowance (DA) to nominee of employee (in case of death of employee) or to the employee (in case of total disablement), as the case may be, till notional date of superannuation of employee.
- (b) The scheme is purely optional and on deposit of full amount of gratuity and provident fund. The beneficiary can opt out any time during the period of benefit.

Following is the submission of the Company in this regard, in the context of Indian Accounting Standard (Ind AS) 19, 'Employee Benefits' (applicable Standard):

- (1) The quantum of benefit is available irrespective of the length of service of the employee after he/she completes one year in service.
- (2) The benefits available under Employees' Family Benefit Scheme (EFBS) resembles to nature of 'other long-term employee benefits' as prescribed under Ind AS 19. Paragraph 153 of the above referred Standard depicting/defining 'other long-term employee benefits' is inclusive in nature and example contains long-term disability. Going by the essence of this paragraph, the death benefit is also covered in this. Further, paragraph 157 of the Standard specifies that "if the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability." Going by this analogy, the same reference can be drawn for death cases also. Hence, paragraph 157 is also applicable for death cases.
- (3) Defined benefit plans are post-employment benefit plans other than defined contribution plans. Further, as per paragraph 30 of Ind AS 19, 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 is worse than expected, the entity's obligation may be increased.

According to the querist, paragraph 30(a) is very clear that the benefits are not optional. In EFBS of the Company, the benefit is available to *nominee* of the deceased employee in case of death of the employee and that too, is purely optional and with the condition to deposit entire provident fund and gratuity. That means the benefit is not imparted to current or former employee. Hence, it does not come under the ambit of defined benefit. Disability is covered under other long-term employee benefits, paragraph 5(c)(iii) of Ind AS 19.

Going by the above submissions, Management of the Company is of the view that the Employees' Family Benefit Scheme does not fall under 'Defined Benefit Scheme' as per Ind AS 19.

(Emphasis supplied by the querist.)

B. Query

6. On the basis of the above, the Company has sought the opinion of the Expert Advisory Committee as to whether Employees' Family Benefit Scheme is defined benefit scheme or not.

C. Points considered by the Committee

7. The Committee notes that the basic issue raised by the querist relates to whether the Employees' Family Benefit Scheme (hereinafter also referred to as 'the Scheme') is a defined benefit scheme as per the requirements of Ind AS 19, 'Employee Benefits'. 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, detailed aspects of accounting for the Scheme including recognition and measurement of liability of the Company towards the Scheme, accounting treatment of provident fund and gratuity amount required to be deposited by the nominee/employee in respect of the scheme, application (if any) of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', etc. Further, the Committee has examined the query only from accounting perspective and not from any other perspective, such as legal interpretation of the Scheme, etc. The opinion expressed hereinafter is in the context of Indian Accounting Standards (Ind AS), notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended or revised from time to time.

8. The Committee notes from Facts of the Case that benefits under Employee Family Benefit Scheme (EFBS) is a voluntary scheme. On separation of an employee from the service of the Company on account of death or permanent total disablement, his nominee/ the employee, as the case may be, on depositing the amount of provident fund and gratuity of the employee with the Company, would be entitled to monthly payments equivalent to the last drawn basic pay plus dearness allowance as per the Scheme. Such monthly payments shall continue till the notional (deemed) date of superannuation of the employee. Further, as per the Scheme, if the employee/nominee desires to permanently withdraw the PF and gratuity amount deposited with the Company at any point of time, he/she will be allowed to do so. In such cases, the employee/nominee would cease to receive the benefit from the date of such withdrawal and also would not be entitled to any other benefit, whatsoever. In this context, the Committee notes the following requirements from Ind AS 19, 'Employee Benefits':

- “5 Employee benefits include:
 - ...
 - (c) other long-term employee benefits, such as the following:
 - ...
 - (iii) long-term disability benefits;
 - ...

6 Employee benefits include benefits provided either to employees or to their dependents 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 dependents 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.”

“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.”

“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.”

“157 One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. *If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.*”

(Emphasis supplied by the Committee.)

The Committee also notes the following paragraph from Basis of Conclusions (BC) 253 of International Accounting Standard (IAS) 19 ‘Employee Benefits’ (corresponding international standard to Ind AS 19), issued by International Accounting Standards Board:

“Other long-term employee benefits

Death-in service benefits

BC253 E54 proposed guidance on cases where death-in-service benefits are not insured externally and are not provided through a post-employment benefit plan. IASC concluded that such cases will be rare. Accordingly, IASC deleted the guidance on death-in-service benefits.”

9. The Committee notes from the above that employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees and include benefits provided to employees’ family members. Therefore, considering the requirements of Ind AS 19, reproduced above, the Committee is of the view that the benefits under the Employee Family Benefit Scheme in the extant case are covered within the meaning of ‘employee benefits’. The Committee further notes that as per paragraph 5 of Ind AS 19, employee benefits include short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits.

In this context, the Committee notes that in the extant case, the benefits under the Scheme are payable not on termination or completion of employment of an employee, rather only on happening of death or permanent disability of employee while he/she is *in service* i.e. during his/her normal course of employment. Further, such benefits are given under a separate Scheme and *not as a part of any existing post-employment plan*. The Committee further notes that paragraph 153(c) and paragraph 5(c)(iii) of Ind AS 19 reproduced above explicitly include long-term disability benefits and BC 253 of IAS 19 makes it clear that though the guidance on death-in-service benefit was decided to be not given under the current IAS 19, death-in-service benefit, if not provided through a post-employment benefit plan (but through a separate or stand-alone benefit plan), is considered as another long-term employee benefit. Therefore, the Committee is of the view that the benefits under the Scheme are ‘other long-term employee benefits’.

10. With regard to accounting for benefits under EFBS or Scheme (which are given under a separate Scheme and *not as a part of any existing post-employment plan*), the Committee notes from paragraph 157 (reproduced above) that if the level of benefit depends on the length of service, an obligation arises when the service is rendered and the measurement of that obligation shall reflect the probability that payment will be required and the length of time for which payment is expected to be made. However, if the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability. In this context, the Committee notes from the Company’s Employees’ Family Benefit Scheme that “On the

separation of an employee from the service of the Company on account of death or permanent total disablement, his nominee/the employee, as the case may be, on depositing with the Company the entire PF and Gratuity amounts of the employee, would be entitled to monthly payment equivalent to his basic pay plus DA last drawn”. The Committee is, therefore, of the view that the level of benefit in this case is the same for all employees as it does not depend on the length of service rendered by an employee (since it is calculated based on last drawn salary only and number of years of service is disregarded), once an employee opts to deposit the entire PF and gratuity amounts with the Company. The Committee is further of the view that in the extant case, considering the requirements of paragraph 157 of Ind AS 19 and applying the analogy to death-in-service benefits (as these are also other long-term employee benefits), the expected cost of the benefits under EFBS should be recognised when an event occurs that causes a long-term disability or death-in-service.

11. Incidentally, the Committee wishes to point out that though the definition of Ind AS 19 uses the term ‘defined benefit plans’ in the context of post-employment benefits, this is relevant in the context of recognition and measurement of ‘other long-term employee benefits’ also, as is evident from the recognition and measurement requirements (paragraphs 155 and 156) for other long-term employee benefit plans, which use the term ‘defined benefit plans’ and also refer to certain paragraphs of Ind AS 19 that lay down the requirements for defined benefit plans.

D. Opinion

12. On the basis of the above, the Committee is of the opinion that in the extant case, EFBS is an ‘other long-term employee benefit’ which should be recognised and measured as per the requirements of paragraph 157 of Ind AS 19, as discussed in paragraphs 8 to 10 above. Therefore, the assessment of the Scheme as defined benefit scheme is not relevant.
