

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT (AMENDMENTS TO IAS 19)

Comments should be submitted by 21 April 2018 **electronically** through a web form survey available [HERE](#) (**EFRAG's preferred way**).

ALTERNATIVELY, you **can use** the 'Comment publication link' in the news item available [HERE](#).

EFRAG has been asked by the European Commission to provide it with advice and supporting material on *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)* ('the Amendments'). In order to do so, EFRAG has been carrying out an assessment of the Amendments against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from their implementation in the European Union (the EU) and European Economic Area.

A summary of the Amendments is set out in Appendix 1 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

Before finalising its assessment, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interests of transparency, EFRAG will wish to discuss the responses it receives in a public meeting, so it is preferable that all responses can be published.

EFRAG's initial assessments, summarised in this questionnaire, will be updated for comments received from constituents when EFRAG is in the process of finalising its *Letter to the European Commission* regarding endorsement of the Amendments.

Your details

1 Please provide the following details:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Albert Hasselmeyer, BASF SE

- (b) Are you a:

Preparer User Other (please specify)

- (c) Please provide a short description of your activity:

Senior Vice President, Group Accounting and Reporting

- (d) Country where you are located:

Germany

- (e) Contact details, including e-mail address:

Albert.Hasselmeyer@basf.com

EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, the Amendments are not contrary to the principle of true and fair view and meet the criteria of understandability, relevance, reliability, comparability and lead to prudent accounting. EFRAG's reasoning is set out in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

(a) Do you agree with this assessment?

Yes No

If you do not agree, please provide your arguments and what you believe the implications of these could be for EFRAG's endorsement advice.

The remeasurement of pension cost for the remaining year reduces the **comparability** in different areas:

a) For plan participants affected by the plan event:

Pension expense after the plan event is not comparable with pension expense before.

It might be useful to adjust current service cost and net interest to account for plan participants who are affected by any significant plan event. However also for these plan participants, there is no justification for updating all actuarial assumptions, i.e. also assumptions that are not under the control of the entity (such as discount rate, mortality, business environment, etc.), as requested by the decided amendment. The plan event is based on a decision of the entity and, therefore, to provide useful information the changes in current service cost and net interest should be restricted to the impact of the entity's decisions and not include the impact of changes in market conditions.

b) between plans with and without plan event of the same entity:

Remeasurement of pension cost for the remaining year also for participants of plans who are not affected at all.

c) between different entities sponsoring similar plans with and without plan event

The inconsistency with the technical endorsement criterion of comparability has been addressed by many of the comment letters on the ED. Among other things, less than half of respondents on the ED issued at June 16, 2015 agreed with the proposed amendments to IAS 19 (see IFRS Staff Paper, issued June 6, 2016 (Analysis of feedback on proposed amendments to IAS 19), item 9). However, this argument of reduction of comparability has neither been addressed by the Basis for Conclusions of the IASB published in February 2018 nor by the Basis for Conclusions for the ED published in June 2015.

Using actuarial assumptions derived for different dates (day of the plan event versus beginning of the year) in calculating service cost and net interest for the period before and after the plan event reduces also the **understandability** of financial statements.

The decided amendment to IAS 19 does not fulfill important technical criteria for EU endorsement, as there would be a reduction of comparability and understandability of financial statements.

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- (b) Are there any issues that are not mentioned in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No

The European public good

- 3 In its assessment of the impact of the Amendments on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

Improvement in financial reporting

- 4 EFRAG has identified that in assessing whether the endorsement of the Amendments is conducive to the European public good it should consider whether the Amendments are an improvement over current requirements across the areas which have been subject to changes (see paragraphs 3 to 4 of Appendix 3 of the accompanying *Draft Letter to the European Commission*). To summarise, EFRAG's initial assessment is that the Amendments are likely to improve the quality of financial reporting.

Do you agree with the assessment?

Yes No

If you do not agree, please provide your arguments and indicate how these could affect EFRAG's endorsement advice.

We do not agree, as comparability and understandability of financial statements would be even reduced by the decided amendment of the standard (see above our comment to section 2(a)).

Costs and benefits

- 5 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this invitation to comment will be used to complete the assessment.

- 6 The results of the initial assessment of costs are set out in paragraphs 6 to 10 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments. To summarise, EFRAG's initial assessment is that the Amendments are likely to result in insignificant one-off and ongoing costs for preparers and users.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

The EFRAG board stated in appendix 3 item 7 of its draft letter: "However, these costs are not likely to be significant because existing IAS 19 requirements require entities to remeasure the net defined benefit liability (asset) as of the date of the plan

amendment, settlement or curtailment based on the updated actuarial assumptions for the purpose of determining any past service cost.”

This statement does not consider the actuarial practice of the accounting for gains/losses from plan events: For calculating the gain/loss from a plan event only the following data are required: value of the part of the DBO which is affected by the plan event (on the updated assumptions) and the value of assets paid from the plan to eliminate this part of the DBO. However, by the decided amendment of IAS 19 for the remeasurement of pension cost the valuation of the remaining part of the DBO would be required, even if not affected by the plan event. Thus, the calculation of the gain/loss from a plan event according to IAS 19.99 does not avoid additional cost, as argued by the EFRAG Board.

- 7 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraph 11 to 13 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments. To summarise, EFRAG's initial assessment is that users and preparers are likely to benefit from the Amendments.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how these could affect EFRAG's endorsement advice.

There is no improvement in financial reporting, as comparability and understandability of financial statements are negatively impacted by the decided amendment of the standard (see above our comments to section 2(a) and 4).

- 8 EFRAG's initial assessment is that the benefits to be derived from implementing the Amendments in the EU, as described in paragraph 7 above, are likely to outweigh the costs involved, as described in paragraph 6 above.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how these could affect EFRAG's endorsement advice.

See above our comments in section 4, 6 and 7.

Other factors

Do you agree that there are no other factors to consider in assessing whether the endorsement of the Amendments is conducive to the European public good?

Yes No

If you do not agree, please identify the factors, provide your views on these factors and indicate how these could affect EFRAG's endorsement advice.

Overall assessment with respect to the European public good

- 9 EFRAG has initially concluded that endorsement of the Amendments would be conducive to the European public good (see paragraphs 15 to 18 of Appendix 3 of the accompanying *Draft Letter to the European Commission*).

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Do you agree with this conclusion?

Yes No

If you do not agree, please explain your reasons.

We do not expect any improvement for users of financial statements (see above our comment to section 4). The decided amendment does not lead to better decisions of market participants and will thus not be conducive to the European public good (see above our comments to section 4, 6, 7 and 8).