

6 October 2015



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PensionsEurope's answer to EFRAG's draft comment letter to the IASB's Exposure Draft ED/2015/5 on Amendments to IAS 19 and IFRIC 14 regarding the Remeasurement at a plan amendment, curtailment or settlement / Availability of a refund from a defined benefit plan

PensionsEurope welcomes the opportunity to reply to the European Financial Reporting Advisory Group's draft comment letter to the International Accounting Standards Board's Exposure Draft on the amendments to IAS 19 and IFRIC 14 regarding the Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan.

Our reply consists in providing our comments on each of the questions that are proposed by the IASB.

PensionsEurope's member organisations cover the workplace pensions of about 70 million European citizens. Through its Member Associations PensionsEurope represents more than € 3.5 trillion of assets managed for future pension payments.

Question 1—Accounting when other parties can wind up a plan or affect benefits for plan members without an entity’s consent

The IASB proposes amending IFRIC 14 to require that, when an entity determines the availability of a refund from a defined benefit plan:

(a) the amount of the surplus that an entity recognises as an asset on the basis of a future refund should not include amounts that other parties (for example, the plan trustees) can use for other purposes (for example, to enhance benefits for plan members) without the entity’s consent.

(b) an entity should not assume a gradual settlement of the plan as the justification for the recognition of an asset, if other parties can wind up the plan without the entity’s consent.

(c) other parties’ power to buy annuities as plan assets or make other investment decisions without changing the benefits for plan members does not affect the availability of a refund.

Do you agree with the proposed amendments? Why or why not?

(a) Pensions Europe supports the idea that

1) if a trustee or similar party has the unconditional power to reduce a surplus of a pension plan by using it for other purposes and

2) **if it is likely that the power will be executed**

a surplus should not be recognised as a plan asset. We do not believe that the power by itself should be sufficient to reduce or eliminate any surplus. We recommend that the recognition as an asset is linked to a probability that the power will be executed during the next accounting period being lower than e.g. 50%.

We acknowledge that this may trigger an accounting asymmetry compared to the recognition of a plan deficit as a liability but do believe that this would be reasonable for that purpose.

(b) As for (a) we do propose to not only reflect the potential power to wind up a plan but to also to reflect the likelihood that such a power will be executed.

(c) We do agree that other parties’ power to make investment decision (e.g. to buy annuities) do not affect the availability of a refund.

Question 2—Statutory requirements that an entity should consider to determine the economic benefit available

The IASB proposes amending IFRIC 14 to confirm that when an entity determines the availability of a refund and a reduction in future contributions, the entity should take into account the statutory

requirements that are substantively enacted, as well as the terms and conditions that are contractually agreed and any constructive obligations.

Do you agree with that proposal? Why or why not?

Pensions Europe supports the clarification that an entity, when assessing the availability of a refund, should consider not only the contractually agreed conditions of the plan but also constructive obligations. However, we refer in the context also to our reply to Question 1 (a).

Question 3—Interaction between the asset ceiling and past service cost or a gain or loss on settlement

The IASB proposes amending IAS 19 to clarify that:

- (a) the past service cost or the gain or loss on settlement is measured and recognised in profit or loss in accordance with the existing requirements in IAS 19; and
- (b) changes in the effect of the asset ceiling are recognised in other comprehensive income as required by paragraph 57(d)(iii) of IAS 19, as a result of the reassessment of the asset ceiling based on the updated surplus, which is itself determined after the recognition of the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

Pensions Europe does not agree with the proposal of IASB because the effect of the proposal is that companies are required to reclassify unrecognized surplus from OCI to P&L in certain cases (e.g. in case of a full settlement). The following example illustrates the effect of the proposal:

Suppose a pension plan has a net defined asset of 100 which is entirely created by excess investment return. Due to the IFRIC14 asset ceiling, only 40 of this is recognised. In the past, the net of the 100 excess return and the reduction of 60 for the asset ceiling were recognised as remeasurement through other comprehensive income.

When now a full settlement occurs without any payment from or to the reporting entity, the proposal in this exposure draft (paragraph 64A) leads to a loss of 100 through P&L. As there is only 40 on the balance sheet, the difference of 60 will be a positive amount through other comprehensive income. We are however, of the opinion that in this example, only 40, being the net defined benefit asset after the asset ceiling is taken into account, should be recognised in P&L

Paragraph 122 of IAS19 prohibits reclassifying unrecognized surplus from OCI to P&L in a subsequent period. The IASB note that this paragraph does not conflict because they view the assessment of the asset ceiling and the P&L recognition of past service or settlement costs as two distinct steps. However, we believe that the proposal would lead to such a reclassification from OCI to P&L because the two steps noted by the IASB are inextricably linked when a remeasurement is carried out due to a settlement,

curtailment or plan amendment. Furthermore, we do not believe that this “reclassification” into P&L enhances the relevance of the information included in P&L, as it seems confusing to recognise a loss from future economic benefits that did not previously exist on the balance sheet (unless the unrecognised surplus is created by special contributions at the time of the settlement, curtailment or plan amendment).

Question 4—Accounting when a plan amendment, curtailment or settlement occurs

The IASB proposes amending IAS 19 to specify that:

- (a) when the net defined benefit liability (asset) is remeasured in accordance with paragraph 99 of IAS 19:
 - (i) the current service cost and the net interest after the remeasurement are determined using the assumptions applied to the remeasurement; and
 - (ii) an entity determines the net interest after the remeasurement based on the remeasured net defined benefit liability (asset).
- (b) the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement are not affected by, or included in, the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

Pensions Europe supports the idea that current service cost and net interest after a plan amendment, curtailment or settlement (“event”) could be (i.e. after reflection of the materiality of the event) based on the remeasured net defined benefit liability (asset) and reassessed actuarial assumptions. Pensions Europe agrees that current service cost and net interest in the current reporting period before the event are not affected by.

However, we do not fully understand the background and / or reasoning of Question 4 (b) (together with the proposed new paragraph 99A). For clarification reasons we would like to summarize our understanding of a reasonable threefold process:

- a) In case of an event the period before the event is not affected or changed at all.
- b) The impact of the event will be based solely on the remeasurement of the DBO and the fair value of plan assets, at the date of the event i.e. the remeasured net defined benefit liability (asset). The current service cost and net interest before or after the event are excluded from assessing the remeasured net defined benefit liability (asset).
- c) The current service cost and net interest after the event should be based on actuarial assumptions being used to assess the remeasured net defined benefit liability (asset).

We recommend that the IASB clarifies that this understanding is appropriate (by adjusting e.g. paragraph 99A).

In addition we notice (and support) that the IASB proposes to change only the accounting for the period after the event and only for the benefits offered under the impacted plan, i.e. the IASB does not propose to change accounting for plans that are not changed or settled. In addition we support that it is not intended to change the interim reporting.

Question 5—Transition requirements

The IASB proposes that these amendments should be applied retrospectively, but proposes providing an exemption that would be similar to that granted in respect of the amendments to IAS 19 in 2011. The exemption is for adjustments of the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit expenses that are included in inventories) (see paragraph 173(a) of IAS 19).

Do you agree with that proposal? Why or why not?

Pensions Europe acknowledges that the proposed transition requirements, i.e. a like for like comparison of disclosed figures, are in line with IASB standard requirements in such a case. However in our understanding in this case a like for like comparison is reasonable and adds value to the reader of the disclosures only in case of on-going issues. In contrast, in case of a plan amendment, curtailment or settlement, i.e. a very special and unique event, it would in our opinion not add any value to the reader to reassess and disclose the impact of such a special event in the previous accounting period (which quite like would be very different to that one in the most recent accounting period). It would however result in additional costs for the preparer of the notes, without adding any value to the reader.