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Our ref : RJ-EFRAG 564B
Date : Amsterdam, 8 October 2015
Re : Comment on your draft comment letter regarding the
IASB Exposure Draft ED/2015/5 Remeasurement on a Plan Amendment,
Curtailment or Settlement / Availability of a Refund from a Defined Benefit
Plan (proposed amendments to IAS 19 and IFRIC 14)

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond on your draft comment letter regarding the proposed amendments to IAS 19 and IFRIC 14 in ED/2015/5.

We agree that the ED addresses issues that need clarification. However, in contrast to your draft comment letter, we do not support most of the proposed amendments and clarifications. Additionally, our points indicate the need - once more - for a more fundamental review of IFRIC 14 and/or IAS 19.

Our main points concerning the ED are that:

- we do not support the proposed amendments in respect of other parties' (including plan trustees) power to use the plan surplus for other purposes that affect the benefits for plan members. When the economic benefits of the net defined benefit asset are available in the form of refunds, we believe recognition and measurement of the net defined benefit asset should be based on the most likely scenario (according to the principles of a 'best estimate') in line with the existing policies of the Defined Benefit Plan policy makers (Q1 of the ED);
- we do not support the proposed clarifications of accounting for a plan amendment, curtailment or settlement. In our view, results of a plan amendment, curtailment or settlement, should be included in past service cost or the gain or loss on settlement, without recognising an 'updated' surplus through other comprehensive income (Q3 of the ED);
- we believe paragraph B9 of IAS 34 should be amended, clarifying that significant market fluctuations will affect calculation of pension cost only when significant one-off events occur, such as plan amendments, curtailments and settlements (Q4 of the ED);

- in our opinion the proposed limited retrospective application of the amendments should allow not to adjust profit and loss for the effect of a plan amendment, curtailment or settlement that has occurred in prior reporting periods (Q5 of the ED).

We expressed our objections in our comment letter to the IASB on this subject, to which we refer. Enclosed please find a copy of that letter. We kindly request you to reconsider your comments in your comment letter to the IASB.

Yours sincerely,



prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board

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Our ref : RJ-IASB 461 C
Date : Amsterdam, 8 October 2015
Direct dial : Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0302
Re : Comment on Exposure Draft ED/2015/5 Remeasurement on a Plan Amendment,
Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond on the Exposure Draft ED/2015/5 Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan (the ED).

We agree that the ED addresses issues that need clarification. However, we do not support most of the proposed amendments and clarifications. Additionally, our points indicate the need - once more - for a more fundamental review of IFRIC 14 and/or IAS 19.

Our main points concerning this ED are that:

- we do not support the proposed amendments in respect of other parties' (including plan trustees) power to use the plan surplus for other purposes that affect the benefits for plan members. When the economic benefits of the net defined benefit asset are available in the form of refunds, we believe recognition and measurement of the net defined benefit asset should be based on the most likely scenario (according to the principles of a 'best estimate') in line with the existing policies of the Defined Benefit Plan policy makers (Q1 of the ED);
- we do not support the proposed clarifications of accounting for a plan amendment, curtailment or settlement. In our view, results of a plan amendment, curtailment or settlement, should be included in past service cost or the gain or loss on settlement, without recognising an 'updated' surplus through other comprehensive income (Q3 of the ED);
- we believe paragraph B9 of IAS 34 should be amended, clarifying that significant market fluctuations will affect calculation of pension cost only when significant one-off events occur, such as plan amendments, curtailments and settlements (Q4 of the ED);
- in our opinion the proposed limited retrospective application of the amendments should allow not to adjust profit and loss for the effect of a plan amendment, curtailment or settlement that has occurred in prior reporting periods (Q5 of the ED).

Our detailed comments and responses to the questions in the ED are set out in the appendix.

We also have requested EFRAG to include our comments in their comment letter. A copy of our letter to EFRAG is attached as an appendix.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Sampers".

prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board

Appendix: comments and responses to the questions in the ED

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?

Response DASB:

We do not support the proposed amendments. When the economic benefits of the net defined benefit asset are available in the form of refunds, we believe (1) an asset shall be recognised and (2) measurement of this asset should be based on the most likely scenario (according to the principles of a 'best estimate') in line with the existing policies of the Defined Benefit Plan policy makers, rather than on the basis of an assumed scenario depending on other parties' (formal) power. Arguments for our view are:

- the economic benefits of the net defined benefit asset can be available in the form of refunds, e.g. when it is contractually agreed that the entity is entitled to any surplus upon liquidation of the pension fund. In that case we believe the entity has an unconditional right to a refund that shall be recognised. This asset has to be measured at the (lower) present value of the economic benefits available (IAS 19.8: definition of asset ceiling).
- we believe measurement of these economic benefits available should be consistent with the general measurement concept at the present value of the economic benefits expected to be derived from the asset.
- we question whether the availability of a refund assuming gradual settlement can never exist if other parties have the power to wind up the plan:
 - applying the principle of control this way seems not in accordance with other recognition criteria in IAS 19. For example, in IAS 19 BC176 the IASB has concluded that control is not relevant in determining whether the assets in a fund reduce an entity's own obligation. Also in IFRIC 14.16-17 control is not relevant if economic benefits are available as a reduction in future contributions. Instead, IFRIC 14.16 requires to take into account the *expected* life of the plan (or shorter *expected* life of the entity), regardless whether other parties can wind up the plan.
 - in assessing whether the entity has control, we believe only substantive rights should be taken into account. If other parties do not have an economic incentive to use the amount of the surplus for other purposes or do not have an economic incentive to wind up the plan without the entity's consent, or based on other facts and circumstances it is not likely that these events will occur, these 'rights' of other parties can be considered as not substantive and should

not be considered in recognition and measurement. Recognition and measurement based on non-substantive rights would not be consistent with principles of other standards, e.g. IFRS 10 and IFRS 15. In fact, the proposals imply that entities anticipate possible future events that may not be likely to occur. This also is not consistent with the principles of IAS 19 (i.e. IAS 19.57 (reliable estimate of ultimate cost to the employer), IAS 19.76 (actuarial estimates based on best estimates), IAS 19.BC 150 (c)).

- if other parties can not wind up the plan and nevertheless gradual settlement is not likely to occur (e.g. if the entity plans a wind up because gradual settlement is more expensive), assuming gradual settlement results in an asset being recognised that is not likely to be recovered (IFRIC 14.11). However, according to the conceptual framework an asset should only be recognised if it is probable that future economic benefits will flow to the entity.
- we believe that the distinction between ‘enhancing benefits’ and making ‘investment decisions’ in practice may be not substantive. E.g. de-risking a plan through buying insured annuities, is in substance equivalent to a full settlement by winding up a plan. Therefore we also do not agree with the proposed amendment in IFRIC 14.12B and C.

Based on above arguments ‘best estimate’ seems the best principle to deal with recognition and measurement uncertainty when an entity measures a net defined benefit asset. However, applying this principle should not lead to an asset being recognised at an amount of which recovery is too uncertain. This may be resolved e.g. by applying a probability-threshold.

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?

Response DASB

We agree with that proposal for the reasons set out in the ED.

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?

Response DASB

We do not support that proposal. In our view, changes in the effect of the asset ceiling as a result of a plan amendment, curtailment or settlement, should be included in past service cost or the gain or loss on settlement, rather than in other comprehensive income. We agree IAS 19 currently is not clear and support amendments to clarify the recognition of changes in the effect the asset ceiling as a result of a plan amendment, curtailment or settlement. However, if the asset ceiling is reassessed and updated through other comprehensive income (as proposed in the ED), the entity would present losses on an asset it did not recognise. Especially in situations, where the effect of the asset ceiling highly interact with actuarial gains and losses. Additionally, if the argument is that upon such past service cost the employer effectively “realizes” the unrecognized asset, this raises the question whether this way of realization should not be included in the assessment of the asset ceiling in the first place?

For example: the net defined benefit asset amounts 100 (DBO: 1,000 and Plan Assets: 1,100) and is solely the result of return on plan assets being higher than the amounts included in net interest. The asset ceiling amounts to zero (no economic benefits available). As a result no asset is recognised. Subsequently, the plan is fully settled at a zero settlement price. According to the proposed amendments in the ED, the entity would recognise a loss on settlement of 100 (equal to the net defined benefit asset before application of the asset ceiling), and for the same amount a gain in other comprehensive income (reversal of the effect of the asset ceiling).

IAS 19.122 stipulates remeasurements recognised in other comprehensive income not to be recycled to profit and loss in a subsequent period. However, in case of plan amendment, curtailment or settlement, the effect of the asset ceiling is effectively recycled to profit and loss. Additionally, we believe that the proposed treatment is very difficult to understand for users of financial statements and might also influence economic decisions (e.g. to not decide for settlement due to adverse accounting consequences).

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

The IASB proposes amending IAS 19 to clarify 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?

Response DASB

We agree with these proposed amendments in IAS 19 but consider the amendments to be

incomplete. We notice that practice is still struggling with the interpretation of *significant market fluctuations* as stipulated in IAS 34 B9. Especially with the question: what is significant (e.g. we refer to the declining discount rates during the recent years)? We therefore suggest to change these amendments and to clarify that changes in market conditions during the reporting period will not affect service cost, other than when a plan amendment, curtailment or settlement occurs. Therefore we believe paragraph B9 of IAS 34 should be amended accordingly, clarifying that significant market fluctuations will affect calculation of pension cost only when significant one-off events occur, such as plan amendments, curtailments and settlements. An alternative could be that the words “for significant market fluctuations since that time” are simply removed from B9.

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?

Response DASB

In general we agree that retrospective application (with the proposed exception) is a better transition approach than prospective application, because it achieves comparability between periods and entities, and would be consistent with the approach used to apply the amendments to IAS 19 in 2011.

However, when in the prior reporting period a plan amendment, curtailment or settlement did occur, the amounts recognised in the balance sheet of either the current and prior period would not change. Therefore, retrospective application would mean that only the amounts in profit and loss of the prior period would be adjusted. We believe the benefits derived from this information for the users of the financial statements are limited and do not outweigh the cost of providing this information. Therefore, in our opinion the proposed limited retrospective application of the amendments should allow not to adjust profit and loss for the effect of a plan amendment, curtailment or settlement that has occurred in prior reporting periods. This would be consistent with the transition requirements of other ‘event driven transactions’, like those in IFRS 2 and IFRS 3.