Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

EFRAG
35 Square de Meeûs
B-1000 Brussels
BELGIUM
commentletter@efrag.org

25th August 2010

Re: *Draft comment letter on IASB Exposure Draft Defined Benefit Plans*

Dear Sir/Madam,

We are pleased to provide EFRAG with our comments in order to contribute to the finalization of the EFRAG comment letter on the IASB Exposure Draft *"Defined Benefit Plans"* ('the ED').

We greatly support the efforts of the IASB to improve the recognition, presentation and disclosures of defined benefit plans. In fact, we note that IAS 19 is often criticised for permitting deferred recognition of actuarial gains and losses and its ambiguity in other areas which has resulted in a lack of transparency and diversity in practice.
We broadly share the IASB's project objective that *these improvements will make it easier for users of financial statements to understand how defined benefit plans affect a company's financial position, financial performance and cash flows.*

The OIC's main comments can be summarized as follows:
1) Like EFRAG, we welcome the proposals in the ED as short-term improvements but we believe that a comprehensive review of employee benefit accounting is necessary.
2) We agree with the elimination of the corridor method and the immediate recognition of unvested past service cost in the year when the amendment is made because these proposals will improve the comparability of financial statements between entities.
3) We agree with the disaggregation of plan costs into three components and the proposed presentation of these components.
4) We agree with the proposed disclosure objectives.

Our detailed responses to the questions in the ED are as follows.

Question 1
The exposure draft proposes that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. (Paragraphs 54, 61 and BC9–BC12) Do you agree? Why or why not?

We agree with the IASB proposal. We note that this proposal, if finalised, would have a significant effect on many entities with defined benefit plans. Although the financial statement impact would vary from entity to entity, many could expect to report lower net income, have less net income volatility but an increase in other comprehensive income (OCI) volatility and recognise a larger liability or smaller asset in the statement of financial position. Notwithstanding this, we strongly believe that eliminating options in IAS 19 will improve the comparability of the effects of defined benefit plans on different companies. Moreover, the proposal will allow entities to display amounts in their financial statement that are transparent and easy to understand.

Question 2
Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?

We agree that entities should recognise unvested past service cost when the related plan amendment occurs because it is consistent with the proposal that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. Moreover, it should generate amounts in the financial statement that are transparent and easy to understand. However, we suggest the IASB evaluate carefully an inconsistency with the IFRS 2 and whether this inconsistency should be addressed.

Question 3
Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18) Why or why not?

We support the IASB proposal because it improves comparability between entities.

Question 4
Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?

We agree that changes in demographic assumptions should not be presented as part of the service cost because their respective predictive values differ.

Question 5
The exposure draft proposes that the finance cost component should comprise net interest on the net defined benefit liability (asset) determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset). As a consequence, it eliminates from IAS 19 the requirement to present an expected return on plan assets in profit or loss.
Should net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset)? Why or why not? If not, how would you define the finance cost component and why? (Paragraphs 7, 119B, 119C and BC23–BC32)

We agree with the proposal. We share the EFRAG's views that *A net approach is consistent*

with the current practice of investment strategies. Such strategies are designed to match the cash flows required to settle pension liabilities. Therefore, the impact of the time value of money on plan assets and defined benefit obligations should be presented together in the same section, that is, within finance costs. EFRAG considers that expected return on assets is, at best, an amount estimated for budgetary purposes rather than the outcome from an economic event and there is no conceptual reason for including the expected return on assets in the statement of comprehensive income.
However, we note that paragraph 119B of the ED refers to *discount rate specified in paragraph 78 as determined at the start of that period* and instead paragraph 78 refers to *at the end of the reporting period*.

Question 6
Should entities present:
a) service cost in profit or loss?
b) net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss?
c) remeasurements in other comprehensive income?
(Paragraphs 119A and BC35–BC45) Why or why not?

We support the IASB proposal because we are in favour of the removal of the options as it improves comparability and results a in single accounting treatment and presentation. However, we strongly believe that IASB should develop a conceptual basis to determine whether an item should be presented in OCI or in profit or loss. We believe that this is an increasingly critical issue, considering the increase in the number of items included in OCI, particularly items that will not be reclassified subsequently to profit or loss.
Moreover, at the moment which items have to be included in OCI are defined on a project-by-project basis, in contrast with the main objective of having principle-based standards.
Therefore, we kindly suggest the IASB resolve the fundamental issues related to performance reporting within the current project on Conceptual Framework.

Question 7
a) Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) Why or why not?
b) Do you agree that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss? (Paragraphs 98A, 119A(a) and BC48)
c) Should entities disclose (i) a narrative description of any plan amendments, curtailments and non-routine settlements, and (ii) their effect on the statement of comprehensive income? (Paragraphs 125C(c), 125E, BC49 and BC78) Why or why not?

We agree with the IASB proposals because we believe that a separate section on settlements and curtailments is not needed.

Question 8
The exposure draft states that the objectives of disclosing information about an entity's defined benefit plans are:
a) to explain the characteristics of the entity's defined benefit plans;
b) to identify and explain the amounts in the entity's financial statements arising from its defined benefit plans; and
c) to describe how defined benefit plans affect the amount, timing and variability of the entity's future cash flows. (Paragraphs 125A and BC52–BC59)
Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

We believe that the proposed disclosure objectives are appropriate.

Question 9

To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:

a) information about risk, including sensitivity analyses (paragraphs 125C(b), 125I, BC60(a), BC62(a) and BC63–BC66);

b) information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e));

c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f));

d) information about asset-liability matching strategies (paragraphs 125J and BC62(b)); and

e) information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c)).

Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?

We support the disclosures proposed by the IASB. However, like EFRAG, we believe that *the IASB should avoid, to an even greater degree, exhaustive lists of mandatory disclosures but rather present useful examples that show how the disclosure objectives might be met.*

Question 10

The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? (Paragraphs 33A and BC67–BC69) Why or why not?

We believe that these additional disclosures are very useful.

Question 11

The exposure draft updates, without further reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control to make them consistent with the disclosures in paragraphs 125A–125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not?

We support the IASB proposal because, like EFRAG, we believe that *needs of information for users are the same regardless of the control structure*.

Question 12

Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)

We do not have any further comments on the proposed disclosure requirements.

Question 13

The exposure draft also proposes to amend IAS 19 as summarised below:

a) The requirements in IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, as amended in November 2009, are incorporated without substantive change. (Paragraphs 115A–115K and BC73)

b) *'Minimum funding requirement' is defined as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan. (Paragraphs 7 and BC80)*
c) *Tax payable by the plan shall be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax. (Paragraphs 7, 73(b), BC82 and BC83)*
d) *The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84–BC86)*
e) *Expected future salary increases shall be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years. (Paragraphs 71A and BC87–BC90)*
f) *The mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. (Paragraphs 73(a)(i) and BC91)*
g) *Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92–BC96)*

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

We agree with the IASB proposals.

Question 14

IAS 19 requires entities to account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. In the Board's view, this would apply to many plans that meet the definition of a defined benefit multiemployer plan. (Paragraphs 32(a) and BC75(b))
Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?

We agree with EFRAG's view that *probably the best allocation basis is the internal agreement among all the employers that participate in the multi-employer plan*.

Question 15

Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?

We agree that entities should apply the proposed amendments retrospectively.

Question 16

In the Board's assessment:
a) *the main benefits of the proposals are:*
   i. *reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.*
   ii. *eliminating some presentation options currently allowed by IAS 19, thus improving comparability.*
   iii. *clarifying requirements that have resulted in diverse practices.*
   iv. *improving information about the risks arising from an entity's involvement in defined benefit plans.*

b) the costs of the proposal should be minimal, because entities are already required to obtain much of the information required to apply the proposed amendments when they apply the existing version of IAS 19.

Do you agree with the Board's assessment? (Paragraphs BC103–BC107) Why or why not?

We agree with the IASB's assessment.

Question 17

Do you have any other comments on the proposals?

We do not have any further comments on the proposals.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(OIC Chairman)