DUTCH ACCOUNTING STANDARDS BOARD (DASB)

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EFRAG
Attn. EFRAG Technical Expert Group
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Our ref	:	AdK
Date	:	Amsterdam, 6 September 2010
Re	:	Comment on your draft comment letter regarding the IASB ED Amendments to IAS 19 Defined Benefit Plans

Dear members of the EFRAG Technical Expert Group,

We have read and discussed your draft response letter to the IASB on the IAS19 Exposure Draft (ED). Below we have summarized our overall comments on your draft response letter. In the annex you will find our responses to the questions you have raised with respect to a selection of the IASB questions.

Overall, we disagree with many of the comments as presently drafted in the EFRAG response letter. As a consequence, we have also attached our comment letter to the IASB, as this provides in detail the concerns we have with the ED.

In general, we (and many others) believe that the IASB should have prioritized a fundamental review rather than expose a number of "improvements". In our view, adopting those "improvements" will only result in a standard that is still out of date. Pension arrangements have moved on from the initial inception of IAS19. They are nowadays mostly of a hybrid nature, at least in the Netherlands, and no longer fit easily, if at all, in the binary DB-DC model assumed by IAS19.

It is our opinion that that issue should come through stronger in your response letter. In that connection we would also have expected references to the EFRAG PAAinE paper on pensions which makes a strong case for such a fundamental review.

Over the last few years we have had a number of meetings with members of the IASB and staff on issues experienced in the Netherlands with the application of IAS19. Those discussions have resulted in a consensus that certain areas in the standard need addressing.

That consensus was reconfirmed in our 30 June 2010 Outreach meeting with the IASB. As a consequence of those discussions, the ED contains certain text proposals but we believe that further amendments are necessary to resolve those issues. The IASB has requested us to provide further text suggestions and we have included these in our own comments.

We are not arguing that a special case should be made for the Netherlands, but believe that the IAS19 standard should include some recognition of the fact that the real cost to the employer of its pension arrangements may under certain circumstances be driven by local factors to such an extent that ignoring those factors for IAS19 purposes results in numbers that are not a reflection of reality.

The pension sector in the Netherlands is heavily regulated and as has been so for a long time. With the Dutch 2006 Pension Act, in turn derived from the 2003 EU IORP Directive, by law, all pension arrangements must be separated from the employer (usually in a pension fund) and be fully funded. The EU Directive referred to above has been implemented in all member states. Implementation may have differed across member states but it still raises the question whether that Directive should have received some consideration in the EFRAG deliberations.

As a result of the way the Directive has been implemented in the Netherlands, even in pension plans that have DB features, the risk in such schemes is largely borne by the participants, not by the employer. However, that reality is ignored under IAS19, which still assumes a one-on-one relationship between the employer and the participants and basically views a scheme as an extension of the employer, effectively resulting in a one-line consolidation of the pension fund. Funds are under independent management; there is no control by the employer. Participants have to look to the funds for their entitlements, not to the employer. Bar additional guarantees, employers pay premiums set by the funds, and whilst these may vary from year to year between certain agreed boundaries, there is no requirement to make up any deficit under any circumstance, and vice versa no automatic claim on any surplus by the employer.

In a deficit situation, funds have to submit recovery plans for approval to the supervisor of the sector, in this case the Dutch Central Bank. There are a variety of measures the funds can take, but most will reduce benefits, firstly (conditional) indexation and secondly, if need be, the original benefit promise, an option available under the Act.

Accounting standards used by the funds are mandated by law. They are the same as IAS19 for assets but differ for liabilities. The two main differences are an ABO basis rather than a PBO basis and the government swap rate for discounting purposes (which is substantially lower than the high class bond rate). That accounting base must also be used by the funds to monitor the financial status and set sustainable premium levels going forward.

It is obvious from the above that the cost to the employer (normally the sustainable premium) will differ substantially from the one calculated under IAS19, although this will not always be necessarily lower for any year. More importantly, the cost calculated under local legal requirements determines current and future cash outflows in relation to the pension arrangements for the employer. As a consequence, it is patently clear that the IAS19 information for such arrangements has no bearing at all on cash flow. That is exacerbated by the fact that IAS19 ignores future premium contributions from employees. As cash flow predictability is considered to be of importance to users, this raises a big question on the reliability of IAS19 information in this respect.

In summary, it is not only extremely questionable what the decision-usefulness of IAS19 information is under such circumstances but also whether that information provides any reflection at all of the true cost to an entity of its pension scheme?
It is our view that local legal requirements and constraints should receive more recognition in the measurement of a net pension asset or net pension liability; particularly in how they relate

to the risk an entity is running in respect of its pension scheme. That risk assessment should be a more significant factor in determining the net pension asset or liability. For that reason we have provided additional text for the standard to ensure that under certain circumstances a form of ceiling test is introduced.

As said, we are not requesting EFRAG to make a special case for the Netherlands, but believe that the issue of whether only IAS19 should be the decisive factor in determining a net asset or liability or whether local factors should under certain circumstances also play a role is worthy of consideration by EFRAG.

For the other issues we refer to our detailed comments to the IASB, as attached. However, it is our view that EFRAG may also want consider the employee contribution issue as well the multi-employer plan issue, discussed therein, because they have wider implication than just for the Netherlands. That is similarly true for the issue discussed therein related to indexation that is entirely dependent on future surplus returns.

The ED will also result in changes in the financial statements presentation. There are many here that believe that that issue should be dealt with in the overall context of the financial statements presentation standard and not as a sidebar in the IAS19 ED.

There are a significant number of people here that are of the opinion that the ED should be retracted. Apart from potential further inconsistencies in the financial statements presentation, the ED (and the present standard) is in the view of many out of sync with pension arrangements as we know them today. Ignoring that reality and embroidering on the standard as we know it does not contribute to appropriate accounting for pension schemes.

Given the above, EFRAG may want to consider a stronger voice on those issues. Your draft comment letter is in the view of many here rather soft on some of those concerns. A firmer tone would certainly be much appreciated here.

On a final note, we are assuming that EFRAG as part of its final advice on the endorsement of the eventual proposals will consider the need for effect studies, an aspect that we believe is essential given the potential impact of the proposed changes.

We would be happy to discuss our comment in more detail with you, should you so wish.

Best regards,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix 1: Answers DASB to questions for constituents
Appendix 2: Comment letter DASB to IASB

APPENDIX 1 - Answers DASB to questions for constituents

IASB Question 12
Do you have any other comments about the proposed disclosure requirements?
(Paragraphs 125A-125K and BC50-BC70)

Question to EFRAG's constituents
Do you have any other comments about the proposed disclosure requirements?

Response DASB
In general, we think the proposed new requirements in the ED are much too extensive. Disclosure requirements should be limited to most relevant information only, in order to prevent that an overload of information is provided to the users of financial statements.

IASB 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? Do you agree? Why or why not? What alternative do you propose?

Costs relating to the management of plan assets

Question to EFRAG's constituents
Do you believe that the costs of managing plan assets should be deducted from the return on those assets? Which approach do you prefer?
In your experience, do you believe it is possible in practice to separate the costs of managing plan assets from other costs incurred?

Response DASB
Yes, we agree that the return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. In practice managing plan assets will be carried out by a separate department or employees of the fund. Therefore we believe it will be possible to separate the costs of managing plan assets from other costs incurred.
However, this once more assumes that the pension plan is an extension of the sponsoring entity, while in situations this is not the case, like the hybrid pension plans in the Netherlands, the cost should ultimately be driven by the cash outflows incurred by the sponsoring entity and not by the cash outflows incurred by the pension plan.

IASB Question 15
Do you agree that entities should apply the changes resulting from the proposed amendments retrospectively? (Paragraphs 162 and BC97-BC101) **Why or why not?**

EFRAG´s response
EFRAG agrees with the proposal in the ED that the amendment should be treated as a change in accounting policy.

Question to EFRAG's constituents
Concerns have been raised about the availability of the information needed by entities for a full retrospective application. Do you believe that the information needed for a full retrospective application is available to entities? If not, what information would not be available?

Response DASB
To the extent additional information needs to be collected transitional exemptions should be provided to obtain an appropriate cost-benefit balance.

IASB Question 16
In the Board's assessment the main benefits of the proposals are:
- Reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.
- Eliminating some presentation options currently allowed by IAS 19, thus improving comparability.
- Clarifying requirements that have resulted in diverse practices.
- Improving information about the risks arising from an entity's involvement in defined benefit plans.
- Improved comparability between entities
- Improved disclosures about defined benefit plans.
Do you agree with the Board's assessment? Why or why not?
In the Board's assessment 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 in applying the existing version of IAS 19.
Do you agree with the Board's assessment? (Paragraphs BC103-BC107) **Why or why not?**

Question to EFRAG's constituents
In your assessment, do the benefits of these proposals outweigh the costs? Please support your response with evidence of the benefits and costs you believe grow from these proposals.

Response DASB
No, we do not. If our text suggestions would be incorporated by the IASB in any final proposals, it might be a qualified yes. The lack of effect studies also hampers any definitive view on this question.

IASB Question 17
Do you have any other comments on the proposals?

Question to EFRAG's constituents
Do you have any other comments about the proposed disclosure requirements?

Response DASB
We are not convinced of the distinction between long-term and short-term benefits in the new definitions of the scope of employee benefits (paragraph 4). In some jurisdictions this will lead to a mandatory application of the PUC method to relatively minor employee arrangements such as for example holiday and jubilee benefits. To apply the PUC-method and the disaggregation of the related cost into three components (of which one component is presented in OCI and not in profit and loss) will not provide relevant information.
Additionally, we do not agree with the combination of other long-term employee benefits and post-employment benefits. The accounting for other long-term employee benefits, such as jubilee benefits and long term bonus, are far less complex than pension arrangement and therefore the application of the requirement for post-employment benefits to these types of arrangements does not improve the quality or the understandability of the financial reporting.

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Re : Comment on Exposure Draft Defined Benefit Plans
- Proposed amendments to IAS 19

Dear members of the International Accounting Standards Board,

We appreciate the opportunity to respond to the IAS19 Exposure Draft (ED).

The Board has decided to defer a fundamental review of IAS19 and focus on certain amendments at this stage. We think this is unfortunate, as pension arrangements have moved on from the initial inception of IAS19. They are nowadays mostly of a hybrid nature, at least in the Netherlands, and no longer fit easily, if at all, in the binary DB-DC model assumed by IAS19. However, as your decision is a given, we are in this letter focusing on a number of improvements to the ED as it currently stands. In the annex to this letter we have set out our responses to your questions.

Over the last few years we have had a number of meetings with members of your Board and staff on issues experienced in the Netherlands with the application of IAS19. Those discussions have resulted in a consensus that certain areas in the standard need addressing.

We appreciate that this has been attempted by the inclusion of certain text proposals in the ED. However, we believe that further amendments are necessary to resolve those issues and to achieve that we have included additional text suggestions in our comments.

General

The issues referred to above centre mostly on the fact that IAS19 has as a basic tenet the requirement for entities to look through their pension arrangements as if there is a one-on-one relationship between the entity and the participants in its pension scheme, thereby effectively ignoring the legal constraints that may govern that relationship. In effect, this results in the entity consolidating the pension scheme on a one-line basis, as if it is an extension of itself.

We are not arguing that a special case should be made for the Netherlands, but believe that the IAS19 standard should include some recognition in both guidance on the distinction between defined contribution and defined benefit plans and the fact that the real cost to the entity of its pension arrangements may under certain circumstances be driven by local factors to such an extent that ignoring those factors for IAS19 purposes results in numbers that are not a reflection of reality.

The pension sector in the Netherlands is heavily regulated and as has been so for a long time. With the Dutch 2006 Pension Act, in turn derived from the 2003 EU IORP Directive, by law, all pension arrangements must be separated from the entity (usually in a pension fund) and be fully funded. The 2006 Pension Act mandates an administration agreement between the entity and the fund. Bar exceptional circumstances, entities are only required to contribute sustainable premiums to the fund set by fund management for each year. Such agreements will normally include caps on premium levels. In virtually all schemes in the Netherlands employees pay a share of the contribution to the fund as well, on average 30% of the annual premium. Effectively, funding of a scheme is shared between the entity and the employees. As far as we are aware, IAS19 has mostly been silent on employee contributions to funding, except for the recognition thereof in the periodic pension cost (and in a November 2007 IFRIC Agenda decision). We believe this aspect needs more recognition in the standard.

Funds are under independent management. There is no control by the entity over the fund. All funds are under the prudential and financial supervision of the Dutch Central Bank, publish annual account and are required to communicate annually to each participant on the status of his or her entitlement.

Under the Pension Act, participants will have to look to the fund for their entitlements, not to the entity. Unless additional guarantees have been provided, there is no requirement for the entity to make good any deficit, and vice versa there is no automatic entitlement for entities to any surplus in the fund.

The accounting standards to be used by funds are mandated by the Pension Act. Compared to IAS19, there are no valuation differences in respect of assets (both fair value). With regard to liabilities, the Pension Act requires a fair value calculation based on appropriate actuarial assumptions. Differences with IAS19 relate on the one hand to the fact that these are calculated on an ABO basis and on the other hand use a different discount factor, in this case the government swap rate, substantially lower than the high class corporate bond rate. Over and above, funds are required to retain buffers to ensure they can meet their liabilities.

Funds are required to maintain certain ratios of assets over liabilities. If they are below the required ratio, they are required to file recovery plans with the Dutch Central Bank for approval, which should demonstrate that with the measures taken the fund will over time return to the required funded status. Funds have a variety of measures to ensure recovery, the main one being a reduction in benefits. This would include the foregoing of indexation, which is conditional in most cases, but if need be also the original benefit promise can be cut, an option made available under the Pension Act. Effectively, participants in a scheme bear most of the risk under these arrangements, not the entity. That is why in previous discussions we have referred to these schemes in terms of shared risk.

It is also obvious from the above that the cost to the entity (normally the sustainable premium) will differ substantially from the one calculated under IAS19, although this will not always be necessarily lower for any year. More importantly, the cost calculated under local legal requirements determines current and future cash outflows in relation to the pension arrangements for the entity. As a consequence, it is patently clear that the IAS19 information for such arrangements has no bearing at all on cash flow. That is exacerbated by the fact that IAS19 ignores future premium contributions from employees. As cash flow predictability is considered to be of importance to users, this raises a big question on the reliability of IAS19 information in this respect.

We have heard arguments that such local requirements are only the view of the regulator and that over time ultimately the IAS19 information provides a better reflection of reality and of the cost of a scheme. We beg to differ, as the assumptions used for IAS19 are not embodied in a fund's financial status and therefore do not play a role in the investment and funding decisions of fund management. As a result, the IAS19 information has no relevance when it comes to measuring the ultimate cost to the entity

In summary, it is not only extremely questionable what the decision-usefulness of IAS19 information is under such circumstances but also whether that information provides any reflection at all of the true cost to an entity of its pension scheme?

It is our view that local legal requirements and constraints should receive more recognition in both the guidance on the distinction between defined contribution and defined benefit-plans (IAS 19.24-28) and in the measurement of a net pension asset or net pension liability (IAS 19.85); particularly in how they relate to the risk an entity is running in respect of its pension scheme. That risk assessment should be a more significant factor in determining the net pension asset or liability. We will deal with that aspect in more detail below.

Shared funding and shared risk

In our view the proposed amendments in the ED in respect of shared funding (ED paragraph 64A) and shared risk (ED paragraph 85(c)) will not result in the necessary changes to current practice. The reason therefore is that the proposed text is so narrowly drafted that it is currently assessed as bringing no relief in practice (the same holds true for the November 2007 IFRIC Agenda decision). It leaves no room to recognize the relationship, mandated by law, between the employer, the fund and the participants. This is a comment shared here by preparers, actuaries and auditors.

Paragraph 64A as drafted allows the inclusion in the measurement of the obligation of the effect of any requirement for employees to reduce or eliminate an existing deficit. However, in the premium setting process at the funds, premium levels (to which employees also contribute) are a resultant of all aspects that are assessed to impact the future financial position of a fund and are set and charged by fund management for each year. In particular, there is no direct relationship between future employee contributions and the reduction or elimination of a deficit. Employees cannot be levied for additional premiums for any past year. As a consequence, many believe 64A cannot be used for this purpose. Similar issues exist with paragraph 85(c) which also refers to additional contributions from employees.

As a result, under the text as drafted many conclude that future premium contributions by employees must effectively be ignored for IAS19 measurement purposes. An argument we heard in the discussions on this from your side was that taking those into account would allow the inclusion of amounts that are dependent on future developments and/or conditions. We cannot see how this can be right, when under the PUC method expected future salary increases are taken into account in full, whilst they are subject to comparable qualifications.

We fail to understand why, if there is an IAS 19 deficit and employees under the terms of the plan are required to pay a share of the annual premiums, the resulting future contributions must be ignored. In the end, it is the mix of investment returns and contributions that eventually will make up the deficit, i.e. which will include the employees' share. Why under paragraphs 64A and 85 c there should be a specific requirement in the terms of a plan for additional contributions from employees escapes us. In our view these paragraphs should be amended, the more so when in paragraphs 95 and 96 of the Basis for Conclusions the text is clearer on this issue than the proposed text in the standard itself.

We would appreciate it if the Board could consider and address this issue or at least explain why future funding by employees should be ignored even when it is related to future salary increases that have been taken into account in the measurement of the DBO.

In addition to our overall concern on shared risk as outlined under General above, a specific issue relates to the treatment of conditional indexation.

If under a pension arrangement there is a past history of granting conditional indexation, in general based on paragraph 85(a) measurement of the benefit obligation has to reflect any anticipated future indexation.

However, the granting of conditional indexation is usually contingent on the realization of future surplus returns on plan assets. With the strict separation of the valuation of assets and liabilities under IAS19, this results in a significant mismatch. The (conditional) indexation is included in the measurement of the defined benefit obligation, while it only becomes a liability when future surplus returns are realized. As a consequence, at any balance sheet date the liability uplift in respect of future (conditional) indexation is in reality not a liability, since, absent proof of surplus future returns fund management cannot take the decision to grant such (conditional) indexation. To assume, as IAS19 does, that the valuation of assets and liabilities are disconnected in this respect is ignoring reality, which is shown by the above. In this situation, there is general consensus here that the net pension liability is clearly overstated from an employer's perspective.

This could be resolved by adding to the end of paragraph 64A (or anywhere else) the following text:

> The measurement of the obligation includes the effect of any requirement for employees to reduce or eliminate an existing deficit. *The measurement of the obligation excludes any other element that is not funded by the employer*.

Resolution

In our view, whilst many hybrid plans in the Netherlands may still have some DB features, they effectively behave like DC arrangements, albeit with the defined contribution reset for each year. Obviously, depending on the circumstances annual contributions may vary between the boundary levels agreed in the administration agreement, but the entity's exposure to actuarial and investment is thereby limited. Beyond the agreed boundaries in premium levels, those risks are born by the participants in the scheme.

That fact is well illustrated by a 2009 study, shared with some members of your board and staff last year, of the recovery plans of 71 Dutch pension funds (representing over 30% of all funds in terms of investments and participants). Those recovery plans were required because many funds had breached their required asset/liability ratios at the end of 2008 as a result of the financial crisis. Within the range of measures available to funds most opted for a reduction of benefits, which effectively meant that, with approved (by the Dutch Central Bank) realistic returns on investments, entities on average contributed 5 percentage points (through higher premiums, but within the agreed boundaries) of the recovery on a 100% basis. Participants bore the brunt of the deficit.

Against this background, we believe that such plans not only behave like DC plans but effectively are DC plans.

We believe that there are several ways to address the resolution of this issue.

One might be that to facilitate that classification, it would be very helpful if the following suggestions for amendment of the paragraphs 25 and 26 of IAS 19 could be considered.
An addition to paragraph 25 could be worded as follows:

> *The calculation of the periodic contribution payable may be based on a target or aspired level of post-employment benefits. When the entity has no further legal or constructive obligation other than to pay the agreed contributions for any service period and the participating (former) employees are properly informed about this limitation of the entity's obligations such a plan classifies as a defined contribution plan.*

Alternatively, the same text could be added to the examples provided in paragraph 26.

Another option would be to add the words *"in substance"* to paragraph 25, under (b). As a consequence this paragraph would read at the end as follows:

> *"(b) ……. fall in substance on the employee."*

Consequently the Basis for Conclusions could mention that the reason for this addition is that there are situations in which the calculation of the periodic contribution payable may be based on a target or aspired level of post-employment benefits. When the entity has no further legal or constructive obligation other than to pay the agreed contributions for any service period and the participating (former) employees are properly informed about this limitation of the entity's obligations such a plan classifies as a defined contribution plan.

In case a pension plan is classified as a defined benefit plan, an additional option would be to augment the assumptions underlying the measurement of the pension obligation, i.e. taking into account the administration agreement and as a result the funding arrangement between the entity and the pension fund.

That funding arrangement is a key component in the Dutch environment. The resulting assumption would ensure that any plan liability recognized under IAS 19 would never exceed the best estimate of the future cash outflows related to current and prior period from the perspective of the entity. The current proposed text in paragraph 85c is not clear on this specific matter because, as it reads now, *an entity* should be required to change benefits

according to the terms of the plan while in the Dutch environment the discretion to change benefits is with pension fund management. Neither in the first sentence of paragraph 85 nor in paragraph 85c itself is any reference made to any funding arrangement.
Therefore, we suggest to expand paragraph 85 of the ED with the following:

"*….This is the case if, for example:*

(a)…
(b)…
(c)…
(d) the formal terms of the plan limit the legal and constructive obligation to pay additional contributions to cover a shortfall in the funds assets."

This actuarial assumption elaborates further on the guidance of paragraph 49.

Multi Employer Plans (MEPs)

We have noted that the comments in the Basis for Conclusion on MEPs (paragraph BC75(b)) are more clear than the text of the standard itself (paragraph 32(a)). All the aspects discussed above obviously also relate to MEPs. In addition, we refer to our 2008 IFRIC submission (11 November 2008) where we concluded that even if there is IAS 19 information and there is some basis for pro-rating, the resulting asset or obligation will have no relationship with any future cash inflow or outflow of the entity because the entity's contributions are based on an average branch or industry contribution, which only coincidentally would be in line with a contribution that would exist had a MEP arrangement not been in place. Therefore the objective of a reliable and consistent allocation of the entity's share in a surplus or deficit of the plan which reflects its future contributions will not be met. For that reason, we still believe that DC accounting with disclosures would be a better alternative and also provides better information to users. And there is, of course, the issue of the still existing divergence with US-GAAP which is undesirable.

As stated in our IFRIC submission, we believe that accounting guidance for MEPs should be improved. In our letter dated 23 September 2009, we have proposed to change the current IAS 19.32 paragraph in a way that reads as follows:

"*(b) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the ~~result~~ consequence that ~~there is no consistent and reliable basis for~~ allocating the obligation, plan assets and cost to individual entities participating in the plan does not result in an asset or liability that reflects the extent to which the surplus or deficit in the plan will affect the individual entities' future contributions."*

This rewording follows the principle of IFRIC Draft 6 *Multi-employer Plans* that was published in April 2004. It is all about the reliability of the estimate of the future cash flows that will be required to settle the individual entities' share of the plan's obligation or can be expected to be received from its share of the plan's surplus.
We believe that this amendment would be in line with the other improvement areas that the Board has addressed as part of the first phase of the IAS 19 revision project. Furthermore (and again) it resolves an ongoing IFRIC request.

In conclusion

Given the discussions over the recent years and your expressed willingness to address some of the issues that we have in the Netherlands, we are obviously somewhat expectant with regard to further amendments to IAS19 in its current phase.

We would be quite happy to engage in further discussions with you or be of help should you so desire.

If none of our suggestions should come to fruition, we believe that that would be very unhelpful to Dutch companies that report under IFRS. We are aware that other parties in the Netherlands will provide comments to you, in particular the Dutch Ministry of Social Affairs. That is at least an illustration of how many here believe changes to IAS19 are necessary.

We understand the rationale behind a number of other changes you are proposing with respect to IAS19, including the elimination of the corridor. However, not addressing some of the issues as raised above and persisting in the current proposed changes will in our view lead not only to increased volatility but in essence to inappropriate accounting. In addition, accounting for re-measurements in Other Comprehensive Income will – as a consequence of the decision of the Board to require one statement – (also) be considered as part of the performance of a company. Neither companies nor users of financial statements prefer reported performance be distorted by items that do not properly reflect economic reality of the pension arrangements in place. After all also relating to pension schemes investors are keen to be able to predict future cash flows.

We would hope that some of these issues are viewed as common challenges and as said if needed, we will be happy respond to any call for help or queries you have.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix – Response to your specific questions

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 immediately when they occur. (Paragraphs 54, 61 and BC9-BC12) **Do you agree? Why or why not?**

Response DASB
No, we do not agree. We refer to our fundamental criticism in the main part of this letter. The corridor-approach in current IAS 19 cushions some of the shortcomings of the binary DB/DC-classification of IAS 19 and the resulting measurement principles and therefore should only be eliminated as part of a comprehensive review of the entire standard.
Furthermore, we believe that Board should remain with its view expressed in IAS 19 BC 41. As long as substantial issues about performance reporting are not resolved, the treatment of actuarial gains and losses should not be revisited. The issues addressed in IAS 19 BC 41 will not be resolved until completion of the Financial Statements Presentation Project.
However, if you do decide to eliminate the corridor method, then at the same time at least the two amendments described in this letter should be made as well, to ensure appropriate accounting for hybrid pension plans.

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

Response DASB
No, we believe they should be recognized during the vesting period.
DASB believes that the PUC-method will not lead to a measurement that reflects economic reality in The Netherlands. Instead we are in favor of an approach that reflects the best estimate of the employer's cash out flows related to current and past service. See the main part of this letter. For that reason we are not in favor of recognising unvested costs, since until vesting there is no obligation. Therefore it is unclear to us what the principle-basis is for recognizing these costs immediately, instead of during the vesting period.

Question 3
Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14-18) **Why or why not?**

Response DASB
No, we do not agree. Disaggregation will not necessarily lead to the cohesiveness on which is aimed at in the Financial Statement Presentation project. We believe that the fundamental changes in the presentation of the components of pension cost should be based upon completion of the Financial Statements Project. This project should provide guidance on matters that are currently not addressed. E.g. which underlying principles justify the distinction between 'profit and loss'-components and 'other comprehensive income'. When and in what circumstances should OCI-components be reclassified to profit and loss, etcetera.

For hybrid pension arrangements (with strong similarities to DC-arrangements) presentation of the costs of that arrangement should be similar to the presentation of DC premiums, i.e. one line of 'pension costs' in the profit-and-loss account.

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?

Response DASB
Yes. Changes in assumptions are similar to changes in other (actuarial) estimates and should be recognized similarly. Also see our response to Question 6.

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)

Response DASB
No, we do not believe this should be the case.
Again this question relates to the principle-based question whether or not you control the pension plan/fund and whether or not the DB-accounting is effectively a one-line consolidation or not. If it is a consolidation using different rates for the plan assets and the defined benefit obligation seems logic. However, when the pension liability (asset) truly reflects a net position of the sponsor, applying a single discount rate would be appropriate. However, this would require a complete different approach to measuring pension arrangement and requires the fundamental review.

Additionally, we believe the IASB has not provided a reasonable conceptual basis for the proposed approach to apply the discount rate specified in paragraph 78 to the plan assets, instead of expected return. Under the assumption that the expected return (for example 6%) will be higher than the discount rate (for example 4%), the proposals will lead to permanently higher costs in P&L and a gain in OCI, whilst this will not be the result of a remeasurement. We do not agree that expected return on assets can not be determined sufficiently objective. Pension funds generally can rely on the information they use in the selection of investments and ALM-studies and this information is normally also available to the sponsor. Also the current expected return on asset approach is generally accepted and understood by the constituents. Moreover, the expected return on assets is important input factor in determining contribution levels that are aimed at a target level of benefits and is often communicated in the technical appendices of the terms of the plan (even within dc-schemes).
Furthermore the proposals will create a difference between plans that are largely funded (as in The Netherlands) and plans that are largely unfunded. Whereas unfunded plans will not be

affected other than by the question of classification (pension cost vs. finance cost), there may be a significant impact on profit or loss of companies with funded plans.

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?**

Response DASB
a: Yes
b: No, not necessarily. Also this issue should be a subject in the Financial Statements Presentation project. We believe a separate component for interest is not necessarily a relevant presentation, especially in the case of hybrid arrangements. See our responses to Question 3 and 5).

c: No. So far there doesn't seem to be a principle-basis why this component is recognized in OCI, without any further recycling. First of all this may very well result in arbitrage between P&L and OCI. Additionally for certain companies, like insurance companies, their pension investments our outside the scope of IAS 19 and would result in further mismatch (re-measurements of assets in P&L and re-measurement of DBO in OCI).
We further refer to our fundamental criticism in this letter. The corridor-approach in current IAS 19 decreases some shortcomings in the binary classification and resulting measurement-principles of IAS 19 and therefore should only be eliminated as part of a comprehensive review of the entire standard.

Question 7
a. Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and therefore presented 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?**

Response DASB
a: No, we do not understand the rationale not to account for gains and losses on settlement through profit and loss. And if so, what is the conceptual difference compared to curtailments? Non-routine settlements are, like curtailments, caused but the entity's decision to discontinue, redesign or amend the content of the post-employment benefit contracts. See also our comment to Question 6 c).
b: Yes.
c: Yes, but only to the extent they have a material effect (see also Question 9). Additionally clarification of the expression "non-routine settlements" is 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 affects 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?**

Response DASB
Yes, the DASB agrees with the Board´s proposal to adopt a principle-based approach rather than a list of disclosures and agrees with the proposed disclosure objectives. However, the ED foresees increasing significantly the amount of disclosure related to defined benefit plans. In our view, most of the additional disclosure requirements provide little, if any, benefit to the reader of the financial statements. In particular when consolidated information is prepared for an entity which has several defined benefit plans in various countries. In our view the additional cost of meeting these requirements will considerably exceed the benefits. Therefore, we do not support many of the new disclosure requirements.
We have some concern that the objectives will be regarded as a basis to apply extensive disclosures of which the additional cost will exceed the benefits. That concern is confirmed by the extensive list of disclosure requirements as described in Question 9. Disclosures should always be in proportion to the relevance of the pension arrangements and its risks in relation to the financial statements as a whole. We are concerned that the requirements will lead to extensive disclosures, also in situations where the meaning of pension arrangements is minor.
With regard to 'cash flow predictability' (part c of the question), we believe that this objective should already be reflected in the measurement of the benefit obligation rather than only through additional information in the notes.

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?

Response DASB
No. Once more, the current proposals on disclosure are only understandable in a situation where pension arrangements can be viewed as an extension of the employer, effectively assuming control by the employer. This is not the case in The Netherlands. Therefore it would be a better alternative in our opinion to focus on the disclosure of expected future cash-flows and risks in those. In that, the relationship between the sponsoring entity and the pension fund will be a major element (e.g. specific information about the administration agreements between employer and fund).
In general we think the proposed new requirements in the ED are much too extensive. See also our response to Question 8. By requiring these disclosures in the standard itself, instead of presenting them as examples, they will be regarded as an 'integral disclosure obligation' that is not consistent with the principles-based character of the objectives as described in Question 8. For example:

- Sensitivity: disclosure requirements are too extensive
- Disclosure of all actuarial assumptions, instead of disclosure of the 'main assumptions';
- Why should the Accumulated Benefit Obligation be disclosed since that can not be used as a basis for measurement?

These requirements typically will result in boilerplate disclosures. As an alternative we suggest that for example disclosure of 'duration' could be a useful disclosure.

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?**

Response DASB
First of all we think the classification of a Multi Employer Plan (MEP) as a defined contribution arrangement is an important issue for The Netherlands. Especially considering our notion that there seems to be an inconsistency in the wording of the standard and the wording of the basis for conclusions. See also our response to Question 14.
In respect of the disclosures, in general, we think the requirements are too extensive. We refer to our response to Question 9. For the requirements concerning MEPs we specifically think that disclosure of the expected contributions for the next five years is far too extensive. This would be comparable with a disclosure of the expected cost of salaries or social security costs for the next five years. Instead, funding agreements between the MEP and its sponsors should be disclosed. This information is relevant for the investors and will increase cash flow predictability.

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?**

Response DASB
Yes, these requirements are redundant when consolidated financial statements are prepared by the parent entity in which that same information (on a comparable level of detail) already is provided for. In such a situation we believe that a reference to such financial statements would be sufficient.

Question 12
Do you have any other comments about the proposed disclosure requirements?
(Paragraphs 125A-125K and BC50-BC70)

Response DASB
In general, disclosure requirements should be limited to most relevant information only, in order to prevent that an overload of information is provided to the users of financial statements.

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? Do you agree? Why or why not? What alternative do you propose?

Response DASB
a) Yes.
b) Yes.
c) Yes.
d) Yes.
e) No. This issue deals with the way how to assess whether or not the PUC-method should be applied. We believe that this issue should be addressed after a fundamental review of the

accounting of post employment benefits and should not be included in an amendment of the current principles.
f) No. It is not clear what is meant with ‘current estimate’. We believe a ‘best estimate’ always has to be ‘current’. The proposed amendment creates a lack of clarity whether or not to take into account certain trends in expected mortality rates.
g) No. For the issues of Shared Risk and conditional indexation we refer to our general comments.

Question 14
IAS 19 requires that entities 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, many plans that meet the definition of a defined benefit multi-employer plan would also meet the condition for defined contribution accounting. (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?

Response DASB
We have noted that the comments in the Basis for Conclusion on MEPs (paragraph BC75(b)) is more clear than the text of the standard itself (paragraph 32(a)). All the aspects discussed above obviously also relate to MEPs. In addition, we refer to our 2008 IFRIC submission, where we concluded that even if there is IAS 19 information and there is some basis for pro-rating, the resulting asset or obligation will have no relationship with any future cash inflow or outflow of the entity because the entity’s contributions are based on an average branch or industry contribution, which only coincidentally would be in line with a contribution that would exist had a MEP arrangement not been in place. Therefore the objective of a reliable and consistent allocation of the entity’s share in a surplus or deficit of the plan which reflects its future contributions will not be met. For that reason, we still believe that DC accounting with disclosures would be a better alternative and also provides better information to users. And there is, of course, the issue of the still existing divergence with US-GAAP which is undesirable.

In addition, we believe that accounting guidance for MEPs should be improved. We refer to our IFRIC submission that is not yet addressed by the IFRIC or IASB. In our letter dated 23 September 2009, we have proposed to change the current IAS 19.32 paragraph in a way that reads as follows:
“(b) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the ~~result~~ consequence that ~~there is no consistent and reliable basis for~~ allocating the obligation, plan assets and cost to individual entities participating in the plan does not result in an asset or liability that reflects the extent to which the surplus or deficit in the plan will affect the individual entities’ future contributions.”

This rewording follows the principle of IFRIC D6 *Multi-employer Plans* that was published in April 2004. It is all about the reliability of the estimate of the future cash flows that will be

required to settle the individual entities' share of the plan's obligation or can be expected to be received from its share of the plan's surplus.
We believe that this amendment would be in line with the other improvement areas that the Board has addressed as part of the first phase of the IAS 19 revision project. Furthermore (and again) it resolves the IFRIC request that we have submitted which is currently still awaiting a conclusion.

Question 15
Do you agree that entities should apply the changes resulting from the proposed amendments retrospectively? (Paragraphs 162 and BC97-BC101) **Why or why not?**

Response DASB
Yes, we agree, however to the extent additional information needs to be collected transitional exemptions should be provided to obtain an appropriate cost-benefit balance.

Question 16
In the Board's assessment the main benefits of the proposals are:
- Reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.
- Eliminating some presentation options currently allowed by IAS 19, thus improving comparability.
- Clarifying requirements that have resulted in diverse practices.
- Improving information about the risks arising from an entity's involvement in defined benefit plans.
- Improved comparability between entities
- Improved disclosures about defined benefit plans.
Do you agree with the Board's assessment? Why or why not?
In the Board's assessment 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 in applying the existing version of IAS 19.
Do you agree with the Board's assessment? (Paragraphs BC103-BC107) **Why or why not?**

Response DASB
No, we do not. We refer to our main comments.

Question 17
Do you have any other comments on the proposals?

Response DASB
We are not convinced of the distinction between long-term and short-term benefits in the new definitions of the scope of employee benefits (paragraph 4). In some jurisdictions this will lead to a mandatory application of the PUC method to relatively minor employee arrangements such as for example holiday and jubilee benefits. To apply the PUC-method and the disaggregation of the related cost into three components (of which one component is presented in OCI and not in profit and loss) will not provide relevant information.

Furthermore we do not agree with the combination of other long-term employee benefits and post-employment benefits. The accounting for other long-term employee benefits, such as jubilee benefits and long term bonus, are far less complex than pension arrangement and therefore the application of the requirement for post-employment benefits to these types of arrangements does not improve the quality or the understandability of e financial reporting. In addition the revised definition would bring certain benefits, such as holiday balances, possibly within the scope of long-term employee benefits and thereby the required application of the PUC-method, while we don’t believe such method is appropriate in those circumstances.