THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND

KS/ASC-SUB/ks-mb

Ms Francoise Flores
Chairman
European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 BRUSSELS

27 August 2010

Dear Ms Flores

IASB EXPOSURE DRAFT ED/2010/3 DEFINED BENEFIT PLANS: PROPOSED AMENDMENTS TO IAS 19

The Institute's Accounting Standards Committee has considered the above exposure draft and is pleased to forward a copy of the response letter to be submitted to the IASB – please see attached.

Yours sincerely

Karen Shaw

KAREN SHAW
Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH

August 2010

Dear Sir David

IASB EXPOSURE DRAFT ED/2010/3: DEFINED BENEFIT PLANS, PROPOSED AMENDMENTS TO IAS 19

The Institute's Accounting Standards Committee has considered the above exposure draft and I am pleased to forward its comments to the IASB.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Accounting Standards Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The Committee supports the proposals in the exposure draft as a short term improvement for the accounting for defined benefit plans. However, we believe that it is vital for IFRS to be based on a clear set of high level principles and, at present, there is a lack of any overarching principle guiding which elements of income and expense should be reported in profit or loss and which in the statement of other comprehensive income. An overall review of the reporting of financial performance is necessary to address the financial reporting of employee benefits in the future.

Our responses to the specific questions can be found in the annex to this letter.

I hope our comments are useful to you. If you wish to discuss anything further please do not hesitate to contact me.

Yours sincerely

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ANNEX: RESPONSES TO SPECIFIC QUESTIONS

Question One

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 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. We believe that there is no compelling argument for retaining the "corridor" approach from the current IAS 19 and the removal of this option will aid transparency and comparability, in addition to being less complex to understand and apply.

Question Two

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

Yes entities should recognise unvested past service cost when the related plan amendment occurs. This is consistent with the overall approach contained within IAS 19.

Question Three

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 agree with the proposed disaggregation approach. We believe that this approach will aid transparency and comparability between entities.

Question Four

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. We believe that this enhances understandability for users of the financial statements and allows easier comparison between entities.

Question Five

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)

Yes we agree with this proposal. We believe that the "expected rate of return" approach was not useful to users of the financial statements and this proposal is more consistent with current investment practice.

Question Six
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?

Yes we agree with the proposed categorisation in relation to defined benefits such as pensions and retirement benefits where actuarial input is required. We believe that this enhances understandability for users of financial statements and allows easier comparison between entities.

However, for some of the other types of benefits referred to in the deleted paragraph 4(c), such as profit-sharing, bonuses and deferred compensation which are now to be accounted for as "long term employee benefits", we do not believe that it is appropriate that remeasurement of such obligations should be recognised in other comprehensive income. In such cases, the remeasurement is no different from a change in estimate of a provision under IAS 37 or share-based payment expense under IFRS 2. It may be that changes in the estimate of such other types of benefits are not "remeasurements" as defined in paragraph 7, in which case it is unclear from paragraph 119A where they should be presented.

Question Seven
(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 other comprehensive income? (Paragraphs 125C©, 125E, BC49 and BC78) Why or why not?

We agree with the above proposals but we believe it is necessary to clarify what is meant by "non-routine settlements".

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Question Eight
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 agree with the objectives proposed above. At the heart of reporting around defined benefit schemes is the uncertainty inherent in their measurement. The user therefore needs sufficient disclosure to be able to understand how that uncertainty impacts on the financial statements.

Question Nine
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?

Although we agree with most of the proposed disclosures, we believe that the IASB should avoid exhaustive lists of mandatory disclosures and should try to provide examples which illustrate how the disclosure objectives can be satisfied.

Question Ten
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 the additional disclosure requirements provide useful information about multi-employer plans.

Question Eleven

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?

The Committee believes that the information requirements of users are the same, irrespective of whether entities are under common control and therefore we support the proposed amendments.

Question Twelve

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

We have no further comments about the proposed disclosure requirements.

Question Thirteen

(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 proposed amendments and the analyses in the Basis for Conclusions.

Question Fourteen
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 multi-employer 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 would suggest that the most appropriate allocation basis for multi-employer plans is an internal consensus among all of the participating employers.

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

We believe that the amendments should be treated as a change in accounting policy and therefore agree that they should be applied retrospectively.

Question Sixteen
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 Board's assessment.

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

We have no further comments on the proposals.

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