DZ BANK's Comments on EFRAG's Draft Comment Letter (DCL) on IASB's Exposure DRAFT 2010-3 Defined Benefit Plans Amendments to IAS 19 (ED)

Whereas the DCL except for a few minor points of criticism supports the proposals of the ED, we have significant concerns about the proposals concerning:

1. the disclosure requirements,
2. the treatment of costs relating to the management of plan assets and
3. the definition of long-term employee benefits.

1. Disclosure Requirements

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?

EFRAG's DCL agrees with the disclosure objectives as proposed.
We only agree with the proposals in (a) above. With regard to (b) and even more with (c) above we fear that the disclosures might become to overloaded with information making it hard for users to separate essential from non-essential information. The additional cost and effort caused for preparers are from our perspective and experience as preparer of financial reports not justified by corresponding benefits for users.

Since the defined benefit plans of internationally active enterprises are influenced by a multitude of contracts and contractual components, statements as to their effects on future cash flows involve a high degree of speculation and only appear to have a high level of accuracy. Therefore we doubt that the objective called for under (c) above would result in the presentation of high quality information.

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?

EFRAG's DCL agrees with most of the disclosures proposed by the IASB.
We do not share this view and have the following reservations concerning the proposed new disclosures:

(a) We doubt that the presentation of sensitivity analyses would result in relevant information for users. At least some of the parameters used in order to calculate the defined benefit obligation rest on official statistical data. We consider it as inappropriate to change such data for the purpose of providing sensitivity analyses. In addition, we want to stress that pension obligations are of a long-term nature. Differences in the amount of the obligation from one reporting date to the next may arise for example due to changing interest rates. However, regularly these volatilities are levelled down over time. Thus information based on a certain reporting date is often of very little relevance when considering the true economic position of the entity. Therefore we are opposed to providing sensitivity analyses about pension obligations.

(b) Descriptions of processes followed should in our opinion not be subject of notes to financial reports. Such an extension of disclosure requirements without due justification does not seem to enhance the transparency of financial reporting.

(c) Showing the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth does to our understanding also not give rise to any additional benefit for users. As far as future salary increases do have an effect on the pension obligation, they must be included in the measurement of the defined benefit obligation. We cannot see any additional informational value in providing the obligation exclusive of the effect of the pay rise. We do, however, see a lot of additional cost and effort for preparers who would have to provide more information based on extra actuarial assessments which causes additional cost. We do not see any justification for such additional cost and effort.

2. Costs Relating to the Management of Plan Assets

Question 13 (d): The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets.

Most EFRAG members agree with the Board's proposal that costs of managing plan assets should be deducted from the return on those assets and other costs incurred should be included in the calculation of the defined liability (DCL 72).
However, some other members consider that all costs should be expensed as incurred and not be included in the calculation of the defined benefit liability (DCL 73).

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 (DCL 75)?

We do not believe that the costs of managing plan assets should be deducted from the return on those assets. Instead we support the view of those members of EFRAG who consider that all costs should be expensed as incurred and not be included in the calculation of the defined benefit liability and refer to their arguments as set out in paragraphs 73 and 74 of the DCL.

Question to EFRAG's constituents: In your experience, do you believe it is possible in practice to separate the costs of managing plan assets from other costs incurred (DCL 76)?

From our experience as preparer of financial reports we consider it as extremely difficult in practise to separate the cost of managing plan assets from other cost incurred. Many difficult questions would have to be answered in order to appropriately estimate and allocate the amounts that need to be separated. Answering these questions would introduce additional subjectivity into the reporting process and thus lead to less comparability of the financial reports of different entities. Beyond that the special accounting treatment for the amounts so separated would cause a lot of extra implementation and on-going cost and effort.

3. Definition of Long-Term Employee Benefits

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

The ED proposes in its paragraph 7 to summarize post-employment benefits and other long-term benefits under the heading of long-term employee benefits.

We are not in line with that proposal of the ED. Pension obligations are normally much more long-term in nature than the current other long-term benefits and therefore the two items do deserve a different accounting treatment. The change in definition might lead to an extension of the stricter accounting requirements for post-employment benefits to other long-term benefits.
Especially, as a consequence of the change in definition, the disclosures proposed in paragraphs 125A-125K would also apply to benefits previously classified as other long-term employee benefits.

EFRAG's DCL does not comment on this proposal. We would appreciate EFRAG to include a critical comment on that matter in its final letter.