EFRAG

European Financial Reporting Advisory Group

IASB
30 Cannon Street
London EC4M 6XH
UK

15 September 2010

Dear Sir/Madam

**Exposure Draft Amendments to IAS19 *Employee Benefits***

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft, *Amendments to IAS19 Employee Benefits* ('the ED'). This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRSs in the European Union and European Economic Area.

EFRAG welcomes the publication of the Exposure Draft and believes that IAS 19 could benefit from short-term improvements given the various inconsistencies and implementation difficulties encountered to date in applying it.

We note some of the key requirements set out in the Exposure Draft:

(a) Immediate recognition of changes in the estimation of the defined benefit obligation and in the fair value of the plan assets. Elimination of the corridor approach.

(b) Recognition of unvested plan costs in the year when an amendment to the plan is made.

(c) Disaggregation of the plan costs into three components: service costs, finance costs and remeasurement. Service and finance costs should be recognised in profit and loss. Remeasurements should be recognised in OCI. Changes in the estimate of service costs and in demographic assumptions should be included in the remeasurement component.

(d) The exposure draft proposes that the finance cost component comprises net interest income or expense, determined by applying the high quality corporate bond rate to the net defined asset or liability. As a consequence, it eliminates the requirement in IAS 19 to present an expected rate of return in profit or loss.

(e) The exposure draft proposes to delete the discussion of curtailments and settlements from IAS 19. However, the disclosure requirements would be retained and modified. Entities should disclose a narrative description of any plan amendments and non-routine settlements, and the effect of such plan amendments and non-routine settlements on the statement of comprehensive income.

(f) Expected salary increases, risk-sharing, conditional indexation, current estimates of the expected mortality and taxes payable by the plan should be considered in the estimation of the defined benefit liability. The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. IAS 19 is also amended to include the considerations in IFRIC 14 about 'minimum funding requirement'.

(g) Disclosure objectives and new proposed disclosures.

EFRAG wishes to emphasise that, in its view, a comprehensive review of employee benefit accounting is needed to bring significant improvement to the financial reporting of employee benefits. In particular, such a review is necessary to define appropriate accounting for 'modern' schemes that combine features of defined benefit plans and defined contribution plans. Also such a review needs to rely on a clear and appropriate distinction between profit or loss and other comprehensive income. We acknowledge that the IASB has still to determine and consult publicly on its post mid-2011 technical agenda, but EFRAG believes it is important that such a comprehensive review should be proposed by the Board as a matter of priority. In this context, the Board may want to consider the Discussion Paper on *The Financial Reporting of Pensions* and the follow-up *Feedback and Redeliberations Report* issued by EFRAG and the European National Standard-Setters as part of the Proactive Accounting Activities in Europe.

Our support to certain proposals of the Exposure Draft should therefore be read in the context of EFRAG's consideration of the project as a short-term solution for pension accounting pending the debate on fundamental issues related to both pensions and performance reporting. In addition, the views expressed here are made in the context of the current financial statement presentation requirements and do not anticipate changes that may be proposed as result of the project on *Financial Statements Presentation*.

EFRAG agrees with the removal of the corridor approach and the immediate recognition of unvested plan costs in the year when an amendment is made, as it will bring increased transparency in the valuation of the net defined benefit liability and remove some inconsistency with the overarching IAS 19 measurement principle.

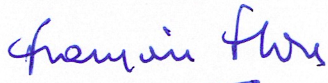
EFRAG also agrees with the disaggregation of the plan costs into three components (service costs, finance costs and remeasurement), the proposed presentation of these three components and the removal of various options. Furthermore, EFRAG agrees with the disclosure objectives proposed by the Board and recommends that disclosures be required in the context of a principle-based approach.

EFRAG understands the reasons why the IASB would want to remove the requirement in IAS 19 to reflect in profit or loss a return on assets based on an expected rate of return. However, we are not convinced that the proposed methodology to calculate the finance cost is in fact an improvement.

Our detailed responses to the questions in the ED are set out in the appendix to this letter.

If you would like further clarification of the points raised in this letter, please do not hesitate to contact either Joaquin Sanchez-Horneros or me.

Yours sincerely



Francoise Flores

**EFRAG, Chairman**

## Appendix

## EFRAG's detailed responses to the questions asked in the Exposure Draft

**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. Do you agree? Why or why not?

**EFRAG's response**

**EFRAG agrees that all changes in the value of post-employment benefit obligations and plan assets should be recognised in the period in which they occur.**

1 In our comment letter on the DP, EFRAG was generally supportive of eliminating options in IAS 19 as they hinder comparability between entities. Furthermore, EFRAG cannot find any compelling conceptual basis for the deferral or smoothing of actuarial gains and losses. Accordingly, EFRAG concurs with the Board's view that all changes in the value of the post-employment benefit obligation and plan assets should be recognised in the period in which they occur, with the proviso that the measurement of the plan assets and the pension obligation must take into account the long-term nature of the items. We agree with the arguments and advantages outlined in the ED, and would place particular emphasis on the lack of transparency caused by the use of the corridor approach and other deferral mechanisms.

2 In expressing the view above, EFRAG refers both to the need to present the resulting changes appropriately in the performance statement(s), and the need to measure the obligation using a basis that is consistent with the way the obligation will be settled from the point of view of the reporting entity.

**Question 2**

Should entities recognise unvested past service cost when the related plan amendment occurs? Why or why not?

**EFRAG's response**

**EFRAG agrees that unvested past service costs should be recognised immediately and in full.**

3 Recognising unvested past service costs in their entirety in the period in which a plan amendment is made improves internal consistency of the IAS 19 measurement requirements. Indeed the general approach in existing IAS 19 is to allocate benefits to periods of service regardless of whether they have vested or not.

4 EFRAG observes that this is inconsistent with IFRS 2 *Share-based Payment* (paragraphs 27 and B43 of which require increases in benefits made within the

vesting period to be attributed to each period of employees' services from the time of the modification until the vesting date is reached). However, EFRAG thinks that internal consistency within IAS 19 is more important than consistency of this one aspect with IFRS 2.

| **Question 3**<br><br>Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? Why or why not? |
|---|

**EFRAG's response**

| **EFRAG agrees with the proposed disaggregation of defined benefit costs.** |
|---|

5 EFRAG agrees with the proposed disaggregation of defined benefit costs and the fact that there will be only one way of presenting interest cost. In EFRAG's view, the presentation proposed improves comparability between entities by making a distinction between the costs of benefits and how those benefits are financed.

6 For example the service cost may be seen as representing part of the total employment cost for the period, with the view that employees services have been obtained in exchange for salaries and other benefits including the promise of pension benefits. Unless such a distinction is made, the current employment costs for the period are either understated (by omitting the value of pension promises made in the year) or overstated (by including interest expense). Comparability between entities is therefore enhanced by making this distinction.

7 The presentation requirements lead to clearer differentiation between funded and unfunded plans. In EFRAG's view, this difference in presentation is justified because of differences in the underlying facts. The risks to investors and the existence of control over the plan assets depend on whether or not the assets are managed by the reporting entity.

| **Question 4**<br><br>Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? Why or why not? |
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**EFRAG's response**

| **EFRAG agrees that changes in demographic assumptions should not be presented as part of the service cost.** |
|---|

8 EFRAG agrees with the IASB that there are different drivers to changes in the pension obligation which have different predictive values. The service cost for pensions is affected by many assumptions. Separate presentation enhances the ability of users to make their own assessment about the possible changes in the underlying assumptions and their impact on future costs.

9 As a result, EFRAG agrees to separate:

(a) the current service cost (increase in the present value of liabilities for pensions expected to arise from employee service in the current period) and past service cost (change in the present value of the defined benefit obligation for employee service in prior periods, resulting from the introduction of, or changes to, long-term employee benefits) from

(b) the changes in the present value of liabilities due to changes in other factors or changes that are not directly related with performance by employees (or the introduction/changes in benefits from one period to the next e.g., staff turnover rates, early retirement rates or mortality rates). These changes would be considered changes in the estimate of service costs and included in the remeasurement component, being presented separated in the financial statements from those costs included in a)

**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?

**EFRAG's response**

**EFRAG is not convinced that the proposed amendment would improve the quality of financial reporting.**

10 EFRAG understands the reasons why the IASB would want to remove the requirement in IAS 19 to reflect in profit or loss a return on assets based on an expected rate of return. However, we would not recommend a change at this stage, because we are not convinced that the proposed amendment would improve the quality of financial reporting. EFRAG considers that the proposed amendments are too significant for a short-term improvements project. In addition, as explained in our response to Question 6 below, EFRAG believes that there is a need for a deeper debate on the conceptual issues underlying performance reporting.

11 EFRAG wants to reiterate its support (which was included in our Comment Letter on IASB ED *Discount Rate for Employee Benefits*) for the proposal to have a single principle to determine the discount rate used for employee benefit obligations. However, EFRAG thinks entities need guidance on estimating a market yield and, in particular, guidance that resolves the issues that arise if there is not a deep market for high quality corporate bonds in an entity's jurisdiction. In the context of the Board's proposals, we would like to note that the impact of using a government bond yield is twofold, in that it may understate the discount rate for the liability while probably understating the return on plan assets by an even greater margin.

12 The Board should clarify whether the net defined benefit liability – as mentioned in paragraph 119B of the ED – should be based on the amount at the start of the period or on the average over the 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?

Why or why not? Why or why not?

**EFRAG's response**

**EFRAG agrees that service cost should be presented as an operating item in profit or loss, net interest income or expense should be presented as finance cost in profit or loss and remeasurements should be presented in OCI.**

13 EFRAG is in favour of the removal of options as it improves comparability and results in single accounting treatment and presentation.

14 However, EFRAG reiterates that all these views are only in the context of a short-term project to improve the current IAS 19 *Employee Benefits*. The views expressed in this comment letter do not necessarily apply to other IASB standards or projects like *Financial Statements Presentation* project or EFRAG pro-active projects like, for example, *Performance Reporting* project.

15 Some consider that all the components should be presented in profit and loss. A revision to an estimate is generally recognised in the same position in the statement of comprehensive income as the original estimate is recognised. However, EFRAG considers it useful that the accounting treatment of components that represent the period-to-period fluctuations in the long-term value of the defined benefit obligation and plan assets to be presented separately from the rest of components of pension costs. Indeed, the underlying reasons and causes of those fluctuations in long-term value are different in nature from the factors that cause changes in the other components of pension costs. If such changes in non-recurring components are recognised in profit and loss of an entity that may be unhelpful for users of financial statements in assessing performance on its operational activities.

16 EFRAG believes that no changes should be made until a deeper debate is held on the conceptual issues underlying performance reporting, such as the notion of performance, the content of performance statement(s) and recycling.

**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? 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?

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? Why or why not?

**EFRAG's response**

**EFRAG agrees with the proposals but thinks that clarification of the expression 'non-routine settlements' is needed.**

17 EFRAG agrees that, if the exposure draft eliminates the potential for previously unrecognised gains and losses, a detailed separate discussion of settlements and curtailments is not needed.

18 EFRAG also agrees with the proposals that settlements and curtailments should be accounted for in the same way as remeasurements and plan amendments, respectively.

19 EFRAG thinks that disclosures for both curtailments and settlements are useful in providing an understanding of the causes of gains and losses and/or changes in the value of the net defined benefit liability in the period.

20 Having said that, EFRAG also thinks some clarification of the expression 'non-routine settlements' is needed as it could be interpreted in different ways.

**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.

Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

**EFRAG's response**

**EFRAG 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.**

21 EFRAG considers disclosures should provide information that explains the economic consequences arising from the provision of pension benefits (that are not necessarily the same as other liabilities), having regard to the materiality of the amounts involved, such that:

(a) financial statements contain adequate disclosure of the cost of providing pension benefits and any related gains, losses, assets and liabilities;

(b) users of financial statements are able to obtain a clear view of the different effects, implications and consequences arising from liabilities to pay pension benefits and from the assets held to fund those benefits; and

(c) the funding obligations of the entity, in relation to liabilities to pay pension benefits, are clearly identified.

22 EFRAG believes that the Board should consider revising the objective under a. above, to focus on the risks and exposures an entity is taking as part of its defined benefit plans, rather than just the characteristics of those plans. Those characteristics by themselves would only be useful to the extent that they help in understanding those risks and exposures.

**Question 9**

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

a. information about risk, including sensitivity analyses;

b. information about the process used to determine demographic actuarial assumptions;

c. the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth;

d. information about asset-liability matching strategies; and

e. information about factors that could cause contributions to differ from service cost.

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 response**

**EFRAG agrees with most of the disclosures proposed by the Board. However, 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.**

23 EFRAG agrees with most of the disclosures proposed by the Board because they contribute to meeting the disclosure objectives stated in the ED. However, EFRAG thinks that, in line with the standard's principle-based approach, the IASB should not present the disclosure requirements in the form of an exhaustive list of mandatory disclosures but rather present them in the form of useful examples that show how the disclosure objectives might be met.

24 EFRAG does not think that information about the process used to determine demographic and actuarial assumptions is particularly relevant or insightful as this type of process is unlikely to change much from year to year.

25 EFRAG considers maturity tables of assets and liabilities and information about expected costs and outflows to be especially relevant to help users assess future cash flows arising from the net liability. In addition, we also believe that information on how the assets are managed to be relevant, particularly if there are restrictions on the use of those assets.

26 Instead of the narrative discussion proposed in paragraph 125K of the ED, EFRAG would prefer a disclosure that reflects how the pension liability is expected to be settled through employer contributions and investment returns, and that helps users understand the funding obligations of the reporting entity.

**Question 10**

The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? Why or why not?

**EFRAG's response**

**EFRAG finds the additional disclosures required by the ED very useful but, as we have stated in Question 9, the disclosures should be presented as examples that achieve the proposed disclosure objectives rather than as a mandatory list. However, we refer the Board to the additional disclosures identified in our answer.**

27 EFRAG believes that no net asset or liability (asset) should be recognised except for the current pension contributions payable and any additional amounts that an entity might be required to pay to a multi-employer plan. However, as it is difficult to identify a 'reliable' basis for measuring an individual employer's share in a multi-employer plan's net liability (asset), we believe the additional disclosures required by the ED to be 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? Why or why not?

**EFRAG's response**

**EFRAG agrees with the proposed amendments because we consider that the information needs of users are the same regardless of the control structure. We believe that the same disclosure objectives should apply to all types of financial statements (e.g. consolidated and separate financial statements).**

**Question 12**

Do you have any other comments about the proposed disclosure requirements?

28 EFRAG does not have any other comments.

**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.

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.

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.

d. The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets.

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.

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.

g. Risk sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation.

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?

**EFRAG's response**

*IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

**EFRAG agrees with the IASB's analysis and reasoning about the incorporation of the requirements established by IFRIC 14 and the definition of 'minimum funding requirement'.**

*Tax payable*

**EFRAG agrees with the proposed amendment to clarify that taxes payable have to be considered. We think that their inclusion in the return on plan assets will depend on the nature of the tax payable. Taxes that are related to the administration of the assets should be considered in the return on assets.**

*Costs relating to the management of plan assets*

**EFRAG agrees 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. Nevertheless, these members recognise that in practice it might be difficult to separate these costs clearly (e.g., some insurance arrangements may combine both elements).**

29 Administration costs for future periods could only be linked to the assets and liabilities if such assets or liabilities are directly related to the underlying arrangements. An analysis of the agreement is necessary to determine the allocation of costs and such allocation will depend on facts and circumstances.

*Expected future salary increases*

**EFRAG agrees that expected salary increases should be considered in determining the best estimate of the defined benefit obligation when a benefit formula expressed in terms of current salary allocates a materially higher level of benefit to later years (for the reason explained in paragraph BC89 of the ED).**

*Mortality assumptions*

**EFRAG agrees that the best estimation of the liability should include the effect of estimates of future changes in mortality.**

*Risk sharing and conditional indexation*

**EFRAG agrees with the clarification that risk sharing and conditional indexation features should be incorporated into the determination of the best estimate of the defined benefit obligation.**

**EFRAG believes that risk sharing and conditional indexation should be considered more fully in the measurement of the pension obligation to ensure that financial statements reflect the best estimate of the ultimate cost of providing the pension benefit. Therefore, we believe that paragraphs 64A and 85 of the ED need to be clarified to ensure that this is the case.**

30 EFRAG agrees with the position that plans that share some of the risks between employers and employees do not fit easily into the traditional defined contribution or defined benefit accounting models. One of the shortcomings of the existing accounting standards on pensions is that they do not state a measurement objective. They specify a measurement method (projected unit method) for defined benefit liabilities – traditionally pension benefits that are related to employees' earnings and length of service. The measurement requirements of the standard do not deal adequately with the spectrum of risk-sharing that has evolved in pension plans.

31 Consequently, EFRAG believes that risk sharing and conditional indexation should be considered more fully in the measurement of the pension obligation to ensure that financial statements reflect the best estimate of the ultimate cost of providing the pension benefit. Therefore, we believe that paragraphs 64A and 85 of the ED should be clarified to ensure that this is the case. In particular, in paragraph 64A the interaction between the second and third sentence should be clarified to state that the effect of employee contributions should be taken into account if there is a plan deficit in accordance with IAS 19. Paragraph 85 should indicate more clearly that risk-sharing and conditional indexation should be considered in calculating the

best estimate of the defined benefit obligation, also when the requirement for employees to pay a share of the annual premiums under the terms of the plan or applicable legislation is not based on the recognition and measurement requirements of IAS 19.

32 Having said that, and in the context of the limited revision of IAS 19, EFRAG agrees that these kinds of plans should be accounted for as defined benefit plans. Indeed, an entity may have a legal or constructive obligation to fund deficits related to employee services in the current and prior periods, and EFRAG believes that this obligation should be recognised.

**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.

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?

**EFRAG's response**

**EFRAG considers that probably the best allocation basis is the internal agreement among all the employers that participate in the multi-employer plan.**

33 Multi-employer plans exist in many jurisdictions. Sometimes these plans are initiated or ratified by local government (in order to create an industry-wide pension fund in which employers active in a certain industry are allowed or required to participate) or are established by certain entities at their own initiative (in order to pool assets, realise economies of scale and share the inherent actuarial risks).

34 Current practice is diverse:

(a) In some countries these plans are treated as defined contribution.

(b) Sometimes, the treatment is based on a consensus between parties involved (reporting entities, accountants, enforcement authorities).

(c) In other countries the plans are accounted as defined contribution plans, but entities make use of the option stated in paragraph 32 a) of IAS 19 because they are not provided, despite their requests, with the necessary information to make proper calculations.

(d) Other entities make use of paragraph 32 b) of IAS 19 (no consistent or reliable basis for allocation) or may receive letters from the Board of the multi-employer plan in which this argument is used.

(e) In other cases the allocation of the plan is affected according to the options stated in paragraph 29 of IAS 19.

35 One of the possible allocation methods is to use a criterion that is related to the basis that is also used for determining the pension contribution. This basis would, in many cases, be related to the pensionable salary of the active employees. In this event the allocation criterion would be the pensionable salary of the individual employer divided by the total pensionable salary of all the participating employers. The basis for this criterion is that the amount of the contribution is directly related to the benefit (and, therefore, to the asset). The employer normally has access to information to calculate the ratio between its contribution to the plan and the total contributions (if it is possible, on a cumulative basis to avoid impacts due to deficits or surpluses). The proportionate share of the individual employer can be determined by multiplying the total pension asset (liability) by that ratio.

36 The periodic change in the employer's share of the multi-employer plan's total assets (liabilities) should be classified as a separate line item in OCI similar to actuarial gains and losses whereas the pension contribution payable could be classified as employee compensation expense.

37 However, it is agreed that the outcome of the approach described above is not perfect and also not necessarily the same as individual employer's future cash-flows related to its participation in the fund.

38 It seems defined benefit accounting is better to provide useful and relevant information for users of financial information than defined contribution accounting with additional disclosures. However, it seems also clear that defined benefit accounting is only possible if a reliable allocation can be made.

39 EFRAG believes that paragraph 32(a) of the ED should be amended to ensure that it reflects the comments in paragraph BC75(c) of the Basis for Conclusions on multi-employer plans, which is clearer than the text of the standard itself.

**Question 15**

Do you agree that entities should apply the changes resulting from the proposed amendments retrospectively? 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.**

40 EFRAG agrees with IASB's explanation and reasoning in paragraph BC97 of the ED for retrospective application of the proposed amendments, but considers that it would be helpful to add the wording from paragraph 13 of IFRIC 19: 'An entity shall apply a change in accounting policy in accordance with IAS 8 from the beginning of the earliest comparative period presented.'

**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? Why or why not?

**EFRAG's response**

**Provided that the proposed disclosures are presented as examples rather than as a mandatory list, EFRAG agrees that the benefits of the amendments outweigh the costs, especially in terms of transparency and comparability of financial statements.**

**However, EFRAG would like to reiterate that these amendments are only considered as short-term improvements to current IAS 19 and a more fundamental debate should be had to develop appropriate standards for the new pension schemes.**

**Question 17**

Do you have any other comments on the proposals?

**EFRAG's response**

**The dividing line between long-term and short-term benefits should be reconsidered.**

**EFRAG believe that applying the accounting requirements for post-employment benefits to other long-term employee benefits is too significant a change to be part of this short-term improvements project.**

41 The distinction between long-term and short-term benefits in the new definitions of the scope of employee benefits is not clear and can be misunderstood. The

distinction seems to be based on the entity's estimation of the expected date the employee uses or receives the benefits rather than the date of the employee's contractual entitlement to these benefits. In addition, it is not clear in the proposed wording if benefits should be classified once, at the beginning of the benefit arrangement, or if the classification should be reassessed at each reporting date. This could be a problem in the case of remuneration schemes with several settlement dates or multiple utilisation points. As a result, amendments to IAS 19 like disaggregation of the cost components or recognition of certain changes in OCI (rather than profit and loss) would need to be applied to relatively insignificant benefit arrangements. We are not convinced that this is the real intention of the IASB. We urge IASB to clarify this issue and to include practical application guidance. Perhaps, the distinction between long-term and short-term benefits could be based on the date when the entity expects to become due to be settled in part or in whole (e.g. 12 months from the reporting date or after the completion of the employment).

42 EFRAG is not convinced that applying the same accounting requirements to other long-term employee benefits and post-employment benefits is an improvement. Other long-term employee benefits include bonuses and other long-term deferred benefits that are not nearly as complex as pensions.