

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

6 November 2015

Dear Sir/Madam,

Re: Exposure Draft ED/2015/05 Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the amendments proposed in the Exposure Draft ED/2015/05 *Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)*, issued by the IASB on 18 June 2015 (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 IFRS in the European Union and European Economic Area.

EFRAG welcomes the proposed amendments and agrees that they address issues needing clarification. EFRAG supports the proposed amendments in respect of other parties' (including plan trustees) power to use the plan surplus for other purposes that affect the benefits for plan members and the proposed clarifications of accounting for a plan amendment, curtailment or settlement. EFRAG supports the proposed modified retrospective application of the amendments based on the cost-benefit trade-off.

Our detailed comments and responses to the questions in the ED are set out in Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Sapna Heeralall, Robert Stojek or me.

Yours faithfully,



Claes Norberg
Acting Vice-President of the EFRAG Board

APPENDIX

Question 1 - Accounting when other parties can wind up a plan or affect benefits for plan members without an entity's consent

The IASB proposes amending IFRIC 14 to require that, when an entity determines the availability of a refund from a defined benefit plan:

- (a) the amount of the surplus that an entity recognises as an asset on the basis of a future refund should not include amounts that other parties (for example, the plan trustees) can use for other purposes (for example, to enhance benefits for plan members) without the entity's consent.
- (b) an entity should not assume a gradual settlement of the plan as the justification for the recognition of an asset, if other parties can wind up the plan without the entity's consent.
- (c) other parties' power to buy annuities as plan assets or make other investment decisions without changing the benefits for plan members does not affect the availability of a refund.

Do you agree with the proposed amendments? Why or why not?

EFRAG's response

EFRAG supports the proposal to clarify that other parties (for example, the plan trustees) that can use the plan surplus for other purposes that affect the benefits for plan members without the entity's consent prevent the availability of a refund of the surplus from being recognised as a plan asset.

EFRAG also supports the proposal to clarify that:

- (a) an entity should not assume a gradual settlement of the plan as the justification for the recognition of an asset, if other parties have the power to wind up the plan without the entity's consent; and**
- (b) other parties' power to buy annuities as plan assets without changing the benefits for plan members does not affect the availability of a refund.**

- 1 EFRAG notes that the impact of the unconditional power of a trustee or similar party to use the surplus in a defined benefit plan is not specifically addressed in IAS 19 *Employee Benefits* and IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. EFRAG, therefore, welcomes the amendments and supports the three proposed clarifications.
- 2 Firstly, EFRAG agrees with the IASB's clarification that a surplus should not be recognised as a plan asset if a trustee or other party has the unconditional power to reduce the surplus by using it for other purposes.
- 3 EFRAG has considered whether the recognition of an asset should be required when the probability of the trustee or other party exercising their rights would be low or remote. EFRAG rejected this possibility as it would not be consistent with IFRIC 14 for the following reasons.
- 4 EFRAG has referred to IFRIC 14, paragraph 11, which requires that the entity has an unconditional right to a surplus to recognise an asset, and to paragraph 12, which denies that an entity has an unconditional right to the refund of a surplus if this right depends on the occurrence or non-occurrence of one or more uncertain events not wholly within its control. The event, even remote, that a trustee or other party would

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exercise their rights to reduce the surplus by using it for other purposes, is one of those uncertain events not wholly within the entity's control.

- 5 Therefore, EFRAG concludes that any third party's unconditional right to use a plan surplus, prevents an entity from recognising the surplus as a plan asset, regardless of the probability of occurrence.
- 6 EFRAG also acknowledges that the IASB proposals may be perceived as resulting in accounting asymmetry compared to recognition of a plan deficit as a liability and, therefore, some believe that this amendment may result in the reported net defined benefit asset not properly depicting the economics of the plan.
- 7 However, EFRAG thinks that the power to use the plan surplus for other purposes restricts an entity's ability to use the surplus to generate future cash inflows to the entity. Consequently, the amount of the surplus that the entity recognises as an asset on the basis of a future refund, may not include amounts that other parties can use for other purposes that change the benefits for plan members without the entity's consent. On the contrary, the power to use a plan surplus does not impact on the recognition of a liability and, in EFRAG's view, both a plan deficit and a plan surplus recognised in accordance with IAS 19 and IFRIC 14 (as revised by the ED) properly reflect the economics of the plan.
- 8 Secondly, EFRAG notes that paragraph 11(b) of IFRIC 14 refers to situations where the entity's ability to manage a gradual settlement of the plan is unconditional. EFRAG also agrees with paragraph BC13 of the ED that the costs associated with an immediate wind-up may be significant due to the market cost of annuities being significantly higher than that implied by the IAS 19 basis and other legal and professional fees. Consequently, a plan with an apparent surplus may not mean that the entity has the ability to recover any of that surplus on winding-up the plan.
- 9 EFRAG, therefore, agrees that power of a trustee or other party to wind-up the plan or make a full settlement, at any time, prevents the gradual settlement over time until all members have left the plan. This power restricts an entity's ability to realise economic benefits through a gradual settlement.
- 10 Finally, EFRAG agrees that a trustee's power to buy annuities as plan assets or make other investment decisions is different from a trustee's power to use a surplus to enhance benefits or to wind up the plan. The former power affects the funding of the plan, while the latter power allows a change in the benefits for plan members.
- 11 EFRAG notes that plan trustees may take the actions to de-risk the plan and, therefore, any surplus may end up being utilised through plan trustees' decisions to purchase the annuities on the market. The power to buy annuities as plan assets relates to the future value of plan assets and does not relate to the entity's right to a refund of a surplus. Consequently, EFRAG agrees with the IASB's conclusion that the power to buy annuities, on its own, would not prevent the entity from recognising a surplus as an asset, and therefore EFRAG supports the clarification.
- 12 In conclusion, EFRAG believes that the proposed amendments will result in less divergence in practice, provision of relevant information and therefore supports the proposed amendments.

Question 2 - Statutory requirements that an entity should consider to determine the economic benefit available

The IASB proposes amending IFRIC 14 to confirm that when an entity determines the availability of a refund and a reduction in future contributions, the entity should take into account the statutory requirements that are substantively enacted, as well as the terms and conditions that are contractually agreed and any constructive obligations.

Do you agree with that proposal? Why or why not?

EFRAG's response

EFRAG supports the proposal to clarify that at the end of the reporting period, and when a plan amendment, curtailment or settlement occurs, an entity should determine changes in the impact of the asset ceiling in accordance with the contractually agreed conditions of the plan, constructive obligations and substantively enacted statutory requirements.

- 13 EFRAG notes that an entity's informal practices may result in recognition of a constructive obligation to enhance the benefits provided to plan members, for example when a change in the entity's informal practices would cause unacceptable damage to the entity's relationship with employees. This concept is introduced in the requirements related to the measurement of the defined benefit obligation in paragraphs 61 and 88 of IAS 19.
- 14 EFRAG also notes that paragraph 87 of IAS 19 and paragraph 21 of IFRIC 14 use a concept of substantively enacted regulations. Moreover, IAS 12 *Income Taxes* uses a similar concept. EFRAG agrees that an entity should not take account of future changes in regulations or tax if they are not substantively enacted.
- 15 Therefore, EFRAG believes that an amendment to IAS 19 is not necessary in respect of this matter. However, EFRAG also agrees that amending paragraph 7 of IFRIC 14 in this respect will do no harm and may clarify any confusion when assessing the availability of a refund.
- 16 Consequently, EFRAG supports the clarification that an entity, when assessing the availability of a refund, should consider not only the contractually agreed conditions of the plan but also constructive obligations and substantively enacted requirements and believes that it will result in less divergence in practice and provision of more relevant information.

Question 3 - Interaction between the asset ceiling and past service cost or a gain or loss on settlement

The IASB proposes amending IAS 19 to clarify that:

- (a) the past service cost or the gain or loss on settlement is measured and recognised in profit or loss in accordance with the existing requirements in IAS 19; and
- (b) changes in the effect of the asset ceiling are recognised in other comprehensive income as required by paragraph 57(d)(iii) of IAS 19, as a result of the reassessment of the asset ceiling based on the updated surplus, which is itself determined after the recognition of the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

EFRAG's response

EFRAG agrees with the proposed clarification that the asset ceiling may not affect the measurement and recognition of past service cost or a gain or loss on settlement at the time of the event. After a plan amendment, curtailment or settlement, the asset ceiling shall be determined using the updated surplus and updated actuarial assumptions including the discount rate.

- 17 EFRAG notes that when a plan amendment, curtailment or settlement occurs, entities are required to remeasure the surplus or deficit of the defined benefit plan using the updated fair value of plan assets and actuarial assumptions and recognise eventual past service cost or a gain or loss on settlement.
- 18 However, the existing requirements of IAS 19 and IFRIC 14 do not clearly state that an entity's assessment of the availability of a refund should not affect the remeasurement of the surplus or deficit.
- 19 Therefore, EFRAG supports the amendment to clarify that the process of remeasurement of a defined benefit plan comprises of two distinct steps:
 - (a) the past service cost or the gain or loss on settlement is measured and recognised in profit or loss in accordance with the existing requirements in IAS 19; and
 - (b) after the recognition of the past service cost or a gain or loss on settlement, the entity determines the effect of the asset ceiling based on the updated surplus, using the fair value of the plan assets and the discount rate used to remeasure the net defined benefit liability (or asset). Any changes in the asset ceiling are recognised in other comprehensive income as required by paragraph 57(d)(iii) of IAS 19.
- 20 EFRAG believes that this clarification is likely to result in less divergence in practice and therefore provision of more relevant information.

Question 4 - Accounting when a plan amendment, curtailment or settlement occurs

The IASB proposes amending IAS 19 to clarify that:

- (a) when the net defined benefit liability (asset) is remeasured in accordance with paragraph 99 of IAS 19:
 - (i) the current service cost and the net interest after the remeasurement are determined using the assumptions applied to the remeasurement; and
 - (ii) an entity determines the net interest after the remeasurement based on the remeasured net defined benefit liability (asset).
- (b) the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement are not affected by, or included in, the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

EFRAG's response

EFRAG agrees that the current service cost and the net interest after a plan amendment, curtailment or settlement should be based on the remeasured net defined benefit liability (asset) and reassessed actuarial assumptions.

EFRAG also agrees that the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement are not affected by, or included in, the past service cost or the gain or loss on settlement.

- 21 As is acknowledged by the IASB's basis in BC13 of the proposed amendment, paragraphs 123 and BC64 of IAS 19 may be read as restricting any revision of actuarial assumptions for the purpose of calculation of current service cost and net interest during the period, even if an entity remeasures the net defined benefit liability (or asset) due to a plan amendment, curtailment or settlement.
- 22 EFRAG believes that ignoring the effects of the remeasurement would not result in provision of useful information and therefore agrees that there is a need for an amendment.
- 23 EFRAG notes indeed that the IAS 19 requirement of taking the end of the previous period assumptions to calculate the current period service cost and interest, as explained in paragraphs 123 and BC64 of IAS 19, points to a convenient point in time of making the relevant assumptions. In EFRAG's view however this convenient point in time should no longer serve as reference if doing so would stop service cost and net interest from reflecting the effects of an entity's obligations towards its employees.
- 24 Having said that, EFRAG notes that the IASB has not explained why ignoring the effects of the remeasurement would not be providing useful information. Therefore, EFRAG recommends that the IASB's reasoning is included. EFRAG also recommends that it should be clear from reading the combined Basis for Conclusions of IAS 19 that the current BC64 no longer suggests no remeasurement after a plan amendment, curtailment or settlement.
- 25 Moreover, EFRAG notes that the IASB has considered (BC 18 of the proposed amendments) whether to deal with the difficulties encountered in practice in dealing with "significant market fluctuations", which are referred to in paragraph B9 of IAS 34, and decided against doing so for the time being. However, EFRAG notes that in

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BC 63 of IAS 19 the IASB noted that if assumptions for each interim reporting period were updated to the last recent interim date, the measurement of the entity's annual amounts would be affected by how frequently the entity reports, i.e. would not be consistent with the requirements of paragraphs 28 and 29 of IAS 34. EFRAG therefore recommends amending paragraph B9 of IAS 34 to remove the reference to "significant market fluctuations", as it suggests that remeasurements, which the IASB has excluded, should influence the service cost and net interest in the period.

- 26 Finally, EFRAG has considered whether implementation of this amendment may result in the following issues:
- (a) The costs of implementation may outweigh the benefits from the provision of more useful information if the amendments require an additional quarter-by-quarter analysis of the assumptions and remeasurement of net defined benefit liability (asset); and
 - (b) Granting entities a choice of which plan assumptions would be updated may result in provision of financial information that is not comparable.
- 27 EFRAG considered the required frequency of remeasurement and concluded that this frequency is determined in accordance with the existing guidance (i.e. paragraphs 58 and 99 of IAS 19 and paragraph B9 of IAS 34 *Interim Financial Reporting*) and, therefore, the amendments do not change the requirements in IAS 19 on whether and when an entity should remeasure the net defined benefit liability (asset). Therefore, in EFRAG's opinion, the proposals are not expected to change how frequently an entity will remeasure the net defined benefit liability (or asset) during a period.
- 28 Furthermore, EFRAG notes that the requirement to remeasure the net defined benefit liability (or asset) is determined on a plan-by-plan basis and this requirement is not changed by the proposed amendments.
- 29 Finally EFRAG concludes that the amendment is not likely to result in considerable additional ongoing implementation cost, because of the (a) expected entity's assessments of the effects of the plan change, and (b) existing IAS 19 requirements to remeasure the net defined benefit liability (asset) as of the date of a plan amendment, settlement or curtailment based on the updated actuarial assumptions for the purpose of determining the past service cost.
- 30 Consequently, EFRAG agrees with the proposed amendment and believes that it will likely result in provision of more relevant information and enhanced comparability and understandability of the financial information provided.

Question 5 - Transition requirements

The IASB proposes that these amendments should be applied retrospectively, but proposes providing an exemption that would be similar to that granted in respect of the amendments to IAS 19 in 2011. The exemption is for adjustments of the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit expenses that are included in inventories) (see paragraph 173(a) of IAS 19).

Do you agree with that proposal? Why or why not?

EFRAG's response

EFRAG supports the modified retrospective application of the proposals.

- 31 EFRAG generally supports full retrospective application of amendments and believes that this enhances comparability of financial information provided.
- 32 However, based on cost and benefit considerations, EFRAG agrees with the proposal to provide an exemption for adjustments of the carrying amount of assets outside the scope of IAS 19 for the periods before the earliest comparative period presented in the financial statements in which these amendments were first applied.
- 33 EFRAG has considered whether it would be justified to allow prospective application of the proposed amendments in respect to the remeasurement after a plan amendment, curtailment, or settlement.
- 34 However, in EFRAG's view, the modified retrospective application of this proposals will only result in the requirement to restate the amounts presented in comparative periods in the statement of comprehensive income. Therefore, EFRAG does not expect the implementation of the proposals to result in significant one-off costs for preparers.
- 35 Consequently, EFRAG supports the proposed modified retrospective application of the amendments.