Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) Summary and analysis of the comment letters received

1 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final endorsement advice that is presented as Agenda Paper 01-03.

Structure of the paper

2 This comment letter analysis contains:

(a) Background;

(b) Main positions in EFRAG's draft endorsement advice;

(c) Summary of respondents;

(d) Summary of respondents' views;

(e) EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final endorsement advice; and

(f) Appendix – list of respondents.

Background

3 When a plan amendment, curtailment or settlement occurs for defined benefit plans, entities need to determine past service cost or settlement gain or loss. Paragraph 99 of IAS 19 requires that entities first:

(a) remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions, including current market interest rates and other current market prices; and

(b) reflect the benefits offered under the plan before the change in the terms.

4 In relation to the calculation of the interest cost, paragraph 123 of IAS 19 requires entities to take account of changes in the net defined benefit liability (asset) as a result of contribution and benefit payments, but it did not require to take account of changes in the net defined benefit liability (asset) as a result of the remeasurement required by paragraph 99 of IAS 19.

5 This conflict could result in the amounts to be recognised in profit or loss for amended, curtailed or settled pension plans, not being properly determined across the financial year.

6 On 18 June 2015, the IASB issued *Plan Amendment, Curtailment or Settlement (Proposed Amendments to IAS 19)* (the Amendments). The Amendments require entities to use the updated net defined benefit liability (asset) and assumptions at the date of the change to determine the current service cost and net interest for the remainder of the reporting period. In its comment letter published on 6 November 2015, EFRAG supported the proposed amendments and agreed that they addressed the issues that needed clarification.

7 On 7 February 2018, the IASB published the Amendments and on 21 March EFRAG published its draft endorsement advice.

Main positions in EFRAG's draft endorsement advice

8 In the draft endorsement advice, EFRAG's preliminary conclusion was that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, the Amendments raise no issues in relation to prudence, and are not contrary to the true and fair view principle.

9 EFRAG also assessed that Amendments will generally bring improvements to financial reporting and EFRAG assessed that endorsing the Amendments is conducive to the European public good.

Summary of respondents

10 At the time of writing, seven comment letters have been received from preparers, standard setters and a professional body. An overview of the respondents can be found in the Appendix.

Summary of respondents' views

11 Four respondents agreed with EFRAG's views included in the draft endorsement advice.

12 One respondent agreed with EFRAG's initial assessment that the Amendments meet the endorsement criteria. However, this respondent indicated that the Amendments could result in less comparability between plans of the same entity and between entities with and without a plan event. This respondent stated that current service cost and net interest should be adjusted based on the entity's decisions following the plan event and not on market condition changes.

13 Two preparer respondents, from Germany, did not agree with EFRAG's analysis regarding the technical criteria and the European public good. The reasons are as follows.

14 Regarding the technical criteria it was mentioned that:

(a) there would be a **reduction in comparability**:

(i) *among entities with and without a plan event when there is a remeasurement of the current service cost and net interest* (2 respondents).

(ii) *for plan participants affected by the plan event*: Pension expense after the plan event would not be comparable with pension expense before it. The changes in current service cost and net interest should be restricted to the impact of the entity's decisions and not include the impact of changes in market conditions. (one respondent)

(iii) *between plans with and without plan event of the same entity*: There would be remeasurement of pension cost for the remaining year also for participants of plans who are not affected at all. (one respondent)

(b) using actuarial assumptions at different dates (day of the plan event versus beginning of the year) in calculating service cost and net interest for the period before and after the plan event **reduces understandability** of financial statements. (one respondent)

15 Regarding the European public good:

(a) One respondent stated that there would be additional cost due to the accounting for gains/losses from events. Data needed would be the value of the part of the defined benefit obligation ('DBO') which is affected by the plan event (on the updated assumptions), the value of assets paid from the plan to eliminate this part of the DBO and the valuation of the remaining part of the DBO would be required, even if not affected by the plan event. The other respondent agreed with EFRAG that the Amendments are likely to result in insignificant one-off and ongoing costs for preparers and users.

(b) Both respondents, mentioned above, did not consider that there would be an improvement in financial reporting nor will the users and preparers likely benefit from the Amendments due to the reasons explained in paragraph 14 above. As a result, the benefits would not outweigh the costs and the Amendments would not be conducive to the European public good.

(c) The respondent from paragraph 12 above indicated that the costs of the Amendments could be higher than what EFRAG expected (the remeasurement would require a similar calculation to that required at year-end). However, this respondent agreed that the benefits outweigh the costs involved.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final endorsement advice

16 Regarding the respondents' points on lack of comparability:

(a) The EFRAG Secretariat acknowledges that there will be a difference in accounting among entities with and without a plan event. However, the EFRAG Secretariat considers this different accounting treatment appropriate because these are two economically different situations.

(b) An entity would have to remeasure pension cost for the remaining year also for participants of plans who are not affected at all because the requirements would be applied on a plan-by-plan basis. However, EFRAG considers that this is consistent with the general principle of IAS 19 paragraph 57 which requires entities to account for each material plan separately.

(c) The EFRAG Secretariat also acknowledges that the pension expense after the plan event would differ from pension expense before it. However, such plan events are one-off events, that affect comparability over time regardless of the Amendments. In all cases, the calculation of the pension expense would be affected by the plan event in the following period. Moreover, we consider updating actuarial assumptions to provide relevant and useful information for users of financial statements.

17 In addition, the EFRAG Secretariat considers, as mentioned above, that there would not be a lack of understandability because the Amendments do not change the general principle in IAS 19 of remeasurement at each reporting period.

18 At the EFRAG User Panel meeting on 15 May 2018, the EFRAG Secretariat will discuss whether the Amendments would impact comparability and understandability of financial statements for users. An oral update will be provided to EFRAG TEG.

19 The EFRAG Secretariat proposes, under the comparability section of the draft endorsement advice, to reflect paragraph 16 above. The overall comparability

conclusion would not change. In addition, we have made some clarifications to some sections of the draft endorsement advice. Please refer to agenda paper 01-03A.

Questions to EFRAG TEG

20 Do EFRAG TEG members agree with the EFRAG Secretariat's recommendations?

21 Do EFRAG TEG members recommend the Amendments to the EFRAG Board?

Appendix – List of respondents

22 Below is a list of the respondents to EFRAG's draft endorsement advice on *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).*

Name of respondent	Country	Type/Category
The Volkswagen Group	Germany	Preparer
Financial Reporting Council (FRC)	UK	Standard setter
BASF SE	Germany	Preparer
ICAC	Spain	Standard setter
Organismo Italiano di Contabilità (OIC)	Italy	Standard setter
The Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Professional body
Accounting Standards Committee of Germany (ASCG)	Germany	Standard setter

23 Below is a summary of respondents by country and by type.

Country	Number of respondents
Germany	3
Italy	1
Spain	1
UK	2
Total	7

Type of respondent	Number of respondents
National Standard Setters	4
Preparers	2
Professional body	1
Total	7