BUSINESSEUROPE

EFRAG
35 Square de Meeûs
B-1000 Brussels

12 November 2019

Dear Sir or Madam,

Re: EFRAG DP Accounting for Pension Plans with an Asset-return Promise

BusinessEurope is pleased to respond to the invitation to comment on the Discussion Paper (DP) Accounting for Pension Plans with an Asset-return Promise.

We appreciate that EFRAG has raised the question if IAS 19 provides relevant guidance for the type of pension plans covered by the DP. However, we believe that the suggested approaches in the DP will add further complexity and costs to financial reporting for pension plans without corresponding benefits in the form of e.g. improved comparability.

We therefore consider that the different approaches discussed in the DP are not a suitable base for further development.

We present our answers to the detailed questions in the DP in the Appendix attached to this letter.

If you require any further information on this matter, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser
Legal Affairs Department

APPENDIX

QUESTION 1 - SCOPE
The Discussion Paper addresses only those pension plans that have an asset-return based promise and hold the assets upon which the benefits are dependent. Do you think that the approaches could also be applied to those plans with an asset-return promise, where the plan does not hold the reference assets?

Plans are different in nature and risk. We therefore consider that the approaches described in the DP are not relevant for plans without reference assets.

QUESTION 2 – ASSESSMENTS OF APPROACHES – ASPECTS TO CONSIDER
Do you agree with the aspects of qualitative characteristics considered in the assessment of the various approaches in Chapter 5? If not, which aspects do you think should/should not have been considered? Do you agree with the assessments of the various approaches made in Chapter 5?

Applying two of the approaches (fulfilment value and fair value) would require even more assessments, estimates and judgements than today. The result is more complexity and difficulties in understanding the calculations. It will also be more difficult to explain the volatility in the pension obligation. We also believe that the suggested approaches will increase the need for preparers to engage external consultants (actuaries and valuation experts) with additional costs as a result.

QUESTION 3 - ASSESSMENT OF APPROACHES – ASSESSMENT OF COMPLEXITY
The assessment in Chapter 5 of the costs related to the various approaches presented in this Discussion Paper, only considers implementation costs. Do you think that the complexity related to preparing financial information in accordance with the approaches would differ significantly? If yes, which approaches would be the most complex and least complex to apply?

The fair value approach would be the most complex model to apply since it is based on valuation techniques which will most probably be applied differently by preparers. For the fulfilment approach, there is a risk of different interpretations among preparers which might lead to a lack of comparable information. The least complex approach would be the capped asset approach.

One aspect to consider regarding all approaches is the actuarial competence for these approaches and the related cost for that compared with today's cost.

QUESTION 4 – CHOICE OF APPROACH
Which of the three alternative approaches, presented in this Discussion Paper, do you support? How should it be further developed?

We consider that none of the approaches discussed in the DP shall be further developed. We believe that as long as other weaknesses in IAS 19 are not addressed, there is no point in developing new models for certain types of plans. We are thinking about fundamental issues, e.g. how set the discount rate.

QUESTION 5 - PRESENTATION OF REMEASUREMENTS UNDER THE FAIR VALUE BASED APPROACH AND THE FULFILMENT VALUE APPROACH

This Discussion Paper assumes that remeasurements under the Fair Value Based approach and the Fulfilment Value approach are presented in profit or loss. Do you agree with this approach? If not, how would you present components of defined benefit costs other than service costs?

If remeasurements on very long obligations are included in profit and loss instead of OCI, this might not give a true and fair view of the performance of the business. We therefore believe that such remeasurements shall be presented in OCI.

QUESTION 6 - RISK ADJUSTMENT FOR FULFILMENT VALUE APPROACH

As stated in paragraphs 4.56 to 4.57, this Discussion Paper proposes that a risk adjustment for non-financial risks is made when discounting the pension obligation under the Fulfilment Value approach. Do you agree? Which risks do you consider such an adjustment should cover?

We see a risk with introducing a non-financial risk adjustment since this is another area which includes estimates and judgements which might affect comparability. We also consider that introducing aspects similar to Solvency II for non-insurance companies by having different risk scenarios for pension obligations is not warranted.

If the methodology for accounting for defined benefit plans will become even more complex, this could be an incentive for companies to close their defined benefit plans and change the pension strategy by having more defined contribution plans.

QUESTION 7 – DISCLOSURE

Do you think that additional disclosure requirements about pension plans, included in scope of this Discussion Paper, should be added to the requirements of IAS 19?

The disclosure requirements in IAS 19 are extensive and provide useful information, therefore we see no need of additional disclosure requirements.

QUESTION 8 – ALTERNATIVE APPROACHES

Do you think there are other approaches to account for the pension plans within the scope of this Discussion Paper that should have been considered? If so, which approaches?

The approaches presented in this discussion paper will add complexity to accounting. More estimates are needed, and judgement must be applied in a number of situations. A stable model for calculating pension obligations in a comparable way would be more beneficial then trying to develop approaches for certain types of plans.

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