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Our ref : RJ-EFRAG 593 E
Date : Amsterdam, November 2019
Re : Comment on discussion paper 'Accounting for pension plans with an asset-return promise' dated May 2019

Dear members of EFRAG,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond on the above mentioned discussion paper.

Our assessment of the Discussion Paper and hence our responses are based on the assumption that the IASB will not reconsider the fundamentals of IAS 19, but will only consider a narrow-scope amendment. Since such more fundamental review will not take place in the near future, we assessed the alternatives described in the Discussion Paper from the perspective that an alternative approach should match with the existing principles of IAS 19.

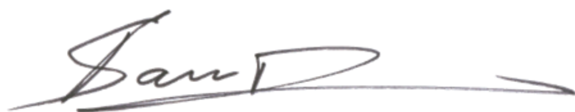
Furthermore in our jurisdiction we do not have plans that promise the higher of the return on assets and a minimum guaranteed return. On the contrary, in many Dutch pension plans it is customary that the plan promises the lower of a maximum (target) benefit (typically based on salary and service time) and the funds available, which depend on return on assets and other actuarial and financial developments. Therefore in the appendix to this letter we only briefly responded to the questions in the Discussion Paper.

We support the Capped Asset Return approach. The calculation in this approach is similar to that under IAS 19 and takes account of the ultimate cost of the benefits for the entity, which is an existing and foundational principle in IAS 19. We believe that this approach most appropriately reflects future cash outflows that the employer will incur, together with appropriate disclosure on the specific risks that result from the minimum guaranteed return. Within this approach certain practical items need to be considered in further detail, as set out in our response to question 4.

Based on assumption that the IASB will not reconsider the fundamentals of IAS 19 at this moment, we do not support the Fair Value Based approach and the Fulfilment Value approach. The Fair Value Based approach would introduce measurement principles for financial instruments (IFRS 9) in IAS 19. The Fulfilment Value approach in fact introduces

measurement principles of IFRS 17 for insurance contracts in IAS 19. We therefore think that both the Fair Value Based approach and the Fulfilment Value approach are less suitable for a narrow-scope amendment of IAS 19.

Yours sincerely,



prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board

APPENDIX: QUESTIONS TO CONSTRITUENTS AND RESPONSE DASB

Introductory comment DASB:
Our assessment of the Discussion Paper and hence our responses are based on the assumption that the IASB will not reconsider the fundamentals of IAS 19, but only will consider a narrow-scope amendment. The issues raised in the Discussion Paper are an illustration of the concerns that IAS 19 does not necessarily reflect the economic substance of some features of modern pension plans. Such issues, as well as other fundamental questions (e.g. whether or not to take a 'backload correction' into account) would be part of a fundamental review of IAS 19 and not a narrow-scope amendment. Since such review will not take place in the near future, we assessed the alternatives described in the Discussion Paper from the perspective that an alternative approach should match with the existing principles of IAS 19.

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?

Response DASB:
We believe more information about the specific facts and circumstances of such a plan should be available in order to be able to answer this question. For example whether the 'reference assets' are actual assets (that in some way are 'ringfenced') or whether the 'reference assets' would be kind of hypothetical assets used to calculate returns. In the latter situation the plan would effectively be unfunded and we doubt whether in such situation the Capped Asset Return approach could be applied.

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?

Response DASB:
We believe an important characteristic that should be considered is whether the net pension liability (asset) reflects the future cash flows that the employer will incur (i.e. how the (net) pension obligation will be settled by the employer). In our jurisdiction the employer has an obligation towards the (independent) pension fund or insurance company. The obligation to the employee is born by the pension fund or insurance company. Therefore we find an estimate of the resources needed to fulfil the obligation to the employee not a relevant criterion in our jurisdiction. This also implies that we believe it is less relevant whether employee's rights are reflected in the financial statements of the employer (which may be more relevant for the financial statements of the plan (pension fund)). We therefore do believe that a key qualitative characteristics is whether the net pension liability recognized appropriately reflects future cash out flows for the employer related to services that have been performed to date.

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?

Response DASB:
Since the Capped Asset Return approach is relatively simple and the calculation is similar to that under IAS 19, we believe this approach is least complex and least costly to apply.

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?

Response DASB:
We support the Capped Asset Return approach. The calculation in this approach is similar to that under IAS 19 and takes into account the ultimate cost of the benefits for the entity, which is an existing and foundational principle in IAS 19. We believe that this approach most appropriately reflects future cash outflows that the employer will incur, together with appropriate disclosure on the specific risks that result from the minimum guaranteed return. This approach however does seem less appropriate (and should be considered further) in situations where the discount rate is higher than the minimum guaranteed return rate, and this is higher than the expected actual return rate. As explained in the Discussion Paper (paragraph 5.5c) this would result in a shortfall (and therefore expected cash outflow) not being reflected. The Capped Asset Return approach would need to be developed further so that also give an appropriate outcome in these types of situations.

We do not support the Fair Value Based approach and the Fulfilment Value approach. We noted that both these approaches do not take into account the 'backload correction' as required by IAS 19 (i.e. the IAS 19 requirement to attribute benefits on a straight-line basis when the employee's service in later years will lead to a materially higher level of benefit than in earlier years). In general we are not a proponent of the backload correction in all of the existing situations, especially if the back load correction solely results from future increases in salary. However, we believe whether or not to take the 'backload correction' into account is a more fundamental question. As set out in our introductory comment we believe such fundamental question should be addressed separately from discussions on which approaches to apply to the plans in scope of the Discussion Paper.
Under the Fair Value Based approach the minimum return guarantee in fact is regarded as a call option for the employee which is measured as a financial derivative. This implies that this approach would introduce measurement principles for financial instruments (IFRS 9) in IAS 19. The Fulfilment Value approach in fact introduces measurement principles of IFRS 17 for insurance contracts in IAS 19. We therefore think that both the Fair Value Based approach and the Fulfilment Value approach are less suitable for a narrow-scope amendment of IAS 19.

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?

Response DASB:
We understand that especially under the Fair Value Based approach remeasurements are presented in profit and loss. We do not believe that under a narrow-scope adjustment to IAS 19 remeasurements should be presented differently than required by the current standard. We also believe that remeasurements should be presented similarly for all DB-plans. Therefore we are not in favor of presenting remeasurements for plans with a minimum asset return in profit and loss, where remeasurements for other DB-plans are presented in OCI. In our view this once more illustrates that the Fair Value Based approach and the Fulfilment Value approach are fundamental different from the approach in IAS 19 and therefore less suitable for a narrow-scope amendment of IAS 19.

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?

Response DASB:
Since we do not support the Fulfilment Value approach we did not consider this question.

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?

Response DASB:
We believe disclosures with regard to the plans in scope of this Discussion Paper can be worked out based on the existing disclosure objectives and requirements of IAS 19, rather than requiring additional disclosures. For example based on these existing objectives and requirements we would expect disclosure of the underlying exposure of the minimum guarantee, including a sensitivity analysis for this exposure (considering the non-linear exposure). We believe that that this could for example be addressed by providing an example as an application of the sensitivity analysis already required by IAS 19.

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?

Response DASB:
Chapter 7 of the Discussion Paper briefly describes three other approaches. A large number of our comments made earlier also apply to these approaches. The fact that three more approaches can be considered illustrates that a more fundamental review of the fundamentals of IAS 19 would be necessary. In general we believe the pension liability that is recognised should reflect future cash outflows that the employer will incur and that can be attributed to services to date.