AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

C/O KAMMER DER STEUERBERATER UND WIRTSCHAFTSPRÜFER
SCHOENBRUNNER STRASSE 222–228/1/6
A-1120 VIENNA
AUSTRIA

TEL	+43 (1) 81173 228
FAX	+43 (1) 81173 100
E-MAIL	office@afrac.at
WEB	http://www.afrac.at

Mr Jean-Paul Gauzes
European Financial Reporting Advisory Group (EFRAG)
35 Square de Meeûs
B-1000 Brussels
Belgium

21 November, 2019

Dear Mr. Gauzes,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the EFRAG DP *ACCOUNTING FOR PENSION PLANS WITH AN ASSET-RETURN PROMISE*.

Principal authors of this comment letter were Christoph Krischanitz, Alexander Knott and Helmut Kerschbaumer. In order to assure a balanced Austrian view, the professional background of these authors is diverse.

General remarks

We support EFRAG's initiative to explore alternative accounting treatments for post-employment benefits (pension plans) promising the higher of the return on an identified item or group of items and a minimum guaranteed return (referred to as an ‘asset-return promise’).

Although such plans are not common in Austria a clearer guidance on such plans would clearly benefit preparers and users of financial statements.

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?

AFRAC´s response:

Yes, we think that the general concept should also apply to plans where the plan does not hold the reference assets, e.g. an index-based plan. However, based on our observation, we do not expect a significant number of such plans in practice in Austria.

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?

AFRAC´s response:

Yes, we agree with the suggested aspects to be considered. Different aspects may be of more or less importance for different types of users, but the individual focus can be easily extracted from the suggested aspects.

Do you agree with the assessments of the various approaches made in Chapter 5?

AFRAC´s response:

Yes, we agree.

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?

AFRAC´s response:

Most professional actuaries will be able to deliver results in accordance with all approaches and, as soon as the new approach will be established and routine, the costs related to the various approaches may not differ significantly. We expect a certain cost burden from the implementation of the new accounting principles and assume that the highest costs would incur with respect to the implementation of the fair value approach (because it is a completely new methodology) and the lowest with respect for the capped asset return approach (because it is a mere parameter change within the existing methodology).

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?

AFRAC´s response:

Generally, we think, that all three concepts presented in the DP are supportable and would be preferable as compared to the existing guidance in IAS 19.

We agree with the observation that pension plans with an asset-return promise have similarities to insurance contracts and, therefore, the fulfilment value approach seems to be most consistent with the related guidance (IFRS 17). Nevertheless, for accounting purposes, we consider the differences to the insurance business model (as also mentioned in the discussion paper – mainly the existence of a contractual service margin) to be significant. The same is true for the risk adjustment, where deviations from assumptions (the risk) are recognized in actuarial gains and losses in the period they occur and should not be distributed over the lifetime of a contract.

The fair value approach comes close to the economic substance of a pension obligation with an asset-return promise, but does not reflect all biometrical parameters like the fulfilment approach. In addition, it requires complex modelling so that we do not see an overall advantage for this approach.

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?

AFRAC´s response:

We suggest to present actuarial gains or losses within other comprehensive income. We do not see any reason for a deviation from the standard procedures according to 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?

AFRAC´s response:

We do not see any need for a risk adjustment for non-financial risks. For insurance contracts the risk is priced in the insurance premiums and a risk adjustment is necessary to calibrate the profit and to define the insurance revenue appropriately. Concerning pension obligations we strongly recommend to recognize adjustments from non-financial events as remeasurements (what they really are) in the period in which they occur. We think that there is no difference to other pension plans in this respect.

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?

AFRAC´s response:

We agree with the suggested requirements as outlined in Chapter 6. Basically, the requirements of IAS 19 can cover the needs of users (as outlined in chapter 6.2.), in our view there are no additional disclosures which should be added.

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?

AFRAC´s response:

At present, we do not see any additional approaches.

If you would like to discuss our comments further, please do not hesitate to contact us.

Kind regards,

Romuald Bertl,
Chairman