SwissHoldings
Verband der Industrie- und Dienstleistungskonzerne in der Schweiz
Fédération des groupes industriels et de services en Suisse
Federation of Industrial and Service Groups in Switzerland

19 October 2015

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

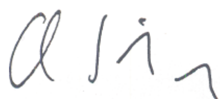
Comment Letter on Exposure Draft on IAS 19 and IFRIC 14 – ED/2015/

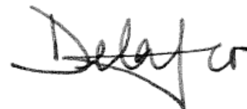
Dear Sir/Madam,

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 61 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this ED. Our response (in the appendix) has been prepared in conjunction with our member companies.

Yours sincerely

SwissHoldings
Federation of Industrial and Service Groups in Switzerland





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APPENDIX

ANSWERS TO SPECIFIC QUESTIONS IN INVITATION TO COMMENT

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?

Whilst generally we agree with the proposals we suggest that the amendments clarify under what circumstances surpluses can be recognised when changes to benefits needs to be decided jointly by members of the sponsoring company and representatives of the employees. This is a typical situation in Switzerland where changes to plan benefits need to be decided by a Board of Trustees with equal representation from the sponsoring company and the employees. There is no deciding casting vote by either side. We wish that the standard provides clarification under what circumstances, if any, a pension asset can be established for plan surpluses so as to avoid differing interpretations.

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?

Whilst generally we agree with the proposals we consider that as currently written just referring to "statutory" requirements is a major simplification as the interaction of "statutory" and IAS 19 accounting requirements can be a complex matter.

This is the case in Switzerland where typically the actuarial method and assumptions used to prepare the "statutory" accounts of defined benefit plans are substantially different from those that need to be used for IAS 19 accounting purposes.

We request that at least the *Basis of Conclusions* of the amended standard discusses these issues and explains why the enacted "statutory" requirements should have an impact on IAS 19 accounting considerations.

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?

We agree with the proposals.

To us they seem consistent with the current standard and appear a clarification of existing practice.

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?

We disagree with these proposals, taken as a whole.

In our view these add complexity and cost to preparing financial statements with little additional benefit. At the same time they reduce comparability, both between different defined benefit plans in the same company, and between similar defined benefit plans in different companies.

We also believe that the proposal introduces an unnecessary and inappropriate inconsistency between:

- the approach adopted following a remeasurement due to a plan amendment, curtailment or settlement – where the proposal is to recalculate the current service cost and net interest on the assumptions used for the remeasurement; and
- the approach adopted following a remeasurement at an interim reporting date – where (in accordance with paragraph 28 of IAS 34) there is to be no change to the current practice that current service cost and net interest for the balance of the reporting period are based on the assumptions used at the beginning of the reporting period.

Furthermore, we disagree with the comments in BC 17 of the ED. We believe that the proposal will result in significant additional costs, and our actuarial advisors have confirmed this view.

Specifically:

- We agree with paragraph (b) of the proposal, which clarifies what we believe to be existing practice.
- We also agree that after the remeasurement, the current service cost for the remainder of the period should reflect the substance of the plan amendment / curtailment / settlement that caused the remeasurement. In our view this is existing practice under current IAS 19.
- Further, we agree that the net interest after the remeasurement should reflect the remeasured net defined benefit asset/liability. Again we believe this to be current practice under the existing IAS 19.

However we disagree with the proposals that the current service cost and net interest for the period after the remeasurement should use the assumptions used in the remeasurement. We believe they should continue to be calculated using the assumptions that were set at the start of the period. This can be illustrated in the example below.

Company ABC has a 31 December year-end. It has two identical defined benefit plans, Plan #1 and Plan #2. Each of the plans has 1,000 members. Effective 30 June, there is a plan amendment/curtailment in Plan #1 that affects 100 members. Also during the period to 30 June, there is a change in interest rates that affect the discount rates used to calculate the defined benefit obligation of both plans.

Under current IAS 19, as at 30 June:

1. A remeasurement would take place for Plan #1 in respect of the 100 members affected. A past service cost would be calculated and included in the income statement as at 30 June.
2. The current service cost and net interest of Plan #1 for the second half of the year would be recalculated in respect of the 100 affected members, using the same assumptions as were set at the start to the year.
3. For points (1) and (2), revised actuarial valuations are needed in respect of the 100 affected members.
4. For both Plan #1 and Plan #2, the net asset/liability recorded in the balance sheet would be adjusted for the change in discount rates, with the adjustment recorded in Other Comprehensive Income.

Our understanding of the proposals would be that:

a) The past service cost would be calculated in the same way as currently - point (1) above - as would the adjustment to Other Comprehensive Income for the change in discount rates – point (4) above.
b) The current service cost and net interest of Plan #1 for the second half of the year would be recalculated for the whole membership of 1,000 (not just the 100 affected members) and would use the assumptions applicable at 30 June.
c) This would require a revised actuarial valuation for the whole population of Plan #1, not just the 100 affected members.
d) At the same time the current service cost and net interest of Plan #2 would continue to be calculated using the assumptions set at the start of the year.

The result of the proposal would be that current service cost and net interest of Plans #1 and #2 would be calculated for the rest of the year based on different assumptions. Therefore they would not be comparable, and furthermore the defined benefit plans costs of Company ABC would not be comparable with other similar companies that did not have remeasurements in their defined benefit plans. The reader has no way to understand or model these effects without access to the underlying calculations and revised assumptions that were used as at 30 June – which are not disclosed.

Finally Company ABC does not only have to revise the defined benefit costs for the 100 affected members, it now has to rerun the calculations for the entire 1,000 membership of Plan #1, which obviously will cost time and money. Therefore the assertions in BC 17 of the ED are, in our view and those of our actuarial advisors, not correct.

In our view the proposal is an honest attempt in isolation to make a more accurate computation. However, this accuracy is spurious, given that IAS 19 already requires many assumptions and simplifications, and specifically does not require (actually it does not allow) that current service cost and net interest are adjusted during the year for changes in actuarial assumptions during the year, as is acknowledged in BC 18 of the ED.

In our experience most readers struggle with the accounting for defined benefit plans under IAS 19. However, those that do understand it, also understand well the assumptions and simplifications used in the accounting treatment, and are able to use the disclosures in annual Financial Statements together with interim disclosures to make their assessments and compare companies. The proposals do nothing to help the former, while they confuse and hinder the later.

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?

We disagree with this proposal. In our view these changes should be applied prospectively.

Retrospective restatement would require a recalculation of any remeasurement that was carried out in the comparative period, for example if the case outlined in our answer to question 4 occurred during the comparative period. We therefore do not understand the comment in BC20 of the ED.

As with our answer to question 4, we believe this adds a spurious level of accuracy to the comparative figures, since the other defined benefit plan costs in the comparative period will not be restated and therefore will continue to be based on the actuarial assumptions set at the start of that period. We believe that all plans in the comparative period should be accounted for based on mutually consistent assumptions.

Additionally retrospective restatement would require duplicate actuarial valuations which have a additional cost for the preparer.

Finally on this topic, we consider that the IASB should only recommend retrospective application in extremely rare circumstances for areas that are likely to be fundamentally material to an entity's financial statements and should not be proposed for more minor changes such as proposed by these amendments. The IASB should take into account the confusion caused amongst users of financial statements by making relatively minor changes to the prior year basis of accounting. Our members experienced this confusion when adopting the last changes to IAS 19 and consider that the changes being proposed by these amendments will not be as fundamental. As a result prospective adoption, If necessary with added disclosure, would be appropriate.