

***Exposure Draft ED/2015/05 Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)***

# **EFRAG's Feedback to Constituents Final Comment Letter**

**November 2015**

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## Introduction

### Objective of this feedback statement

On 6 November 2015, EFRAG published its final comment letter on the Exposure ED/2015/05 Remeasurement on a Plan Amendment,

Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14) (‘the ED’). This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter.

### Background to the ED

In March 2014, the IFRS Interpretations Committee (‘the IFRS IC’) received two requests to clarify the guidance of IAS 19 *Employee Benefits* and IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* related to post-employment employee benefits. The requests related to:

- (a) availability of a refund of a surplus from a defined benefit plan when an independent trustee has unilateral powers; and
- (b) remeasurement on a plan amendment, curtailment or settlement.

The IFRS IC decided to propose to the IASB to address both issues and to amend IAS 19 and IFRIC 14. At its January 2015 meeting, the IASB agreed with the IFRS IC and decided to publish an exposure draft of a single package of narrow-scope amendments to IAS 19 and IFRIC 14. The ED was published on 18 June 2015.

The ED was intended to clarify:

- (a) how the powers of other parties, such as the trustees of the plan, affect an entity’s right to a refund of a surplus from the plan; and
- (b) that when a defined benefit plan is amended, curtailed or settled during a reporting period, the entity is required to use the updated assumptions about its obligation and fair value of its plan assets to determine current service cost and net interest for the period followed by these changes.

*Exposure ED/2015/05 Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan  
(Proposed amendments to IAS 19 and IFRIC 14) – EFRAG’s Feedback Statement*

Further details are available on EFRAG’s [website](#) and on two IFRS Foundation website pages related to: (a) [remeasurement on a plan amendment, curtailment or settlement](#) and (b) [availability of refunds from a defined benefit plan](#).

#### **EFRAG’s draft comment letter**

On 24 July 2015, EFRAG published its [draft comment letter](#) on the proposals. In the draft comment letter, EFRAG supported the IASB’s proposals. However, EFRAG sought input from constituents on any impediments in regard to the modified retrospective application of the proposals.

#### **Comments received from constituents**

EFRAG received and considered thirteen comments from constituents: Appendix 01 contains the list of constituents and Appendix 02 provides a summary by jurisdiction and by type.

The comment letters are available on EFRAG’s [website](#).

A majority of the constituents agreed with the proposal to amend IFRIC 14 with regard to the impact of other parties’ power in determining the availability of a refund to an entity from a defined benefit plan. However some constituents thought that the likelihood of a trustee using the surplus for other purposes should be considered in determining whether the entity has an asset.

Furthermore, constituents expressed mixed views on using the updated assumptions when remeasuring current service cost and net interest. They raised issues relating to costs exceeding benefits and loss of comparability.

In addition, a majority of the constituents disagreed with the proposed modified retrospective application of the amendments mainly due to additional costs without added benefit.

#### **EFRAG’s final comment letter**

On 6 November 2015, EFRAG published its [final comment letter](#). In its final comment letter, EFRAG maintained its support for the IASB’s proposals and the proposed modified retrospective application of the amendments.

## Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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EFRAG’s response to constituents’ comments

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### Accounting when other parties can wind up a plan or affect benefits for plan members without an entity’s consent

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#### *Proposals in the ED*

The ED proposes to amend IFRIC 14 to:

- (a) require that, when an entity determines the availability of a refund from a defined benefit plan, 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 – proposal 1(a);
- (b) clarify that an entity should not assume a gradual settlement of the plan as the justification for the recognition of an asset, if other parties have the power to wind up the plan without the entity’s consent – proposal 1(b); and
- (c) clarify that other parties’ power to buy annuities as plan assets without changing the benefits for plan members does not affect the availability of a refund – proposal 1(c).

#### *EFRAG’s tentative position*

EFRAG supported the IASB’s proposals because:

- (a) paragraphs 11 and 12 of IFRIC 14 are clear that an asset can only be recognised if the entity has an unconditional right to the refund of a surplus.

### **EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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- (b) if other parties have the power to wind up the plan without the entity’s consent, this power would restrict the entity’s ability to realise economic benefits through a gradual settlement; and
- (c) the existence of the third party’s power to buy annuities as plan assets relates to the future value of plan assets (and hence the amount of any surplus) and does not affect the entity’s right to a refund of a surplus.

#### *Constituents’ comments*

A majority of the constituents (nine out of thirteen) supported proposal (a). However, the remaining constituents thought that the power to use the surplus for other purposes by itself was not sufficient to reduce or eliminate any surplus of a defined benefit plan that could be recognised as an asset. They suggested that the likelihood of a trustee using the surplus for other purposes should be considered in determining whether the entity has an asset.

A majority of constituents (nine out of thirteen) supported proposal (b). The remaining constituents suggested that the likelihood of the other party winding up the plan should be considered.

*A vast majority (twelve out of thirteen) of constituents supported proposal (c).*

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### **EFRAG’s response to constituents’ comments**

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#### *EFRAG’s final position and response to constituents*

EFRAG considered the comments received from constituents and, in relation to each proposal:

- (a) retained its original view because any third party’s unconditional right to use a plan surplus prevents an entity from recognising the surplus as a plan asset, regardless of the probability of occurrence.
  - (b) retained its original view that was supported by most constituents because if other parties have the power, even if it is not exercised, to wind up the plan without the entity’s consent, this power would restrict the entity’s ability to realise economic benefits through a gradual settlement; and
  - (c) retained its original view given the support of constituents.
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**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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**Statutory requirements that an entity should consider to determine the economic benefit available**

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*Proposals in the ED*

The ED proposes to amend 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.

*EFRAG’s tentative position*

EFRAG agreed that an entity should not take account of future changes in regulations or tax if they are not substantively enacted. Moreover, EFRAG considered that an entity’s informal practices may result in a constructive obligation to enhance the benefits provided to plan members. Consequently, EFRAG supported the proposal to clarify that at the end of the reporting period, and when a plan amendment, curtailment or settlement occurs, an entity should determine changes in the impact of the asset ceiling in accordance with the contractually agreed conditions of the plan, constructive obligations and substantively enacted statutory requirements.

*Constituents’ comments*

All of the constituents supported the IASB’s proposals.

**EFRAG’s response to constituents’ comments**

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*EFRAG’s final position*

EFRAG retained its original view to support the IASB’s proposals given the support of constituents.

**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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**Interaction between the asset ceiling and past service cost or a gain or loss on settlement**

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*Proposals in the ED*

The ED proposes to amend 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 reassessed asset ceiling are recognised in other comprehensive income as required by paragraph 57(d)(iii) of IAS 19.

*EFRAG’s tentative position*

EFRAG supported the proposal to clarify that, in accordance with IAS 19, the process of remeasurement of a defined benefit plan comprises two distinct steps: (a) recognition of past service cost and gain or loss on a settlement; and (b) determination of the effect off the asset ceiling.

*Constituents’ comments*

A majority of the constituents (ten out of thirteen) supported the IASB’s proposals. However three constituents disagreed with those proposals and raised the issues that (a) such a reclassification would not enhance the relevance of the information included in profit or loss and (b) in certain cases, an unrecognised surplus would be reclassified from other comprehensive income to profit or loss.

**EFRAG’s response to constituents’ comments**

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*EFRAG’s response to constituents*

EFRAG considered the positive feedback received from majority of constituents and the minority view. EFRAG maintained its original view because:

- (a) determination of the effect of the asset ceiling should not affect recognition of past service cost and gain or loss on a plan settlement;
- (b) the proposed clarification does not require the reclassification to profit or loss of surplus previously recognised in other comprehensive income but confirms that recognising a past service cost and gain or loss on settlement, and assessing the asset ceiling are two distinct steps;
- (c) the existing requirements of IAS 19 do not clearly address this issue.

*EFRAG’s final position*

EFRAG maintained its original support for the clarifications proposed by the IASB’s.

**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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**Accounting when a plan amendment, curtailment or settlement occurs**

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*Proposals in the ED*

The ED proposes to amend IAS 19 to clarify that when the net defined benefit liability (asset) is remeasured in accordance with paragraph 99 of IAS 19, the current service cost and the net interest after the remeasurement are determined using the assumptions applied to the remeasurement and based on the remeasured net defined benefit liability (asset). The ED also proposes to clarify that the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement should not be affected by, or included in, the past service cost or the gain or loss on settlement.

*EFRAG’s tentative position*

EFRAG considered that ignoring the effects of the remeasurement would not result in provision of useful information. EFRAG also agreed that the current service cost and the net interest in the current reporting period before a plan change should not be affected by, or included in, the past service cost or the gain or loss on settlement. Consequently, EFRAG agreed with the proposals.

*Constituents’ comments*

Constituents expressed mixed views on using updated assumptions when remeasuring current service cost and net interest after a plan amendment, curtailment or settlement. Five constituents agreed with the IASB’s proposals to use updated assumptions while five constituents disagreed. Three constituents proposed to explicitly consider materiality of the plan event.

**EFRAG’s response to constituents’ comments**

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*EFRAG’s response to constituents*

EFRAG considered the feedback received. EFRAG maintained its initial view because:

- (a) plan changes were unique events and, as such, could not be comparable between the entities with and without such plan events.
- (b) entities should apply judgement when assessing whether a plan event is material or not.
- (c) paragraphs 123 and BC64 of IAS 19 should not serve as a reference if doing so would stop current service cost and net interest from reflecting the effects of an entity’s obligations towards its employees; and finally;
- (d) the amendment was not likely to result in considerable additional ongoing implementation costs, because of (i) the likelihood that an entity would have considered this in its assessments of the effects of the proposed change to the plan, and (ii) existing requirements in IAS 19 to remeasure the net defined benefit liability (asset) as of the date of a plan amendment, curtailment or settlement based on updated actuarial assumptions for the purpose of determining the past service cost.

*EFRAG’s final position*

Consequently, EFRAG maintained its original support for the clarifications proposed by the IASB’s.



**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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Those constituents who disagreed with the IASB’s proposals stated that the proposals (i) would result in less comparability between plans of the same entity and between entities with and without a plan event; (ii) would increase the cost for companies; and (iii) conflicted with the basic concept of IAS 19.

**EFRAG’s response to constituents’ comments**

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**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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**Transition requirements**

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*Proposals in the ED*

The ED proposes that the amendments to IAS 19 and IFRIC 14 should be applied retrospectively except for adjustments of the carrying amount of assets outside the scope of IAS 19.

*EFRAG’s tentative position*

EFRAG supported the proposed modified retrospective application of the amendments based on the cost-benefit trade-off.

*Constituents’ comments*

A majority of the constituents (eight out of thirteen) disagreed with the proposed modified retrospective application of the amendments to IAS 19. These constituents believed that retrospective application would not provide useful information to the users of the financial statements as plan events were unique events. Consequently, they argued that the additional implementation costs for preparers are likely to outweigh the benefits for users.

A minority of constituents (four out of thirteen) agreed with the IASB’s proposals.

One constituent agreed with the proposed modified retrospective approach for the amendments to IFRIC 14, however, provided no comments in respect to the amendments to IAS 19.

**EFRAG’s response to constituents’ comments**

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*EFRAG’s final position and response to constituents*

EFRAG considered the view expressed by the majority of constituents that prospective application of the proposed amendments in respect of remeasurement after a plan amendment, curtailment, or settlement should be allowed.

However, EFRAG maintained its initial position to support the modified retrospective application of the amendments to both IAS 19 and IFRIC 14 because:

- (a) retrospective application of amendments enhances comparability of financial information provided;
- (b) the proposed modified retrospective application would only result in the requirement to restate the comparative information in the statement of comprehensive income; and
- (c) the implementation of the proposals was not expected to result in significant one-off costs for preparers.

## APPENDIX 1: List of constituents

**Table 1: List of constituents**

<b>Name of constituent<sup>1</sup></b>	<b>Country</b>	<b>Type / Category</b>
Accounting Standards Committee of Germany (ASCG)	Germany	National Standard Setter
Autorité des Normes Comptables (ANC)	France	National Standard Setter
BusinessEurope	Europe	Business Organisation
European Securities and Markets Authority (ESMA)	Europe	European regulator
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	Business organisation
Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter
Organismo Italiano Contabilità (OIC)	Italy	National Standard Setter
Pensioen Federatie	The Netherlands	Business Organisation
Pensions Europe	Europe	Business organisation
SwissHoldings	Switzerland	Business Organisation
The Dutch Accounting Standards Board (DASB)	The Netherlands	National Standard Setter
The German Institute of Pension Actuaries (IVS)	Germany	Business organisation
Anonymous constituent		National Standard Setter

<sup>1</sup> Constituents whose comment letters were considered by EFRAG before finalisation of the comment letter.

## APPENDIX 2: Summary - constituents by country and by type

**Table 2: Total constituents by country and by type**

<b>Constituents by country:</b>		<b>Constituent by type:</b>	
Europe	3	National Standard Setter	6
Germany	2	Business Organisation	6
The Netherlands	2	European Regulator	1
France	1		
Italy	1		
Norway	1		
Spain	1		
Switzerland	1		
Anonymous	1		
	13		13