

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

Brussels, 21.10.2015

Dear Sir, Madam,

Invitation to comment – IASB ED *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 Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on *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* issued by the IASB (the “Board”) on 18 June 2015 (hereinafter the “ED”).

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?

Answer:

Our understanding of IFRIC 14 is that it provides guidance for determining the existence of an unconditional right to a refund, instead of describing the way of measuring this refund, at least at initial measurement. However, proposed paragraphs 12A, 12B and 12C of IFRIC 14 contain guidance relating to determining the existence of the right to a refund and the measurement of the surplus. Proposed paragraph 12B clarifies the impact of the powers of other parties on the measurement of the surplus when an unconditional right to use some of the surplus resides with

those other parties. Proposed paragraphs 12A and 12C, on the other hand, clarify the impact of the powers of other parties on the existence of the reporting entity's unconditional right to a refund of a surplus. We would therefore expect to see paragraph 12B under the section: "*Measurement of the economic benefit*" instead of "*The right to a refund*".

Although we support the measurement restrictions in the amount of surplus that a reporting entity recognises on the basis of a future refund proposed in paragraph 12B, we believe that the conditions described in proposed paragraphs 12A and 12C of IFRIC 14 could also potentially affect the amount of refund that will be available to the reporting entity at a future date.

Further to the above, we believe that a clarification is required regarding the guidance that should be followed by an entity firstly when assessing the existence of an unconditional right to a refund and secondly when measuring the asset arising from this unconditional right. Especially for the latter step of measurement, a clarification on whether IAS 19 requirements should be followed when measuring a plan asset or whether the proposed amendments in IFRIC 14 initiate another measurement basis for the refund asset would be useful.

The way we read proposed paragraph 12A is that an entity does not have an unconditional right to a refund where other parties may wind up the plan without the entity's consent, because a refund may not be received if such a wind-up occurs. In our view, the fact that a wind-up may occur in the future does not mean that the entity does not have an unconditional right currently. The reason for our view is that we see the guidance in IFRIC 14 as relating to whether the entity has an unconditional right to any surplus which may happen to exist at any future date. It is not concerned with whether such a surplus will exist, or with the powers of others to influence that. We believe that the fact that any surplus could be extinguished by uncertain future events not controlled by the employer is not relevant – it is the right to a surplus, not the existence of a surplus, which is relevant.

We also note that the second sentence included in proposed paragraph 12A clarifies that any powers of other parties that are contingent on uncertain future events should not be taken into consideration as affecting the entity's right to a refund. Unless third parties' powers are contingent, the entity should be considered as not having an unconditional right. In practice, many of the trustees' powers are contingent on the occurrence of future events outside their control (e.g. regulatory approval, occurrence of a regulatory deficit/surplus, bankruptcy of the employer sponsor). Therefore, the effect of the second sentence in proposed paragraph 12A may be to make the restriction on recognition of the right to a refund asset meaningless in its entirety, in the sense that the other parties' contingent powers will not actually affect the unconditional right of the entity.

Finally, we would like to highlight the fact that what is described in proposed paragraphs 12A, 12B and 12C relates only to specific powers of the other parties (e.g. the trustees). This implies that any other buy-in or buy-out rights might be treated in a dissimilar way, although they potentially are economically the same.

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?

Answer:

We generally agree with this proposed amendment. However, according to BC8 of the proposed amendments we note that one of the purposes of this amendment is to achieve consistency with the requirements of paragraph 88 of IAS 19 which relates to the defined benefit obligation. Paragraph 88 of IAS 19 uses the wording: "...at the end of the reporting period...". We would therefore encourage the Board to also amend paragraph 88 of IAS 19 by using the same wording as the one used in the proposed amended paragraph 7 of IFRIC 14 i.e. "...that are substantively enacted, at the end of the reporting period." This way, relevant wording will be aligned between IFRIC 14 and IAS 19.

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?

Response:

We generally agree with this proposed amendment.

However, we note that BC64 of IAS 19 has not been amended by the proposed amendments. We believe that the content of BC64 of IAS 19 as currently worded, contradicts the proposed amended paragraphs 64A, 67A, 99A, 123, 125 and 126 of IAS 19 and BC11- BC12 of the proposed amendments. We suggest that the wording of BC64 of IAS 19 should be removed and replaced with wording along the lines of the above paragraphs.

We also believe that the interaction between the asset ceiling and a settlement could be better articulated. Both IAS19 and IFRIC 14 have specific guidance on asset ceiling, the situation in which the plan assets of the defined benefit pension plan exceed the defined benefit obligation (a surplus). The entity needs to determine whether a potential asset can be recognised, which is referred to as 'asset ceiling'. In case the 'asset ceiling' is applied, this is accounted for through other comprehensive income (OCI). However, IAS 19 and IFRIC 14 are not explicit on how to account for a plan settlement for a plan for which the asset ceiling was applied. Paragraph 109 does not discuss how the asset ceiling should be treated when a settlement takes place and diversity in practice exists around this element. We understand the requirements to result in 'reversing' the asset ceiling through OCI, which seems not to be in line with the principles of IAS 19 that prohibit recycling of such amounts. However, this is where a literal reading of paragraph 109 leads to.

Question 4 - Accounting when a plan amendment, curtailment or settlement occurs

The IASB proposes amending IAS 19 to specify 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?

Answer:

We generally agree with the proposed amendment. However, we believe that the wording used in this amendment raises further questions that need to be clarified in order to avoid future divergence in practice.

The way paragraph 67A and BC14-BC15 of the proposed amendment are currently written, may be interpreted that the past service cost would encompass only the part of the cost which relates to services rendered in prior periods and the current service cost would encompass the additional cost of the plan only for the period after the plan amendment. In effect, the impact of the plan amendment on the part of the current period before the plan amendment will need to be captured in the form of remeasurement since the proposed amendment excludes it from the past service cost.

We encourage the Board to be more explicit as to the determination of prior period. This is because we believe that the current wording, in combination with the definition of past service costs in paragraph 8, may lead to misunderstanding in terms of leaving out part of the costs arising as a result of a plan amendment. We suggest that the Board should consider clarifying this in the suggested amended paragraphs 67A, 99A, 123, 125 and 126 of IAS 19 as well as stating this in BC14 and BC15 to the proposed amendments. We will consider adding a suggested wording of the amendment in the Comment Letter to this ED for the IASB to consider.

We would also like to raise an issue which relates to the determination of the Unit of Account within the scope of paragraph 99 of IAS 19. In particular, when an amendment, curtailment or settlement takes place and relates only to a group of employees, this group can potentially be considered a Unit of Account separate from the remaining employees covered by the plan. We consider that more clear guidance should be provided for the accounting treatment of such cases where there is a partial amendment, curtailment or settlement in the plan and how the provisions of paragraph 99 of IAS 19 should be applied.

This can be illustrated by the following examples:

- Suppose there is a pension plan with 1,000 employees, all being entitled to pensions and post-employment health benefits. Suppose there is a curtailment for 400 employees. Do the assumptions for the remaining 600 employees also need to be updated?
- Suppose there is a pension plan with 1,000 employees, all being entitled to pensions and post-employment health benefits. Suppose the plan is amended and the health benefits are settled. Do the assumptions for the pension part also need to be updated?

We would expect some guidance in this respect.

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?

Answer:

We agree with the proposed retrospective application of the amendments and the exemption similar to the one granted in respect of the amendments to IAS 19 in 2011.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at jan.verhoeve@cnc-cbn.be.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'J. Verhoeve', with a stylized flourish at the end.

Jan Verhoeve
Chairman BASB