BELGIAN ACCOUNTING STANDARDS BOARD

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Dear Sir, Madam,

Invitation to comment – IASB ED *Proposed Amendments to IAS 19 Employee Benefits*

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on Proposed amendments to IAS 19 issued by the IASB (the "Board") on 29 April 2010 (hereinafter the "ED").
The Board has proposed major changes in accounting for long-term employee benefits such as pensions. The most significant proposal is the removal of the *corridor mechanism*; which means that all changes in the value of long-term employee benefits will be recognized in full as they occur.
Settlement gains and losses are considered to be actuarial variances and, as such, are remeasurements. Therefore settlements will be recorded in other comprehensive income as well.

As a consequence of the removal of the *corridor mechanism,* the Board also proposes to disaggregate the plan into three components, namely the service component, the finance component and the remeasurement component. Those movements will partially be recorded in profit and loss and other comprehensive income and hence the current option to recognize all movements in profit and loss is to be withdrawn.

The BASB agrees on these short-term proposed amendments in order to increase the comparability and transparency in employee benefit accounting; however we would also like to point out that a thorough review of IAS 19 *Employee Benefits* is still required in order to meet today's challenges in accounting for employee benefits, which still remains one of the most controversial areas in international financial reporting. Therefore all our answers to the specific questions should also be read in this context.
Our answers to the specific questions raised in the ED are included in the attached appendix to this letter.

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

Yours faithfully,

Jan Verhoeye
Chairman BASB

Appendix 1

> ***Question 1***
>
> The exposure draft proposes that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. (Paragraphs 54, 61 and BC9–BC12)
> Do you agree?
> Why or why not?

The BASB supports the Board's view that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur, as we believe that the current options with respect to the recognition of actuarial gains and losses in IAS 19 *Employee Benefits* generally limits comparability between entities.
Although we agree with the Board's view from a conceptual point-of-view, we would also like to point out that the measurement of the obligation should reflect both the long-term nature and the entity-specific settlement aspects of the plan.

> ***Question 2***
>
> Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13)
> Why or why not?

Although the recognition in full of unvested past service costs is conflicting with the general vesting requirements of IFRS 2 *Share-based payments* (i.e. paragraph 27), we still agree with the proposed amendment. As we support the Board's view in recognising all actuarial gains and losses when they occur; we believe that, in order to maintain a consistent Standard, unvested past service cost must also be recognized in full.

> ***Question 3***
>
> Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18) Why or why not?

The current disclosure and presentation requirements of IAS 19 often lack transparency with regard to the evolution of the long-term obligation and the impact of the related expenses on the current period financial statements mainly due to the different presentation options for interest costs.
By removing the options in the current IAS 19, we believe that this will improve the comparability between IFRS reporting entities.

> ***Question 4***
>
> Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?

From our point-of-view, we agree that the *current* and *past service cost*, as defined in paragraph 7 of the ED, should only reflect the performance-related pension obligation aspects of the employee. Hence, this implies that changes in demographic assumptions (i.e. not performance-related) should not be reflected in the *current* and / or *past service cost* but in the *remeasurement component* instead.

Question 5

The exposure draft proposes that the finance cost component should comprise net interest on the net defined benefit liability (asset) determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset). As a consequence, it eliminates from IAS 19 the requirement to present an expected return on plan assets in profit or loss.
Should net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset)? Why or why not? If not, how would you define the finance cost component and why? (Paragraphs 7, 119B, 119C and BC23–BC32)

As a reporting entity will present a net defined benefit liability or asset, we are of the opinion that the impact of the time value of money on the related liability or asset should also be presented in a consistent manner, i.e. a net approach.
By applying the net interest approach, the Board has also reaffirmed its view, presented in the *discussion paper*, that the net interest income or expense originates from discounting the net defined benefit liability or asset using a discount rate based on high quality corporate bonds; and hence not allowing reporting entities to present other effects of changes in the underlying assumptions as interest income or expense.
Given the fact that the current ED is an answer to short-term improvement needs of the Standard, we would have expected that the Board also included more guidance on the determination of the related discount rate. Currently and mainly due to the financial crisis, many reporting entities in Belgium (both non-financial and financial institutes) have incurred difficulties in determining a proper discount rate that complies with the requirement of paragraph 78 (i.e. *how to determine a discount rate if not a deep market for high quality corporate bonds exists).*
We would have expected that the Board included more guidance with regard to this issue in the current ED.

Question 6

Should entities present:
(a) service cost in profit or loss?
(b) net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss?
(c) remeasurements in other comprehensive income? (Paragraphs 119A and BC35–BC45)
Why or why not?

We agree with the disaggregation of the changes in the defined benefit obligation and in plan assets into service cost, finance cost and remeasurement components. With regard to the service and finance component, we believe that these items should be presented in profit and loss as an operating cost and a finance cost.
With regard to the presentation of the remeasurement component, we understand the rationale of the Board for presenting this component in other comprehensive income. However, we also believe that the presentation of the remeasurement component in profit and loss is equally defendable, but will create a greater portion of volatility in the income statement. Indeed, one could equally argue that a revision to an estimate is generally recognized in the same position in the statement of comprehensive income as the original estimate is recognised (*accessorium sequitur principale*).
Given the recent decisions in other projects (e.g. IFRS 9), and the current proposed amendment of IAS 19, it appears that the statement of other comprehensive income increasingly becomes an accounting technical statement in which potential long-term adverse/positive side effects are recognised and will eventually lead to a smoother presentation of the profit and loss statement. Hence we are of the opinion that for the short-term proposed amendments to IAS 19, the recognition in other comprehensive income is acceptable, but we would also like to raise our concern with regard to the more conceptual debate on how performance should be presented.

Question 7

(a) Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) Why or why not?
(b) Do you agree that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss? (Paragraphs 98A, 119A(a) and BC48)
(c) Should entities disclose (i) a narrative description of any plan amendments, curtailments and non-routine settlements, and (ii) their effect on the statement of comprehensive income? (Paragraphs 125C(c), 125E, BC49 and BC78)
Why or why not?

Based on our answers to question 1 and 2 we also agree with the proposals; however we were not able to find a clear definition of what is meant by non-routine settlement and hence would suggest including clear guidance with regard to this aspect.

Question 8

The exposure draft states that the objectives of disclosing information about an entity's defined benefit plans are:
(a) to explain the characteristics of the entity's defined benefit plans;
(b) to identify and explain the amounts in the entity's financial statements arising from its defined benefit plans; and
(c) to describe how defined benefit plans affect the amount, timing and variability of the entity's future cash flows. (Paragraphs 125A and BC52–BC59) Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

The current disclosure requirements in IAS 19 are often perceived as too complex and the decision-usefulness can be questioned. We are of the opinion that the Board can maintain most of the current disclosure requirements of IAS 19 but we believe that the Board should include a user-friendly appendix that explains what the added value of the respective disclosures is towards users by means of an integrated example with more narrative guidance.

Question 9

To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:
(a) information about risk, including sensitivity analyses (paragraphs 125C(b), 125I, BC60(a), BC62(a) and BC63–BC66);
(b) information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e));
(c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f));
(d) information about asset-liability matching strategies (paragraphs 125J and BC62(b)); and
(e) information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c)).
Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?

We refer to our answer to question 9.

Question 10

The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? (Paragraphs 33A and BC67–BC69) Why or why not?

As multi-employer plans often embed higher or at least a different nature of risks for the participants, we are of the opinion that the proposed disclosure requirements are sufficient.

Question 11

The exposure draft updates, without further reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control to make them consistent with the disclosures in paragraphs 125A–125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not?

The disclosure requirements should reflect the underlying characteristics of the plan regardless of the way the plan is administered.

Question 12

Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)

We do not have any other comments.

Question 13

The exposure draft also proposes to amend IAS 19 as summarised below:
(a) The requirements in IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, as amended in November 2009, are incorporated without substantive change. (Paragraphs 115A–115K and BC73)
(b) 'Minimum funding requirement' is defined as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan. (Paragraphs 7 and BC80)
(c) Tax payable by the plan shall be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax. (Paragraphs 7, 73(b), BC82 and BC83)
(d) The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84–BC86)
(e) Expected future salary increases shall be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years. (Paragraphs 71A and BC87–BC90)
(f) The mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. (Paragraphs 73(a)(i) and BC91)
(g) Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92–BC96)
Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

We support the incorporation of the requirements of IFRIC 14 in the new Standard.
We also agree with the Board's view that taxes or social security payable on the contributions to the plan assets can be included in measuring the defined benefit obligation.

We are of the opinion that all costs should be expensed as incurred and should not be included in the calculation of the defined benefit liability as they are within the entity's control.
We believe that expected future salary increases must be considered in determining the defined benefit obligation.
We agree that the liability should include the effect of estimates of future changes in mortality.
We also agree that risk-sharing and conditional indexation features shall be considered in determining the defined benefit obligation.

Question 14

IAS 19 requires entities to account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. In the Board's view, this would apply to many plans that meet the definition of a defined benefit multi- employer plan. (Paragraphs 32(a) and BC75(b))
Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?

The current IAS 19 requires a multi-employer defined benefit plan to be treated for accounting purposes as a defined contribution plan when insufficient information is available to use defined benefit accounting.
From a conceptual point-of-view, this is unacceptable, as the classification of the multi-employer plans should follow the general underlying principles. In practice, many reporting entities do not have access to the required in information in order to apply defined benefit accounting. We would propose to apply defined benefit accounting for multi-employer plans based on the contributions the respective entity is effectively paying to the plan during a specific period. The total amount of contributions paid by the participants divided by the contributions of one participant would serve as the allocation criterion in order to apply defined benefit accounting.

Question 15

Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?

We agree with the Board's analysis that a retrospective application would not be unduly burdensome and hence we agree with a retrospective application of the proposed amendments.

Question 16

In the Board's assessment:
(a) the main benefits of the proposals are:
(i) reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.
(ii) eliminating some presentation options currently allowed by IAS 19, thus improving comparability.
(iii) clarifying requirements that have resulted in diverse practices.
(iv) improving information about the risks arising from an entity's involvement in defined benefit plans.
(b) the costs of the proposal should be minimal, because entities are already required to obtain much of the information required to apply the proposed amendments when they apply the existing version of IAS 19.
Do you agree with the Board's assessment? (Paragraphs BC103–BC107) Why or why not?

We agree with the Board's assessment.

Question 17

Do you have any other comments on the proposals?

We do not have any further comments on the proposal.