



Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@asb.gov.au

9 May 2011

Dear Kevin

Re: AASB ED195 Defined Benefit Plans (proposed amendments to AASB 119): Tier 2 supplement

We are responding to your request for comment on Australian Accounting Standards Board (AASB) Exposure Draft (ED) 195 Defined Benefit Plans (proposed amendments to AASB 119): Tier 2 supplement.

We support the Board's aim to ensure that amendments to existing Australian Accounting Standards provide consistent disclosure relief for tier 2 entities reporting under the reduced disclosure regime on a timely basis. However, we continue to question whether this is an effective process and an efficient use of constituents time and resources. We have commented in previous tier 2 submissions on the timing of issuing an exposure draft seeking feedback on the proposed tier 2 disclosures where it is possible that the final standard will differ from the exposure draft. We have identified an example in relation to ED 195 where the discussion has evolved at the IASB resulting in expected changes to the exposure draft. As a result, it is likely that the proposed tier 2 disclosures which are the subject of this submission will need to be updated once the final standard is released. We recommend that the Board formally consider whether the current approach continues to be appropriate.

We generally agree with the proposed application of the amended disclosure requirements of AASB 119 *Employee benefits* to tier 2 entities in relation to defined benefit plans, subject to the observations which we have explained in Appendix A.

Our detailed responses on the specific matters for comment are also provided in Appendix A.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in black ink that reads 'Margot Le Bars'.

Margot Le Bars
Partner, PricewaterhouseCoopers

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, **SOUTHBANK VIC 3006**, GPO Box 1331, **MELBOURNE VIC 3001**
DX 77 Melbourne, Australia
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au



Appendix A – Specific matters for comment

1. Do you agree with the AASB disclosure proposals in paragraph 33A and 125A-125K of ED 195 in relation to Tier 2 entities as set out in the Analysis of Proposed Disclosures?

We agree with the disclosure proposals, except as discussed below:

- Para 33A(f)(iv): the current version of AASB 119 for tier 2 entities (para 30(c)(ii)) does not require disclosure of the basis used to determine the deficit or surplus, however such disclosure would be required by tier 2 entities under the proposed 33A(f)(iv). The AASB previously argued that this disclosure should be excluded since there is no equivalent requirement in the IFRS for SME standard. This reasoning still applies and we therefore believe this part of the paragraph should be shaded/excluded for tier 2 entities.
- Para 125E: As this paragraph is currently drafted, the reconciliations from opening to closing balances will only show contributions to the plan and payments from the plan but do not have a category for "other changes". In the current version of AASB 119 for tier 2 entities, the AASB has inserted a specific paragraph for tier 2 entities which requires the reconciliation to show benefits paid and all other changes - see RDR120A.1.

We would suggest the AASB similarly inserts an RDR paragraph 125E(RDR)(i) which refers to "all other changes", in order to make it clear that this line item is required to reconcile the opening and closing balances.

- Para 125H of the ED requires disclosure of the present value of the defined benefit obligation adjusted to exclude the effect of projected growth in salaries. The ED proposed that Tier 2 entities should not be required to make this disclosure. However, according to the IASB update from 16 February 2011, this particular paragraph may be replaced with an example of the type of disclosures that may meet the disclosure objectives in paragraph 125A(b).

Depending on what the example includes, there could be arguments that it should apply to tier 2 entities, since paragraph 125A(b) similarly applies. However, the example should not be included if it implicitly increases the disclosure obligations of tier 2 entities beyond comparable obligations of SMEs.

- Para 125K requires disclosure of a discussion of factors that could cause the contributions over the next 5 years to differ significantly from the current service cost. The ED proposed that tier 2 entities should not be required to make this disclosure. The IASB has since tentatively decided to replace this with a requirement to disclose a narrative description of the funding arrangements and funding policy, the amount of expected contributions for the next year (only) and information about the weighted average duration of the defined benefit obligation.

We note that disclosure of the entity's funding policy is required under IFRS for SMEs and hence should also be included for tier 2 entities. The other disclosures described above are not required by SMEs and hence should be excluded, for example, information about the weighted average duration of the defined benefit obligations.



- 2. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of these proposals, particularly any issues relating to (a) not for profit entities and (b) public sector entities?**

We do not believe that there any regulatory or other issues that would affect the implementation of the proposals in Australia.

- 3. Do you agree that overall, these proposals would result in financial statements that would be useful to users?**

Subject to our specific comments above, we believe that the proposals would result in financial statements that are useful to users.

- 4. Do you agree that these proposals are in the best interests of the Australian economy?**

The reduced disclosure regime has significantly reduced the regulatory burden for those entities that are eligible to report under tier 2 of the new regime. It is therefore in the best interests of the Australian economy if new standards provide consistent disclosure relief for tier 2 entities on a timely basis.

- 5. Are there any other cost-benefit factors of the proposals, quantitative or qualitative, which you believe should be considered?**

Subject to our specific comments above, we do not believe there are any additional cost-benefit factors which need to be considered as part of these proposals.



10 Shelley Street
Sydney NSW 2000

P O Box H67
Australia Square 1213
Australia

ABN: 51 194 660 183
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

Mr Kevin Stevenson
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Our ref Submission - Tier 2 ED 195

9 May 2011

Dear Sir

Submission - Tier 2 Supplement to ED 195

We are pleased to have the opportunity to comment on the Tier 2 Supplement to ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*.

We appreciate the Board's efforts to expedite the process of updating the Tier 2 reporting requirements. However in the event that the IASB, upon issuing the final amendments, makes changes to the underlying exposure draft to which the Tier 2 proposal relates, we believe that the AASB should re-expose for comment the disclosures included in the final amendments together with its analysis of whether or not the disclosures should be included in the Tier 2 reporting requirements.

Executive Summary

We agree with the majority of the reduced disclosures proposed for entities applying Tier 2, however we do not agree with exemptions from paragraphs 125C(c) and 125J. Our detailed comments are provided in Appendix 1 of this letter.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9335 7630, or Michael Voogt on (02) 9455 9744.

Yours faithfully

Martin McGrath
Partner In Charge, Department of Professional
Practice

Appendix 1 – Tier 2 Supplement to ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*

Whether you agree with the AASB disclosure proposals in paragraphs 33A and 125A-125K of ED 195 in relation to Tier 2 entities as set out in the Analysis of Proposed Disclosures section below.

We do not agree with the AASB proposal to exempt entities applying Tier 2 from the following paragraphs:

- Paragraph 125C(c) – which requires “*a narrative description of any plan amendments, curtailments and non-routine settlements*”. Principle 6(f) of the ‘Tier 2 Disclosure Principles’ would support this disclosure requirement, as this is an example of “*transactions and other events and conditions encountered by such entities*”. In addition it may be argued that this disclosure would provide information required by principles 6(a) and 6(b).

Furthermore, we do not believe that making such a disclosure would be particularly onerous or that the cost of doing so would outweigh the benefit.

We also do not believe that a reasonable basis for an exemption has been provided in the ‘Analysis of Disclosure Requirements Relating to Tier 2 Supplement to AASB Exposure Draft ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*’. Presuming that “*...plan amendments, curtailments and non-routine settlements occur relatively infrequently in the Australian context...*” and “*...are usually not significant...*” should not, in our view, form the basis of an exemption.

Given the potential significance of amendment or curtailment transactions we believe that it should be up to the Tier 2 entity to determine non-disclosure on the basis of materiality rather than exempt all Tier 2 entities on the assumption that such transactions occur relatively infrequently.

- Paragraph 125J – “an entity shall disclose details of **any** asset-liability matching strategies used by the plan, including the use of annuities and other techniques, such as longevity swaps, to manage longevity risk” (emphasis added).

We have two initial issues with this:

- The Staff analysis implies that only disclosures around ‘longevity risk’ are required by paragraph 125J. Paragraph BC 62(b) of the Basis of conclusions of ED/2010/3 *Defined Benefit plans (Proposed amendments to IAS 19)* makes it clear that the IASB’s intention was to require disclosure of “*...an entity’s use of asset-liability matching investment strategies...*”. “*...the use of annuities and other techniques, such as longevity swaps, to manage longevity risk...*” being just *one* example but that **all** “*...asset-liability matching strategies used by the plan ...*” should be disclosed.

- Paragraph 125C(b) of Tier 2 Supplement to ED 195, which has not been exempted for Tier 2 entities, requires disclosure “...of the extent of the risks to which the plan exposes the entity...”, so by giving an exemption to paragraph 125J, which essentially requires disclosure of the asset-liability matching strategies used by the plan to mitigate certain of these risks, would leave ‘unanswered questions’ for users. That is, the financial report alerts users to the existence of risks but does not require disclosure of how those risks are managed.

Therefore, in terms of the Tier 2 principle of ‘user need’, we believe it is necessary to assess whether an ‘all or nothing’ disclosure with regards to risk would be preferable.

Looking to other pronouncements that deal with the disclosure of risks and how they are mitigated, AASB 7 *Financial Instruments: Disclosures – Compiled AASB Standard – RDR Early Application Only* (“AASB 7 RDR”) exempts Tier 2 entities from the disclosures required by paragraphs 33-42 which require disclosure around the risks that arise from financial instruments and how they have been managed - typically credit risk, liquidity risk and market risk. In other words, both the disclosure of the *extent of these risks* as well as the mitigation thereof have been exempted for Tier 2 entities (i.e. ‘a nothing’ disclosure approach).

On the other hand Tier 2 entities are not exempt from AASB 7 RDR.22 which requires an entity to disclose the nature of the risks being hedged as well as a description of each type of hedge for fair value hedges, cash flow hedges, and hedges of net investments in foreign operations (i.e. ‘an all’ disclosure approach).

For consistency purposes we believe that either an all or nothing disclosure approach should be taken here.

In relation to Tier 2 Supplement to ED 195, we agree with the Staff analysis with regards to the necessity to retain paragraph 125C(b) in the Tier 2 disclosure requirements, as it is an extension of the disclosure principle in paragraph 125A(a) and corresponds with paragraph 6(a) of the ‘Tier 2 Disclosure Principles’.

We would therefore support an ‘all’ disclosure approach, i.e. not to exempt Tier 2 entities from paragraph 125J.

It should also be noted, that if entities applying Tier 2 are exempted from paragraph 125H, then paragraph 125A(b) will need to be edited accordingly, by removing the reference to paragraph 125H.



Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204,
Collins Street
WEST VICTORIA 8007
By Email: standard@asb.gov.au

Grant Thornton Australia Limited
ABN 41 127 556 389

Level 17, 383 Kent Street
Sydney NSW 2000
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

9 May 2011

Dear Kevin

EXPOSURE DRAFT TIER 2 SUPPLEMENT TO ED 195 DEFINED BENEFIT PLANS IASB ED 2013/3

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on this Tier 2 ED 195 (the ED). We have considered the ED, and set out our comments in the Appendix.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with some initial input from our clients, Grant Thornton International, and discussions with key constituents.

We note that the IASB has not indicated whether it will amend its IFRS for SMEs accounting standard for non-publicly accountable entities, and on that basis we believe the AASB should not finalise any decisions on RDR disclosures until the IASB has considered this further, given that the RDR is 'loosely' based on the IFRS for SMEs disclosures.

We also note that the UK Accounting Standards Board has issued its 3 Tier reporting ED in October 2010 and that includes an RDR type accounting standard in addition to IFRS and IFRS for SMEs. We suggest that the AASB should compare its ED 195 proposals to that contained in the UK RDR ED.

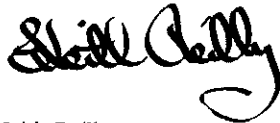
Grant Thornton does not believe that at this time the ED 207 amendments should mandatorily apply to non-publicly accountable entities. Instead Grant Thornton believes that the AASB should allow the IFRS for SMEs accounting standard as an option for non-publicly accountable entities. Adoption of IFRS recognition and measurement principles which the AASB believes necessitates an increase in disclosures compared to IFRS for

SMEs, does add significant complexity and costs that would not be borne by similar structured overseas entities.

If you require any further information or comment, please contact me.

Yours sincerely

GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly

National Head of Professional Standards

Appendix 1: Preliminary comments

ED questions

1 Whether you agree with the AASB disclosure proposals in paragraphs 33A and 125A- 125K of ED 195 in relation to Tier 2 entities as set out in the Analysis of Proposed Disclosures section below:

We do not agree with the AASB disclosure proposals as we believe the AASB should not consider any decisions on RDR disclosures until the IASB has considered this further, given that the RDR is 'loosely' based on IFRS for SMEs disclosures. We also believe that the AASB should compare its ED 207 proposals to that contained in the UK RDR ED. As stated earlier, Grant Thornton believes that the AASB should allow the IFRS for SMEs accounting standard as an option for non-publicly accountable entities. Adoption of IFRS recognition and measurement principles which the AASB believes necessitates an increase in disclosures compared to IFRS for SMEs, does add significant complexity and costs that would not be borne by similar structured overseas entities.

2 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- a not-for-profit entities; and
- b public sector entities.

We believe that there are regulatory and other issues arising in the Australian environment for non-publicly accountable entities as the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities.

3 Whether, overall, the proposals would result in financial statements that would be useful to users.

We reiterate that for non-publicly accountable entities the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities, and hence would not result in financial statements that would be useful to users.

4 Whether the proposals are in the best interests of the Australian economy.

We reiterate that for non-publicly accountable entities the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities, and hence would not result in financial statements that would be in the best interests of the Australian economy.

5 Unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative.

As stated above, we believe that the costs of maintaining an RDR structure without allowing for IFRS for SMEs as an option to full IFRS or the RDR, imposes costs on most non-publicly accountable entities that exceed the benefits.