



Australian Government
**Australian Accounting
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14 October 2015

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans,

IASB Exposure Draft ED/2015/5
Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on the Exposure Draft to the International Accounting Standards Board. In formulating its comments, the AASB sought and considered the views of its Australian constituents through comment letters and other consultation. The comment letters received from constituents in respect of AASB Exposure Draft ED 266 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (which incorporated IASB ED/2015/5) are published on the AASB's website.

The AASB supports the IASB's efforts to address diversity in practice arising from the application of IAS 19 *Employee Benefits* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* and generally agrees with the IASB's proposed amendments to address the issues identified in IASB ED/2015/5.

The attached comments provide further detail on these views as well as the AASB's responses to the other specific questions raised in the Exposure Draft.

If you have queries regarding any matters in this submission, please contact Shaun Steenkamp (ssteenkamp@asb.gov.au).

Yours sincerely,

A handwritten signature in blue ink that reads "K. E. Peach".

Kris Peach
Chair and CEO

Specific AASB comments on IASB Exposure Draft ED/2015/5
Remeasurement on a Plan Amendment, Curtailment or
Settlement/Availability of a Refund from a Defined Benefit Plan

Specific Questions for Comment

The AASB provides the following comments on the IASB's specific questions set out in the Exposure Draft (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?

1.1 The AASB notes that the current requirements in IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* are not clear in situations where other parties can wind up a plan or affect benefits for plan members without an entity's consent and agrees with the three clarifications proposed above and the proposed addition of paragraphs 12A-12C to IFRIC 14 for the following reasons.

- (i) The AASB considers that other parties' power to enhance benefits for plan members prevents an entity from controlling a plan surplus (which is broadly consistent with the IASB's observation in paragraph BC4 of the ED). Accordingly, any amount of the surplus that the entity recognises on the basis of a future refund should not include amounts that other parties can use to enhance the benefits for plan members without the entity's consent.
- (ii) The AASB considers that, when a surplus is based on an assumption of 'gradual settlement', the availability of that surplus to an entity is restricted if a third party can wind up the plan without the entity's consent. This is because the third party could decide to wind up the plan at any time before 'all members have left the plan' and therefore the gradual settlement could be prevented (consistent with the IASB's observation in paragraph BC5 of the ED).
- (iii) the AASB considers that a third party's power to buy annuities or make other investment decisions is different from the third party's power to use a

surplus to enhance benefits or to wind up the plan. The former power relates to the manner in which plan assets are invested, while the latter power could lead to changed benefits for plan members.

- 1.2 Despite the above general agreement, the AASB notes that the proposed guidance might be difficult to apply in practice and therefore suggests the IASB consider introducing a notion of control over the surplus as an indication that the economic benefits attached to that surplus would be available to the entity. A notion of control could provide a higher-level principle and assist in interpreting a broad range of complex contractual terms and conditions.

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?

- 2.1 The AASB notes (consistent with the IASB's observation in paragraphs BC7 and BC8 of the ED) that when an entity's legal or constructive obligation to enhance benefits has arisen in accordance with paragraph 61 of IAS 19, the entity should reflect this obligation in the measurement of the defined benefit obligation, in accordance with paragraph 88 of IAS 19. The AASB also notes that the concept of 'substantively enacted' is used in paragraph 21 of IFRIC 14 and a similar concept is used in IAS 12 *Income Taxes*. Accordingly, the AASB agrees with the substance of the proposed amendments to IFRIC 14 above to help clarify any confusion when assessing the availability of a refund.
- 2.2 However, the AASB thinks the proposed addition of the wording: "... that are contractually agreed..." in paragraph 7 of IFRIC 14 is redundant given that the terms and conditions of the plan would not be considered if they were not otherwise contractually agreed upon. The AASB thinks that the wording, as proposed, might lead to confusion. Accordingly, the AASB suggests the wording be altered to be "...in accordance with the terms and conditions of the plan, as well as constructive obligations...".
- 2.3 The AASB notes that the proposed deletion of "in the jurisdiction of the plan" in relation to the consideration of statutory requirements has the potential to create confusion as to which substantively enacted statutory requirements an entity is required to consider and whether the entity should consider statutory requirements outside of the jurisdiction of the plan. Accordingly, the AASB suggests that the wordings "in the jurisdiction of the plan" be retained.

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?

- 3.1 The AASB considers that when a plan amendment or settlement occurs, the accounting for the asset ceiling and past service cost or a gain or loss on settlement is not sufficiently clear in the existing requirements in IAS 19 and supports the proposed clarification above.
- 3.2 The AASB notes that the accounting for a plan amendment, curtailment or settlement may cause a reduction or elimination of a surplus, which may mean that the effect of the asset ceiling also changes (consistent with the IASB's observation in paragraph BC11 of the ED). The AASB is of the view that, when a plan amendment, curtailment or settlement occurs, changes in the asset ceiling should only be considered after an entity remeasures the surplus or deficit of the defined benefit plan and recognises past service cost or a gain or loss on settlement. Consideration of the asset ceiling should not influence the measurement of the net defined benefit asset (liability).
- 3.3 Accordingly, the AASB agrees with the proposed clarification above.

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?

- 4.1 The AASB notes that paragraphs 123 and BC64 of IAS 19 imply that an entity should not update the assumptions used to determine the current service cost and net interest when a plan amendment, curtailment or settlement occurs.
- 4.2 However, the AASB considers that applying updated assumptions in the above circumstances would provide useful information to users. The AASB notes that in applying the updated assumptions, that act should not impact the current service cost and the net interest for the period before the remeasurement.
- 4.3 Accordingly, the AASB agrees with the above proposed amendments on the basis that it would provide more relevant information, enhance understandability and could help to eliminate diversity in accounting when a plan amendment, curtailment or settlement occurs.
- 4.4 Notwithstanding the above, the AASB notes, that some entities currently remeasure the defined benefit liability (asset) only for those members that have accepted the plan amendment, curtailment or settlement. This could be based on the short cut proviso in paragraph 60 of IAS 19. The AASB recommends that the IASB clarify that the short cut proviso would apply to the amendments proposed in the ED.
- 4.5 The AASB is also concerned that paragraph BC64 of IAS 19 is not proposed to be deleted. The AASB notes that creating footnotes for amendments that signify a change in the IASB's thinking has recently become common practice. However, the AASB does not believe that a footnote is adequate to inform readers that paragraph BC64 is no longer relevant to the proposed requirements of IAS 19. The AASB suggests that either BC64 is deleted or additional BC paragraphs are inserted from the ED to clarify the amendments made to IAS 19 because these represent substantial changes to the requirements of the Standard.

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?

- 5.1 The AASB agrees with the retrospective application of the proposed amendments as it would enhance comparability of financial information provided by affected entities. However, the AASB notes that paragraph 60 of IAS 19 allows entities to apply short cuts when remeasuring the plan for the events covered by these amendments. Where entities have applied such short cuts in the past those entities might not have the information available in order to retrospectively apply these amendments without incurring significant cost. Therefore, the AASB recommends that the IASB clarify that the short cut approach could be applied to the retrospective application as well.
- 5.2 The AASB also agrees with exempting assets that are outside the scope of IAS 19 from the retrospective application requirement as this is consistent with the exemption currently in IAS 19 for such assets.