

Analysis of the written comments received on ED 195 *Defined Benefit Plans* (proposed amendments to AASB 119) and staff proposals in relation to the AASB's response on the IASB's ED/2010/3 *Defined Benefit Plans* – Proposed amendments to IAS 19

Background

1. The purpose of this Agenda paper is to assist the Board in identifying issues to be raised in its submission to the IASB on ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19*. Board members should note that the AASB's submission on ED/2010/3 will be finalised out-of-session.
2. This Agenda paper provides:
 - (a) a summary of the main proposals in ED/2010/3 (paragraphs 3 – 4);
 - (b) a high level summary of the main issues raised in responses to the proposals in ED/2010/3 and AASB staff's proposals in relation to these issues (paragraphs 5 - 83); and
 - (c) a high level summary of the main issues raised in responses to the AASB specific matters for comment in ED 195 and AASB staff's proposals in relation to these issues (paragraphs 84 – 89).

Summary of the main proposals in ED/2010/3

3. ED/2010/3 proposes a number of changes to the recognition, presentation and disclosure of employee benefits. In particular, the ED proposes that:
 - (a) obligations for long-service leave and other similar long-term employee benefits be accounted for on the same basis as defined benefit obligations rather than only measured on the same basis as defined benefit obligations with all remeasurement changes being recognised in profit or loss;
 - (b) obligations for any annual leave expected to become due to be settled more than twelve months after the end of the reporting period be accounted for on the same basis as defined benefit obligations rather than only measured on the same basis as defined benefit obligations with all remeasurement changes being recognised in profit or loss;
 - (c) past service costs in respect to defined benefit obligations be recognised in profit or loss in the period in which they arise rather than recognised as an expense on a straight-line basis over the average period in which the benefits become vested;
 - (d) all actuarial gains and losses in respect to (net) defined benefit obligations be recognised in other comprehensive income in the period in which they arise, thereby removing the options to adopt the 'corridor' approach or recognise such gains and losses when they arise in profit or loss;
 - (e) interest cost in respect of defined benefit obligations be calculated on the basis of the net obligation and presented as a part of finance costs in the profit or loss rather than calculated on the basis of the gross obligation and recognised in profit or loss;
 - (f) the definition of 'return on plan assets' be amended to clarify that any tax on contributions to a defined benefit plan is excluded from return on plan assets;
 - (g) clarification of the treatment of curtailments and settlements of defined benefit obligations;

- (h) an entity that participates in a defined benefit multi-employer plan for which sufficient information is not available to use defined benefit accounting provide more detailed information in respect of its defined benefit obligation; and
 - (i) an entity disclose information that explains the characteristics of its defined benefit plans and identifies and explains the amounts in its financial statements arising from its defined benefit plans.
4. Appendix A to this Agenda paper provides a more detailed summary of the main proposals in ED/2010/3, and how the proposals differ from the current requirements in AASB 119 *Employee Benefits*.

Summary of the main issues raised in responses to the proposals in ED/2010/3 and AASB staff proposals

5. The AASB received seven written responses on ED 195. Appendix B to this Agenda paper provides a list of the respondents to ED 195, the response number allocated to them and a description of the respondent.
6. Consistent with the approach adopted with respect to other AASB EDs incorporating an IASB ED, ED 195 invited comments on:
- (a) the specific questions on the proposals as listed in the IASB ED; and
 - (b) AASB specific matters for comment.

Accordingly, the following discussion is structured on this basis.

7. Staff have endeavoured to reflect faithfully in this Agenda paper the issues raised by respondents. However, in some circumstances staff have exercised judgement in identifying and categorising the main points and interpreting respondents' comments. Consequently, some meaning may have been lost inadvertently in the process of summarisation. Accordingly, this Agenda paper should not be treated as a substitute for the full text of submissions, which is available in Agenda paper 11.3 to this meeting.

Overall views on the proposals in ED/2010/3

8. Three (Mercer #4, GT #5 and CPA, ICAA and NIA #6) of the seven responses express an overall view on ED/2010/3, all of which indicate general support for the proposals, subject to specific comments they make in relation to the questions posed by the IASB.

Specific questions on the proposals as listed in the IASB ED

Recognition

IASB 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 of ED/2010/3) Do you agree? Why or why not?

9. Six (IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses express a view on IASB Question 1. Five of these responses (ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) agree that entities should recognise all remeasurement changes in defined benefit obligations and associated plan assets when they occur for a number of reasons, including:
 - (a) no significant conceptual justifications for deferring or smoothing actuarial gains and losses;
 - (b) the proposed treatment would reduce complexity and enhance comparability of financial statements;
 - (c) the ‘corridor’ approach is not consistent with economic reality; and
 - (d) the proposals are likely to enhance the usefulness of financial statements.
10. In addition, two responses (ACAG #3 and Mercer # 4) note that a small (and declining) number of Australian entities apply the ‘corridor’ approach under AASB 119 and these entities are unlikely to experience a material impact on their reported results as a consequence of adopting the proposals.
11. One response (IAA #2) expressed neither agreement nor disagreement with the proposal, but comments that:
 - (a) the ‘corridor’ approach and the proposed approach both have merit, depending upon the underlying objectives of financial reporting;
 - (b) some entities currently use the ‘corridor’ approach and that these entities are concerned about the potential impact of the proposals; and
 - (c) at present, immediate recognition in other comprehensive income is a more popular approach among Australian entities than the ‘corridor’ approach.

Staff views on IASB Question 1

Staff consider that the AASB's response to IASB Question 1 should express agreement with the proposal that entities recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur because the approach:

- (a) is consistent with the treatment of remeasurement changes under other IFRSs;
- (b) would reduce complexity and enhance consistency of reporting for defined benefit plans;
- (c) would enhance comparability of financial statements between entities and over time; and
- (d) would enhance the usefulness of financial statements.

Board members should note that the proposals regarding the presentation of remeasurement changes in defined benefit obligations and plan assets are specifically dealt with in IASB Question 6.

Recognition

IASB Question 2

Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13 of ED/2010/3) Why or why not?

12. Five (IAA #2, ACAG #3, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses express a view on IASB Question 2. Four of the responses (ACAG #3, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) express agreement with the proposal for a number of reasons, including:
- (a) an amendment to the terms of a plan in such circumstances gives rise to a liability;
 - (b) it is consistent with the proposal to immediately recognise all changes in defined benefit obligations; and
 - (c) it is consistent with the approach under AASB 119 to allocate benefits to periods of service, irrespective of whether the benefits are vested.
13. One response (IAA #2) expresses neither clear agreement nor disagreement with the proposal, but comments that:
- (a) there appears to be a global trend in practice towards immediately recognising changes in defined benefit obligations, although an argument can be made for deferring recognition of past service costs; and
 - (b) there isn't a single clear approach to determining vested past service costs. Accordingly, the proposals would arguably increase the level of certainty in the application of the Standard.

Staff views on IASB Question 2

Staff consider that the AASB's response to IASB Question 2 should express support for the proposal that entities recognise unvested past service cost when the related plan amendment occurs for the reasons outlined in paragraph 12 of this Agenda paper.

Disaggregation

IASB Question 3

Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18 of ED/2010/3)
Why or why not?

14. Six (IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses express a view on IASB Question 3. All six responses agree with the proposal for a number of reasons, including:
 - (a) facilitating the provision of more useful information to users, particularly in relation to estimating future costs and the impact of employee benefits on future profits; and
 - (b) improving comparability of financial statements between entities.
15. In addition, the CPA, ICAA and NIA joint submission notes that all three components are employee costs and recommends that this needs to be clear from the disclosures. In particular, the finance cost results from actuarial assessments and the variables that impact on a defined benefit plan rather than arising from an entity's financing structure. Accordingly, an entity's financial statements should clearly distinguish between the cost of financing the entity and the finance cost associated with defined benefit plans.

Staff views on IASB Question 3

Staff consider that the AASB's response to IASB Question 3 should express support for the proposal that entities disaggregate defined benefit cost into service cost, finance cost and remeasurements in line with the reasons outlined in paragraph 14 of this Agenda paper.

While staff acknowledge respondents' concerns that the proposals may not facilitate a clear presentation of the entity's borrowing costs, staff note that these proposals are consistent with the IASB's decisions in respect of other projects dealing with accounting for obligations that 'unwind' over time, such as insurance contracts. Accordingly, staff do not consider that the AASB's response should recommend that the net interest on the net defined benefit liability (asset) should be disclosed separately from finance costs. However, staff consider that respondents' concerns may be addressed, at least partly, by entities disclosing employee benefits expense information (see staff views on IASB Question 6).

Defining the service cost component

IASB 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 of ED/2010/3) Why or why not?

16. Five (IAA #2, ACAG #3, Mercer #4, GT #5 and HoTARAC #7) of the seven responses express a view on IASB Question 4. All five responses agree that the service cost component of a defined benefit obligation should exclude changes in the obligation resulting from changes in demographic assumptions for a number of reasons, including:
- (a) the effect of changing demographic assumptions represents the impact on the value of liabilities accrued over the total past service of all current members. Accordingly, the effect it is not in the nature of service cost and/or it meets the definition of actuarial gains and losses; and
 - (b) changes in demographic assumptions have a different predictive value from service cost. Accordingly, and consistent with the IASB's proposals, separately disclosing changes in defined benefit obligations due to non-performance related factors (such as demographic changes) from service or benefit-related changes would be useful for users in understanding the drivers of defined benefit obligation costs.

Staff views on IASB Question 4

Staff consider that the AASB's response to IASB Question 4 should express agreement with the proposal that the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions for the reasons outlined in paragraph 16 of this Agenda paper.

Defining the finance cost component

IASB 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 of ED/2010/3)

17. All seven (AP #1, IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICA and NIA #6 and HoTARAC #7) of the responses express a view on IASB Question 5. Some of GT's comments and the CPA, ICAA and NIA's comments, which were in relation to the required discount rates for defined benefit obligations under IAS 19, have been included in the discussion of respondents' comments on IASB Question 17 below (paragraphs 80 and 81 of this Agenda paper).
18. Three of the responses (ACAG #3, Mercer #4 and GT #5) express agreement with the proposal whereas three of the responses (AP #1, CPA, ICAA and NIA #6 and HoTARAC #7) express disagreement.
19. The three responses that express agreement identify a number of arguments in favour of the proposed approach, including:
 - (a) ease of application;
 - (b) pragmatism;
 - (c) it reflects the reality that entities are financing a net liability (asset); and
 - (d) it would arguably facilitate increased consistency in practice and comparability between the financial statements of entities.
20. One response (AP #1) expresses disagreement with the proposed approach because:
 - (a) the current approach, whereby expected return on plan assets is recognised in profit or loss and the difference between expected and actual returns on plan assets is recognised in other comprehensive income, provides useful information to users. However, under the proposals an entity would be unable to provide a coherent explanation of its superannuation costs because the expected return on plan assets would not be recognised and actual return on plan assets would be split between finance costs and remeasurements and recognised separately;
 - (b) the proposals are likely to yield results which are misleading to users. For instance, in most cases, a plan's assets would be expected to achieve an earnings rate greater than the required discount rate for defined benefit obligations. Accordingly, under the proposals the interest expense related to the obligation would be recognised in profit or loss but the 'interest revenue' related to plan assets would be recognised in other comprehensive income. In addition, the

actual contributions required to meet the entity's superannuation obligations will generally be less than the superannuation expense recognised in the profit or loss; and

- (c) if the IASB's decision to propose the removal of the requirement to recognise the expected return on plan assets is due to concerns that it can be used to manipulate reported profits, this is arguably an insufficient justification. Various assumptions are used to determine defined benefit obligations, all of which are potentially subject to manipulation.

Accordingly, the response recommends retaining the current requirements in respect of defined benefit obligations.

21. Another response (CPA, ICAA and NIA #6) expresses disagreement with the requirements in relation to determining a discount rate for defined benefit plans because:
- (a) requiring an entity to recognise net interest on the net defined benefit liability (asset) in profit or loss and return on plan assets in other comprehensive income creates a potential accounting 'mismatch', particularly for those entities with defined benefit plans that invest their assets to achieve a rate of return greater than the market yields on corporate or government bonds; and
 - (b) in some circumstances, the reported net interest on the net defined benefit liability (asset) will not represent the underlying interest cost for the liability. For instance, where no market prices are available to measure the fair value of plan assets, the entity is required to measure such assets using discounted cash flows. In these circumstances, the discount rate used to measure the plan assets is unlikely to be the same as a rate based on the market yields on corporate or government bonds.

Accordingly, the response recommends that entities be permitted to use a rate that is appropriate to their plan management and when this rate cannot be reliably measured, the default corporate or government bond rate should be used.

22. One response (HoTARAC #7) recommends a net interest calculation that nets the expected return on plan assets against the gross interest cost on defined benefit obligations for a number of reasons, including:
- (a) defined benefit obligations and plan assets are measured on different bases and using different discount rates;
 - (b) market yields on corporate or government bonds do not generally reflect the expected or actual rates of return on most plans' assets. In addition, neither rate is arguably an appropriate basis for discounting defined benefit obligations;
 - (c) for financial assets measured at fair value, there is no accepted basis for disaggregating remeasurement changes; and
 - (d) the expected return on plan assets is useful information for users.
23. One response (IAA #2) expresses neither agreement or disagreement with the proposal, but notes that:
- (a) the actuarial profession is generally divided on the issue of interest on (net) defined benefit obligations. Some favour determining the finance cost

component by applying the discount rate to the net obligation. This approach is consistent with the view that the interest expense relates to the surplus or deficit in the plan. This approach also represents a practical solution for dealing with the short-term asset-liability mismatches that often arise in the context of defined benefit obligations. However, others consider the finance cost component should be determined as the interest cost on the gross defined benefit obligation. This approach is consistent with the view that expected return on assets is useful information for users and provides a more meaningful overall result; and

- (b) the UK Standard FRS 17 *Retirement Benefits* requires the expected return on plan assets to be netted off against interest expense and the net amount to be reported as a part of other finance costs. The response also notes that the approach required under FRS 17:
 - (i) has been generally well received by users, particularly analysts; and
 - (ii) might be considered to be similar to the approach proposed in ED/2010/3.

In addition, the response recommends that, if the proposals are adopted, the Standard should include explanatory material that clarifies the implications of the approach, particularly that a positive amount would generally be expected to flow through remeasurements in other comprehensive income over time because the expected return on plan assets will generally exceed the discount rate applied to plan assets.

Staff views on IASB Question 5

Staff consider that the AASB's response to IASB Question 5 should express support for the proposal that net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in paragraph 78 of AASB 119 (market yields on corporate or government bonds) to the net defined benefit liability (asset) because this approach:

- (a) is consistent with the underlying premise of AASB 119 that an entity is liable for the net obligation (defined benefit 'surplus' or 'deficiency'); and
- (b) facilitates the calculation of an interest expense which is reflective of the (net) liability recognised.

Staff concur with the view that the expected return on plan assets is useful information to users. However, staff agree with the proposal to eliminate from IAS 19 the requirement to recognise the expected return on plan assets in profit or loss because this treatment is arguably inconsistent with the approach applied to other similar long-term liabilities that are backed by assets, such as insurance liabilities. In addition, staff anticipate that entities might disclose information in relation to expected returns on plan assets under paragraph 125K of ED/2010/3, which proposes that an entity provide a narrative discussion of factors that could cause contributions to differ significantly from current service cost.

Presentation

IASB 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 of ED/2010/3) Why or why not?

24. All seven (AP #1, IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the responses express a view on IASB Question 6. Six of the responses (IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) express agreement with the proposal whereas one response (AP #1) expresses disagreement.
25. The five responses that express agreement identify a number of arguments in favour of the proposed approach, including:
- (a) improving the usefulness of financial statements;
 - (b) improving the comparability between financial statements; and
 - (b) facilitating the symmetrical treatment of interest cost on the defined benefit obligation and interest income on plan assets.
26. In addition, five (IAA #2, ACAG #3, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the six responses that express agreement with the proposals note that:
- (a) the proposed approach should be subject to the IASB's decisions in relation to its project on financial statement presentation; and/or
 - (b) there is currently no clear conceptual basis for determining which remeasurement gains and losses should be recognised in profit or loss and which ones should be recognised in other comprehensive income. Accordingly, the IASB should give consideration to addressing this issue in a separate comprehensive project. However, in the meantime, this lack of conceptual guidance should not delay the IASB in its redeliberations on ED/2010/3.
27. One response (AP #1) expresses disagreement with the proposed approach because it potentially:
- (a) increases the complexity of financial statements for users as defined benefit obligation costs are no longer disclosed as a single line item; and
 - (b) makes the financing costs of those entities with relatively large defined benefit obligations appear larger than they arguably are, thereby diminishing the comparability of financial statements between entities.

Accordingly, the response recommends that no changes should be made to the current requirements.

Staff views on IASB Question 6

Staff consider that the AASB's response to IASB Question 6 should express support for the proposal that entities present service cost in profit or loss, net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss and remeasurements in other comprehensive income for the reasons outlined in paragraph 22 of this Agenda paper.

Staff acknowledge respondents' concerns that the proposals create a potential accounting mismatch with respect to interest and return on plan assets (see paragraph 20(a) of this Agenda paper). However, staff consider that, in the absence of a generally accepted principle for determining which items should be presented in other comprehensive income, the proposals represent a pragmatic solution for facilitating the immediate recognition of remeasurement changes in respect of assets the entity does not control. (Staff note that management responsibility has had a significant influence over the development of the IAS 19 requirements.) Accordingly, staff consider that the AASB response should recommend that the IASB undertake a comprehensive project on other comprehensive income.

Staff also acknowledge respondents' concerns that the proposals potentially increase the complexity of financial statements for users as defined benefit obligation costs are no longer disclosed as a single line item. Accordingly, staff consider that the AASB's response should recommend that the IASB consider whether users might benefit from entities disclosing information in relation to their employee benefits expenses, possibly on a class-by-class basis.

Settlements and curtailments

IASB 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 of ED/2010/3) 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 of ED/2010/3)
- (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 of ED/2010/3) Why or why not?

- 28. Six (IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses express a view on IASB Question 7.
- 29. With respect to IASB Questions 7(a) and 7(b):
 - (a) two responses (ACAG#3 and HoTARAC #7) agree that:
 - (i) gains and losses on all settlements should be treated as actuarial gains and losses and be included in the remeasurement component recognised in other comprehensive income; and
 - (ii) gains and losses on curtailments should be treated in the same way as gains and losses on plan amendments (presented in profit or loss);
 - (b) one response (GT #5) recommends that routine settlements, which are provided for in actuarial assumptions, should be treated in the same manner as other actuarial gains and losses (included in remeasurements). However, gains and losses on non-routine settlements should be treated in the same manner as gains and losses on curtailments (recognised in profit or loss) because they result from management decisions rather than routine changes in actuarial assumptions. To facilitate this, the response recommends the definition of 'non-routine settlement' be amended to incorporate 'settlements not allowed for in the plan rules';
 - (c) one response (CPA, ICAA and NIA #6) recommends that IAS 19 should be amended to clarify that gains or losses would only be recognised with respect to 'non-routine settlements' (ED/2010/3 does not propose any amendments to the main paragraphs in IAS 19 dealing with settlements); and
 - (d) two responses (IAA #2 and Mercer #4) recommend that no distinction be made between settlements and curtailments. Accordingly, gains or losses arising from both types of events should be recognised in profit or loss when they arise.
- 30. In addition, three responses (IAA #2, Mercer #4 and CPA, ICAA and NIA #6) express concerns with the arguably arbitrary distinction between settlements and curtailments.

31. One of these responses (CPA, ICAA and NIA #6) notes that, as in the case of a curtailment, any gain or loss on a settlement is the result of an active decision by management and not due to factors outside of the control of the entity. Accordingly, a gain or loss on a settlement should be treated the same way as a gain or loss on a curtailment.
32. The other two responses (IAA #2 and Mercer #4) suggest that the proposed amendments do not assist practitioners in distinguishing between settlements and curtailments, particularly in Australia and other jurisdictions where defined benefit plans generally pay lump-sum benefits rather than pensions. These responses note that an event giving rise to a curtailment could also qualify as a non-routine settlement. For instance, a standard leaving service benefit paid by a lump-sum plan will almost always be different from the equivalent defined benefit obligation calculated under AASB 119, generally due to differences in the discount rates used. If the benefit is paid as a result of a particular event or transaction (such as a sale of a business), under the proposals the resulting gain or loss could be treated as a:
 - (a) settlement gain or loss because the leaving service benefit paid to the exiting member could be seen as the 'price' of discharging the plan's obligation; or
 - (b) curtailment gain or loss arising from a recalculation of the defined benefit obligation. Prior to the benefit being paid, the defined benefit obligation had been calculated on the basis of the employee's expected salary at retirement date. However, subsequent to the announcement of the event, the defined benefit obligation is calculated on a basis other than the employee's expected salary at retirement date.
33. Three responses (ACAG #3, GT #5 and HoTARAC #7) comment on IASB Question 7(c), all of which agree that entities should disclose a narrative description of any plan amendments, curtailments and non-routine settlements, and their effects on the statement of comprehensive income, because this information would be useful for users in understanding changes in the defined benefit obligations.

Staff views on IASB Question 7

Staff consider that the AASB's response to IASB Question 7 should:

- (a) express disagreement with the proposal to treat gains and losses arising from non-routine settlements differently from gains and losses arising from curtailments or plan amendments because:
 - (i) such an approach is arguably not justified under principles-based standard setting. As non-routine settlements, curtailments and plan amendments all arise from decisions by the employer sponsor, all gains or losses arising from such events should be recognised by the entity in profit or loss when they arise;
 - (ii) the proposals in ED/2010/3 provide insufficient guidance for entities to clearly and consistently distinguish between non-routine settlements and curtailments. Consequently, treating gains and losses arising from non-routine settlements differently from gains and losses arising from curtailments is likely to:
 - (A) diminish the comparability of financial statements between entities and over time; and
 - (B) encourage entities to structure changes in their defined benefit arrangements to facilitate particular reporting outcomes.
- (b) recommend the IASB amend the proposals in ED/2010/3 to:
 - (i) clarify the characteristics of a non-routine settlement; and
 - (ii) require entities to recognise gains and losses arising from non-routine settlements, curtailments and plan amendments in profit or loss when they arise; and
- (c) express agreement with the proposal for entities to disclose a narrative description of any plan amendments, curtailments and non-routine settlements and, consistent with (b)(ii) above, recommend the IASB amend the proposals in ED/2010/3 to require an entity to disclose the effect of any plan amendments, curtailments and non-routine settlements on the profit or loss.

Disclosures - Defined benefit plans

IASB 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 of ED/2010/3)

Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

34. Six (IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses express a view on IASB Question 8. Five of the responses (IAA #2, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) indicate that the disclosure objectives are appropriate. One response (ACAG #3) expresses agreement with the disclosure objectives, but suggests that:
- (a) explaining the characteristics of an entity's defined benefit plans is not a disclosure objective in itself. Rather, it facilitates the provision of information that can provide users with an understanding of the effects of such plans on an entity's future cash flows; and
 - (b) objective (a) should be deleted and paragraph 125 be prefaced with "Where necessary to an understanding of the impact on the amount, timing and uncertainty of the entity's future cash flows..."

Staff views on IASB Question 8

Staff consider that the AASB's response to IASB Question 8 should express agreement with the proposed disclosure principles because they are:

- (a) principles-based; and
- (b) consistent with the disclosure principles in other IFRSs.

Disclosures - Defined benefit plans

IASB 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 of ED/2010/3);
- (b) information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e) of ED/2010/3);
- (c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f) of ED/2010/3);
- (d) information about asset-liability matching strategies (paragraphs 125J and BC62(b) of ED/2010/3); and
- (e) information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c) of ED/2010/3).

Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?

35. Six (IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses express a view on IASB Question 9. Two of the responses (ACAG #3 and GT #5) express overall agreement with the proposed disclosure requirements, but note concerns with particular proposals. One response (HoTARAC #7) expresses overall disagreement with the proposals, primarily because they are not justified on cost-benefit grounds. The other three responses (IAA #2, Mercer #4 and CPA, ICAA and NIA #6) discuss particular proposals and express no overall view.
36. Respondents identified the following issues in relation to the disclosure proposals.

Sensitivity analyses in respect of significant actuarial assumptions

37. One response (ACAG #3) expresses support for the proposals because they:
- (a) will provide users with a greater understanding of the risks underlying amounts included in an entity's financial statements; and
 - (b) are consistent with the requirements in IAS 1 *Presentation of Financial Statements* on the sources of estimation uncertainty.
38. However, five responses (IAA #2, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) express various concerns with the proposals, such as:
- (a) it is not clear what useful information a sensitivity analysis of possible changes in each significant actuarial assumption at the beginning of the reporting period would provide as these changes would not affect the service cost for the reporting period;

- (b) as actuarial assumptions are interrelated, it is unclear that a sensitivity analysis of each significant assumption could provide information that is readily understandable to users;
- (c) items included in sensitivity analyses should be restricted to those outside of the entity's control, such as interest rates and mortality rates;
- (d) the descriptions of the types of information an entity would disclose in relation to its sensitivity analyses are too general and need to be more specific. In particular:
 - (i) the criteria for determining if a concentration of risk is significant enough to warrant specific disclosure needs to be clarified; and
 - (ii) the meaning of the phrase 'reasonably possible'. Alternatively, the resultant Standard could require disclosure of the effect of specified changes (e.g., + or - 0.25%) in particular assumptions; and
- (e) rather than requiring information about risk and sensitivity analyses in all circumstances, the revised Standard should adopt a principles-based approach similar to IAS 1 so that such disclosures are only required when there is significant estimation uncertainty.

Information about the process used to determine demographic actuarial assumptions

39. Two responses (IAA #2 and Mercer #4) indicate that the proposal appears reasonable. In addition, Mercer note that the resultant Standard would facilitate the provision of more useful information to users if it required entities to disclose:
- (a) material changes to demographic assumptions since the last period; and
 - (b) the date the demographic assumptions were last reviewed.

Present value of the defined benefit obligation, adjusted to exclude future salary growth

40. All seven responses indicate that the information is unlikely to be useful to users. The responses from ACAG and the CPA, ICAA and NIA both note that it may be misleading to some users. ACAG also notes that, if the IASB considers information about the defined benefit entitlements that might be paid to employees on their termination is important, the Standard would need to explicitly require such disclosures. The IAA and Mercer note that the calculation of this liability measure is unlikely to be onerous.

Asset-liability matching strategies

41. Three responses (IAA #2, Mercer #4 and CPA, ICAA and NIA #6) suggest that such disclosures are not justified on cost-benefit grounds because:
- (a) most plans have a statement of investment objectives;
 - (b) disclosure of a description of the plan and its asset allocations (both actual and benchmarks) would provide arguably more useful information; and
 - (c) some entities do not manage their defined benefit plans using asset-liability matching strategies.

42. In contrast, HoTARAC believes that the disclosures on asset-liability matching strategies should also cover the entity's overall risk mitigation strategies in respect of the plan, rather than just the plan's mitigation strategy.

Factors that could cause contributions to differ from service cost

43. Two responses (IAA #2 and Mercer #4) suggest that users of an employer sponsor's financial statements are unlikely to understand the relationship between contributions and service costs. Accordingly, the responses suggest that, if the IASB's intention is for entities to disclose information on the potential cash flow implications of defined benefit plans, it might be more useful to users to have entities disclose their expected contributions over the next five years.
44. One response (HoTARAC #7) notes that a five year timeframe is not consistent with the three year actuarial timeframe usually adopted for actuarial reviews in Australia. Therefore, it may be impracticable to provide such information beyond a three year timeframe. Also, the response suggests the proposals be amended to refer to 'material' factors.

Staff views on IASB Question 9

Staff consider that the AASB's response to IASB Question 9 should:

- (a) express disagreement with the proposal that an entity disclose sensitivity analyses in respect of significant actuarial assumptions because:
 - (i) actuarial assumptions, particularly assumptions regarding future salary levels, the inflation rate and the discount rate, are interrelated and it might be difficult for some users to understand and evaluate the complex interrelationships that exist between actuarial assumptions; and
 - (ii) actuarial assumptions reflect the most likely outcomes with respect to demographic and financial factors. Accordingly, the disclosure of an outcome based on assumptions that are considered reasonably possible, but not sufficiently likely for the purpose calculating the liability for accrued benefits, may be difficult for some users to understand.

In addition, the AASB response should recommend the IASB amend the proposals in ED/2010/3 to require an entity to disclose any uncertainties surrounding the key actuarial assumptions used to measure defined benefit obligations. The AASB's response should also note this approach is consistent with the requirements in IAS 1 on the sources of estimation uncertainty;

- (b) express agreement with the proposal that an entity disclose information about the process used to determine demographic actuarial assumptions on the basis of user needs;
- (c) express disagreement with the proposal that an entity to disclose the present value of the defined benefit obligation excluding future salary growth because it is:
 - (i) inconsistent with the measurement approach under IAS 19, which presumes that employers will honour their defined benefit obligations in full;
 - (ii) inconsistent with current and proposed approaches for measuring similar liabilities, such as provisions and insurance obligations; and
 - (iii) arguably not justified on cost-benefit grounds as users are unlikely to consider the information useful for decision making;
- (d) express agreement with the proposal for an entity to disclose information about asset-liability matching strategies because it would facilitate the provision of useful information to users regarding the capacity of the plan's assets to meet the entity's defined benefit obligations as and when they become payable; and
- (e) recommend that the IASB amend its proposals in respect of contributions to require a entity to disclose its expected contributions over the next five years and information in relation to the factors that could cause actual contributions to differ from expected contributions. In doing so, the AASB's response should note that, in jurisdictions such as Australia, there is no necessary relationship between the level of contributions and service cost. Accordingly, the disclosure proposals might not facilitate the provision of useful information in these types of jurisdictions.

Multi-employer plans

IASB 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 of ED/2010/3) Why or why not?

(Note to Members: paragraph 33A of ED/2010/3 proposes that an entity that participates in a defined benefit multi-employer plan disclose, among other things:

- (a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements;
- (b) the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the plan;
- (c) the total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available; and
- (d) details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan.)

45. Four (IAA #2, ACAG #3, Mercer #4 and GT #5) of the six responses express a view on IASB Question 10. Two of the responses (ACAG #3 and GT #5) indicate that the proposed disclosures are relevant and sufficient, and therefore no changes are necessary. The other two responses (IAA #2 and Mercer #4) indicate that, while the proposals appear reasonable, they are arguably not justified on cost-benefit grounds for a number of reasons, including:
- (a) most public sector schemes in Australia are multi-employer sponsored plans, and the risks associated with such schemes tend to reside with the relevant government or governments, rather than with the entities themselves;
 - (b) for some multi-employer plans, members can unpredictably change employers. Also, it is common for information in relation to pensioner and deferred members to be not to be readily available;
 - (c) notwithstanding that the trust deeds of most multi-employer plans in Australia prescribe how any deficit or surplus of assets will be allocated on the plan's wind-up or in the event an employer sponsor withdraws from the plan, the actual allocation may differ from the expected allocation, depending upon the circumstances. Accordingly, this information should only be disclosed if it is available; and
 - (d) it is not clear from paragraph 33A(f)(iii) what information an entity would disclose in respect to the contributions it expects to make to a multi-employer plan over the next five annual reporting periods. In most cases, contribution rates (for instance, as a percentage of salary), or the method by which contributions would be calculated, would be available. However, it is often not possible or practical to reliably estimate the dollar amount of contributions over such a period as this amount would depend upon various factors that are also not capable of

being reliably estimated, including future employee numbers and decisions made by the trustee about the treatment of any surplus or deficit.

Staff views on IASB Question 10

Staff consider that the AASB's response to IASB Question 10 should express agreement with proposed additional disclosures about participation in multi-employer plans because they will facilitate entities providing useful information to users regarding the entities' potential obligations in respect of such plans.

State plans and defined benefit plans that share risks between various entities under common control

IASB 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 of ED/2010/3) Why or why not?

46. Five (IAA #2, ACAG #3, Mercer #4 and GT #5) of the seven responses express a view on IASB Question 11. Three of the responses (IAA #2, Mercer #4 and GT #5) indicate that no changes to the proposals are necessary.
47. One response (ACAG #3) expresses disagreement with the proposals because they are arguably excessive as they potentially require each participating entity in a group's defined benefit plan to repeat disclosures already made by the sponsoring (parent) entity. Accordingly, the response recommends that the proposals should be amended to permit each participating entity in a group's defined benefit plan to include a reference in its financial statements to the disclosures in the sponsoring (parent) entity's financial statements if such statements are publicly available.
48. One response (HoTARAC #7) expresses support for state plans making disclosures in accordance with paragraphs 125A-125K, subject to the Standard clarifying the concept of 'state plans'. However, the response recommends that the ED should be amended to exclude the requirement for state plans to be subject to additional disclosures in paragraph 33A(a)-(d) (see the description under IASB Question 10 above). The response asserts that paragraph 33A was included to address concerns that entities in a defined benefit multi-employer plan face greater risks than other entities, which result from the actions by other participants in the plan. However, this concern does not apply in the context of state plans and therefore the additional disclosures are not warranted.

Staff views on IASB Question 11

Staff consider that the AASB's response to IASB Question 11 should express agreement with the proposed updates to the disclosure requirements for entities that participate in states plans or defined benefit plans that share risks between various entities under comment control because they will facilitate entities disclosing similar types of information about the defined benefit plans.

While staff acknowledge that these requirements may cause some duplication in the information disclosed by entities within some groups, staff consider that general purpose financial statements should be as 'self-contained' as possible and therefore do not consider cross-references in financial statements to other documents to be appropriate.

Other comments

IASB Question 12

Do you have any other comments about the proposed disclosure requirements?
(Paragraphs 125A–125K and BC50–BC70 of ED/2010/3)

49. Four (ACAG #3, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses express a view on IASB Question 12.
50. ACAG's comments, which were in relation to the proposals for sensitivity analyses in respect of significant actuarial assumptions, have been included in the discussion of respondents' comments on IASB Question 9 above (paragraph 37 of this Agenda paper).
51. CPA, ICAA and NIA's comments and HoTARAC's comments relate to the proposals to account for 'other long-term employee benefits' in the same way as post-employment benefits. As other respondents raised similar issues in the context of IASB Question 16, the CPA, ICAA and NIA's comments and HoTARAC's comments have been included in the discussion in paragraphs 73 and 74 of this Agenda paper respectively.

Staff views on IASB Question 12

Staff have not identified any additional issues regarding the proposed disclosure requirements that it considers should be raised in relation to IASB Question 12.

Other issues

IASB 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 of ED/2010/3)
- (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 of ED/2010/3)
- (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 of ED/2010/3)
- (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 of ED/2010/3)
- (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 of ED/2010/3)
- (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 of ED/2010/3)
- (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 of ED/2010/3)

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

52. Five (IAA #2, ACAG #3, Mercer #4, GT #5 and HoTARAC #7) of the seven responses express a view on IASB Question 13. Two (ACAG #3 and HoTARAC #7) of the responses express agreement with the proposed amendments and one (GT #5) expresses overall agreement with the proposals, but notes some issues with particular proposals. The other two responses (IAA #2 and Mercer #4) discuss particular proposals but express no overall view. In addition, one response (CPA, ICAA and NIA #6) notes concerns regarding the potential treatment of investment taxes in relation to IASB Question 17. Accordingly, these comments have been incorporated in the included in the discussion below.

53. The responses identified the following issues in relation to the disclosure proposals.

Incorporating IFRIC 14 into the amended Standard

54. Both the IAA and Mercer express agreement with the proposal.

Definition of 'minimum funding requirement'

55. The IAA expresses agreement with the proposals because they would facilitate greater consistency and certainty in the application of AASB 119. The IAA also note that minimum funding requirements are not a significant issue in Australia.
56. Mercer recommends that the definition should be further tightened by specifying the types of situations in which a requirement to fund a plan is deemed to be enforceable.

Treatment of tax payable by a plan

57. The IAA, Mercer and the CPA, ICAA and NIA joint submission express concern that the proposals do not sufficiently clarify the treatment of superannuation investment tax.
58. The IAA and Mercer express support for tax payable on plan assets to be included in the measurement of the defined benefit obligation. The respondents note that:
 - (a) tax on assets imposes an additional cost on the provision of defined benefits. Alternatively, if no tax was payable on a plan's assets, the defined benefit obligation would be lower as more of the benefits would be financed by investment earnings; and
 - (b) assuming a plan is neutrally funded (not funded to generate a surplus), investment taxes payable by the plan will generally relate to past service costs, and therefore should be included in the measurement of defined benefit obligations.
59. In addition, Mercer notes that investment tax could be incorporated into the calculation of a defined benefit obligation either by deducting investment tax from the discount rate or by including a specific provision for investment tax in the defined benefit obligation. In both cases, the defined benefit obligation reflects the investment tax payable and the capitalised investment tax flows through to profit or loss each year via the net interest cost.
60. HoTARAC suggests that the Basis for Conclusion should clarify that any actuarial assumption relating to the 'taxes payable by the plan on contributions' should be determined after considering other relevant circumstances such as any offsetting dividend imputation and tax deductions.

Return on plan assets and administration costs

61. GT expresses agreement with the proposal on the basis that it is reasonable in most circumstances and consistent with the principle that the return on plan assets should be net of the directly attributable costs of administering those assets.
62. The IAA and Mercer both express concerns with the proposals, primarily because administration expenses are generally not material relative to defined benefit obligations and therefore accounting for such costs is unlikely to be justified on cost-benefit grounds in many circumstances. In addition, the IAA notes that:
 - (a) the treatment of costs incurred in managing assets should be considered in association with the treatment of investment taxes and the determination of financing costs;

- (b) expenses not related to managing assets should arguably be treated consistent with their nature and whether they relate to past or current service; and
- (c) separately accounting for administration costs may not be justified on cost-benefit grounds when the costs cover both management of assets and administration services.

Expected future salary increases

63. GT and Mercer both express agreement with the proposal. GT notes that the proposal would facilitate greater consistency between the treatment of arrangements based on career average salary benefits and current salary benefits.

Mortality assumptions

64. Both the IAA and Mercer express support for the proposal, although the IAA notes that the proposed clarification could be read to exclude expected future mortality improvements.

Risk-sharing and conditional indexation features

65. GT expresses agreement with the proposal that plans that share risks between employers and employees should continue to be accounted for as defined benefit obligations, notwithstanding that these types of plans do not fit easily into the current defined contribution/defined benefit dichotomy. GT also notes that this sort of scheme demonstrates the need for a longer-term project to fundamentally review the accounting for pension arrangements.
66. The IAA notes that the proposals are not relevant in the Australian context.

Staff views on IASB Question 13

Staff consider that the AASB's response to IASB Question 13 should:

- (a) express agreement with the proposal to incorporate IFRIC 14 in to the amended Standard;
- (b) make no comment on the proposals regarding minimum funding requirements as the issue is relevant to few entities in the Australian context;
- (c) express agreement with the proposal that tax payable by the plan be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax, because it is:
 - (i) a principles-based approach; and
 - (ii) facilitates tax payable being treated in a manner consistent with its nature.

In addition, staff consider that these proposals would:

- (iii) clarify the treatment of superannuation contributions tax. Accordingly, staff consider that the AASB should not recommence deliberations on its draft Interpretation on superannuation contributions tax (see staff's proposals in relation to AASB Question 2 – paragraph 85 of this Agenda paper); and
- (iv) resolve at a principles level any uncertainty regarding the treatment of superannuation investment tax. Accordingly, staff do not consider that the AASB's response should comment further on this proposal;
- (d) express agreement with the proposal that the return on plan assets be reduced by administration costs only if those costs relate to managing plan assets because this approach would facilitate consistency in the treatment of administration costs;
- (e) express agreement with the proposal that expected future salary increases be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years because this approach would facilitate consistency in the treatment of different types of defined benefit arrangements;
- (f) express agreement with the proposal to clarify that mortality assumptions used to determine a defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment, because this would ensure that all defined benefit obligations are measured on a consistent basis; and
- (g) make no comment on the proposals regarding risk-sharing and conditional indexation features as these aspects of defined benefit arrangements are relevant to few entities in the Australian context.

Multi-employer plans

IASB 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) of ED/2010/3)

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?

67. Four (IAA #2, ACAG #3, Mercer #4 and GT #5) of the seven responses express a view on IASB Question 14. Three (IAA #2, ACAG #3 and GT #5) of the responses indicate that the respondents are not aware of 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. One response (Mercer #4) suggests that:
- (a) if the assets of a plan are segregated on a physical or notional basis, then a consistent and reliable basis for allocating the obligation, assets and costs would exist; and
 - (b) there may be some government departments, agencies or enterprises with employees who are members of a partly-funded pension scheme, and the scheme's assets may be apportioned according to members' entitlements. While such an apportionment may not be accurate, it arguably represents a reasonable approximation, particularly when the same government supports all of the entities involved in the scheme.

Staff views on IASB Question 14

Staff consider that the AASB's response to IASB Question 14 should note that:

- (a) a consistent and reliable basis for allocating the obligations, assets and costs of a multi-employer plan would be generally premised on the assets of each employer sponsor being separately identifiable from the assets of other employer sponsors; and
- (b) the vast majority, if not all, plans operating in Australia pool contributions received from employer sponsors and therefore the assets of each employer sponsor are not generally separately identifiable from those of other employer sponsors.

Transition

IASB Question 15

Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101 of ED/2010/3) Why or why not?

68. Five (IAA #2, ACAG #3, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses express a view on IASB Question 14. Three of the responses (IAA #2, ACAG #3 and GT #5) express agreement with the proposal. The IAA also notes that:
- (a) entities should be given sufficient time to collect the relevant information required to comply with the disclosure proposals. Accordingly, the IASB should give consideration to allowing more than twelve months lead time between the date the new Standard is issued and the effective date of the new Standard, consistent with the proposals it made in December 2009; and
 - (b) it may be appropriate to confirm the transitional treatment of any change in the calculation of defined benefit obligations as a consequence of, for instance, including investment taxes in the liability.
69. The CPA, ICAA and NIA joint submission expresses disagreement with the disclosure proposals being applied retrospectively as they are overly complex and providing historical information will not be relevant.
70. HoTARAC recommends that, if the sensitivity disclosure proposals are approved, comparative information should not be required given that hindsight may be inappropriately used in determining what is regarded as a reasonably possible change in assumption.

Staff views on IASB Question 15

Staff consider that the AASB's response to IASB Question 15 should express agreement with the proposal that the amendments be applied retrospectively because:

- (a) it is unlikely that the proposals, particularly those in respect of defined benefit plans, will be unduly burdensome for entities to apply; and
- (b) retrospective application would enhance the usefulness and comparability of financial statements.

Benefits and costs

IASB 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 of ED/2010/3)
Why or why not?

- 71. Six (IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses express a view on IASB Question 16. In addition, four responses (AP #1, IAA #2, GT #5 and CPA, ICAA and NIA #6) discuss issues that are pertinent to IASB Question 16 in response to IASB Question 17, and one response (HoTARAC #17) discusses issues that are pertinent to IASB Question 16 in response to IASB Question 12. Accordingly, parts of AP's, the IAA's, GT's and the CPA, ICAA and NIA's responses to IASB Question 17, and HoTARAC's response to IASB Question 12, are incorporated in the discussion below.
- 72. Four responses (IAA #2, ACAG #3, Mercer #4 and GT #5) express overall agreement with the IASB's assessment, but note a number of issues, including:
 - (a) much of the information necessary to comply with the proposals is already available to entities accounting for defined benefit obligations. However, some of the disclosure proposals will impose additional costs on some entities; and
 - (b) under the proposals, entities that provide benefits that are currently classified as 'other long-term employee benefits' (such as long-service leave benefits) will be required to account for such obligations in the same way as post-employment benefits. However:
 - (i) entities are currently required to measure such obligations in accordance with the approach for defined benefit obligations;
 - (ii) obligations such as long-service leave benefits and salary bonus schemes arguably do not expose entities to the same level of risk as defined benefit obligations;
 - (iii) the proposed changes will impose additional costs on most entities as few, if any, currently gather sufficient information to split any remeasurement changes in long-service leave obligations between service cost, interest cost

and other remeasurements, or to comply with the current and proposed disclosure requirements applicable to post-employment benefits; and

- (iv) the need for enhanced reporting in relation to such obligations is not evident among users.

Accordingly, these proposals may not be justified on cost-benefit grounds.

73. The CPA, ICAA and NIA joint submission expresses agreement with IASB Questions 16(a)(i)-(iii), but disagrees with IASB Question 16(a)(iv) for some of the reasons discussed in paragraph 38 of this Agenda paper. In addition, the CPA, ICAA and NIA's joint submission expresses disagreement with the proposals in relation to obligations for annual leave and long-service leave benefits because:

- (a) constituents have not been forewarned of the proposals in the Introduction to the ED, and there is no specific questions asked in relation to these changes. These proposals will have a widespread and significant impact on many Australian reporting entities and as such, should have been clearly communicated and constituent comments sought; and
- (b) under the current requirements, remeasurements of obligations for long-service leave and annual leave are recognised in profit or loss and this approach is considered appropriate as long-service and annual leave benefits are considered business expenses. However, under the proposals remeasurements would be recognised in other comprehensive income.

Nevertheless, the CPA, ICAA and NIA's joint submission does express support for the proposal that obligations for annual leave that are not expected to be settled within twelve months be subject to discounting.

74. HoTARAC believes that the main benefit of the ED is the proposal to require all changes in defined benefit obligations and plan assets to be recognised immediately. However, HoTARAC opposes the proposals:

- (a) in relation to the calculation of the net interest on the net defined benefit liability (asset) because they will result in an interest cost that is less representative than the amount measured under the current treatment and a loss of valuable information regarding the expected return on plan assets;
- (b) in relation to some of the disclosure requirements, particularly the sensitivity analysis proposals, on cost-benefit grounds; and
- (c) to require the disclosure requirements applicable to defined benefit obligations to apply to those employee benefits currently described as 'other long-term employee benefits' on cost-benefit grounds. In addition, HoTARAC notes that some entities will incur costs to separate the short and long-term components of some employee benefits where information sourced for the proposed disclosure would usually be generated for the entire liability.

HoTARAC recommends either retaining the current approach under IAS 19 or applying less onerous disclosure requirements to obligations currently described as 'other long-term employee benefits' on the basis that such benefits are not usually subject to the same degree of uncertainty as post-employment benefits.

75. AP expresses agreement with the proposed changes to the treatment of ‘other long-term employee benefits’, noting that they would:
- (a) facilitate consistency between the accounting for defined benefit obligations and other similar liabilities such as obligations for long-service leave benefits; and
 - (b) potentially reduce the volatility in some entities’ profit or loss statements, thereby assisting users to interpret the underlying performance of such entities.

Staff views on IASB Question 16

Staff consider that the AASB’s response to IASB Question 16 should express disagreement with the proposal to require ‘long-term employee benefits’, such as obligations for annual leave benefits not expected to be settled within twelve months and obligations for long-service leave benefits, to be accounted for on the same basis as defined benefit plans for the reasons outlined in paragraphs 72(b)(ii)-(iv) and 73 of this Agenda paper.

Other comments

IASB Question 17

Do you have any other comments on the proposals?

76. Six (AP #1, IAA #2, ACAG #3, GT #5 and CPA, ICAA and NIA #6) of the seven responses provide a response to IASB Question 17.
77. As noted above:
- (a) AP’s, the IAA’s and GT’s comments in relation to the proposal to account for ‘other long-term employee benefits’ in the same way as post-employment benefits have been included in the discussion of comments on IASB Question 16 above (paragraph 67 of this Agenda paper); and
 - (b) GT’s comments and the CPA, ICAA and NIA’s comments regarding the required discount rates for defined benefit obligations under IAS 19 in response to IASB Question 5 have been incorporated in the discussion below.
- Also, parts of the CPA, ICAA and NIA’s response to IASB Question 17 have been incorporated in the discussion on IASB Question 13 above (paragraph 57 of this Agenda paper).
78. ACAG recommends a number of changes to ED/2010/3, including:
- (a) the scope section (paragraph 4) should be amended to clarify that long-service leave may not always be expected to be due to be settled 12 months or more after the end of the reporting period (and therefore would not always meet the definition of a long-term employee benefit);
 - (b) if it is the IASB’s intention is to require long-service leave and similar liabilities to be accounted for on the same basis as defined benefit plans, this should be

made clear as a natural reading of the definition of a defined benefit plan would not necessarily lead a reader to this conclusion; and

- (c) clause (b) of the definition of long-term employee benefit be amended to read 'on or after the completion of employment' to remove the possibility that an employee benefit expected to become due to be settled at the time of termination is interpreted as being outside the definition.

79. GT recommends a number of changes to ED/2010/3, including:

- (a) clarify the meaning of the phrase 'expected to become due to be settled';
- (b) clarify whether long-term benefits must be separated in to current and non-current elements in order to satisfy the requirements in IAS 1; and
- (c) in respect to Example 6 in the Illustrative Examples, clarify whether the opening surplus restriction is included in the opening totals of the net defined benefit liability.

80. In addition, GT recommends that the amended Standard should:

- (a) include more specific and relevant guidance on estimating the market yield on high quality corporate bonds; and
- (b) include guidance that resolves the types of issues that arise if there is no deep market for corporate bonds in the entity's jurisdiction. GT notes that the current guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (paragraphs AG69-AG82) is insufficient and would be of little practical use in the context of determining discount rates for defined benefit obligations because the paragraphs in question:
 - (i) apply in the context of valuing a single instrument rather than determining an overall or composite market yield;
 - (ii) are used for instruments held or issued by the entity rather than instruments to which entity is not a party; and
 - (iii) do not offer sufficient guidance on what to do in respect of jurisdictions in which there are no quoted or observable transaction prices; and
- (c) require an entity to provide information in relation to the basis on which the discount rates are calculated and any uncertainties in relation to any assumptions used in determining discount rates.

81. The CPA, ICAA and NIA joint submission recommends that:

- (a) the IASB provide the clarity necessary to eliminate the current diversity in practice in relation to the treatment of taxes on investment income for determining defined benefit obligations; and
- (b) future IASB EDs proposing a number of changes that rely on other parts of a standard (like ED/2010/3) be issued as a fully marked up version of the standard.

In addition, the response argues that, due to the lack of a 'deep market' for high quality corporate bonds in some jurisdictions, the discount rate requirements in IAS 19 potentially undermine the comparability of financial statements across jurisdictions.

The requirements also potentially discriminate against entities with defined benefit plans in jurisdictions that lack deep markets for high quality corporate bonds.

82. HoTARAC expresses concerns with the IAS 19 discount rate and recommends that the issue of discount rates for long-term liabilities should be addressed by the IASB as soon as possible. HoTARAC notes that a discount rate based on a spot rate can give rise to inappropriate outcomes, such as significant differences in reported liabilities due to differences in yields on government and corporate bonds and significant volatility in reported superannuation liabilities. Accordingly, HoTARAC recommends the IASB consider alternative approaches for determining discount rates for long-term liabilities, such as an average rate over time, the full yield curve, an inflation index such as a forecast implicit price deflator, or the funding approach for measuring superannuation liabilities, which is based on long-term earnings rates.
83. HoTARAC also notes a number of drafting issues in relation to:
- (a) consistency in the terminology used in relation to short-term and long-term employee benefits;
 - (b) retaining the definition of vested employee benefits as the term ‘vested benefits’ has been retained within the body of the Standard;
 - (c) the location of various paragraphs within IAS 19;
 - (d) ensuring the definition of fair value in the Standard is consistent with the definition of fair value in the IASB’s Fair Value Measurement ED; and
 - (e) Illustrative Example 6, particularly the terminology used in the Example and the presentation of ‘non-routine settlement’ items outside of ‘remeasurements’.

Staff views on IASB Question 17

Staff consider that the AASB’s response to IASB Question 17 should draw the IASB’s attention to the issues discussed in paragraphs 78 , 79(b), 79(c) and 83 of this Agenda paper.

Staff acknowledge respondents’ concerns regarding the requirement in AASB 119 for a (net) defined benefit liability to be discounted at a rate determined by reference to market yields on corporate bonds or government bonds. However, staff consider that, given the purpose of ED/2010/3, the question of which rate an entity should use to discount its defined benefit obligations should be considered as a part of a more comprehensive review of accounting for employee benefits. In addition, staff consider that the IASB’s deliberations on discount rates for employee benefits are likely to have implications for other IFRSs that require discounting. Accordingly, staff consider that the AASB’s response should recommend the IASB undertake a comprehensive project on discount rates to support any project to comprehensively review the accounting for employee benefits (as well as any other relevant projects).

Summary of the main issues raised in responses to the AASB specific matters for comment in ED 195 and AASB staff proposals

AASB Question 1

The Preface to AASB 1049 *Whole of Government and General Government Sector Financial Reporting* notes that, as a result of potential amendments to the requirements in other Australian Accounting Standards, differences between Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) not contemplated in AASB 1049 may eventuate. Consistent with the AASB's comments in the Preface to AASB 1049 addressing this matter, the AASB will have regard to the implications for whole of government and GGS financial reporting in decided whether to amend the proposals in this ED or the requirements in AASB 1049 to either avoid or confirm the existence of a difference. In that regard, do you think the proposed changes to the treatment of:

- (a) past service cost;
- (b) gains and losses arising from curtailments;
- (c) net interest on the net defined benefit liability (asset); or
- (d) remeasurements of the net defined benefit liability (asset);

would have implications for GAAP/GFS harmonisation and, if so, how do you think those implications should be dealt with in the context of the principles in AASB 1049?

84. Four (ACAG #3, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses comment on AASB Question 1. Three of the responses (ACAG #3, GT #5, CPA, ICAA and NIA #6) and a majority of HoTARAC members express a view that the proposed changes to AASB 119 would have no significant implications for GAAP/GFS harmonisation. In particular:
- (a) ACAG believes that the proposed changes would align AASB 119 to the accounting treatments required under GFS, particularly by eliminating the 'corridor' approach;
 - (b) HoTARAC does not believe that the revisions will impact on GAAP/GFS harmonisation *per se*. HoTARAC believes that, under GFS, paragraph (d) 'remeasurements' would be classified as 'other economic flows' and the 'net interest on the net defined benefit liability (asset)' at paragraph (c) would be classified as 'transactions', though this would be subject to confirmation with the Australian Bureau of Statistics (ABS). In accordance with paragraph 30 of AASB 1049, the GFS classification would also be applied in the harmonised GAAP/GFS financial statements. In addition, HoTARAC notes that:
 - (i) it expects the revision to AASB 119 will have a negative impact on the Net Operating Balance due to the discount rate being lower than the expected return on plan assets;
 - (ii) in principle, the introduction of a concept of 'remeasurements' better aligns with GFS and the concept of 'other economic flows'. However, if the IASB more commonly introduces the concept of 'remeasurements', GAAP/GFS harmonisation is likely to be made more complicated.

Complications with harmonisation will arise if the ABS does not agree that all 'remeasurements' under AASB 119 should be classified as 'other economic flows'; and

- (iii) a minority of HoTARAC members believe that, as GFS does not advocate netting, the proposal to present a net interest expense may have implications for AASB 1049 reporting, especially for jurisdictions where the defined benefit plan is part of the public sector.

Staff views on AASB Question 1

Staff consider that:

- (a) if the IASB adopts the proposals in ED/2010/3, some amendments to AASB 1049 would be necessary to ensure that AASB 1049 is consistent with the revised AASB 119; and
- (b) these amendments to AASB 1049 should be incorporated into an Amending Standard which would include amendments to both AASB 119 and AASB 1049.

In addition, prior to the IASB finalising its redeliberations on ED/2010/3, AASB staff should clarify with ABS staff the nature and extent of any convergence differences that might arise if the ED/2010/3 proposals were to be adopted.

AASB Question 2

Do you agree that the proposed amendments to the definition of 'return on plan assets' and paragraph 73(b)(iv) of IASB's ED/2010/3 *Defined Benefit Plans* clarify the treatment of superannuation contributions tax in accounting for defined benefit obligations? If not, please explain why.

85. Six (IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses comment on AASB Question 2. All six responses indicate that the proposed amendments in relation to return on plan assets would clarify the treatment of superannuation contributions tax. In addition, three (IAA #2, Mercer #4 and CPA, ICAA and NIA #6) of the responses recommend that AASB 119 should be amended to clarify the treatment of superannuation investment tax (see paragraphs 57-60 and staff views on IASB Question 13 in this Agenda paper).

Staff views on AASB Question 2

Staff consider that the AASB should not recommence deliberations on its draft Interpretation on superannuation contributions tax and remove the topic from its work program.

AASB Question 3

The AASB would particularly value comments on whether:

- (a) in addition to the issues raised in relation to Question 1 above, 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:
 - (i) not-for-profit entities; and
 - (ii) public sector entities;
- (b) overall, the proposals would result in financial statements that would be useful to users; and
- (c) the proposals are in the best interests of the Australian and New Zealand economies.

86. Six (IAA #2, ACAG #3, Mercer #4, GT #5, CPA, ICAA and NIA #6 and HoTARAC #7) of the seven responses comment on AASB Question 3. Four (Mercer #4, ACAG #3, GT #5 and CPA, ICAA and NIA #6) of these responses indicate that they not aware of any regulatory or other issues that may affect the implementation of the proposals by reporting entities in the Australian environment. In addition, four (IAA #2, ACAG #3, Mercer #4 and CPA, ICAA and NIA #6) of these responses indicate that the proposals would enhance the usefulness of financial statements for users, in particular by improving the comparability of financial statements.
87. However, four (IAA #2, ACAG #3, Mercer #4 and CPA, ICAA and NIA #6) of the responses express concerns regarding the costs that some entities, including entities with long-service leave obligations and public sector superannuation schemes, will incur as a result of the presentation and disclosure proposals. Consequently, all of these responses indicate that, subject to their comments in relation to these matters, the proposals are generally in the best interests of the Australian and New Zealand economies. In addition, one response (HoTARAC #7) expresses concern with the approach for calculating net interest on the net defined benefit liability (asset), primarily because it omits useful information in the form of the expected returns on plan assets and does not reflect the underlying nature of a plan's asset portfolio.
88. Two responses (IAA #2 and Mercer #4) express concern with the disclosure proposals in respect of defined benefit plans applying to public sector entities. Both responses:
- (a) suggest that some of the proposed disclosures are not justified on cost-benefit grounds as they deal with the risks that typically arise in the context of private sector defined benefit arrangements, and that the risks associated with unfunded or partially funds public sector superannuation schemes generally reside with the ultimate State or Commonwealth government rather than any particular public sector entity; and
 - (b) recommend that public sector be scoped out of IAS 19 and AASB 119, and Mercer recommends that the International Public Sector Accounting Standard for employee benefits be adopted for public sector entities.

In addition, Mercer suggests that a defined benefit public sector scheme sponsored by a State government could be accounted for under the requirements applicable to state plans. This would facilitate the government (or the relevant public sector entity)

accounting for the plan as if it was a defined contribution plan, which is arguably contrary to the intention of AASB 119.

89. One response (GT #5) recommends that the proposals not apply to non-publicly accountable entities as they would add significant complexity and costs that would not be borne by similar structured entities reporting in jurisdictions other than Australia.

Staff views on AASB Question 3

The issues discussed in paragraph 87 of this Agenda paper were considered by staff in formulating their views in respect of the relevant IASB Questions. Accordingly, staff consider no additional action is required with respect to these issues.

While staff acknowledge that some of the information disclosed by public sector schemes under AASB 119 is arguably less detailed than the equivalent disclosures provided by private sector plans, the proposal to scope public sector plans out of AASB 119 is arguably not justified overall on cost-benefit grounds. Further, any such scope exclusion would be contrary to the AASB's policy of transaction-neutrality. Accordingly, staff consider no additional action is required in respect of this issue.

Board members should also note that staff intend to present reduced disclosure regime proposals in relation to ED/2010/3 to the Board's October 2010 meeting.

Appendix A – A summary of the main proposals in ED/2010/3 *Defined Benefit Plans* and how they differ from the current requirements in AASB 119 *Employee Benefits*

Accounting for defined benefit obligations

Immediate recognition of past service cost

1. ED/2010/3 proposes that:
 - (a) the definition of service cost should be expanded to encompass past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from the introduction of, or changes to, long-term employee benefits; and
 - (b) the service cost component of a change in defined benefit obligations should be recognised and presented in profit or loss in the period in which it arises.
2. In contrast, AASB 119 requires:
 - (a) current and past service costs to be treated separately; and
 - (b) an entity to recognise past service cost as an expense on a straight-line basis over the average period in which the benefits become vested.

Accordingly, under the current requirements, an entity would only immediately recognise all past service costs as an expense if the associated benefits vested immediately in the entity's employees.

Removal of the 'corridor' approach option

3. ED/2010/3 proposes that entities recognise all actuarial gains and losses in respect of their defined benefit liabilities in other comprehensive income in the period in which they arise. In addition, such gains and losses would be transferred immediately to retained earnings [with other remeasurements of the net defined benefit liability (asset) – refer to the discussion below] and not reclassified to profit or loss in a subsequent period.
4. While an entity is currently permitted to recognise all actuarial gains and losses immediately under AASB 119, the Standard also permits an entity to recognise only a portion of the actuarial gains and losses attributable to its (net) defined benefit obligations arising during a reporting period as income or expense when its net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed the 'corridor' described in paragraph 92 of AASB 119. In addition, AASB 119 requires an entity to recognise this 'excess' of actuarial gains and losses over a period not exceeding the expected average remaining working lives of the employees participating in the particular plan.

Measurement and recognition of interest cost

5. ED/2010/3 proposes that the term ‘interest cost’ be removed and replaced by the term ‘net interest on the net defined benefit liability (asset)’, which would be defined as:

“...the change during the period in the net defined benefit liability (asset) that arises from the time value of money.”
6. In addition, ED/2010/3 proposes that net interest on the net defined benefit liability (asset) be:
 - (a) presented as part of finance costs in profit or loss; and
 - (b) excluded from return on plan assets, which would be recognised in other comprehensive income (as discussed below).
7. Consistent with the approach in AASB 119, ED/2010/3 proposes that the interest cost attributable to a defined benefit liability be determined on the basis of the discount rate applicable to the liability at the start of the period and adjusted for any material changes in the liability during the period. However, ED/2010/3 proposes that the interest cost be calculated on the basis of the net liability (that is, both the defined benefit obligation and the fair value of any plan asset) rather than the gross liability as required under AASB 119.

Definition, measurement and recognition of return on plan assets

8. ED/2010/3 proposes that the term ‘return on plan assets’ be amended as follows:

“The return on plan assets is:

 - (a) interest, dividends and other revenue income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less
 - (b) any costs of managing plan assets administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself, other than tax on contributions relating to service before the reporting date or on benefits resulting from that service.”
9. The amendments in part (b) of the definition are aimed at clarifying the treatment of taxes on contributions payable by a defined benefit plan. It is relevant to note that one to the AASB Specific Matters for Comment in ED 195 asks constituents to confirm whether these and other proposed amendments clarify the treatment of superannuation contributions tax for defined benefit obligations accounted for under AASB 119.
10. ED/2010/3 also proposes that the return on plan assets should:
 - (a) be recognised in other comprehensive income as a part of ‘remeasurements of a defined benefit liability (asset)’ in the period in which it arises; and
 - (b) exclude amounts included in net interest on the net defined benefit liability (asset).

11. These proposals give rise to a number of differences from the current approach under AASB 119. For instance, AASB 119 requires:
- (a) an entity to recognise the *expected* return on plan assets in profit or loss. In contrast, ED/2010/3 proposes that entities no longer recognise the expected return on plan assets; and
 - (b) any difference between the expected and actual returns on plan assets to be treated as an actuarial gain or loss and recognised in profit or loss or other comprehensive income in accordance with the entity's accounting policy with respect to actuarial gains and losses. In contrast, ED/2010/3 proposes that the *net* actual return on plan assets [the actual return on plan asset less the net interest on the net defined benefit liability (asset)] be recognised in other comprehensive income as a part of 'remeasurements of a net defined benefit liability (asset)'.

Curtailments, settlements and amendments to the terms of a plan

12. Paragraphs 111 and 112 of AASB 119 state that:

“A curtailment occurs when an entity either:

- (c) is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or
- (d) amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefit.

A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case an entity accounts for a curtailment at the same time as for a related restructuring.”

“A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.”

Accordingly, an amendment to the terms of a plan is a curtailment, and the same event could give rise to both a settlement and curtailment in a defined benefit plan.

13. AASB 119 requires any gains or losses on both curtailments and settlements to be recognised in profit or loss in the period in which they arise. In contrast, ED/2010/3 proposes that:
- (e) gains and losses arising from curtailments (including any amendments to the terms of the plan) be presented in profit or loss in the period in which they arise; and
 - (f) gains and losses arising from settlements be recognised as a part of remeasurements of the net defined benefit liability (asset) in the period in which they arise.

Disclosure of information in relation to any defined benefit obligations

14. ED/2010/3 proposes that the disclosure requirements in IAS 19 be replaced by a set of principles and requirements that facilitate an entity disclosing information that:
- (a) explains the characteristics of its defined benefit plans, including:
 - (i) the nature of the benefits provided by the plan;
 - (ii) the effect of the regulatory framework in which the plan operates;
 - (iii) any restrictions on the amount recognised as a net defined benefit asset;
 - (iv) a narrative description of the extent of the risks to which the plan exposes the entity and of any concentrations of risk; and
 - (v) a narrative description of any plan amendments, curtailments and non-routine settlements; and
 - (b) identifies and explains the amounts in its financial statements arising from its defined benefit plans, including:
 - (i) a reconciliation from the opening balance to the closing balance for the net defined benefit liability (asset) and any reimbursement rights;
 - (ii) a disaggregation of the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets;
 - (iii) quantitative information about the actuarial assumptions used to determine the defined benefit obligation;
 - (iv) a brief description of the process used to determine demographic actuarial assumptions to supplement the disclosures provided in accordance with (iii) above;
 - (v) the present value of the defined benefit obligation, adjusted to exclude the effect of projected growth in salaries;
 - (vi) a sensitivity analyses in respect of significant actuarial assumptions;
 - (vii) details of any asset-liability matching strategies used by the plan; and
 - (viii) a narrative discussion of factors that could cause contributions over the next five years to differ significantly from current service cost over that period.
15. As discussed in Agenda paper 3.3 to the Board's September 2010 meeting, staff consider that, except for the proposals:
- (a) that are not applicable in a superannuation context, such disclosures in relation to limits on a defined benefit asset; and
 - (b) described in paragraph 17(b)(v) and (vi) above;
- the disclosure proposals in ED 179 *Superannuation Plans and Approved Deposit Funds* for a plan with defined benefit members are either consistent with, or more extensive than, the equivalent disclosures proposed in ED/2010/3 for an employer sponsor of a defined benefit plan.

Accounting for employee benefits

16. ED/2010/3 proposes the following amendments to the definitions of short-term and post-employment benefits, and defined benefit plans:

“Short-term employee benefits are employee benefits (other than termination benefits) that the entity expects to become ~~are~~ due to be settled within twelve months after the end of the reporting period in which the employees renders the related service and before the completion of employment.”

“~~Post-employment~~ Long-term employee benefits are employee benefits (other than termination benefits) ~~which are payable after the completion of employment.~~ that the entity expects to become due to be settled:

(a) twelve months after the end of the reporting period in which the employee renders the related service; or

(b) after the completion of employment.”

“Defined benefit plans are ~~post-employment~~ long-term employee benefit plans other than defined contribution plans.”

17. In addition, ED/2010/3 proposes removing all references to ‘other long-term employee benefits’. Consequently, under a revised AASB 119, employee benefits that had previously been categorised as other long-term employee benefits, including:

- (a) long-term compensated absences such as long-service leave or sabbatical leave;
- (b) jubilee or other long-service benefits;
- (c) long-term disability benefits;
- (d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service; and
- (e) deferred compensation paid twelve months or more after the end of the period in which it is earned;

would be accounted for on the same basis as defined benefit obligations.

18. Consistent with the proposals in ED/2010/3, AASB 119 requires ‘other long-term employee benefits’ to be recognised and measured on the same basis as (net) defined benefit obligations. However, AASB 119 requires all remeasurement changes in obligations for other long-term employee benefits, such as current service cost, interest cost, expected return on plan assets and actuarial gains and losses, to be recognised in profit or loss in the period in which they occur. In addition, AASB 119 does not require specific disclosures about other long-term employee benefits, although the Standard notes that other Australian Accounting Standards may require disclosures in relation to such items.
19. In contrast to the approach under AASB 119, ED/2010/3 proposes that all remeasurement changes in obligations for long-term employee benefits be presented on the same basis as remeasurement changes in (net) defined benefit obligations. That is,

an entity with, for instance, obligations for long-service leave entitlements would present:

- (a) service cost in profit or loss;
- (b) net interest on the (net) liability as part of finance costs in the profit or loss; and
- (c) remeasurements of the (net) liability in other comprehensive income.

In addition, ED/2010/3 proposes that an entity with obligations for long-term employee benefits would disclose information in relation to such obligations that is consistent with the types of information the ED proposes should be disclosed in relation to defined benefit obligations (refer to paragraph 14 of this Appendix).

20. It is relevant to note that ED/2010/3 proposes to relocate the definition of 'termination benefits' within paragraph 7 of IAS 19, but does not propose any changes to the definition. In June 2005, the IASB published an exposure draft of amendments to IAS 19, dealing with the accounting for termination benefits, together with proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The IASB is working towards final amendments to the accounting for termination benefits. The date of publication is yet to be confirmed.

Appendix B – Table of respondents to ED 195

Response number	Respondent	Constituent Group
1	Australia Post (AP)	Preparer of financial statements
2	Institute of Actuaries of Australia (IAA)	Professional actuarial body
3	Australasian Council of Auditors-General (ACAG)	Representative body
4	Mercer	Actuary, consultant, administrator and preparer of financial statements
5	Grant Thornton (GT)	Accountant, auditor and business adviser
6	Joint submission by the CPA Australia, the Institute of Chartered Accountants in Australia and the National Institute of Accountants (CPA, ICAA and NIA)	Professional accounting bodies
7	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Representative body