



16 September 2015

Mr Angus Thomson  
Research Director  
Australian Accounting Standards Board  
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Email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Mr Thomson

**Comments on Exposure Draft - ED 266 Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Proposed amendments to AASB 119 and Interpretation 14)**

The Actuaries Institute is the sole professional body for actuaries in Australia. It represents the interests of over 4,100 members, including more than 2,200 actuaries. Our members have had significant involvement in the superannuation industry and the development of superannuation regulation, reporting and disclosure, interpreting financial statistics, risk management and related practices in Australia for many years.

The attached submission sets out the Actuaries Institute's comments on ED 266 Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Proposed amendments to AASB 119 and Interpretation 14).

Please do not hesitate to contact the Chief Executive Officer of the Actuaries Institute, David Bell (phone 02 9239 6106 or email [david.bell@actuaries.asn.au](mailto:david.bell@actuaries.asn.au)) to discuss any aspect of this paper.

Yours sincerely

A handwritten signature in black ink that reads "Boal".

Andrew Boal  
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**Question 1—Accounting when other parties can wind up a plan or affect benefits for plan members without an entity’s consent**

The IASB proposes amending IFRIC 14 to require that, when an entity determines the availability of a refund from a defined benefit plan:

- (a) the amount of the surplus that an entity recognises as an asset on the basis of a future refund should not include amounts that other parties (for example, the plan trustees) can use for other purposes (for example, to enhance benefits for plan members) without the entity’s consent.
- (b) an entity should not assume a gradual settlement of the plan as the justification for the recognition of an asset, if other parties can wind up the plan without the entity’s consent.
- (c) other parties’ power to buy annuities as plan assets or make other investment decisions without changing the benefits for plan members does not affect the availability of a refund.

Do you agree with the proposed amendments? Why or why not?

We understand that the amendment is intended to capture situations where an employer’s control over the refund of a plan surplus is severely compromised and hence there is significant uncertainty over an employer’s ability to obtain value from that surplus through a refund.

For most Australian defined benefit plans employers receive value from a surplus through a reduction in future contributions rather than a refund of surplus. A refund of surplus is less tax effective than a contribution holiday and is subject to additional legislative requirements. Given that these amendment apply to refunds of surplus, not contribution holidays, we expect that they will have little impact on Australian plans.

Having said that, we are concerned that the amendment deals with the application of often very legalistic plan termination provisions under very specific circumstances. Given variations in plan rules and legal structures the amendments may not achieve the intended purpose. It may be more appropriate for the amendment to set out the principles the IASB wishes to achieve or to allow recognition of surplus where it can be demonstrated that the employer is still likely to achieve value, notwithstanding another party’s powers.

**Question 2—Statutory requirements that an entity should consider to determine the economic benefit available**

The IASB proposes amending IFRIC 14 to confirm that when an entity determines the availability of a refund and a reduction in future contributions, the entity should take into account the statutory requirements that are substantively enacted, as well as the terms and conditions that are contractually agreed and any constructive obligations.

Do you agree with that proposal? Why or why not?

We support this proposal. We agree that current requirements as they stand at the date of determination should be allowed for.



**Question 3—Interaction between the asset ceiling and past service cost or a gain or loss on settlement**

The IASB proposes amending IAS 19 to clarify that:

- (a) the past service cost or the gain or loss on settlement is measured and recognised in profit or loss in accordance with the existing requirements in IAS 19; and
- (b) changes in the effect of the asset ceiling are recognised in other comprehensive income as required by paragraph 57(d)(iii) of IAS 19, as a result of the reassessment of the asset ceiling based on the updated surplus, which is itself determined after the recognition of the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

We support the proposed amendment. The amendment leads to a consistent treatment of past service costs and gains and losses on settlement between employers who are just over or just below the asset ceiling. We also understand that the purpose of the asset ceiling is to require employers not to recognise a plan surplus where they are unlikely to derive value from that surplus. Using the surplus to fund a past service costs suggests that the employer may receive some value from the surplus.

We note there is an alternative view that the surplus above the ceiling has no value and hence there should be no cost if it is spent on something like a past service cost. We believe that it would be helpful for the IASB to set out reasons why the proposed view is preferred over the alternative view.

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

The IASB proposes amending IAS 19 to specify that:

- (a) when the net defined benefit liability (asset) is remeasured in accordance with paragraph 99 of IAS 19:
  - (i) the current service cost and the net interest after the remeasurement are determined using the assumptions applied to the remeasurement; and
  - (ii) an entity determines the net interest after the remeasurement based on the remeasured net defined benefit liability (asset).
- (b) the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement are not affected by, or included in, the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

We are concerned that the proposed amendments would lead to inconsistent treatment of otherwise identical defined benefit plans sponsored by different employers.



The inconsistency arises because one employer is required to remeasure their plan while the other employer isn't required to remeasure. Even if the plans are otherwise identical after the event, the measurements at different points in time with different assumptions will lead to the two employers showing a different expense for two identical plans.

Further the amendments could under some extreme circumstances encourage artificial plan amendments, curtailments or settlements in order to initiate a remeasurement of the service cost and net interest. If the movement in assumptions was sufficiently favourable engineering a minor change would allow the whole plan to be remeasured.

We believe that the effect of the settlement on the ongoing expense can be allowed for relatively simply without creating the distortions caused by remeasurements described above.

Under current rules, the settlement gain or loss can often be determined based on the assets paid from the plan in the settlement and the defined benefit obligation of the members who accept the offer to settle.

One could then proceed as follows, applying in both cases the assumptions current at the beginning of the reporting period:

- a. deduct from or add to the net interest for the period subsequent to the event an amount that represents the share of the existing net interest that is related to the obligations settled as a result of the event; and
- b. deduct from or add to the current service cost for the period subsequent to the event an amount that represents the share of the existing current service cost for the obligations settled as a result of the event.

We believe that this approach would be consistent with current practice, would recognise the impact of the event in the post-event period and would not lead to distortions between different employers sponsoring similar plans.

#### Question 5—Transition requirements

The IASB proposes that these amendments should be applied retrospectively, but proposes providing an exemption that would be similar to that granted in respect of the amendments to IAS 19 in 2011. The exemption is for adjustments of the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit expenses that are included in inventories) (see paragraph 173(a) of IAS 19).

We do not support the retrospective application of these amendments.

Under the current standard remeasurement of the service cost and interest cost for members who are not affected by the plan amendments, curtailment or settlement is not required and any gains or losses at the time of settlement will be captured at the end of the reporting period. Therefore there is typically no remeasurement for members of a plan who are not affected by a plan amendment, curtailment or settlement that affects other members.



Retrospective application of the requirements will mean that new remeasurements need to be undertaken in previous periods where calculations have not previously been done. The retrospective application could lead to significant additional costs from sourcing required data and undertaking calculations not previously performed.

The impact of the additional calculations will be some change between amounts previously recorded in Profit and Loss and amounts recorded in Other Comprehensive Income. There does not appear to be a benefit to users of financial statements that outweighs the costs.