



Australian Government

**Australian Accounting
Standards Board**

Level 7, 600 Bourke Street
MELBOURNE VIC 3000

Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear David

**Exposure Draft ED/2010/3 *Defined Benefit Plans –
Proposed amendments to IAS 19***

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on Exposure Draft ED/2010/3 *Defined Benefit Plans – proposed amendments to IAS 19*. In formulating these comments, the AASB sought and considered the views of Australian constituents. The comment letters received are published on the AASB's website.

AASB's response to ED/2010/3

The responses contained in this submission aim to assist the IASB in implementing short-term targeted improvements in the current reporting requirements for defined benefit plans. Accordingly, any support expressed in this submission for the ED's proposals should be read in this context. The AASB considers accounting for defined benefit plans to be an area in need of a comprehensive review and recommends the IASB treat the next phase of its Post-employment Benefits as a priority project once the current suite of high priority projects have been completed.

Aspects of the ED that the AASB supports as interim measures

The AASB supports the proposals in the ED that it considers would reduce the complexity and diversity of practices under IAS 19 *Employee Benefits*. In most circumstances, the AASB considers that these proposals will also improve the transparency and comparability of information about defined benefit plans under the current reporting requirements. Accordingly, the AASB supports the IASB's proposals to:

- (a) require all changes in the present value of defined benefit obligations and the fair value of plan assets to be recognised immediately;
- (b) require unvested past service cost to be recognised when the related plan amendment occurs;
- (c) exclude changes in defined benefit obligations resulting from changes in demographic assumptions from the service cost component; and
- (d) clarify the treatment of tax on contributions to defined benefit plans.

The AASB also supports the IASB's proposals to disaggregate defined benefit cost into service cost, finance cost and remeasurements for the purpose of presentation. However, the AASB considers that, in the absence of a generally accepted principle for determining which items should be presented in other comprehensive income (OCI), it is not clear whether the proposals would provide any benefits to users in terms of improved information for decision making. Accordingly, until the IASB has developed such a generally accepted principle in the context of its Financial Statements Presentation project, the revised version of IAS 19 should provide entities with an irrevocable option to present the remeasurement component of defined benefit costs in profit or loss or in OCI.

If the IASB were to adopt the proposals in respect of the disaggregation of defined benefit costs, the AASB also considers that these requirements should be subject to the IASB's decisions in relation to its Financial Statement Presentation project as well as the IASB's anticipated review of post-employment benefits.

Aspects of the ED not supported by the AASB

As noted above, the AASB supports the proposals in the ED to the extent that they:

- (a) would facilitate a reduction in the complexity and diversity of practices under IAS 19; and
- (b) facilitate improvements in the transparency and comparability of reported information about defined benefit plans under the current reporting requirements.

Consequently, the AASB does not support:

- (a) the proposed treatments of gains or losses on non-routine settlements, curtailments and plan amendments because having different treatments for gains and losses arising in these types of circumstances is likely to diminish the comparability of financial statements between entities and over time;
- (b) the proposed treatment of obligations that are currently described as 'other long-term employee benefits', such as long-service leave, long-term disability benefits and other deferred compensation (including annual leave) paid twelve months or more after the end of the period in which it was earned. Notwithstanding that the proposals would facilitate liabilities with similar characteristics being treated in the same manner, requiring obligations for other long-term employee benefits to be accounted for on the same basis as defined benefit obligations would:
 - (i) be premature given the lack of a generally accepted principle for determining which items should be presented in OCI; and
 - (ii) arguably increase (rather than reduce) the level of complexity associated with accounting for such obligations; and
- (c) a number of the disclosure proposals, including the proposal for an entity to disclose the present value of its defined benefit obligation, modified to exclude the effect of projected salary growth.

In addition, to facilitate more comprehensive and integrated disclosures regarding defined benefit plans, particularly in relation to the actuarial assumptions used and the risks to which an entity is exposed in relation to its plans, the AASB recommends that the new

disclosure requirements in paragraphs 125C(b) and 125I, 125G(b), 125J and 125K of ED/2010/3 be replaced by a set of comprehensive and integrated disclosure principles. To this end, the AASB recommends that the amended requirements be aligned with disclosure requirements applicable to financial liabilities under IFRS 7 *Financial Instruments: Disclosures*.

The AASB also notes that the proposals in respect of net interest on the net defined benefit liability (asset) underscore the inconsistencies that currently exist across IFRSs with respect to the determination of discount rates, and thereby highlight the need for the IASB to undertake a comprehensive project on discount rates.

The AASB's specific comments on the questions in the ED's Invitation to Comment are set out in the attached submission.

If you have any queries regarding any matters in this submission, please contact me or Dean Ardern (dardern@asb.gov.au).

Yours sincerely,

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a long, sweeping underline.

Kevin M. Stevenson
Chairman and CEO

**AASB’s Specific Comments on IASB Exposure Draft
ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19***

1. The AASB’s views on the questions in the ED’s Invitation to Comment section are as follows.

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) Do you agree? Why or why not?

2. The AASB supports the ED’s proposals for entities to recognise all changes in the present value of their defined benefit obligations 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.

Recognition

IASB Question 2

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

3. The AASB supports the ED’s proposal for entities to recognise unvested past service cost when the related plan amendment occurs because:
- (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 IAS 19 *Employee Benefits* to allocate benefits to periods of service, irrespective of whether the benefits are vested.

Disaggregation

IASB Question 3

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

4. The AASB supports the ED's proposal for entities to disaggregate defined benefit cost into three components (service cost, finance cost and remeasurements) because the approach would:
 - (a) facilitate the provision of more useful information to users, particularly in relation to estimating future costs of defined benefit plans and their impact on future profits; and
 - (b) improve comparability of financial statements between entities.

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) Why or why not?

5. The AASB supports the ED's proposal for the service cost component to exclude changes in the defined benefit obligation resulting from changes in demographic assumptions because changes in demographic assumptions have a different predictive value from service cost. Accordingly, and consistent with other proposals in the ED, separately disclosing changes in defined benefit obligations resulting from non-performance related factors (such as demographic changes) from service or benefit-related changes would be useful for users in understanding the factors impacting upon defined benefit obligation costs.

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)

6. The AASB supports, as an interim measure, the ED's proposal 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 of IAS 19 to the net defined benefit liability (asset). This is because the approach:
 - (a) is consistent with the underlying premise of IAS 19 that an entity is liable for the net obligation (defined benefit 'surplus' or 'deficiency'); and
 - (b) facilitates the calculation of interest expense that reflects the net liability (asset) recognised by the entity.
7. However, as noted in the covering letter to this submission, the AASB considers that the proposals in respect of net interest on the net defined benefit liability (asset) underscore the inconsistencies that currently exist across IFRSs with respect to the determination of discount rates. Accordingly, the AASB recommends that the IASB undertake a comprehensive project on discount rates once the current suite of high priority projects has been completed.

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) Why or why not?

8. The AASB supports, as an interim measure, the ED's proposals for entities to present service cost in profit or loss, net interest on the net defined benefit liability (asset) as part of finance cost in profit or loss, and remeasurements in other comprehensive income (OCI). However, as noted in the covering letter to this response, the AASB considers the absence of a generally accepted principle for determining which items

should be presented in OCI potentially undermines any benefits the proposals might provide to users in terms of improved information for decision making. Of particular concern to the AASB is the potential for accounting ‘mismatches’ to arise in respect to net interest on the net defined benefit liability (asset) and the return on plan assets. Accordingly, until the issues around OCI are resolved conceptually, the AASB recommends that the revised version of IAS 19 provide an irrevocable option for an entity to present the remeasurements component in profit or loss or in OCI.

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

IASB Questions 7(a) and (b)

- 9. The AASB does not support the ED’s proposals in respect of the treatment of gains and losses arising from settlements, curtailments and plan amendments.
- 10. Consistent with IAS 19 and the proposals in the ED, the AASB considers that the gain or loss from a non-routine settlement, curtailment or plan amendment should be determined on the basis of the remeasured defined benefit obligation at the date of the relevant transaction or event. In addition, the remeasurement change should be disaggregated into its components (service cost, finance cost and remeasurements). However, consistent with the response to Question 6 above, the remeasurement component and any gains or losses arising from a non-routine settlement, curtailment or plan amendment should be presented in profit or loss or in OCI in accordance with the entity’s irrevocable choice in respect of remeasurements of net defined benefit liabilities (assets).
- 11. The AASB considers there is merit in distinguishing between gains and losses arising from routine and non-routine settlements. Accordingly, the AASB does not support the proposal for gains and losses arising from routine settlements to be recognised in OCI with any gains or losses on non-routine settlements. Consistent with their nature, the AASB recommends that gains and losses on routine settlements be recognised in profit or loss in the period in which they arise.
- 12. In addition, the AASB does not consider that the ED clearly distinguishes the accounting requirements applicable to routine settlements from those applicable to

non-routine settlements. For instance, the ED does not propose any amendments to the main paragraphs in IAS 19 (paragraphs 112-115) dealing with settlements. In addition, paragraph 119D could be interpreted as requiring an entity to remeasure its defined benefit obligation each time a member exits its defined benefit plan. Accordingly, the AASB recommends the IASB review the relevant paragraphs in IAS 19 with the view to clarifying the accounting requirements applicable to routine and non-routine settlements.

IASB Question 7(c)

13. The AASB supports the ED's proposal for entities to disclose a narrative description of any non-routine settlements, curtailments and/or plan amendments. However, consistent with the response to Questions 7(a) and (b) above, the AASB recommends the proposals in the ED be amended to require an entity to disclose the effect of any non-routine settlements, curtailments and/or plan amendments on profit or loss or OCI.

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)

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

14. The AASB supports the ED's proposed disclosure objectives because they are:
- (a) principles-based; and
 - (b) consistent with the disclosure principles applicable to similar items, such as insurance liabilities.

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

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

IASB Question 9(a) - Information about risk, including sensitivity analyses

- 15. The AASB agrees that an entity should disclose information about the risks to which it is exposed in relation to its defined benefit plan (or plans). However, the AASB considers that entities and users would be better served by the proposals in paragraphs 125C(b) and 125I (as well as paragraphs 125G(b), 125J and 125K) being replaced by a set of comprehensive and integrated disclosure principles. To this end, the AASB recommends that the amended proposals in ED/2010/3 be aligned with disclosure requirements applicable to financial liabilities under IFRS 7 *Financial Instruments: Disclosures*.
- 16. While the AASB acknowledges that the disclosure principles in IFRS 7 were not drafted with defined benefit obligations in mind, the AASB considers that the disclosure principles in IFRS 7 could facilitate the provision of useful information to users if applied to defined benefit obligations. The AASB's proposed disclosure principle could be worded along the following lines:
 - “An entity shall disclose:
 - (a) the risks to which it is exposed in relation to its defined benefit plans, including any concentrations of risk;
 - (b) how the entity manages those risks; and
 - (c) any changes in (a) or (b) from the previous period.”

As discussed in relation to IASB Questions 9(d) and 9(e) below, the AASB considers these disclosure principles could replace the disclosure requirements proposed in paragraphs 125G(b), 125J and 125K of the ED.

17. Consistent with our comments on Exposure Draft ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*, the AASB does not support the proposal in ED/2010/3 to require an entity to disclose sensitivity analyses with respect to each significant actuarial assumption. The AASB is concerned that, if adopted, the proposals in paragraph 125I of ED/2010/3:
- (a) would require an entity to consider a range of alternative scenarios in recalculating its defined benefit obligations. The AASB considers that such an approach is inconsistent with the ‘best estimates’ approach under IAS 19 as it erroneously implies that other ‘best estimates’ could have been measured and reported. Furthermore, the AASB does not consider financial statements should be disclosing recalculated estimates of items presented in the financial statements;
 - (b) would not facilitate disclosures alerting users to the specific areas of uncertainty that could significantly change the amounts reported by entities in relation to their defined benefit plans; and
 - (c) may not facilitate disclosures that reflect the impact of correlations that exist between actuarial assumptions on the measurement of defined benefit obligations, as alluded to in paragraph 75 of IAS 19.
18. The AASB recommends that paragraph 125I of ED/2010/3 be replaced by a disclosure principle that focuses on the major sources of uncertainty about the actuarial assumptions used that would have a significant impact on the measurement of the defined benefit obligations. The AASB’s proposed disclosure principle could be worded along the following lines:
- “An entity shall disclose:
- (a) the major sources of uncertainty, if any, about the actuarial assumptions used that would change the:
 - (i) defined benefit obligation at the end of the reporting period; and
 - (ii) current service cost that was determined for the reporting period; and
 - (b) the effect of correlation between actuarial assumptions where information about the assumptions alone would otherwise be misleading.”

Under the proposed disclosure principle, an entity would be permitted but not required to provide a sensitivity analysis with respect to each actuarial assumption that could change reported amounts significantly.

IASB Question 9(b) – Demographic actuarial assumptions

19. Consistent with our response to IASB Question 9(a) above, the AASB recommends that paragraph 125G of the ED be replaced with a principle that requires an entity to disclose information about each significant actuarial assumption used to measure its net defined benefit liability (asset). Such an approach is consistent with the approach

required under IFRS 7 with respect to financial liabilities measured at fair value using a valuation technique.

IASB Question 9(c) – The present value of the defined benefit obligation, modified to exclude the effect of projected salary growth

20. The AASB does not support the proposal in the ED to require an entity to disclose the present value of its defined benefit obligation, modified to exclude the effect of projected salary growth ('accumulated benefit obligation'). The AASB considers such a proposal to be:
- (a) inconsistent with the measurement approach under IAS 19, which presumes that employers will honour their defined benefit obligations in full;
 - (b) inconsistent with current and proposed approaches for measuring similar liabilities, such as provisions and insurance liabilities; and
 - (c) arguably not justified on cost-benefit grounds as users are unlikely to consider the information useful for decision making.
21. In our experience, the accumulated benefit obligation measure is not one that is typically used in the Australian market by employers and actuaries to assess the financial position of a plan with defined benefit members, even in the detailed actuarial reports provide to employers. As such, we do not consider it to be useful in a financial reporting context.

IASB Question 9(d) – Information about asset-liability matching strategies

22. Consistent with our response to IASB Question 9(a) above, the AASB recommends that paragraph 125J of the ED be replaced with a principle that requires an entity to disclose information about how the entity manages the risks to which it is exposed in relation to its defined benefit plans, including any concentrations of risk.

IASB Question 9(e) – Information about factors that could cause contributions to differ from service cost

23. In Australia, the level of an entity's contributions in respect of its defined benefit plan often differs from the related current service cost. Furthermore, Australian entities are generally not contractually committed to making contributions to their defined benefit plans in the future. However, consistent with the approach under IAS 19, Australian entities generally honour their defined benefit obligations in full. Accordingly, and consistent with our response to IASB Question 9(a) above, the AASB recommends that paragraph 125K of the ED be replaced with a principle that requires an entity to disclose information about the risks to which it is exposed in relation to its defined benefit plans.

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) Why or why not?

24. The AASB supports the ED's 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) Why or why not?

25. The AASB supports the ED's proposed updates to the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control because they will facilitate consistent disclosures by entities with similar types of defined benefit plans. In addition, the AASB recommends the IASB clarify the meaning of 'state plans' in the context of IAS 19. In Australia, there is no government state plan which is open to members of the public or taxpayers at large (which is our understanding of the nature of 'state plans'). However, there are number of standard employer sponsored funds that have a government as an employer sponsor and they are potentially fundamentally different.

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)

26. The AASB does not have any other comments about the proposed disclosure requirements in addition to those made in respect to IASB Questions 8-11 above.

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)
- (b) ‘Minimum funding requirement’ is defined as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan. (Paragraphs 7 and BC80)
- (c) Tax payable by the plan shall be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax. (Paragraphs 7, 73(b), BC82 and BC83)
- (d) The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84–BC86)
- (e) Expected future salary increases shall be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years. (Paragraphs 71A and BC87–BC90)
- (f) The mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. (Paragraphs 73(a)(i) and BC91)
- (g) Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92–BC96)

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

IASB Question 13(a) – The requirements in IFRIC 14

- 27. The AASB supports the ED’s proposals to incorporate the requirements in IFRIC 14 in to IAS 19.

IASB Question 13(b) – Definition of minimum funding requirement

- 28. The AASB does not have any comments on this matter.

IASB Question 13(c) – The treatment of tax payable by a defined benefit plan

- 29. The AASB supports the ED’s proposal that tax payable by a defined benefit plan be included in the return on plan assets or in the measurement of the defined benefit obligation, depending upon the nature of the tax. This is because the proposed approach:
 - (a) is principles-based; and

- (b) would facilitate tax payable being treated in a manner that is consistent with its nature.

IASB Question 13(d) – The return on plan assets and administration costs

- 30. The AASB supports the ED's proposal that 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.

IASB Question 13(e) – Expected future salary increases

- 31. The AASB supports the ED's 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. This is because the proposed approach would facilitate consistency in the treatment of different types of defined benefit arrangements.

IASB Question 13(f) – Current estimates of expected mortality rates

- 32. The AASB considers that the 'best estimate' approach under IAS 19 necessarily requires an entity to measure its defined benefit obligation using current estimates of all assumptions. Nevertheless, the AASB supports the ED's 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, provided that such clarification does not imply that other estimates need not be current.

IASB Question 13(g) – Risk-sharing and conditional indexation features

- 33. The AASB does not have any comments on this matter.

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))

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?

34. In respect to IASB Question 14, the AASB notes that:

- (a) a consistent and reliable basis for allocating the obligations, assets and costs of a defined benefit multi-employer plan would be generally premised on the assets attributable to 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.

Accordingly, the AASB supports the proposal in the ED to retain the requirements in paragraph 30(a) of IAS 19, which permit an entity to account for its interest in a defined benefit multi-employer plan as if it were a defined contribution plan when sufficient information is not available to use defined benefit accounting.

Transition

IASB Question 15

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

35. The AASB supports the ED's proposal that the amendments be applied retrospectively, except in relation to the disclosure proposals for sensitivity analyses.

36. In respect to all of the proposals except for the sensitivity analyses, the AASB considers that retrospective application would:

- (a) be unlikely to be unduly burdensome for entities to apply; and
- (b) enhance the usefulness and comparability of financial statements.

However, retrospective application of the sensitivity analysis proposals is likely to necessitate some entities reconstructing scenarios that might have occurred up to two

years prior to their first reporting date. Accordingly, the AASB is concerned about the reliability of such information and questions its usefulness.

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) Why or why not?

37. The AASB does not agree with the IASB's assessment that the proposal to require obligations that are currently described as 'other long-term employee benefits', including obligations for long-service leave and annual leave benefits not expected to be settled within twelve months, to be accounted for on the same basis as defined benefit plans would be cost-beneficial. Accordingly, the AASB does not support the proposals to align the treatment of liabilities for other long-term employee benefits with the proposed treatment of defined benefit plans.

38. As noted in the covering letter, the AASB supports the proposals in the ED to the extent that they would facilitate:

- (a) a reduction in the complexity and diversity of practices under IAS 19; and
- (b) improvements in the transparency and comparability of reported information under the current requirements.

The proposals in respect of other long-term employee benefits, however, are unlikely to fulfil these objectives.

39. Requiring entities to account for other long-term employee benefits on the same basis as defined benefit plans arguably increases (rather than reduces) the level of complexity associated with accounting for such obligations. Moreover, the proposals represent a significant change from the current requirements under IAS 19 and are likely to impose considerable costs on some entities, particularly those in jurisdictions like Australia where the provision of employee entitlements such as long-service leave is a legal requirement of all employers. In addition, the AASB is not aware of

any major concerns among constituents that the current accounting requirements for other long-term employee benefits need to be amended. Therefore, we do not believe that the proposed changes in respect of other long-term employee benefits are justified on the basis of users' needs. These views are consistent with the discussion in paragraph 127 of IAS 19, which states that:

“The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Furthermore, the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost. For these reasons, this Standard requires a simplified method of accounting for other long-term employee benefits...”

40. Accordingly, the AASB recommends that:
- (a) the current measurement and disclosure requirements in IAS 19 in respect of other long-term employee benefits (paragraphs 128 and 131) be retained; and
 - (b) consistent with the AASB's response to IASB Question 6 above, the recognition requirements in paragraph 129 of IAS 19 be amended to provide an irrevocable option for an entity to present the net total of all changes in obligations for 'other long-term employee benefits' in profit or loss or in OCI.
41. As with the proposals in respect of defined benefit plans, the AASB would expect that any amendments to the requirements in IAS 19 in respect of other long-term employee benefits would be subject to the IASB's decisions in relation to its Financial Statement Presentation project as well as the IASB's anticipated review of post-employment benefits.

Other comments

IASB Question 17

Do you have any other comments on the proposals?

42. The AASB is concerned about the following aspects of ED/2010/3.
- (a) Under IAS 19, an entity is required to discount the whole of a post-employment benefit obligation, even if part of the obligation falls within twelve months of end of the reporting period. Accordingly, IAS 19 does not currently distinguish between current and non-current portions of a defined benefit obligation for the purpose of measurement. While the amendments proposed in paragraph 4(b) of ED/2010/3 suggest that a similar approach would apply to obligations for long-service leave and other similar obligations, it would be useful if the Basis for Conclusions in relation to the proposed amendments clarified this matter as we are aware that some constituents have read the proposals differently.
 - (b) In jurisdictions such as Australia, where employers are legally required to provide long-service leave benefits, preparers and users of financial statements often view these types of obligations differently from defined benefit obligations because they are not managed on the same basis as defined benefit plans. Notwithstanding that many of the obligations currently classified as

‘other long-term employee benefits’ are similar in many respects to defined benefit obligations, if the IASB were to adopt the proposals it would be useful for the revised version of IAS 19 to clarify that other long-term employee benefits are considered defined benefit plans for the purpose of the revised version of IAS 19.

- (c) It is unclear what purposes the last six words of the proposed definition of ‘short-term employee benefits’ (“..and before the completion of employment”) and part (b) of the proposed definition of ‘long-term employee benefits’ (“..after the completion of employment”) serve. The principle that benefits are expected to be due to be settled within twelve months or after twelve months seems sufficient to define short-term and long-term employee benefits respectively. If the words are retained, the AASB recommends the Basis for Conclusions to the revised version of IAS 19 clarify the IASB’s reasons for including the last six words of the proposed definition of ‘short-term employee benefits’ and part (b) of the proposed definition of ‘long-term employee benefits’.
- (d) Requiring a liability for a long-term employee benefit to be accounted for on a different basis depending upon the entity’s expectations about whether the liability will become due to be settled within or after twelve months of the end of the reporting period in which the employee renders the related service:
- (i) arguably increases the level of complexity and reduces the level of transparency associated with accounting for such obligations; and
 - (ii) is inconsistent with the current and proposed treatments of defined benefit plans.

The AASB recommends that the IASB reconsider whether a change in an entity’s expectations about when an employee benefit will become due to be settled is a sufficient basis for requiring the entity to apply different recognition and measurement models.

- (e) If the IASB were to adopt the proposed definitions of short-term and long-term employee benefits, the AASB recommends that:
- (i) the definitions be amended to clarify that an entity could settle an obligation for short-term or long-term employee benefits *on the date of* completion of employment. Presently, the definitions of both types of employee benefits could be read as excluding those employee benefits that an entity expects to become due to be settled *on* the completion of employment. The AASB recommends that the definitions be amended to ensure that all employee benefits are treated consistently with their nature; and
 - (ii) some of the discussion in relation to short-term and long-term employee benefits in the ED is not entirely consistent with the respective definitions of these terms in paragraph 7. For instance:
 - the description of short-term employee benefits in paragraph 8 of the ED fails to mention that a characteristic of such benefits is that they are expected to be paid before the completion of employment;

- paragraphs 4 and 22 of the ED refer to long-term employee benefits as being expected to become due to be settled “wholly” within twelve months after the end of the reporting period, whereas the definition of long-term employee benefits in paragraph 7 does not include the term “wholly”; and
 - the discussion in paragraph 66 of the ED has not been updated for the proposed amendments to the definition of long-term employee benefits.
- (f) While the ED proposes that the definition of vested employee benefits be deleted from paragraph 7 of IAS 19, the Standard contains a number of references to ‘vested’ benefits (paragraph 69 and 98) and ‘unvested’ service costs and benefits (paragraphs BC13 and BC48). Accordingly, it may be useful for preparers and users for the revised Standard to include a definition of vested benefits.
- (g) The definition of ‘fair value’ in paragraph 7 of the ED appears to be inconsistent with the definition of fair value in ED/2009/5 *Fair Value Measurement*.
- (h) Example 6 in the Illustrative Examples appears to contain a number of typographical errors. For instance:
- (i) in the first table, an amount is recognised in respect of ‘Restriction on surplus’ in the 2008 financial year column but the entity recognised a net defined benefit liability in both the 2007 and 2008 financial years; and
 - (ii) in the second table, the line item ‘Non-routine settlements’ should set in from the left-hand margin and aligned with the two (actuarial gain) line items above it to clarify it is a component of ‘Remeasurements’.
- (i) Paragraphs 119B-119D appear to be incorrectly located under the heading ‘Presentation’ and sub-heading ‘Statement of comprehensive income’.