Institute of Actuaries of Australia

6 August 2010

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

E-mail: standard@aasb.gov.au

Dear Sir

IASB Exposure Draft ED195

The Institute of Actuaries of Australia ("the Institute") is the sole professional body for actuaries in Australia. It represents the interests of over 3,700 members, including more than 1,800 actuaries. Our members have had significant involvement in the development of insurance regulation, financial reporting and related practices in Australia over many years.

The Institute is pleased to submit comments to the proposed changes to AASB 119. We are broadly supportive of the proposed changes as they will increase the comparability of financial statements across countries.

We enclose our response to the specific issues raised by the AASB, and our response to the IASB.

We would be happy to discuss any of the matters raised in this letter. Please contact in the first instance our CEO, Melinda Howes, at email melinda.howes@actuaries.asn.au or telephone (02 9239 6106).

Yours sincerely

Bozenna Hinton
President

The Institute of Actuaries of Australia
ABN 69 000 423 656
Level 7 Challis House 4 Martin Place
Sydney NSW Australia 2000
Telephone 02 9233 3466 Facsimile 02 9233 3446
Email: actuaries@actuaries.asn.au Web site: www.actuaries.asn.au

Responses to the specific questions raised by the AASB

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 deciding 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?

Response

We do not have any comments on this matter.

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.*

Response

The amendments do appear to clarify the treatment of superannuation contributions tax. However, we remain concerned that the proposed treatment of superannuation investment tax is not in line with the economic substance of the defined benefit obligation. We make further comment in our response to the IASB on their Question 13 (enclosed).

3. *The AASB would particularly value comments on whether:*

   (a) in addition to the issues raised in relation to Question 1 above, are there 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;

We note that the amendments to the disclosure requirements may have an impact on public sector superannuation schemes. We comment further on this matter in our response to the IASB's Question 10 (see attached letter).

(b) overall, the proposals would result in financial statements that would be useful to users; and

Response

We agree that the proposals regarding the accounting for defined benefit obligations would increase the comparability and relevance of financial reports.

(c) the proposals are in the best interests of the Australian and New Zealand economies.

Response

We do hold concerns that the costs of some of the new disclosures will be significant for some entities and therefore ask the Board to reconsider whether the benefits associated with these disclosures are significant enough to warrant the additional costs.

Institute of Actuaries of Australia

6 August 2010

International Accounting Standards Board
First Floor, 30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

'Open to Comment' page on the IASB website (www.iasb.org)

cc. AASB standard@aasb.gov.au

Dear Sir

IASB Exposure Draft ED/2010/3

The Institute of Actuaries of Australia ("the Institute") is the sole professional body for actuaries in Australia. It represents the interests of over 3,700 members, including more than 1,800 actuaries. Our members have had significant involvement in the development of insurance regulation, financial reporting and related practices in Australia over many years.

The Institute is pleased to submit comments to the proposed changes to IAS 19. We are broadly supportive of the proposed changes as they will increase the comparability of financial statements across countries.

We enclose our response to the questions in the Exposure Draft.

We would be happy to discuss any of the matters raised in this letter. Please contact in the first instance our CEO, Melinda Howes, at email melinda.howes@actuaries.asn.au .

Yours sincerely

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ABN 69 000 423 656
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Email: actuaries@actuaries.asn.au Web site: www.actuaries.asn.au

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Responses to Specific Matters for Comment in the Exposure Draft ED/2010/3

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?

Response

The Institute accepts that the global trend in defined benefit accounting is towards immediate recognition of the Defined Benefit Obligations and Fair Value of Assets on the balance sheet. The arguments both for and against this treatment have been long argued, and in the Institute's view, both have merit depending on the underlying objectives of financial reporting.

Our members are aware of Australian sponsoring employers, like those in many other countries, who are currently using deferred recognition methods and who will be concerned over the proposed adoption of immediate recognition.

Within Australia, there are fewer defined benefit plan employer sponsors still applying deferred recognition in their Australian IAS19 reporting, than those who are passing gains and losses through Other Comprehensive Income (OCI).

Question 2

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

Response

Yes, the Institute believes that there is a good argument that deferring recognition of past service costs is an appropriate way of matching the cost of the benefit improvement to the period in which it is effectively absorbed by the business (and in fact, immediate recognition may act as a disincentive for improving benefits).

However, as stated in our response to Question 1, the Institute accepts that there is global trend in pension accounting towards immediate recognition.

In this case we also note that there has never been a single clear approach to the determination of vested, as opposed to unvested, past service costs. Hence treating all past service costs in the same way (all going through the P&L) increases the level of certainty in the application of the standard.

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?

Response

We agree that the disaggregation of defined benefit cost into the three components of service cost, finance cost and remeasurements provides useful information to users of financial statements (subject to where these components are disclosed – please refer to our response to Question 6 below), and also provides some guidance to analysts seeking to estimate the impact of employee benefits on future profits.

We believe that this proposal will result in the defined benefit costs disclosed in financial statements of different entities being more comparable over time.

As noted in the Basis of Conclusions in ED/2010/3, we agree that the service cost and finance cost items contain information which can be used in estimating future costs, whereas the remeasurements item will be more volatile from period to period and thus harder to accurately predict for future periods.

We provide our views under Question 6 below regarding presentation of these items in profit or loss or in other comprehensive income.

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?

Response

We believe that it is unlikely that companies are using (or would use) changes in demographic assumptions as a way to mis-estimate costs in order to achieve an accounting result for employee benefit disclosures.

Accordingly, we recommend that the service cost component exclude changes in the defined benefit obligation arising from changes in demographic assumptions. By so excluding the impact of demographic changes, the service cost item of the defined benefit cost will be more stable and thus better able to inform users of the financial statements regarding likely service cost amounts for future periods.

Paragraph 125E of ED/2010/3 proposes that actuarial gains and losses arising from changes in demographic assumptions be shown separately as part of remeasurements of the net defined benefit liability (asset). We agree that this approach is practical and avoids the potential difficulties in the interpretation of the service cost item if it were to include the demographic changes.

We also note that this approach treats changes in the net defined benefit liability (asset) due to changes in demographic assumptions similarly to the treatment of changes due to changes in financial assumptions. In our view, it makes sense to treat these changes in a consistent manner as we believe that entities in general determine both demographic and financial assumptions as part of the overall actuarial assumptions set.

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)

Response

The actuarial profession is divided on this issue. Some actuaries regard determining net interest as the discount rate applied to the net defined benefit liability (asset) as being a pragmatic approach for determining the finance cost component, whereas others believe that the finance cost component should be determined as the interest cost on the defined benefit obligation (using the discount rate assumption) net of the expected return on assets (using an expected return assumption rather than the discount rate assumption).

The division of opinions revolves around the assumed rate used to calculate interest income on plan assets – discount rate or expected return.

On the one hand, some actuaries consider that, given that the net defined benefit liability (asset) represents the amount of deficit or surplus in the plan, it appears reasonable in their opinion to determine the unwinding of the time value of money on that net deficit or surplus over a year by applying the discount rate to that net defined benefit liability (asset).

They believe that the proposed approach in the ED is a practical methodology to address the issue of variability in expected return on plan assets by replacing this with interest income based on a more objective rate (being the discount rate on liabilities). In this way, the net interest on the net defined benefit liability (asset) is independent of the variability in investment strategies adopted within individual plans, and hence will produce more comparable results.

On the other hand, those favouring use of the latter approach believe that using the expected return on assets will produce a more meaningful result to analysts for the defined benefit cost recognised through the profit and loss statement. They note that using the discount rate assumption will usually result in a lower profit being recorded through the profit and loss statement, with a consequence being that a positive amount is expected to flow through remeasurements in other comprehensive income over time because the expected return on assets will generally exceed the discount rate applied to plan assets.

Recommended additional information in explanatory material

If the approach proposed in the ED is adopted, we suggest that the accompanying explanatory material make it clear to users of the financial statements what has been done, and that an outworking of this approach is that a positive amount is generally expected to emerge through other comprehensive income over time because the expected return is typically higher than the discount rate assumption as the latter is based on bond rates.

We note that in FRS 17 the UK moved towards the ED proposed approach by netting expected return on assets off interest cost (on plan liabilities) and reporting the net amount as other finance costs. We understand that this has been generally well-received by analysts, and therefore we would expect that the approach proposed in the ED would also be similarly accepted by analysts, subject to all users understanding the approach will generally result in a positive amount flowing through other comprehensive income each year (all other things being equal) driven by the difference between the expected return and the interest cost on assets at the discount rate assumption.

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?

Response

In principle we agree that service cost and net interest on the net defined liability (asset) as part of finance costs should be presented in the profit or loss while remeasurements should be presented in other comprehensive income (OCI). We note however that the usefulness of the proposed approach will depend on where each of the three items will be located within profit or loss and OCI. This is subject to the outcome of the Board's current project on financial statement presentation.

Both service cost and interest cost represent the cost of the services received and are therefore relevant for assessing an entity's ongoing operational costs and financial performance. As such it is appropriate to present these in the profit and loss.

Remeasurements provide information indicating the uncertainty of future cash flows rather than their future amount and timing. Reporting remeasurements in profit or loss would result in volatile swings in profit or loss that may not be related to the entity's underlying and ongoing operations. On the other hand, other financial reporting standards require certain assets and liabilities be reported at fair value.

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?

Response

The proposed changes to IAS 19 provide an opportunity to clarify the definitions and accounting treatment of curtailments and settlements. This is one of the most complicated aspects of valuations performed in accordance with IAS 19, and the one open to the most inconsistencies in approach.

Whilst the exposure draft makes a distinction between the treatment of settlements and curtailments, we believe that the treatment should be the same. An event giving rise to a curtailment could just as easily qualify as a non-routine settlement (e.g. the sale of a business resulting in a significant number of members being terminated from a plan; a large retrenchment program, etc). Given the similar nature of the events giving rise to curtailments and settlements, and the fact that they both generally result from decisions taken by the entity, we recommend that both continue to be accounted for in profit and loss.

By maintaining the status quo, differences in interpretations will not impact "bottom line" results (both settlement and curtailment gains/losses would be recognised through the income statement). However, under the exposure draft, such a categorisation will directly impact where the gains and losses are classified in the performance statement.

We believe that the current wording of the standard does not clearly cover the issues relating to lump sum plans, and that the existing definitions of settlement/curtailment must be expanded to cater for the particular nature of lump sum benefits (whether or not the proposed changes proceed).

The standard leaving service benefit paid by a lump sum plan will almost always be different to the Defined Benefit Obligation (DBO) calculated using market interest rates. If standard benefits are paid out of a lump sum plan as a result of a particular event or transaction, it is possible to argue that any gain/loss could be treated as a curtailment gain/loss or a settlement gain/loss:

- The difference between the benefit paid and the DBO may be considered to be a settlement gain/loss (because the leaving service benefit physically paid to the individual can be seen as a "price" of discharging the Fund's benefit obligation), or
- The difference may also be considered to be a curtailment gain/loss (i.e. the difference is viewed as a change in the DBO as a result of moving from a benefit linked to future salary increases which is discounted back to the current date, to a DBO calculated with a salary which is "delinked" from future increases). The accompanying payment out is still a settlement, but the settlement gain/loss is nil (the change in DBO has already been treated as a curtailment gain/loss).

In our view, both interpretations can be genuinely argued by practitioners. For this reason, we strongly encourage the IASB to consider these "lump sum issues" under the exposure draft, and further clarify the intended treatment.

Clarification for plans where lump sum benefits are standard

The issues above arise equally on the payment of standard benefits as they do where benefits are augmented (as standard lump sum benefits generally differ from the DBO).

The majority of Australian corporate defined benefit plans provide lump sum benefits. The fact that lump sum defined benefit plans are also very common in many Asian countries means it is even more important to issue strong global interpretation of these issues. Whilst we recognise such issues will take some investment of time to work through, our Australian experience has been that where guidance has been removed or not provided, convergence of practice has not occurred (even after a considerable number of years).

The need to clarify this issue is comparable to the same challenges under FAS88 accounting, where the precise nature of the event directly impacts its measurement, and so further explanation has historically been provided. Whilst not advocating the replication of FAS88 accounting interpretations, it is at least an example of where guidance has been prepared to strengthen consistency amongst practitioners.

Clarification required for definition of non-routine settlements

If the proposed changes are adopted, we believe that the definition of a non-routine settlement also needs to be clarified. BC78 states that non-routine settlements mean "non-routine transactions, rather than benefit options envisaged by the terms of the plan". If we take the example of a significant retrenchment program giving rise to a reduction in membership and the payment of retrenchment benefits that are defined in the plan's trust deed, a strict interpretation of these words would suggest that a retrenchment program is excluded from the definition of a non-routine settlement. It is not clear if this is the intention. If not, it may be better to define a non-routine settlement as a transaction that is not a normal part of the entity's operations.

The Exposure Draft proposes that the effect of non-routine settlements be disclosed separately. It is not clear if disclosure is only required for significant non-routine settlements (unlike the definition of curtailments, which specifically refers to events that have a significant impact). We recommend that the definition of non-routine settlements clarify this.

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?

Response

In the absence of a general framework outlining the broad objectives of the IASB in relation to disclosure, we believe that the stated objectives as set out in the Exposure Draft are appropriate.

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?

Response

a) Whilst we agree with the intention to require disclosure of information about concentrations of risk (paragraph 125C(b)) and sensitivity of results to changes in assumptions (paragraph 125I), we believe the descriptions of what is required should be more specific. In particular, the criteria for determining if a concentration of risk is significant enough to warrant specific disclosure should be clarified. Also, the meaning of a "reasonably possible" change to each significant actuarial assumption requires further explanation. It is not clear what a reasonably possible change to the discount rate would be when the rate is based on observed market yields at the specific balance sheet date. In respect of the sensitivity disclosures, it may be more appropriate to require disclosure of the effect of specified changes in particular assumptions, where significant (e.g. a 0.5% increase or decrease in the discount rate, a 0.25% increase or decrease in the pension increase rate, etc).
b) The requirement to disclose information about the process used to determine demographic actuarial assumptions appears reasonable.

c) We do not believe that the disclosure of the present value of the defined benefit obligation, excluding the effect of future salary growth, will provide useful information to readers of the financial statements. This is not a liability measure that is used in Australia, and would only create confusion. This calculation is not in any way indicative of termination or settlement liabilities in the Australian system.

   We acknowledge, however, that the calculation of this liability measure, if it is to be disclosed, is unlikely to be particularly onerous. We also note that it is an important measure in some jurisdictions, such as the USA.

d) We question the need to disclose information about a plan's asset-matching strategies, when most plans already have a statement of investment objectives. We believe that showing a plan's asset allocation (both actual and benchmark) will provide more useful information, as most plans in most jurisdictions do not undertake true interest rate matching strategies. By providing this information, along with a description of the plan, the reader will get a feel for the appropriateness of the assets held by the plan, given the nature of liabilities.

   We are also concerned that this disclosure should not imply that asset liability matching is more or less appropriate than any other approach.

e) We do not believe that the requirement to describe factors that could cause contributions to differ from service cost will achieve the desired objective. There is no guarantee that the readers of the financial statements will have an adequate understanding of the operation of a defined benefit fund. To be effective in identifying the risks associated with a particular fund, this disclosure would first need to educate the readers about defined benefit funds, and this is not the objective of the disclosures. If the intention is to disclose information on potential cash flow impacts for more than just one year, we recommend that an entity be required to disclose expected employer contributions for the next 5 years.

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?

Response

The proposed disclosures in paragraph 33A(a) to 33A(c) are appropriate and the information should be readily available. However, we have some concerns with aspects of the other disclosures in paragraph 33A:

- Paragraph 33A(d) requires inclusion of "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." For some multi-employer funds the employees can unpredictably change employer depending upon relative work volumes and therefore the information at any point in time may not be indicative of future contributions and risks. It is also common for this information not to be available for pensioners and deferred members so many funds would in practice not report the information.

- Paragraph 33A(e) requires inclusion of "detail 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." Multi-employer plans in Australia may require employers to fund a deficit on wind-up or withdrawal from the plan but usually the method to apportion the deficit is not explicitly described in the Trust Deed and is subject to decisions by the Trustee and or actuary. However, in most cases neither of these events will have occurred and it is impossible to know what apportionment would be made depending upon the circumstances at that time. Therefore, we recommend that this information only be required "if that information is available."

- Paragraph 33A(f)(iii) is unclear. If the entity is simply required to specify contribution rates (e.g. as a percentage of salary), or the method by which contributions would be calculated, over the next five years then it is reasonable. However, it would often not be possible or practical to estimate the dollar amount of the next five years' contributions because this may depend upon future employee numbers and decisions made by the Trustee or actuary about the treatment of the surplus or deficit. This cannot be known by the entity in advance.

One comment for the Australian Accounting Standards Board's consideration is the fact that these disclosure requirements cover public sector superannuation schemes. Subject to the comments above, the information could be provided by each entity within the public sector, although we question the value of such information in these circumstances. Ultimately the risks associated with the schemes reside with the relevant governments, rather than with the entities themselves. The time spent in producing the disclosures will not be reflected in the value gained from the information.

If these proposed additional disclosures are adopted, it will be a further reason to remove public sector entities from the coverage of AASB 119.

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?

Response

We agree with the proposal to make the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between entities under common control consistent with the requirements for other defined benefit plans.

Question 12

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

Response

We have no other comments about the proposed disclosure requirements.

Question 13

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?

Response

This question covers a range of issues.

a) We believe incorporating the requirements of IFRIC 14 IAS 19 is reasonable.

b) We believe adding greater consistency and certainty in the application of accounting standards is generally desirable. We do not believe this is a significant issue in Australia.

c) We believe that a tax on plan assets should be included in the measurement of the defined benefit obligation.

Where the benefits are funded it is clear that a tax on assets imposes an additional cost on the provision of those benefits. If the tax did not exist the cost would be lower. Similarly if the tax was increased, the cost would increase.

Ignoring such a cost (or only including one year of such costs in the financing component of the superannuation expense) ignores a potentially large cost of providing the superannuation benefits through a funded plan.

The investment tax that applies in Australia (and several other countries) is simply a turnover or revenue tax and is not a profits based tax. It clearly adds to the expense of providing the superannuation benefits (assuming a level of pre funding occurs). In addition, assuming the fund is neutrally funded (not in significant surplus) the investment tax (cost) clearly relates to past service, and hence should be included in the measurement of the defined benefit obligation, on a basis consistent with the measurement of the defined benefit obligation.

How any tax on assets is treated in respect of the return on plan assets depends upon how the financing cost is determined.

d) We do not believe this is a material issue.

We believe that the issue of the treatment of the costs of managing assets needs to be considered in concert with the treatment of investment taxes and the determination of the financing costs.

In respect of expenses not related to managing assets, we believe that it would appear reasonable to treat these depending upon the nature of these costs – and whether they relate to past service or current service.

However for many funds it may not be clear how to split these expenses (indeed some plans have an asset based fee which effectively covers all administrative costs).

While we believe that some estimated approaches could be easily completed, we are unsure if the additional effort is warranted.

e) We do not have any comment on this issue.

f) We believe that current expectations of future mortality would be the common interpretation of the current standard, but additional clarification is reasonable. Our concern would be that the proposed clarification could be read to exclude expected future mortality improvements.

g) We do not believe this applies in Australia.

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 multiemployer 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?

Response

We are not aware of any situations where there is a consistent and reliable basis for allocating the obligation, assets and costs to an individual entity participating in a true defined benefit multi-employer plan.

In review this issue we have had regard to the definition of multi-employer plan in the standard. That is a plan where the assets are pooled and the basis for setting the level of contributions and benefits has no regard to the entity that employs the plan participants.

Question 15

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

Response

We agree that retrospective application of the new rules would be appropriate and should not create any problems for entities affected. However, given that the new disclosures are more extensive, for example the need to prepare sensitivity results for each major assumption, entities need to have sufficient time to collect the relevant information for the comparative period. On this basis, the IASB should allow more than 12 months lead time between the date of the issue and the effective date of the new rules, consistent with the proposals made in December 2009.

It may also be appropriate to confirm the transitional treatment of any change in the defined benefit obligation as a result of the new standard (for example if taxes or expenses are included for the first time).

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?

Response

We agree that the proposals regarding the accounting for defined benefit obligations would increase the comparability and relevance of financial reports. However, we are concerned that the costs of some of the new disclosures will be significant for some entities and therefore ask the Board to reconsider whether the benefits associated with these disclosures are significant enough to warrant the additional costs.

We are also concerned about the additional costs to be incurred by many entities if they will have to account for other long-term employee benefits in the same way as for defined benefit obligations and provide the same disclosures (see response to question 17 below).

Question 17

Do you have any other comments on the proposals?

Response

We note that the Board also proposes to remove any difference between the accounting for post-employment benefits and the accounting for other long-term employee benefits (BC 77). However, no reasons are provided in the Basis for Conclusions as to why this change is necessary or beneficial.

There are jurisdictions where other long-term employee benefits in the form of long-service leave are very common. For example, all Australian entities are required by law to grant their employees long service leave upon completion of a fixed number of years of service (e.g. 10 years). As a consequence, they all recognise long-term employee obligations in their financial statements, although the amounts involved and associated risk exposures are generally much lower than for defined benefit obligations. We are concerned that the additional cost associated with having to account for these other long-term employee benefits in the same way as defined benefit obligations, and providing the same level of disclosures, would outweigh the associated benefits by far. We therefore ask the Board to reconsider this particular amendment, since it would affect a large number of entities in jurisdictions such as Australia.

A possible compromise would be providing entities with an option to retain the current (simplified) accounting for those other long-term benefits that are not significant in the context of the entity's overall financial position. This would avoid at least the need to identify and recognise separately service cost, net interest cost and remeasurements. As far as the disclosures are concerned, we refer to our responses to Question 9 above. Basing the disclosures on the principles in IAS 1 paragraph 125 rather than the disclosures required under IFRS 7 would in many cases also greatly reduce the disclosures for other long-term benefits.