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Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

13 November 2015

Dear Kris

Re: Exposure drafts 266, 267 and 268

I am enclosing a copy of PricewaterhouseCooopers' responses to the following International Accounting Standards Board's documents:

- ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan* (ED 266)
- ED/2015/6 *Clarifications to IFRS 15* (ED 267), and
- ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28* (ED 268).

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment
We are not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit and public sector entities.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 7104 if you would like to discuss our comments further.

Yours sincerely,

Paul Shepherd
Partner, PricewaterhouseCoopers

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International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

19 October 2015

Dear Sir/Madam

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

Proposed amendments to IAS 19 and IFRIC 14 ('the Exposure Draft')

We are responding to your invitation to comment on the Exposure Draft on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the Board's intention to clarify the guidance in IAS 19 regarding remeasurements and support the majority of the proposed changes.

However, we do not agree with the proposed changes to IFRIC 14, as more fully described below.

Proposed changes to IFRIC 14

We believe that the proposed changes to IFRIC 14 result in a mixed measurement model that is inconsistent with the underlying principles in IAS 19. IAS 19 specifies the methodology and basis for the assumptions to be used to measure defined benefit promises. The underlying premise is that the employer is liable for the benefits and recognises its obligation to pay those benefits net of the plan assets. The funding of those benefits is simply cash flow timing and does not affect the amount of the obligation. The employer does not recognise an obligation to make payments to the pension plan, because such payments affect the funding of the obligation, not the obligation itself. The proposed changes will alter this premise in some circumstances and treat the employer's liability as being an obligation to make contributions rather pay the benefits.

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The proposed changes require an entity to anticipate possible future events (for example, plan amendments or a winding-up initiated by the trustees). IAS 19 requires such events to be accounted for when they happen.

These changes appear to be driven by concerns that the current guidance permits an entity to recognise a surplus that is not controlled by the entity (and therefore does not meet the definition of an asset in the IASB's Conceptual Framework). This is inconsistent with the basis for conclusions for IAS 19. Paragraph BC 176 of IAS 19 explains that the Board considered including a requirement that the reporting entity did **not** control the fund in the definition of plan assets but concluded that control was not relevant.

IAS 19 includes specific accounting guidance for employee benefit obligations. This guidance is not always clearly consistent with other standards. We are concerned that applying the guidance in other standards to a defined benefit asset, but ignoring it for a defined benefit liability, introduces bias and a mixed model. Some argue that the guidance on measuring defined benefit liabilities in paragraphs 62 and BC 55 of IAS19 is inconsistent with other standards because there is no present obligation. Others argue that an obligating event exists only where a benefit is vested and that there is no liability for unvested benefits. It is not clear why a potential inconsistency in connection with the accounting for a surplus should be addressed, but others are not.

The proposed amendments also introduce inconsistency into the accounting model applied to employee benefits. The amendments propose that a surplus in the pension fund is recognised as an asset only when it is controlled by the entity. This implies that any event that could change the surplus should be treated consistently, irrespective of whether that event changes the assets or liabilities or results from the actions of a third party or the market. A surplus is equally affected by reducing plan assets or increasing the liabilities, so there is no conceptual argument to treat the trustee's power to change the assets differently to the trustee's power to change the liabilities. The absence of control applies equally to an event under the control of a third party (for example, benefit increases by the trustee) or a future market movement (for example a change in discount rates) as both are outside the control of the entity. There is no conceptual reason why these should be treated inconsistently.

The effect of these proposals will be to introduce more variability into the measurement of defined benefit assets and liabilities. The measurement of some pension plans is likely to fluctuate between being measurement of contributions payable and measurement of the benefits provided, depending on the funded status of the plan and local requirements. There is no conceptual reason for this variation in the measurement basis and in the basis on which assets and liabilities are recognised.

Our responses to the specific questions posed in the invitation to comment are attached as Appendix 1 to this letter.

If you have any questions in relation to this letter, please do not hesitate to contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322), or Richard Davis (020 7212 3238).

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers

Appendix 1

Detailed responses to the specific questions in the Exposure Draft

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 do not support the proposed changes because:
    - They introduce a mixed measurement model; the normal measurement approach in IAS 19 is based on the obligation to pay benefits. The changes would require more entities to recognise a liability for the contributions payable to the plan.
    - They require an entity to account for possible transactions, such as plan amendments or settlements, before they have happened, which conflicts with guidance in IAS 19.
    - They draw a distinction between a third party having the power to change assets and having the power to change liabilities. This distinction does not appear substantive as both impact the net surplus.
    - There is no conceptual reason why actions that might be taken by third parties should be treated differently to unpredictable changes in the value of plan assets or in the discount rate.
- We expand on our concerns regarding the measurement issues in our covering letter.

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 the proposed clarification of the wording.

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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 changes, which clarify the current wording.

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 support the intention of the proposed changes, which clarify the current wording and address the conflict between IAS 34 paragraph B9 and IAS 19 paragraph BC64. However, we suggest that paragraph BC 64 should be deleted or amended, rather than simply adding a footnote that appears to contradict the guidance in the paragraph.

We disagree with the decision not to address constituents' concerns about the words 'significant market fluctuations' in IAS 34 paragraph B9. We believe that these words should be deleted. Service cost and finance cost should be remeasured only when there has been an amendment, settlement or curtailment.

We set out some suggested changes to the detailed wording of paragraphs 123, 64A and BC64 in the attached Appendix 2.

Question 5—Transition requirements

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

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

We support the proposed transition requirements.

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Appendix 2

Drafting suggestions

Current wording

Net interest on the net defined benefit liability (asset)

123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments *(Note 1)*.

ED proposal

Net interest on the net defined benefit liability (asset)

123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, *(Note 2)* **~~both as~~ unless the net defined benefit liability (asset) is remeasured as required by paragraph 99. Ordinarily, both the net defined benefit liability (asset) and the discount rate are determined at the start of the annual reporting period** *(Note 3)***. ~~, taking~~ However, an entity takes account of any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments and as a result of any remeasurement that is required by paragraph 99. If the net defined benefit liability (asset) is remeasured as required by paragraph 99, the net interest for the remaining portion of the annual reporting period shall be determined by applying the discount rate used to remeasure the net defined benefit liability (asset) that reflects the benefits offered after the plan amendment, curtailment or settlement. The remeasurement that is required by paragraph 99 shall not affect net interest for the period before this remeasurement.**

Suggestion for alternative

123 Unless the net defined benefit liability (asset) is remeasured, as required by paragraph 99, net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contributions~~ and benefit payments~~. If the net defined benefit liability (asset) is remeasured as required by paragraph 99, the net interest for the remaining portion of the annual reporting period shall be determined by applying the discount rate used to remeasure the net defined benefit liability (asset) that reflects the benefits offered after the plan amendment, curtailment or settlement. The remeasurement that is required by paragraph 99 shall not affect net interest for the period before this remeasurement.

Notes

(1) *Benefit payments affect both the assets and the liability and should change both equally so they would not be expected to result in a change in the net defined benefit liability (asset).*

(2) *The reference to paragraph 83 without the immediate qualifier that is in the current wording might be confusing because paragraph 83 talks about the assumptions being as at the year end.*

(3) *The use of 'Ordinarily' could be read as implying that there might be circumstances other than when a remeasurement is required by paragraph 99 when the net interest would not be based on year start values.*

Suggestion for alternative wording in paragraph 64A

When a plan amendment, curtailment or settlement occurs, past service cost or a gain or loss on settlement shall be measured and recognised in profit or loss as required by paragraphs 99-112 and the asset ceiling shall affect neither this measurement nor this recognition. After the recognition of the past service cost or a gain or loss on settlement, an entity shall determine changes in the effect of the asset ceiling based on the updated surplus, using the fair value of the plan assets and the ~~discount rate~~ actuarial assumptions used to remeasure the net defined benefit liability (asset) after the plan amendment, curtailment or settlement, as required by paragraph 99. ~~Remeasurements of the net defined benefit liability (asset) includes c~~ Changes in the effect of the asset ceiling are included in remeasurements of the net defined benefit liability (asset) and shall be recognised in other comprehensive income as required by paragraph 57(d)(iii).

Suggestion for alternative wording in paragraph BC64

~~Similarly, in the Board's view there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in determining current service cost and net interest, ie determining how much service the employee has rendered to date and the effect of the time value of money to date.~~ The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost, ~~and~~ the gain or loss on settlement and the service cost and net interest cost for the remaining portion of the reporting period after the plan amendment, curtailment or settlement. In accordance with paragraph B9 of IAS 34 the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year unless adjusted for significant one-off events.