

© DRSC e.V. || Zimmerstr. 30 || 10969 Berlin || Tel.: (030) 20 64 12 - 0 || Fax.: (030) 20 64 12 -15  
[www.drsc.de](http://www.drsc.de) - [info@drsc.de](mailto:info@drsc.de)

Diese Sitzungsunterlage wird der Öffentlichkeit für die DSR-Sitzung zur Verfügung gestellt, so dass dem Verlauf der Sitzung gefolgt werden kann. Die Unterlage gibt keine offiziellen Standpunkte des DSR wieder. Die Standpunkte des DSR werden in den Deutschen Rechnungslegungs Standards sowie in seinen Stellungnahmen (Comment Letters) ausgeführt.  
Diese Unterlage wurde von einem Mitarbeiter des DRSC für die DSR-Sitzung erstellt.

## DSR – öffentliche SITZUNGSSUNTERLAGE

<b>DSR-Sitzung:</b>	<b>148. Sitzung / 02.09.2010 / 12:45-15:45 Uhr</b>
<b>TOP:</b>	<b>03 – ED amend IAS 19</b>
<b>Thema:</b>	<b>Fertigstellung der Stellungnahme (Stellungnahmeeentwurf)</b>
<b>Papier:</b>	<b>148_03a_ED-amend-IAS-19_SN-Entwurf</b>

ENTWURF



DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Telefon +49 (0)30 206412-12

Sir David Tweedie  
Chairman of the  
International Accounting Standards Board  
30 Cannon Street

Telefax +49 (0)30 206412-15

E-Mail info@drsc.de

Berlin, 6 September 2010

London EC4M 6XH  
United Kingdom

Dear David,

**Exposure Draft ED/2010/3 ‘Defined benefit plans: Proposed amendments to IAS 19’**

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Exposure Draft ED/2010/3 ‘Defined benefit plans: Proposed amendments to IAS 19’ (herein referred to as ED). We appreciate the opportunity to comment on the Exposure Draft.

In this context~~First of all~~, we would like to emphasise that we understand the proposals contained in the ~~current~~ ED as being a part of a short-term project with the objective to improve the accounting of defined benefit plans by mid-2011. Therefore, our positions regarding the proposals in the ~~current~~ ED and our answers to the questions in the ~~current~~ ED respectively have to be read against the background and the objectives of this short-term project. In this context we welcome that the IASB abandoned its proposals in respect of the contribution-based promises contained in the March 2008 Discussion Paper ‘Preliminary Views on Amendments to IAS 19 Employee Benefits’, although this means that there is no solution for the accounting of asset-linked promises until a comprehensive review of employee benefit accounting is finished, which will – as stated in the ED – not be started before mid-2011. However, wWe furthermore therefore believe that a fundamental this comprehensive review of employee benefit accounting, in particular of in respect of the measurement requirements of employee benefits, is necessary vital and should be given corresponding prominence in the IASB’s work plan. In connection with such a fundamental review, wWe think that the consistency of measurement requirements of for liabilities throughout different IFRSs is an important



aspect that has to be considered in connection with the comprehensive review of employee benefit accounting.

Please find our detailed comments on the questions raised in the ED in the appendix. Our main views are summarised below.

- GASB agrees with the removal of the deferred recognition of actuarial gains and losses for defined benefit plans and with the recognition of unvested past service cost when the related plan amendment occurs.
- In Principle, we agree that defined benefit costs should be disaggregated into a service cost, a finance cost and a remeasurement component and that these components should be presented separately.
- However, we do not agree on how the service cost component is defined [*In Abhangigkeit von der DSR-Entscheidung in 148. DSR-Sitzung gaf. zu ndern.*]
- Moreover, we strongly disagree with the IASB's proposal to determine the finance cost component based on a 'net interest approach', which means that net interest on the net defined benefit liability (asset) is determined by applying the discount rate specified in paragraph 78 of IAS 19 to the net defined benefit liability (asset).
- Instead, we strongly suggest retaining the requirement to present an expected return on plan assets in profit or loss.
- We support the disclosure objectives proposed in the ED and, in principle, the Board's approach to disclosures as described in paragraphs BC52-BC59 of the ED. However, we disagree with some additional disclosure requirements, proposed in the ED, for example the disclosure of the accumulated benefit obligation or of information about the process used to determine demographic actuarial assumptions. In addition, we have some concerns whether all information is available in respect of the disclosure requirements for multi-employer plans.

~~Please find our detailed comments on the questions raised in the ED in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact me.~~

Yours sincerely,

Liesel Knorr  
President



## Appendix – Answers to the questions of the Exposure Draft

### Recognition

#### 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?

The GASB agrees with the IASB's view that deferred recognition of actuarial gains and losses for defined benefit plans and (i.e. the corridor approach) should be removed. Recognition of all changes in the present value of the defined benefit obligation and in the fair value of plan assets in the period in which those changes occur is appropriate.

#### Question 2

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

Yes, from the GASB's point of view it is appropriate to The GASB agrees with the IASB's proposal that entities should recognise unvested past service cost when the related plan amendment occurs, because it improves internal consistency of the IAS 19 recognition requirements. According to the current IAS 19 an obligation exists even if a benefit is not vested, and this obligation should be recognised as a liability. The possibility that certain benefits may not vest has to be reflected in the measurement of that obligation. Applying this rationale to plan amendments means that the attribution of benefits to past service – even if unvested – also results in a liability an obligation that should be recognised as a liability. We see no reasons why the recognition of that liability should be deferred (or partly deferred) as it is currently required by paragraph 96 of IAS 19. From our point of view, this liability should be recognised immediately and fully when it arises. The liability arises in the period when the plan amendment takes place. Therefore, we agree with the IASB's proposal that entities should recognise unvested past service cost completely in the period when the related plan amendment occurs is appropriate.

### Disaggregation

#### 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?

The GASB agrees that defined benefit cost should be disaggregated since the cost comprises components with very different predictive values. Disaggregation of defined benefit cost in components that reflect this difference is useful if the different



components are separately presented in the financial statements. ~~In principle, the GASB also agrees with the IASB's proposal to disaggregate them into three components which are service cost, finance cost and remeasurements.~~

However, we reject how the service cost component as well as how the finance cost component is defined. We therefore also do not agree with the definition of the remeasurement component. Please see our detailed answers to Questions 4, 5 and 6.

~~In addition, we would like to note that we expect increasing costs for entities as a consequence of this requirement. This results from combining the categories 'post-employment benefits' and 'other long-term employee benefits' in one new category 'long-term employee benefits'. In principle, we agree with this proposal because we think that it is appropriate to account for 'post-employment benefits' and 'other long-term employee benefits' equally. However, this means that also the requirement to disaggregate the defined benefit cost applies to all types of long-term employee benefits, e.g. jubilee benefits. We expect increasing costs from this requirement because it demands that the entities and their actuaries respectively record a lot more data than currently and track the actual payments, which was not necessary until now.~~

## Defining the service cost component

### 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?

The GASB does generally not agree on how the service cost component is defined. This view results from the position that it is not appropriate to include all changes in the defined benefit obligation resulting from changes in assumptions as well as from experience gains and losses adjustments in a remeasurement component that is presented in other comprehensive income without being recycling them at any time. The GASB believes that it would be more appropriate to recognise in profit or loss the those changes in the defined benefit obligation that are definite and will not reverse in the course of time in profit or loss. Only changes in the defined benefit obligation that have the potential to reverse in the course of time should be recognised in other comprehensive income. From this it follows, that the GASB would favour to recognise in profit or loss all changes in the defined benefit obligation in profit or loss except those resulting from changes in the discount rate. As we accept the IASB's argument in paragraph BC22 of the ED, that the predictive value of the service cost differs from the predictive value of changes in the estimate of service cost, we would prefer presenting the changes in the defined benefit obligation resulting from changes in actuarial assumptions, except the discount rate, and from experience gains and losses adjustments in a separate (fourth) component in profit or loss.



### **Anmerkung für den DSR:**

Die Antwort zu *Question 4* ist nach der AG-Sitzung am 20.05.2010 entworfen worden. Der DSR hat in seiner 145. Sitzung am 08./09.06.2010 keine Entscheidung bezüglich der *Question 4* getroffen und den Sachverhalt mit der Bitte um tiefergehende Erörterung zurück an die AG verwiesen. Die AG hat in ihrer Sitzung am 15.07.2010 anhand der wesentlichen demografischen und finanziellen versicherungsmathematischen Annahmen die Frage diskutiert, inwieweit Änderungen der leistungsorientierten Verpflichtung, die aus Änderungen dieser einzelnen Annahmen resultieren, im Laufe der Zeit umkehrbar sind. Die Diskussion hatte zum Ziel, zu entscheiden, welche Änderungen der DBO in *profit or loss* und welche im OCI erfasst werden sollten.

Unter den AG-Mitgliedern gab es zu dieser Frage keine einheitliche Meinung. Folgende drei Auffassungen wurden vertreten:

#### **1. Auffassung (zwei Befürworter in der AG-Sitzung):**

Alle Änderungen der DBO – außer derjenigen, die aus der Änderung des Zinssatzes resultiert – sollen in *profit or loss* erfasst werden. Die Änderung der DBO infolge eines geänderten Zinssatzes sollen im OCI erfasst werden.

Zur Begründung dieser Auffassung wird angeführt, dass sich die versicherungsmathematischen Annahmen, die in die Bestimmung der DBO eingehen, bzw. die Änderungen dieser Parameter unterteilen lassen in „systematische“ und „unsystematische“ Änderungen/Effekte. Systematische Änderungen sind solche, die vom Unternehmen nicht beeinflussbar sind. Dies ist für Zinssatzänderungen und die Inflationsrate der Fall. Unsystematische Änderungen sind demgegenüber solche, die vom Unternehmen mittelbar beeinflusst bzw. gesteuert werden können, in dem Sinne, dass den Auswirkungen der Änderungen dieser Parameter auf die DBO vom Unternehmen gegengesteuert werden kann. Dies ist aus Sicht der Vertreter dieser Auffassung für alle anderen versicherungsmathematischen Annahmen (Fluktuationsrate, Frühpensionierungsrate, Invalidisierungsrate, Sterblichkeitsrate, Gehaltstrend, Rententrend etc.) der Fall. Zwar beinhalten diese Parameter auch einen systematischen Anteil, dieser sei aber aufgrund der größeren Bedeutung des unsystematischen Anteils vernachlässigbar – eine Trennung aus Kosten-/Nutzen-Erwägungen nicht angezeigt. Lediglich die Änderungen der DBO, die auf systematischen Veränderungen der versicherungsmathematischen Parameter beruhen, sollen im OCI erfasst werden. Das ist für die Zinssatzänderungen und die Inflationsrate der Fall. Aus Vereinfachungsgründen kann die Inflationsrate gemäß dieser Auffassung allerdings den unsystematischen Änderungen zugeordnet werden.

#### **2. Auffassung (drei Befürworter in der AG-Sitzung):**

Änderungen der DBO, die aus geänderten demografischen Annahmen resultieren, sind in *profit or loss* zu erfassen; Änderungen der DBO, die aus geänderten finanziellen Annahmen resultieren, im OCI.

#### **3. Auffassung (ein Befürworter in der AG-Sitzung):**



Dem Vorschlag des IASB sollte zugestimmt werden und alle versicherungsmathematischen Gewinne und Verluste, d.h. Änderungen der DBO, die aus geänderten demografischen und finanziellen Annahmen stammen und die aus erfahrungsbedingten Anpassungen (*experience adjustments*) resultieren, sollten im OCI erfasst werden.

## Defining the finance cost component

### 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)

The GASB also does not agree with the IASB's proposal how for defining the finance cost component is defined. We reject applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset) because in our opinion it does not represent an improvement in accounting. We see no merits in replacing the 'expected return on plan assets approach' currently contained in IAS 19 by the 'net interest approach' proposed in the ED. Moreover, we think there are bigger weaknesses in the 'net interest approach' than in the 'expected return on plan assets approach', which are explained below.

Applying a 'net interest approach' as proposed in the ED this means that a return on plan assets is implicitly assumed to equate to the market yields on high quality corporate bonds, i.e. the approach assumes a portfolio of plan assets consisting of high quality corporate bonds. From this follows that, if the plan assets are not invested in high quality corporate bonds, an entity will systematically recognise in other comprehensive income items parts of the actual return on plan assets, i.e. the difference between a virtual return on high quality corporate bonds and the actual return on plan assets, in other comprehensive income. We think this is not appropriate and it does not represent the economic transactions faithfully. Therefore, we would appreciate retaining the take the view that the current requirement should be retained, i.e. the expected return on plan assets and is recogniseding it in profit or loss. Only the difference between the expected and the actual return on plan assets should be recognised in other comprehensive income.

## Presentation

### 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?

The GASB is of the opinion that different components of changes in liabilities and/or assets should be presented separately. In principle, the GASB also agrees with the IASB's proposal that entities should present service cost in profit or loss and remeasurements in other comprehensive income. The GASB also thinks that a financing component in respect of the changes in the present value of the defined benefit obligation and in the fair value of plan assets should be presented separately, that is as part of finance cost in profit or loss. However, the GASB is of the opinion that the finance cost component is not appropriately defined and therefore disagrees with presenting the *net interest* on the net defined benefit liability (asset) as part of finance cost in profit or loss. Furthermore, the GASB thinks that in addition to the service cost component as defined in the ED all changes in the defined benefit obligation except that resulting from changes in the discount rate should be presented in profit or loss, preferably as a separate (fourth) component. For details and the reasoning of this view we refer to our answers to Questions 3, 4 and 5.

#### **Anmerkung für den DSR:**

Der DSR hatte in der 145. Sitzung entschieden, dass bei der Beantwortung der *Question 6*, „ein Link zum OCI-Projekt geschlagen werden soll“, d.h. dass die Frage nur beantwortet werden könnte, wenn konzeptionelle Grundlage für die Zuordnung von Posten zu *profit or loss* einerseits und zum OCI anderseits klar sei.

Eine entsprechend formulierte Antwort bedeutet aus Sicht der DRSC-Projektverantwortlichen allerdings, dass dem IASB-Vorschlag bzgl. der Darstellung nicht mehr – auch nicht grundsätzlich, wie oben gedraftet – zugestimmt werden kann. Diese Folge scheint m.E. allerdings nicht Konsens im DSR zu sein, insbesondere vor dem Hintergrund, dass die Antworten zu *Questions 4* und *5* auf eine zwischen *profit or loss* und OCI differenzierende Darstellung der einzelnen Komponenten der Änderungen der leistungsorientierten Verpflichtung und des Planvermögens abstehen.

Vor diesem Hintergrund ist die Antwort zu *Question 6* nicht neu gedraftet worden und muss in der 148. Sitzung erneut vom DSR zu diskutiert werden.



## Settlements and curtailments

### 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?

Regarding Question 7(a), we would like to note that we appreciate introducing the term 'non-routine settlements' to IAS 19 in order to distinct these transactions from 'routine settlements'. However, we would prefer the term 'routine settlement' also being defined.

Assuming that routine settlement is regular payment of the benefits as foreseen in terms of the plan including the selection of a settlement option available under the plan terms by a beneficiary, we would agree that gains and losses resulting from routine settlement are experience gains and losses and should therefore be included [weitere Antwort zu DSR-Entscheidung bzgl. Question 4-6 abhängig].

Regarding non-routine settlement we disagree with the view that gains and losses arising are experience gains and losses, as it is stated in paragraph BC47 of the ED. As defined in the ED, non-routine settlement is 'a transaction (other than routine payment of benefits to, or on behalf of, employees) that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan'. Moreover, paragraph BC78 of the ED explains that 'the Board proposes to use the term 'non-routine settlements' in order to emphasise that these settlements refer only to non-routine transactions, rather than benefit options envisaged by the terms of the plan'. From this definition in conjunction with paragraph BC78 follows that non-routine settlements are not foreseen in the terms of the plan and, thus, not included in the actuarial assumptions to determine the defined benefit obligation. Therefore, from our point of view gains and losses arising from non-routine settlement can not be experience gains and losses because by definition experience gains and losses or rather experience adjustments are actuarial gains and losses resulting from the effects of differences between the previous actuarial assumptions and what has actually occurred.

We would therefore suggest revising the corresponding paragraphs in the Basis for Conclusions in this respect. We would furthermore appreciate if the distinction that is established by introducing the term 'non-routine settlement' would be reflected in all



paragraphs concerned. For instance, we think that paragraph 119D of the ED refers to non-routine settlement. If this is the case it would be clearer if the paragraph would also use the term 'non-routine settlement' instead of 'settlement' as proposed now.

Irrespective of this, we take the view that gains and losses arising from non-routine settlement should not be included in the remeasurement component and presented in other comprehensive income. These gains and losses should be recognised in profit or loss in order to be consistent with the recognition of expenses arising from termination benefits and past service cost arising from plan amendments. Presenting gains and losses on non-routine settlements differently than expenses arising from termination benefits and past service cost arising from plan amendments would not be reasonable because the triggering economic events are often the same or at least comparable in respect of their substance. For instance, non-routine settlements of post-employment benefits as well as termination benefits are often linked with a restructuring. Presenting gains and losses on non-routine settlement in other comprehensive income while expenses arising from termination benefits have to be presented in profit or loss could provide entities with the potential for inappropriate earnings management, for instance by promising employees affected by the restructuring an increased claim resulting from the non-routine settlement of their post-employment benefits on the one hand and decreased termination benefits on the other hand. In our view, similar arguments apply to the presentation of gains and losses on non-routine settlements on the one hand and past service cost arising from plan amendments on the other. Therefore, we would prefer presenting gains and losses on non-routine settlements in profit or loss.

Regarding Question 7(a), we agree that gains and losses on routine and non-routine settlement are actuarial gains and losses. However, we do not agree with including these in the remeasurement component and presenting them in other comprehensive income. In this respect we refer to our answer to Question 4 where we set out that we believe it would be more appropriate to recognise all changes in the defined benefit obligation in profit or loss that are definite and will not reverse in the course of time. From this follows, that gains and losses on settlements should be presented in profit or loss. Independent of this, we would like to note that we also do not agree with the IASB's statement in paragraph BC47 of the Basis for Conclusions that asserts that gains and losses arising on settlements are experience adjustments.

In respect of Question 7(b) we agree that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss.

In principle, we also agree with the requirement to disclose a narrative description of plan amendments, curtailments and non-routine settlements, and their effect on the statement of comprehensive income (Question 7(c)). However, we suggest supplementing the respective requirement in par. 125C(c) by the term 'significant' so that it requires a 'narrative description of any *significant* plan amendments, curtailments and non-routine settlements'. We understand that the materiality requirement in IAS 1



always applies. Nevertheless, we would appreciate a clarification as stated above against the background of multi-national groups with of a lot defined benefit plan. However, we observe that the IASB sometimes introduces the term 'significant'. As the materiality requirement always applies, we assume that a 'significant requirement' represents a higher hurdle than the materiality requirement. We furthermore understand that under certain circumstances it might be appropriate to introduce the term 'significant'. We believe this would be the case in respect of the narrative description of plan amendments, curtailments and non-routine settlements, and their effect on the statement of comprehensive income as required by paragraph 125C(b). We think as in our view it is not necessary and also not useful for users that an entity describes any of its plan amendments, curtailments and non-routine settlements, in particular in multi-national groups with a lot of defined benefit plans. From our point of view, a In order to avoid an information overload, we therefore think that a limitation of the disclosure requirement on significant plan amendments, curtailments and non-routine settlements would be appropriate.

## Disclosure

### Defined benefit plans

#### 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?

The GASB thinks that the disclosure objectives as given in paragraph 125A of the ED are appropriate and capable of providing users with relevant information about the entity's involvement in defined benefit plans.

#### 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?

In principle, we agree with the requirement to disclose information about risks arising from an entity's involvement in defined benefit plans as proposed by paragraph 125C(b), that is disclosing a narrative description of the extent of risks to which the plan exposes the entity and any concentrations of risk. Regarding the proposal to disclose sensitivity analyses we would like to note the following: Firstly, we think that it is necessary to put these analyses in the context of an entity's outlook disclosures, in particular its evaluation of the macro-economic developments and their implications on the entity. Secondly, it is necessary to consider the results of the sensitivity analyses in the context of the existing plan assets. In principle, we think that the existing disclosure requirements are sufficient in order to enable users of financial statements to do so.

In addition, we would like to remark that we noticed views doubting that the disclosure of sensitivity analyses is useful at all. Arguments brought forward in this regard are that sensitivity analyses do not take into account the correlations between the different actuarial assumptions that exist in practice. Furthermore, sensitivity analyses do not indicate how probable it is that the change in the respective assumption that is assumed in preparing the sensitivity analyses occurs. Those holding this view would therefore reject the proposal to disclose sensitivity analyses as required by paragraph 125I.

After consideration of the aspects mentioned above, the majority of GASB members finally agrees with the proposed disclosure requirements in paragraph 125I.

Furthermore, it is unclear to us what is meant by the term 'reasonably possible' in paragraph 125I(a). We assume that the term poses a lower threshold in comparison to the term 'probable'. However, we assess the term not being helpful for entities in deciding for which actuarial assumptions a sensitivity analysis shall be prepared. Therefore, we would appreciate a respective clarification in the Basis for Conclusions.

Relating to the proposed paragraph 125G(b) that would require entities to disclose a brief description of the process used to determine demographic actuarial assumptions, we would strongly suggest removing this requirement. On the one hand, we think that



~~an understandable description of the processes used to determine the actuarial assumptions would be extremely detailed. In our view, such detailed description would be more confusing for user than helpful for their understanding of the amounts in an entity's financial statements arising from its defined benefit plans. On the other hand, we think that it is not possible to describe these assumptions briefly in an understandable manner. Information resulting from a brief description of the actuarial assumption would be generic and, thus, irrelevant for users for their understanding of the amounts in an entity's financial statements arising from its defined benefit plans. We take this view because we do not understand the purpose of the disclosure and we doubt that this information is necessary and useful to users of financial statements. Against the background that already a lot of information has to be disclosed in respect of defined benefit plans, in our view this disclosure requirement bears the risk to obscure important information. Again in order to avoid an information overload we Therefore, we see no benefit form this proposed requirement and would therefore suggest removing it this requirement.~~

Regarding the proposed requirement in paragraph 125H, i.e. to disclose the present value of the defined benefit obligation, adjusted to exclude the effect of projected growth in salaries (herein referred to as 'accumulated benefit obligation or ABO'), we also question the usefulness of the resulting information. As stated in BC60(f) of the ED, in some circumstances this amount is similar to the amount of the entity's obligation if the plan were to be terminated. However, it is not the case in all circumstances. As far as we know, there are even a lot of jurisdictions where special requirements for termination of long-term employee benefit plans exist so that the ABO is not equivalent to the entity's obligation in case of terminating the plan. In addition, we generally disagree with the disclosure of alternative measurements because it puts the measurement into question that is used in determining the amounts recognised and presented in the statement of financial position and the statement of comprehensive income, respectively. Against this background we see no benefit of disclosing the ABO and would therefore reject requiring the disclosure of this additional information.

We disagree with the proposed paragraph 125J that requires an entity to disclose details of any asset-liability matching strategies used by the plan to manage longevity risk because we think that this specific disclosure requirement is not necessary. In our view the disclosure of information about longevity risk is already demanded by paragraph 125C(b) that requires an entity to disclose a narrative description of the extent of the risks to which the plan exposes the entity. Furthermore, there are a lot of risk disclosure requirements in IFRS 7. In our view these requirements are sufficient in order to explain the entity's risk arising from its defined benefits plans and how an entity manages these risks. Any additional disclosure requirement risks obscuring relevant information. In order to avoid an information overload, we reject any additional and specific disclosure requirements regarding risks resulting from defined benefit plans, and therefore also the requirement proposed in paragraph 125J.



We think that the requirements to disclose information about asset-liability matching strategies in accordance with paragraph 125J and agree with the proposal contained in paragraph 125K that requires an entity to disclose information about factors that could cause contributions to differ from service cost in accordance with paragraph 125K are appropriate. We have just a minor editorial remark: We think this paragraph will be clearer if the term 'contributions' is supplemented with the expression 'to the fund'.

## Multi-employer plans

### 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?

In our view it could be difficult to obtain all the information required to meet the disclosure requirements contained in paragraph 33A of the ED.

#### Anmerkung für den DSR:

Question 10 wurde in der 145. DSR-Sitzung nur kurz diskutiert. Die oben stehende Antwort wurde im Sinne des Diskussionsergebnisses in der 145. Sitzung entworfen.

Zur Vervollständigung der Antwort zu Question 10 ist aus Sicht der DRSC-Projektverantwortlichen eine Fortsetzung der DSR-Beratungen zum Sachverhalt erforderlich.

#### **Zur Information für den DSR – AG-Positionen aus der Sitzung vom 20.05.2010 zum Sachverhalt:**

Von den Mitgliedern der AG wird die Auffassung vertreten, dass durch die vorgeschlagenen Änderungen signifikant mehr Informationen offengelegt werden müssten als bisher.

Hinsichtlich der vorgeschlagenen Anforderung in **Par. 33A(a)** („*a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements*“) wird von den AG-Mitgliedern grundsätzlich die Auffassung vertreten, dass die Angabe sinnvoll sei. Um den entsprechenden Angabepflichten nachkommen zu können, müssten die Betreiber der *multi-employer plans* den Mitgliedsunternehmen allerdings die entsprechenden Informationen „an die Hand“ geben. Die Informationen, bspw. zur Berechnung des Beitragsanteils des einzelnen Unternehmens, seien den Unternehmen i.d.R. nicht bekannt.

Die in **Par. 33A(b)** vorgeschlagene Angabepflicht („*the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the*“)



*multi-employer plan")* wird von den AG-Mitgliedern ohne weitere Anmerkungen für sinnvoll erachtet.

Bezogen auf **Par. 33A(c)** (*„the total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available“*) wird von einigen AG-Mitgliedern der Sinn der Angabepflicht in Frage gestellt, da bspw. aufgrund des Anteils eines Unternehmens an den „*plan members*“ keine Rückschlüsse auf die Höhe der Beiträge des Unternehmens gezogen werden könnten. Diese Angabe müsste aus Sicht dieser AG-Mitglieder mit Aussagen zu den Auswirkungen auf die Finanzierung resp. auf die Beiträge des Unternehmens verknüpft werden.

Diese Sichtweise teilen nicht alle AG-Mitglieder. In diesem Zusammenhang wird angeführt, dass bspw. die Information, dass ein *multi-employer plan* 90% Leistungsempfänger und 10% aktive „*plan members*“ insgesamt habe und der Anteil eines Unternehmens zu 100% auf aktive „*plan members*“ entfallen, nützlich sei. Die Information verdeutlicht die Abhängigkeit dieses Unternehmens vom „Schicksal“ der Leistungsempfänger. Weiterhin wird festgestellt, dass diese Angabe im Zusammenhang mit den Angabepflichten der Par. 33A(a), (b) und (f)(iv) (*„information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity“*) gesehen werden sollten und sich insgesamt aus diesen Anforderungen nützliche Informationen ergeben.

Zu **Par. 33A(d)** (*„details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan“*) wird von einem AG-Mitglied angemerkt, dass die meisten *multi-employer plans* in Deutschland nicht abgewickelt werden könnten; diese Angabe daher kein Thema sei. Die Angabe setze weiterhin voraus, dass es einen Plan/eine Vereinbarung für die Abwicklung/Auflösung des Pensionsplans gebe, was in Deutschland regelmäßig nicht der Fall sei. Für deutsche Pensionspläne komme daher die Angabe des Betrags, den man zahlen müsste, wenn man ausschiede (*withdrawal*), zum Tragen.

Weiterhin wird von einigen AG-Mitgliedern kritisch hinterfragt, welchen Nutzen solche hypothetischen Werte haben, wenn weder das eine noch das andere Szenario zum Abschlussstichtag relevant sei.

Hinsichtlich der Frage, ob die Informationen verfügbar seien, die notwendig seien, um der Angabepflicht nachkommen zu können, wird von einem AG-Mitglied angeführt, dass es möglicherweise schwierig sein könnte, die Informationen rechtzeitig für die Abschlusserstellung zu erhalten. Zudem wird von diesem AG-Mitglied angemerkt, dass es beim Vorhandensein mehrerer *multi-employer plans* schwierig sein könnte, die Informationen sinnvoll zu aggregieren. Dem ersten Punkt wird entgegen gehalten, dass es grundsätzlich auch möglich sei, die entsprechenden Angaben auf Basis von Werten der vergangenen Jahre zu generieren, da sich diese i.d.R. von Jahr zu Jahr nicht stark ändern.

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



### 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?

We agree with the IASB's proposal that updates the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control in order to maintain consistency with the disclosures in paragraphs 125A-125K.

### Other comments

### Question 12

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

While we acknowledge the IASB's 'objective-based approach' as set out in paragraphs BC52-BC59 instead of prescribing detailed disclosure requirements that cover all possible circumstances of every entity with a defined benefit plan, we nevertheless think that the proposals in the ED significantly enlarge the existing disclosure requirements for defined benefit plans. As expressed in our answers to the disclosure-related questions above, we often consider the additional disclosure requirements not necessary and the resulting information not relevant to users. In any case there are additional costs resulting from the additional disclosure requirements that should be carefully considered in finalising the amendments by the IASB. For detailed comments regarding the costs that in our view result from the proposals we refer to our answer to question 16.

### Other issues

### 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?

We agree with the IASB's proposal to incorporate the requirements of IFRIC 14 into IAS 19. We also agree with the proposal that clarifies the definition of a 'minimum funding requirement'.

Furthermore, we support the clarification proposed in respect of taxes payable by the plan because we think it's a clear and right principle to include those taxes either in the return on the plan assets or in the measurement of the defined benefit obligation, depending on the nature of the taxes. In addition, we would like to note that – as we know – the respective taxes have almost ever been treated in the manner proposed in the ED in Germany. Therefore, in most instances the proposal represents merely a clarification of the respective requirements and do not change the existing actuarial practice.

In respect of plan administration costs we think that plan administration costs should generally be included either in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of these costs. However, we wonder whether the IASB really intends to change the existing practice in respect of plan administration costs, which the proposal would do.

We agree with the proposed amendment to paragraph 73(a)(i) stating that mortality assumptions used to determine the defined benefit obligation are current estimates of expected mortality rates of plan members, both during and after employment. However, we question whether the amendment is necessary as we see no change in practice



resulting from this amendment. Generally, all estimates are current estimates as of the measurement date, so that it remains unclear to us what the purpose of the amendment as proposed is. But, as we think it does not change anything, we agree with it in the end.

Finally, we also agree with the proposal in paragraph 71A concerning the matter whether expected future salary increases should be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years, and with the proposals regarding risk-sharing and conditional indexation features as we think these are reasonable clarifications and we presume that no fundamental changes in practice are intended by these amendments to IAS 19.

## Multi-employer plans

### 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?

Even if 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, we think that applying defined benefit accounting might be difficult, in particular in respect of the comprehensive disclosure requirements. We think that a lot of information needed to comply with all requirements, in particular with the disclosure requirements, is often not available. Furthermore, we critically question the informative value of information in financial statements that is based on a fictive calculation about the allocation of the obligation, plan assets and cost to the individual entities participating in the plan, even if the calculation results in consistent and reliable allocation. Our doubts are based on the consideration that in fact it might be possible to allocate the obligation and so forth to the individual entities participating in a multi-employer plan, but nevertheless entities participating in a multi-employer plan might be exposed to another extent of risks than an entity with an 'individual' defined benefit plan. These fundamental differences are not conveyed by applying defined benefit accounting to the entities' proportionate share in a multi-employer plan, even if that share is determined on a reliable and consistent basis. Against this background, we doubt that an entity accounting for its proportionate share in a multi-employer plan as if it were an



entity's 'individual' defined benefit plan produces reliable and decision-useful information in that entity's financial statements. We therefore think that defined benefit accounting should not be applied by participants in a multi-employer plan.

## Transition

### Question 15

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

We support retrospective application of the amendments proposed in the ED and we agree that there is no need to amend the requirements of IFRS 1 for employee benefits (except the removal of paragraph D10 and D11 as proposed) as a result of these proposals.

We noticed the IASB's efforts to align the effective dates for standards and amendments to standards to be completed by 30 June 2011. We generally welcome these efforts. With reference to paragraph BC102(c) of the ED, we assume that the effective date for the proposals contained in this ED will not be earlier than 1 January 2013. Furthermore assuming that the proposals in this ED will be finalised at the latest by mid-2011, we then would concur with an effective date of 1 January 2013.

## Benefits and costs

### 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?

In principle, we agree with the IASB's statements regarding the main benefits of the proposals contained in the ED. However, we have some doubts in respect of the Board's assessment regarding the costs of the proposals which are explained below:

As stated in paragraph BC77 of the Basis for Conclusions combining the categories 'post-employment benefits' and 'other long-term employee benefits' in one new category 'long-term employee benefits' induces that an entity has to disclose all information required by paragraphs 125A-125K also for benefits that are currently classified as 'other long-term employee benefits'. This means that in respect of these benefits an entity has to disclose a lot more information than before. In our view, in applying the existing version of IAS 19 entities are not required to obtain most of the information necessary to disclose the information required by paragraph 125A-K for 'other long-term employee benefits'. Therefore, we expect increasing costs for entities resulting from the proposal to combine both categories mentioned above.

In addition, we would like to note that we also expect increasing costs for entities as a consequence of theis requirement that entities should disaggregate defined benefit cost into three components, i.e. into service cost, finance cost and remeasurements. This results from is also linked to the IASB's decision to combin~~ee~~ the categories 'post-employment benefits' and 'other long-term employee benefits' in one new category 'long-term employee benefits'. In principle, we agree with this proposal because we think that it is appropriate to account for 'post-employment benefits' and 'other long-term employee benefits' equally. However, because this means that also the requirement to disaggregate the defined benefit cost also applies to all types of long-term employee benefits, e.g. jubilee benefits. We expect increasing costs from this requirement because it demands that the entities and or their actuary respectively record a lot more data than currently and track the actual payments, which was not necessary until now.

## Other comments

### Question 17

Do you have any other comments on the proposals?

There are no additional comments on the proposals in the ED.