Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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Dear Hans,

IASB 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 und IFRIC 14)

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's 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 und IFRIC 14)* (herein referred to as the 'ED'). We welcome the opportunity to comment on the ED and provide our answers to the specific questions raised in the ED in the appendix to this letter.

We welcome the clarification efforts regarding the availability of a refund from a defined benefit plan. We agree with the proposed amendments to IFRIC 14. These amendments are a helpful clarification of the existing requirements.

In contrast, we do not agree with the proposed amendments to IAS 19. The proposed amendments conflict with the basic concept of IAS 19 of determining current service cost and net interest at the beginning of the year and expensing them over the year. Furthermore, the IASB considered an update of actuarial assumptions for interim reporting and rejected this idea in 2011. In our view, the IASB has not provided any convincing new arguments that would justify a revision of the Board's prior view.

Additionally, we expect a decrease in comparability between entities with and without a plan amendment, curtailment or settlement (herein referred to as the 'plan event'), as the determination of net defined benefit liability/assets (herein referred to as the 'DBL'), current service cost, and net interest would, according to the proposed amendments, be based on different actuarial assumptions.

Therefore, we encourage the IASB to reconsider the proposed amendments.

Lastly, we do not agree with the proposed transition requirements for the amendments. In our view, the benefits of a retrospective application of the amendments do not outweigh the related costs. Hence, we encourage the IASB to consider a prospective application of the proposed amendments.

If you would like to discuss any aspect of our comments further, please do not hesitate to contact me.

Yours sincerely,

Andreas Barckow

President

Appendix – Responses to the questions of the ED

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 agree with the proposed amendments. With these amendments, the IASB confirms its view regarding the availability of a refund from a defined benefit plan to an entity, which is already expressed in IAS 19 and IFRIC 14. Therefore, the amendments are a helpful clarification of the existing requirements.

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 agree with this proposal. As explained in para. BC7 of the ED, the concept of 'substantively enacted' is already used in para. 21 of IFRIC 14 and also in IAS 12 *Income Taxes*, i.e. it can be considered an established concept. If entities considered statutory requirements that are not substantively enacted, it would be possible that entities determined the availability of an economic benefit based on different statutory requirements. This could result in reduced comparability of the information provided.

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 agree with the proposal.

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 do not agree with the proposed amendments. In our opinion, the proposed amendments could lead to a significant change in the application of IAS 19 and could result in less comparability between plans of the same entity and between entities with and without a plan event is reduced.

As the IASB notes in BC13 of the ED, para. 123 and BC64 of IAS 19 imply that an entity should not revise any assumptions for the calculation of service cost and net interest for the post-event period, even if a significant event or change to the pension plan occurs. As explained in the Basis for Conclusions on IAS 19 (para. BC58 – BC64), the IASB considered an update of actuarial assumptions for interim reporting and rejected this idea in 2011. In our view, the IASB has not provided any convincing new arguments that would justify a revision of the Board's prior view.

Furthermore, the proposed amendments conflict with the basic concept of IAS 19 of determining current service cost and net interest at the beginning of the year and expensing them over the year. These expenses approximate the actual costs that will be determined at the end of the period.

Notwithstanding that, we agree with the IASB that current service cost and net interest should be adjusted to account for the situation of the plan following the plan event. In our view, the adjustments to current service cost and net interest should only reflect changes in actuarial assumptions that are based on the results of the entity's action (such as benefit level, number of plan participants, etc.). The plan event is based on a decision of the entity and, therefore, the changes in current service cost and net interest should be based on the entity's decisions and not on changes in market conditions.

In our view, updating all assumptions, i.e. assumptions that are not under the control of the entity (such as mortality, business environment, etc.), would not necessarily result in more useful information, as expressed by the IASB in para. BC13 of the ED. Instead, comparability between plans of the same entity and between entities with and without a plan event is reduced. While current service cost and net interest of plans with a plan event are calculated on updated assumptions, current service cost and net interest of all other plans are based on older (i.e., from the beginning of the period) assumptions. Thus, comparability between plans would decrease were the IASB to finalise the proposals.

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 do not agree with the proposed transition requirements for the amendments. We think that retrospective application of the proposed amendments is not likely to provide useful information to users of financial statements. We do not expect noteworthy benefits from retrospective application and, thus, the costs of a retrospective application will outweigh the benefits. Hence, we encourage the IASB to consider a prospective application of the proposed amendments.