



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

19 October 2015

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

(via go.ifrs.org/comment)

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

We appreciate the opportunity to comment on the IASB's Exposure Draft ED/2015/5, proposed amendments to IAS 19 and IFRIC 14. I am pleased to submit the International Actuarial Association's (IAA) responses to the questions raised in the Exposure Draft.

Our responses have been prepared by the Pensions and Benefits Accounting Subcommittee of the Pensions and Employee Benefits Committee of the IAA. If wish to discuss any of our responses please do not hesitate to contact Tim Furlan, chairperson of the Pensions and Benefits Accounting Subcommittee, care of the IAA Secretariat.

Yours sincerely,

Fred Rowley
President

Attachment: [IAA Comments](#)

Comments by the International Actuarial Association on the 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 and IFRIC 14

International Actuarial Association and its Due Process

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty-seven Full Member actuarial associations, listed in [Appendix A](#) to this statement, represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

We are pleased to be given the opportunity to provide input to the IASB on this exposure draft. These comments have been prepared Pensions and Benefits Accounting Subcommittee of the Pensions and Employee Benefits Committee of the IAA, the members of which are listed in [Appendix B](#) to these comments. It has also been subject to the due process required for it to constitute a formal view of the IAA and will be posted to the IAA’s official web site.

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 are supportive of the principles behind proposed amendments. We understand that the amendments are intended to limit the recognition of surplus where an entity does not have sufficient control over the use of a surplus.

However, unlike legal ownership, control isn’t black and white. Rather an employer may have varying degrees of control. We are concerned that the amendments may be too prescriptive leading to costs from interpretations of complex legal and differences in reporting between employers who sponsor largely identical defined benefit plans.

Where a third party appears to have a power under governing rules to use a surplus without the sponsoring employers consent they may still not be completely free to do so. The third

party may be subject to other legislative or regulatory restrictions or there may be other responses available to the employer that would lead to more negotiation on the outcome.

We believe that it would be more appropriate for the amendments to set out the principles that the IASB wishes to see and to allow for judgement on the likely impact of a third party's power to use a surplus.

We also note that paragraph 12C can be confusing and potentially misleading if read in isolation. In practice another party's power to buy an annuity could have a material impact on the level of surplus where the cost of the annuity differs materially from the IAS 19 defined benefit obligation. We believe paragraph 12C could be improved if it indicates that it is only referring to the entity's right to a refund and, in line with our other comments above, allows room for judgement where the circumstances dictate it. Possible drafting of 12C is:

“Other parties’ power to buy annuities as plan assets or make other investment decisions without affecting the benefits for plan members shall not be necessarily assumed to restrict an entity’s right to a refund.”

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 this proposal. It's appropriate to take into account current requirements as they stand at the date of determination.

We note that paragraph BC 7 of these amendments addresses the question of “substantively enacted”, referring to paragraph 21 of IFRIC 14 and IAS 12.

It is not clear that paragraph 21 of IFRIC 14 does not refer to statutory requirements. It rather it appears to cover agreements on minimum funding: “...*terms and conditions of the minimum funding basis that are not substantively enacted...*”

IAS 12 refers to tax laws and hence appears to be more closely related to the statutory requirements references in the proposed amendment. After introducing the concept IAS 12 includes the explanatory paragraph 48:

Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).

We believe the proposed amendments would benefit from a similar explanatory paragraph setting out what “substantively enacted” is intended to mean.

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 note that there are competing views on whether this amendment is justified.

The amendment appears justified because it provides consistent treatment between employers who are just over or just below the asset ceiling. Particularly if the past service cost or gain and loss on settlement reduce the surplus to a level below the ceiling.

The ceiling is set because there is an expectation that the employer will receive no value (through a contribution holiday or return of surplus) from that surplus. If the employer finds an alternative way to derive value from the surplus, for example through offering to improve member benefits with a past service cost or offering an additional amount to settle liabilities, it would be appropriate to raise the value of the ceiling to reflect that new use. Of course once the settlement or prior service cost has occurred the proposed amendments require the ceiling to be reset reflecting the new circumstances of the plan.

However, arguments against the amendment include the apparently illogical situation where there is a cost associated with spending surplus after it has been determined that surplus has no value.

Take for example the situation where an employer has a surplus above the asset ceiling. No value is recognised for the proportion of the surplus above the ceiling, because the expectation is that the employer cannot receive value from that portion of the surplus. If a proportion of the surplus has no recognised value then it seems illogical that there is a cost of using it.

The discontinuous nature of ceilings or caps will lead to inconsistencies and anomalies as the caps or ceilings apply. Given inconsistency is part of the nature of caps and ceilings, inconsistency does not of itself suggest the need for change.

Given the competing views the IASB may wish set out why it has chosen the approach in the proposed amendments, rather than the alternative, as part of the basis for conclusions.

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 are concerned that the proposed amendments would lead to inconsistent treatment of otherwise identical defined benefit plans sponsored by different employers. Further the amendments could under some extreme circumstances encourage artificial plan amendments, curtailments or settlements in order to initiate a remeasurement of the service cost and net interest.

The inconsistency arises because an employer that has a plan amendment, curtailment or settlement is required to remeasure the service cost and net interest cost for members who are not affected by the plan amendment, curtailment or settlement. Other employers offering similar plans with similar plan members are not required to make the same remeasurement.

Example of Inconsistency under the Amendment

To illustrate the inconsistency created by these amendments it may be useful to consider two example defined benefit plans.

In the first plan there is a voluntary settlement offer to defined benefit plan members. Prior to the settlement the amounts measured at the start of the reporting period are:

Example – First Plan Background	
DBO at 1/1/201x	\$ 200m
Plan Assets at 1/1/201x	\$ 180m
Net Interest Cost 1/1/201x – 31/12/201x	\$ 1m
Service Cost 1/1/201x – 31/12/201x	\$ 3m

Members who accept the offer receive a once-off lump sum payment as settlement for all defined benefit obligations. Fifty percent of plan members accept this offer. The remaining 50% of plan members do not accept the offer and remain in the plan on terms that are unchanged. This event is significant for the plan sponsor.

In our example the effect of the settlement on the financial statements is equal to the difference between the Defined Benefit Obligation and the amount of the lump sum settlement for the 50% of the individuals who took the lump sum. This is reflected in the profit and loss and on the balance sheet as the impact on the funded status.

Over the period between the start of the reporting period and the settlement event investment returns have been strong and bond yields have risen. That has led to a strong improvement in the financial position immediately prior to the settlement event.

Example – First Plan Settlement Accounting	
DBO at 1/7/201x prior to settlement	\$170m
Plan Assets at 1/7/201x prior to settlement	\$220m
DBO at 1/7/201x for member who settle	\$85m
Settlement lump sum	\$75m
DBO at 1/7/201x after settlement	\$85m
Plan Assets at 1/7/201x after settlement	\$145m
Service cost for period 1/7/201x to 31/12/201x	\$0.6m
Net Interest cost (income) for period 1/7/201x to 31/12/201x	(\$2.1m)

The net interest cost for the half year following the settlement was \$0.25m (50% of \$1m for 50% of members). It has now become a net interest income of \$2.1m for the half year. The service cost for the remaining members has also reduced in line with the increase in the discount rate.

The second plan sponsored by another employer that offers benefits and has a membership base that is identical to the 50% of the first sponsor that did not accept the offer to settle. While we understand that the second plan may be able to make some adjustment for significant market fluctuations in any interim financial statements that will not affect the expense for the whole period. The second plan had no settlement or curtailment during the reporting period.

Example – Second Plan	
DBO at 1/1/201x	\$ 100m
Plan Assets at 1/1/201x	\$ 90m
Net Interest Cost 1/1/201x – 31/12/201x	\$ 0.5m
Service Cost 1/1/201x – 31/12/201x	\$ 1.5m
Net Interest Cost 1/7/201x – 31/12/201x	\$ 0.25m
Service Cost 1/7/201x – 31/12/201x	\$ 0.75m

If we compare the results for that plan with the 50% of the first plan that did not accept the offer to settle it is clear that, in our hypothetical case, the proposed amendments results in fundamentally different outcomes for what, in substance, are identical defined benefit obligations. The employee benefit expense for the second half of the year 201x for the second plan is \$1m. The first plan that had the settlement now has an income of \$1.5m.

A Possible Alternative of determining the cost components subsequent to the event

We believe that the effect of the settlement on the ongoing expense can be accomplished relatively simply without creating the distortions caused by remeasurements described above. Under current rules, the settlement gain or loss can often be determined based on the assets paid from the plan in the settlement and the defined benefit obligation of the members who accept the offer to settle.

One could then proceed as follows, applying in both cases the assumptions current at the beginning of the reporting period:

- a. deduct from or add to the net interest for the period subsequent to the event an amount that represents the share of the existing net interest that related to the obligations settled as a result of the event; and
- b. deduct from or add to the current service cost for the period subsequent to the event an amount that represents the share of the existing current service cost for the obligations settled as a result of the event.

We believe that this approach would be consistent with current practice, would recognise the impact of the event in the post-event period and would not lead to distortions between different employers sponsoring similar plans.

We also believe that this approach would be appropriate in the limiting case where 100% of the defined benefit obligation is settled.

Other comments on the amendments

If the IASB wishes to pursue the amendments as drafted we have the following additional comments on the amendments.

The proposed paragraph 67A commences with

67A Ordinarily, the current service cost shall be determined using the assumptions at the start of the annual reporting period.

We note that IAS 19 does not current specify that the service cost is determined using assumptions at the start of the annual report period. That is unlike the net interest cost where that requirement is specified in paragraph 123.

Notwithstanding that comment we support the amendment and believe that it is in line with current practice. However, we suggest that the word “Ordinarily” is unnecessary. The first sentence of 67A reflects the general requirement, while the remainder of the paragraph, which commences “However” reflects the special case.

The proposed paragraph 67A also states that:

“...the current service cost for the remaining portion of the annual reporting period after the remeasurement shall be determined using the assumptions used to measure

the defined benefit obligation that reflects the benefits offered after the plan amendment, curtailment or settlement.”

We note that paragraph 103 of IAS 19 requires the remeasurement for a plan amendment, curtailment or settlement to occur earlier than the effective date of the plan amendment, curtailment or settlement in certain circumstances. We assume that the amended current service cost is for the period after the plan amendment, curtailment or settlement has taken effect, not necessarily after earlier remeasurement. The IASB may wish to review paragraph 67A and other paragraphs like 64A and 99 to ensure that they clearly distinguish between the date of recognition and the effective date of any plan amendment, curtailment or settlement.

The proposed paragraph 99A requires that:

“The current service cost and net interest shall be excluded from the past service cost and from the gain or loss on settlement.”

We found this particular requirement confusing. It is not apparent why the current service cost and net interest would be included in the past service cost or the gain or loss on settlement, so it is not apparent what the IASB is seeking to prevent.

We note the contents of paragraph BC 15. BC 15 talks about practical questions raised, but does not specify what those questions were. It also appears discusses the definition of current service cost which could be interpreted to include the past service cost.

It may be that the requirement in 99A could be made clearer if it requires that the current service cost and past service cost are determined separately and notes that any plan amendment or curtailment is not related to employee service in the current period for the purpose of determining the current service cost.

BC15 The IASB also decided to address the classification of the current service cost and past service, when a plan amendment or curtailment occurs during a reporting period, because practical questions were raised. The IASB observed that paragraph 102 of IAS 19 explains that the past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. Paragraph 8 of IAS 19 defines the current service cost as the increase in the present value of the defined benefit obligation resulting from employee service in the current period and the IASB noted that the current period means the current reporting period. Consequently, the IASB concluded that the current service cost in the current reporting period before a plan amendment or curtailment should not be included in the past service cost.

We note the additional footnote that has been proposed to paragraph BC64 of IAS 19, and in particular the text “Paragraph BC64 does not provide either principles or guidance.” We understood that no basis for conclusion issues with any standard provides principles or guidance, so the sentence seems redundant.

We assume that the sentence has been added to attempt to address the apparent inconsistency between paragraph BC 64 and these amendments. If the Board is now of the view that paragraph BC 64 is not correct it may be more appropriate to amend paragraph BC 64 or add additional commentary on the change in view.

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 support the retrospective application of these amendments.

The amendments introduce new requirements to remeasure the service cost and interest cost for members who are not affected by the plan amendments, curtailment or settlement.

The requirement under paragraph 99 of IAS 19 to remeasure the plan assets and DBO in the event of a plan amendments, curtailment or settlement can be met without undertaking calculations for plan members who were not affect by the event.

We note that the impact on the funded status of any other experience, not related to the settlement, curtailment or plan amendment (for example the positive movements in assets and defined benefit obligation in our example) will be captured when those amounts are measured at the end of the reporting period in question or when interim financial statements are prepared.

Hence the employer's next financial statements will be identical if the whole plan is remeasured at settlement and gains and losses for members who do not settle are recognised in OCI and that point and then further remeasured and recognised at the date of the financial statements (including interim financial statements if relevant) or if the gains and losses for members who do not settle are recognised once at the date of the financial statements, reflecting the experience for those members over the whole period.

Therefore, in many cases calculations of the past service cost or gain or loss on settlement and interest cost would not have been undertaken for plan members who were not affected by the event.

Retrospective application of the amendments will require calculations for plan members where no calculations were previously undertaken. The data to perform those calculation may not exist or may be very difficult or costly to obtain. That is especially the case where it is not a simple matter to determine accurate Plan asset values for the remaining assets (for example if the plan holds a significant amount of unlisted assets that are not regularly valued) or an accurate DBO for the remaining members of the Plan (because no data was collected for them because they were not a part of the event in question).

Appendix A

Full Member Associations of the IAA (67 members)

Caribbean Actuarial Association
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Actuaries Institute Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Institut des Actuairens en Belgique (Belgique)
Aktuarsko Drustvo U Bosni I Hercegovini (Bosnia and Herzegovina)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuairens (Canada)
China Association of Actuaries (China)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Asociación Colombiana de Actuarios (Colombia)
Institut des Actuairens de Côte d'Ivoire (Côte D'Ivoire)
Hrvatsko Aktuarsko Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárù (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuairens (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Islenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktuaru Draugija (Lithuania)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuairens (Morocco)
Het Koninklijk Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)

Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Asociatia Romana de Actuariat (Romania)
Russian Guild of Actuaries (Russia)
Udruzenje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Institute of Actuaries of Korea (South Korea)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Society of Actuaries of Thailand (Thailand)
Association of Consulting Actuaries (United Kingdom)
Institute and Faculty of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)

Appendix B

Members of the Pensions and Benefits Accounting Subcommittee of the Pensions and Employee Benefits Committee of the IAA

(19 October 2015)

Chairperson	Timothy Furlan
Co-Vice-Chairpersons	Jason Malone James Verlautz
Members	Urs Barmettler Charles Cowling Yasuyuki Fujii Gary Hibbard Henry Karsten Esko Kivisaari Christoph Krischanitz Octavio Carvantes Adam Reese