10 September 2010

Our ref: ICAEW Rep 88/10

Your ref: ED/2010/3

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
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Dear Sir David

DEFINED BENEFIT PLANS: PROPOSED AMENDMENTS TO IAS 19

The ICAEW is pleased to respond to your request for comments on your exposure draft *Defined Benefit Plans: Proposed Amendments to IAS 19*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REP 88/10

ICAEW REPRESENTATION

DEFINED BENEFIT PLANS: PROPOSED AMENDMENTS TO IAS 19

Memorandum of comment submitted in September 2010 by the ICAEW, in response to IASB Exposure Draft *Defined Benefit Plans: Proposed Amendments to IAS 19* published in April 2010.

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INTRODUCTION

1. The ICAEW welcomes the opportunity to comment on the consultation paper *Defined Benefit Plans: Proposed Amendments to IAS 19* published by the International Accounting Standards Board.

WHO WE ARE

2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.

MAJOR POINTS

Strong support for the proposal to remove the 'corridor'

4. We are strongly in support of the proposals in the Exposure Draft to remove the option in IAS 19 known as the 'corridor', which allows, within limits, deferral of the recognition of a portion of actuarial gains or losses. We can see no conceptual justification for a method under which recognition of a portion of an asset or liability may be deferred. Actuarial gains or losses should be recognised in full in the period in which they arise.

We welcome the clarity of presentation in total comprehensive income

5. We welcome the proposals to bring clarity to the presentation of items in total comprehensive income. Current divergence in practice, unhelpful for users, will be curtailed by the proposals.

6. We support the proposed distinction into service cost, net interest expense and remeasurement components (although please refer to our specific comment regarding the classification of non-routine settlements in paragraph 8 below). However, we note that there is currently no clear conceptual basis for the distinction made between different sections of the performance statement. In light of this we suggest that the board evaluate this point in conjunction with the responses received to the Exposure Draft ED/2010/5 *Presentation of Items of Other Comprehensive Income: Proposed amendments to IAS 1* and indeed the continuing Financial Statement Presentation project as a whole, to ensure consistency between the two projects.

Support for the definition of the finance cost component

7. We support the proposals to present a single figure in finance costs representing net interest on the defined benefit asset or liability. We believe this is a pragmatic approach that takes account of the time value of money while avoiding undue volatility of net income. It has some conceptual justification because as the company's obligation relates to the net amount it is reasonable to base the interest calculation similarly on the net asset or liability. The alternatives are unattractive: the expected return on plan assets is criticised as being an arbitrary value which may be difficult to justify, while inclusion of the actual return would introduce significant inter-period volatility to net income, potentially obscuring underlying

performance. Presentation of a single figure as a proxy for the effect of the time value of money on both the asset and liability simplifies the treatment, improving understandability. However, we would want to reconsider the basis for net interest in the context of the Board's fundamental review of employee benefit accounting, particularly in the light of future experience in applying this new approach.

Non-routine settlements should be included in the service cost component

8. We do not agree that the effect of non-routine settlements should be included in the remeasurement component and as a consequence be presented in other comprehensive income. Subject to resolving the lack of a conceptual basis (noted in Paragraph 6 above) for where gains and losses are reported, whether in profit or loss or OCI, in our view profit or loss is the location best suited to the presentation of items which are largely the result of an immediate management decision to take such costs up-front without benefit. Non-routine settlements generally will result from a conscious decision of management, either to vary the terms to seek to achieve settlement or to settle for a different amount to the estimated liability. Gains and losses on varying the terms clearly are a part of profit or loss: since the second type also result from an immediate management decision, we believe that the more appropriate presentation of these also is in profit or loss as part of service cost.

Further development is necessary for the proposals to recognise future administrative expenses

9. Paragraph 73 proposes a requirement to recognise in the defined benefit obligation administration costs for benefits earned by past service, a potentially material change that could add 2-3% to this obligation. We believe that this proposal requires further development. While we agree in principle with the recognition of this liability for closed plans, we do not believe that the case has adequately been made for applying the provision to plans with active members. In such cases it is problematic, both conceptually and in practice, to split these costs between past and future service.

Further clarity needed on the distinction between short- and long-term employee benefits

10. The exposure draft proposes amendments to the paragraph 7 definitions of short-term and long-term employee benefits, in part by inserting the words 'expects to become' before 'due to be settled'. It appears that the change aims to focus the distinction on the point at which the entity estimates the benefit will be utilised rather than the contractual entitlement date. However, we do not believe that the proposed definitional changes succeed in bringing clarity to the distinction between the two categories. In particular, insufficient clarification has been provided regarding application and we believe that entities might well interpret the definitions and requirements of the revised standard inconsistently. Clarity is particularly important as application may be complex in some situations and may result in significant changes in accounting treatment.

11. For example, we believe that greater guidance is necessary on how to classify a benefit with multiple potential utilisation points. Our understanding is that the Board does not intend such benefits to be split, but rather to be treated as either wholly short- or wholly long-term. However, this approach is not clearly articulated and application guidance, which would be welcomed if the standard itself remains unclear, is not provided.

12. As a related point we note that reclassification of the benefit liability has the potential to add a level of volatility which would not reflect underlying economic exposures and which would therefore be unhelpful to users. We would suggest that the liability be classified once at inception as either short- or long-term and that reclassification not be permitted. As a result of these concerns we suggest that this aspect of the proposals requires further consideration.

It may not be desirable to present remeasurement of other long-term employee benefits in other comprehensive income

13. We do not believe that the effects of remeasurement of long-term bonuses or other deferred compensation of this type should be presented in Other Comprehensive Income and most users would consider it counter-intuitive that such amounts did not affect profit or loss for the period. The ED applies the new presentation requirements equally to post-employment benefits and to other long-term employee benefits, including long-term bonuses and other deferred compensation. As a result the effect of remeasurement of these obligations would be presented in OCI rather than through profit or loss. While we agree that this combination might appear to be a simplification, and that it might be appropriate for many classes of benefit, we do not believe at this stage that it is appropriate for changes in the value of bonuses to be presented outside profit or loss. We believe that this change should be deferred to the Board's fundamental review of employee benefit accounting and its project on financial statement presentation, when this tackles the role and purpose of OCI, as noted in Paragraph 6 above.

Merit in accelerating development of core proposals

14. We are strongly in support of the core proposals to remove the 'corridor' option, mandate performance statement presentation and to revise the calculation of the interest cost component. If necessary in order that these may be incorporated into IAS 19 on as timely a basis as possible, we would support detachment of these core proposals from the remainder of the ED with the view to completing them to an accelerated timetable.

RESPONSES TO SPECIFIC QUESTIONS

Recognition

Q1: 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?

15. We agree. In our response to the Discussion Paper we supported the removal of the deferral mechanism currently contained in IAS 19, known as the 'corridor'. We therefore welcome the approach taken in the Exposure Draft. We do not see any conceptual grounds for deferring the recognition of part of an asset or liability in existence at the balance sheet date, which obscures information for users, and therefore we support the immediate recognition of actuarial gains or losses in the statement of comprehensive income. Whilst we agree that actuarial gains and losses should be recognised in OCI, on the basis of the Board's arguments concerning predictive value, this view is formed on a short-term basis in the absence of a definition of what OCI actually represents and we urge the IASB to plan to address this question as part of its post-2011 agenda.

Q2: Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?

16. We agree that entities should recognise unvested past service cost in the period of a plan amendment. This treatment is consistent with the broader methodology for attributing benefit to periods of service in paragraphs 67 – 71. Paragraph 68 explains that the Projected Unit Credit Method 'attributes benefits to periods in which the obligation to provide post-employment benefits arises', while paragraph 69 then goes on to clarify that such obligations are still recognised regardless of whether the benefits are vested or not. This immediate recognition is justified on the basis that a constructive obligation has been created. We believe the same reasoning should apply to the treatment of unvested past service costs; past service has resulted in a constructive obligation which should therefore be recognised as incurred, ie; in the period of plan amendment.

17. We note that IFRS 2 *Share based payment* requires the spreading of a share-based payment over the vesting period. We trust that the lack of consistency of attribution under these two employee benefit standards will be addressed as part of the Board's future fundamental review.

Disaggregation

Q3: Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18) Why or why not?

18. We agree with the Board's view that various elements of the defined benefit cost have different predictive implications and that they therefore should be disaggregated and agree further that this should be done in the way proposed. Disaggregation in this way also improves clarity and consistency. Our understanding from those users we have consulted is that they would welcome this change as removing diversity in practice which hitherto has impaired comparability between entities.

19. We note however that paragraph 62 is proposed for deletion. This requires that, where employee benefit costs are capitalised as part of the construction of an asset, only the appropriate proportion of these costs should be capitalised. This therefore leaves it unclear as to which part of the employee benefit cost should be capitalised, and paragraph 61 could be read to mean that some proportion of *each part* of the cost, including for example remeasurements, should be capitalised. In our view it would generally only be the current service cost that should be capitalised as part of the cost of an asset, as it is the benefits accruing during the period of construction that are relevant to the asset's cost. Clarification might be provided either in paragraph 61 of IAS 19 or in the standards requiring capitalisation.

Defining the service cost component

Q4: 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?

20. We agree with the proposed approach. In our view it would be anomalous to deal differently with changes in only one category of the assumptions affecting the estimation of current service cost. All should be presented consistently as remeasurements.

Defining the finance cost component

Q5: 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)

21. We agree with the Board's proposed approach. Presenting a single figure in finance costs simplifies the current treatment, improving understandability, although we note the Board's comment that applying the liability discount rate as an approximation of the effect of the passage of time on plan assets is a practical expedient rather than an approach with strong technical support. IAS 19 requires entities to present a single net pension asset or liability in the statement of financial position, rather than requiring a grossed-up presentation, and therefore conceptually it is appealing effectively to calculate the finance cost by applying a single rate to that net figure, reflecting the change in the balance over the period in relation to the time value of money. Furthermore the entity's ultimate obligation, including on an ongoing basis for funding, relates to the net position.

22. We note that this treatment is likely to have a negative impact on profit or loss for plans invested in equities, as well as schemes that are overfunded and in surplus, and is therefore likely to be unpopular. However, we support the proposal because the expected return on plan assets currently recognised in profit or loss anticipates future higher returns, the reward for higher risk, and we see little conceptual support for its retention.

23. We do feel however, that more guidance on the application of paragraph 119B would be welcome. In particular, 119B requires that any material changes during the period are taken account of in the calculation. The same provision is contained in paragraph 82 of the current IAS 19 and its application has been fairly clear. However, whereas the calculation in old paragraph 82 is applied to the defined benefit obligation, new paragraph 119B would apply to the net defined benefit liability (asset). As such it needs to take into account the effects of any asset ceiling as calculated under paragraph 115B. This significantly complicates the assessment of material changes during the period and it is not clear how it would apply in practice. Specifically, it may raise questions about the extent to which a company needs to try to identify and evaluate possible changes during the year. More guidance about what type of movements are envisaged to be recognised under the heading of 'taking account of any material changes', would be welcome.

Presentation

Q6: 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?

24. We agree with the proposed classification; as stated in our answer to Q3 this will improve clarity and consistency.

25. We note that (a) does not specify where in profit or loss service cost should go. We suggest that this should be clarified as: 'service cost in profit or loss together with other employment costs.'

Settlements and curtailments

Q7:

(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?

26. We agree only partly with this proposal. We agree that routine settlements should be presented as a remeasurement. However, we <u>do not agree</u> that non-routine settlements should be treated in this way; we believe that they should be presented as part of profit or loss.

27. Our understanding from paragraph 73(a)(iv) and BC78 is that a routine settlement is a settlement within the existing terms of the plan and that it is something about which the entity therefore will have made an actuarial assumption. We agree, therefore, that gains and losses on routine settlements are experience adjustments and should be presented in the same way as other actuarial gains and losses.

28. However, we do not believe that this analysis can be made of non-routine settlements. In BC78 the Board describes "non-routine settlements … [as being] … non-routine transactions, rather than benefit options envisaged by the terms of the plan". On this basis, a non-routine settlement appears to be a settlement achieved by the entity acting outside the terms of the plan – for example, paying an enhanced transfer value to solicit members' agreement to transfer – and therefore to be closer in nature to a past service cost than to an actuarial gain or loss. While some non-routine settlements may be of this type, in our experience there is also a second type of non-routine settlement, in which the benefits remain entirely unchanged and are as envisaged by the terms of the plan, but are settled in a different way than expected (for example, when the liability is bought out with an insurance company). The description of a non-routine settlement in BC78 therefore appears to be incomplete and we believe that, whatever treatment the Board ultimately requires for non-routine settlements, their scope should be clarified.

29. Were the Board to wish to retain presentation of non-routine settlements within remeasurements, we believe that it should be made extremely clear that any effective amendment to the terms of the plan made in order to achieve settlement first should be identified and accounted for as a past service cost. Only the difference between the defined benefit obligation remeasured to reflect those revised benefits and the cost of settlement (by either transfer of plan assets or direct payment by the entity) should be reported as the gain or loss on the non-routine settlement. We do not believe that it is clear that this is what the proposed standard would require.

30. However, non-routine settlements typically represent an immediate management decision to take costs up-front without benefit; as such they may be better suited to presentation in profit or loss. Further, in view of the complexity of separate calculation of past service cost, adding to the existing complexity of distinguishing the effect of a curtailment from the effect of a settlement when both occur as part of the same transaction, we believe that clarity could be increased by requiring the gain or loss on non-routine settlements to be presented within profit or loss, together with past service cost and the gain or loss on any curtailment. We return to this matter under Question 7(c) below.

(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)

31. We agree. In our view curtailments occur under the control of management and result from amendments to the terms of the plan; they therefore should be shown within profit or loss.

(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?

32. We agree that the existing requirement to disclose the *amount* of amendments, curtailments and non-routine settlements should be supplemented by a requirement to provide narrative to explain the events that have given rise to these outcomes. We believe that these additional disclosures will add clarity and assist users in understanding how the nature of the plan, and its risk profile to the entity, has evolved over the period. However, we do not believe that it is necessary to distinguish between the financial effect of plan amendments, curtailments and – under our proposed approach – non-routine settlements, but instead simply to describe clearly their nature and effect: all have changed the exposure of the entity to a defined benefit obligation and, as we note above, it can be difficult to distinguish between the financial effects of changes that take place as part of a single transaction.

Disclosures

Defined benefit plans

Q8: 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?

33. We support the principle of setting out disclosure objectives to form a framework within which entities can judge the extent of disclosure necessary in their particular circumstances. However, we believe that the wording of objective (c) could usefully be expanded to clarify that it encompasses the entity's overall cash flows in respect of its defined benefit obligations, whether to pay contributions to a funded plan or to settle unfunded obligations directly. Such information assists users in assessing the expected profile of future payments.

Q9: 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?

34. We have reviewed each of the disclosures contained in proposed new paragraphs 125C – 125K. Set out below are our specific responses to aspects of these paragraphs we believe should be given further attention. While we have few specific comments, we are concerned that – taken as a whole – the disclosures would be considerable. While we agree that this would be appropriate for a plan that is material to the entity, we are concerned that preparers might lose sight of the overriding concept of materiality in compiling their financial statements, particularly given the extensive use of the phrase "an entity shall" at the start of the various disclosure paragraphs. With the welcome introduction of the disclosure principles, we might have expected instead introductory text that suggests consideration of the matters in the various paragraphs as a means of achieving the objectives.

35. <u>125C:</u> We believe that 125C(a)(iii) may be problematic in practice. For entities with multiple plans, detailing all of the responsibilities of trustees could result in voluminous disclosure of little interest to users. We prefer the approach taken by the UK ASB in its non-mandatory Reporting Statement *Retirement Benefits – Disclosures;* here only 'significant and unusual powers' of the trustees are recommended for disclosure.

36. We believe that 125C(a)(iv) should be expanded. This currently requires disclosure of any recognition ceiling for a defined benefit asset. Where the entity has recognised an additional liability as the result of the interaction of an asset ceiling and a minimum funding requirement, we believe that this too should be disclosed.

37. 125F: Currently IAS 19 (120A(k)(ii)) refers to 'property occupied by, or other assets used by, the entity'. This category is absent from 125F. We note that such arrangements would in any case be disclosable under the related party provisions of IAS 24, the pension plan being a related party of the entity. However, we feel that the added prominence previously contained in IAS 19 aids consistency of disclosure, and that at least some cross-reference to the requirements of IAS 24 should be included in 125F.

38. 125G: Paragraph 125G(b) requires disclosure of the process used to determine 'demographic actuarial assumptions'. While we note the Board's rationale in BC60(d) for not requiring disclosure specifically of mortality assumptions, in our view they often will be key assumptions and we would support their mention, as an example, in 125G(b).

39. 125H: This paragraph requires disclosure of the accumulated defined benefit obligation. We note the comment in BC60(f) that "in some circumstances, this amount is similar to the amount of the entity's obligation if the plan were to be terminated" but are unconvinced about the usefulness of a disclosure that may in other circumstances be misleading. We believe that, in place of this requirement, it may be more useful to provide an analysis of the plan obligation between amounts relating to active members, deferred members (those no longer accruing benefits in the plan but not yet drawing a pension) and pensioners. This information would facilitate an assessment of the likely impact of the projected growth in salaries on the obligation as well as enabling other useful analysis to be performed, such as comparing the likely payment profile and the liquidity of assets.

40. 125I: Paragraph 125I requires disclosure of the effect of changes to significant actuarial assumptions on the plan liability and current service cost. We wonder whether this requirement should be extended to also demonstrating the effect on longevity swaps held as plan assets, whose value is also affected by changes to these same assumptions.

41. 125J: We support the proposed disclosure of asset-liability matching strategies such as those mentioned in paragraph 125J but believe that it would be useful for disclosure to made also of the use of derivative financial instruments more generally; the impact of these on the risk and liquidity characteristics of the entity's exposure to net defined benefit obligations can be significant in some cases.

42. 125K: 125K concerns factors that may cause a variance in future contributions. By specifying contributions this limits the requirement to funded plans. As noted in paragraph 34 above, we believe that the paragraph should be amended such that it applies not only to contributions but also to benefit payments to be made under unfunded plans.

Multi-employer plans

Q10: 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?

43. We have no additions, amendments or deletions to suggest.

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

Q11: 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?

44. We agree in principle. If the disclosures in 125A-K are relevant to a user to understand the position and performance of an entity that participates in a defined benefit pension scheme, then these disclosures should be given for participation in any material defined benefit pension scheme whether it is a state plan, one under common control, or one where the reporting entity is the only employer. However, as currently worded the ED would require the disclosures to be made in the financial statements of every subsidiary participating in a group scheme. Where this information was already publicly available, ie through disclosure in publicly available group accounts, we believe that this would lead to excessive disclosure and significant additional cost with little added benefit to users. We accept that such an exemption would be appropriate only where the specific plan was disclosed and identified separately in the group accounts and that in practice this would often result in the disclosures having to be given at subsidiary level.

Other comments

Q12: Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)

45. It appears that the disclosure proposals in the ED are aimed principally at addressing deficiencies in the current requirements rather than attempting a more fundamental consideration of what may be the desirable principles and scope of employee benefit disclosure. A particular risk is that by overlaying the proposed incremental disclosures on the existing requirements the overall package may be unwieldy and unduly onerous. We believe that the Board should develop a comprehensive disclosure framework as part of its post 2011 agenda and that the revised disclosure of employee benefits should be revisited as a part of that project.

Other issues

Q13: The exposure draft also proposes to amend IAS 19 as summarised below [(a) to (g)]. Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

> **(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)**

46. We agree. In the interests of simplification we support the consolidation of the two into a single document.

> **(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)**

47. We agree that a 'minimum funding requirement' should be defined in order to promote consistency of treatment. We also agree with the definition as stated.

(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)

48. While we agree with the Board's proposals for the treatment of tax payable by the plan, we believe that greater clarification is needed on the treatment of tax payable on contributions prepaid to the plan or paid to a plan that is in surplus.

(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)

49. We agree that the administrative costs of managing plan assets should be recognised as part of the return on plan assets, other than in plans where the ultimate cost of the benefit promise depends on the net return on plan assets, when the *directly attributable* costs of managing the assets should be taken into account in estimating that net return and, hence, the defined benefit obligation. (We note that this exception is not reflected in the proposed definition of the return on plan assets.) The practicability issues noted below would apply for any such costs that were not directly attributable.

50. However, we do not believe it is clear that the present value of the future cost of administering benefit payments attributable to current or past service should be included in the measurement of the defined benefit obligation. While conceptually we can see some logic for this proposal, we also believe that such costs are not always clearly distinguishable from future operating costs, particularly when a plan still has active members, and that in any case there may be practical difficulties in making a reliable estimate of such costs.

51. We can most clearly see the conceptual support for future administration costs to be recognised as part of the defined benefit obligation where a plan is closed to all future service accrual. In such a case the entirety of these costs, insofar as they could be accurately attributed to the plan, would constitute a present obligation arising from past events. Even here, though, there might be practical difficulties because these costs can be borne in a number of ways (for example directly by the sponsoring entity (within a separate cost centre or as part of a wider HR function), by the plan but reimbursed by specific additional contributions by the entity or by the plan but with no specific reimbursement) and in some cases arriving at a reliable estimate may be impracticable.

52. Where a plan still has active members, it may be still more difficult to find an appropriate boundary between costs that relate to past service and to ongoing service.

53. A solution some might put forward would be to require recognition of future administration costs on, and only on, plan closure to all future service accrual. However, it is not clear that such a black and white dividing line between two quite different treatments would be appropriate.

54. Were future administrative costs of benefit payments not to be included in measuring the defined benefit obligation, we believe that they should not be included as part of the return on plan assets but instead charged as administrative costs in arriving at profit or loss.

(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)

55. We agree. Paragraph 71A provides useful clarification on the requirements of paragraph 67 and is therefore a welcome addition.

(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)

56. We agree. Again this is useful additional clarification.

(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)

57. We agree with this clarification, which incorporates the issue considered by the IFRIC in 2007.

Multi-employer plans

Q14: IAS 19 requires entities to account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. In the Board's view, this would apply to many plans that meet the definition of a defined benefit multiemployer plan. (Paragraphs 32(a) and BC75(b))

Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?

58. We agree that the ED should maintain the current exemption to allow defined benefit multi-employer plans to use defined contribution accounting if sufficient information is not available to apply defined benefit accounting. This treatment is already widely established in practice and offers a pragmatic solution to situations where there may be difficulties in allocating the obligation, plan assets and costs between entities.

59. However, in situations where sufficient information is available we agree that defined benefit accounting should be applied. One example of this might be where a JV participates in a group plan and represents a sufficiently material part of the plan that (i) it can get IAS 19-based information for that plan from the group; and (ii) pro rating the assets to the specifically-allocated liabilities will give a consistent and reliable outcome.

Transition

Q15: Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?

60. We agree. In most cases the information necessary to apply the new requirements should be accessible relatively easily; therefore we see no reason why the normal IAS 8 approach of retrospective application should not be required.

Benefits and costs

Q16: 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?

61. We agree so far as the "core" proposals of the ED are concerned: in general the proposals should bring about benefits through improving the accounting for employee benefits that outweigh the incremental costs. However, we note that some of the less highlighted points, in particular the recognition of future administrative costs and the separation of actuarial gains and losses on other long-term employee benefits, do have significant cost implications. We urge the Board to ensure that these are fully considered in finalising the proposals.

Other comments

Q17: Do you have any other comments on the proposals?

62. Yes.

Short-term vs long-term benefits

63. We do not believe that the distinction between short-term and long-term employee benefits is set out clearly in the standard, in either paragraph 7, other parts of the standard or the Basis for Conclusions. For example, we do not believe that it is clear how to classify benefits with multiple settlement dates (wholly as either short- or long-term, or split; if the former, how to determine as which) or whether classification is a one-off exercise at the outset of a benefit arrangement or is revisited at each reporting date. As a result, we believe that finalising the wording as currently drafted would lead to diversity in practice.

64. Our understanding is that the Board intends a plan to be classified as a whole as offering either short- or long-term benefits – though, again, what is "as a whole": those benefits awarded during a particular reporting period, or an entire plan? – and that this classification would depend on when the final instalment of the benefit is expected to be settled. We understand also that the Board does not intend that the classification of a plan, once made, is revisited at future reporting dates. We do not, though, believe that the proposed wording sets this out unequivocally.

65. As a solution to these concerns, a possible definition of a long-term benefit which the Board could consider (with consequential changes to the definition of a short-term benefit) is:

'Long-term employee benefits are employee benefits (other than termination benefits) which the entity expects to become due to be settled in part or in whole:

(a) more than 12 months after the end of the reporting period in which the employee renders related service; or
(b) after the completion of employment.

The entity should assess whether an employee benefit is long-term or short-term on inception of that employee benefit and by reference to when the entity expects the last instalment of that employee benefit to be settled.'

While reconsidering the definitions the Board might reconsider also whether part (b) of this definition is required. In addition the Board may also wish to consider providing application guidance to assist in interpreting the distinction.

Other long-term employee benefits

66. Notwithstanding the current lack of a conceptual basis for the purpose of the different elements of the performance statements, we do not believe that it can be appropriate for the effects of remeasurement of long-term bonuses or other deferred compensation of this type to be presented in Other Comprehensive Income. The ED applies the new presentation requirements equally to post-employment benefits and to other long-term employee benefits, including long-term bonuses and other deferred compensation. While we agree that this combination of all long-term benefits into a single approach might be seen as simplifying the treatment (although see our comment above about the additional cost of disaggregating the movement in the provision during the period) and that it may be appropriate for many classes of benefit, we are concerned that changes in estimate would no longer be recognised within profit or loss for this type of benefit. Deferred bonuses are increasingly common and it is important that their treatment is clear and robust. Further, they seem to us qualitatively different from benefits such as jubilee benefits, long-service leave or long-term disability benefit. Due to this unease, the difficulty of determining which of these longer-term benefits should be treated in which way, and the lack of clarity in any case about the purpose of the different elements of the performance statements, we would prefer that the accounting for other long-term benefits is not at this stage combined with the accounting for post-employment benefit but instead is considered as part of the Board's post 2011 project.

Merit in accelerating development of core proposals

67. We are strongly in support of the core proposals to remove the 'corridor' option, mandate performance statement presentation and revise the calculation of the interest cost component. If necessary in order that these may be incorporated into IAS 19 on as timely a basis as possible, we would support detachment of these core proposals with the view to completing them to an accelerated timetable.

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