Submission of Comments by the AASB to the IASB

AUSTRALIAN ACCOUNTING STANDARDS BOARD

CL 42

IASB

International Accounting Standards Board

Exposure Draft

AMENDMENTS TO IAS 19 *EMPLOYEE BENEFITS*

ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES

Comments to be received by 31 July 2004

INVITATION TO COMMENT

In response to the IASB Invitation to comment, the Australian Accounting Standards Board has prepared the following submission addressing the specific questions asked and commenting on the proposals in the IASB ED.

In general, the AASB supports the extension of the multi-employer plan provisions and the additional disclosure requirements, but does not support the proposed introduction of a third option in IAS 19 to allow the full recognition of actuarial gains and losses directly in retained earnings.

The AASB appreciates that the IASB wishes to progress quickly on the proposals and agrees that a revised Standard should be operative for reporting periods beginning on or after 1 January 2006 with early adoption encouraged. However, the AASB considers it necessary for IAS 19 to be thoroughly reviewed in an editorial sense to ensure that the proposed new requirements blend appropriately into the Standard.

Proposed Amendments to IAS 19 *Employee Benefits:* Actuarial Gains and Losses, Group Plans and Disclosures

INVITATION TO COMMENT

The International Accounting Standards Board invites comments on any aspect of this Exposure Draft of its proposed amendments to IAS 19 *Employee Benefits.* It would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale, and, when applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing so as to be received no later than 31 July 2004.

Question 1 – Initial recognition of actuarial gains and losses

IAS 19 requires actuarial gains and losses to be recognised in profit or loss, either in the period in which they occur or on a deferred basis. The Exposure Draft proposes that entities should also be allowed to recognise actuarial gains and losses as they occur, outside profit or loss, in a statement of recognised income and expense.

Do you agree with the addition of this option? If not, why not?

The AASB does not agree with the proposed third option in the IASB ED for the recognition of actuarial gains and losses directly in retained earnings.

The IASB has previously indicated that it is intending to remove options in Standards. Accordingly, the AASB considers it highly inappropriate for the IASB to be proposing to increase the number of options available in a Standard.

The AASB acknowledges that part of the justification for introducing a third option in IAS 19 is that it is a short-term solution (pending the outcome of the Performance Reporting project and the long-term Employee Benefits project) to alleviate the volatility in the income statement for jurisdictions, in particular the UK (under FRS 17 *Retirement Benefits*), that require the full recognition of actuarial gains and losses associated with defined benefit plans. However, the Australian Standard equivalent to IAS 19, AASB 119 *Employee Benefits* that becomes operative for reporting periods beginning on or after 1 January 2005, requires the full recognition of actuarial gains and losses in the income statement. The AASB has proposed in Australian Exposure Draft ED 131 "Request for Comment on IASB ED Proposed Amendments to IAS 19 *Employee Benefits*: Actuarial Gains and Losses, Group Plans and Disclosures" that a revised AASB 119 will continue this treatment (i.e. not introduce the third option proposed in the IASB ED).

Actuarial gains and losses are clearly within the IASB *Framework* definitions of income and expense, and therefore conceptually should not be recognised directly in equity (retained earnings). The AASB acknowledges that a number of IASB Standards, such as IAS 16 *Property, Plant and Equipment,* IAS 21 *The Effect of Changes in Foreign Exchange Rates* and IAS 39 *Financial Instruments: Recognition and Measurement* already permit or require amounts that meet the definitions of income and expense in the *Framework* to be recognised directly in equity. These Standards require the amounts to be recognised as a separate component of equity and in some instances, to be recycled into the income statement upon a certain transaction occurring (e.g. disposal of a foreign operation). In contrast, there is no precedent in existing IASB Standards for the third option proposed in the IASB ED for the recognition of current period gains and losses directly in retained earnings.

The AASB agrees with the alternative view noted in the Basis for Conclusions that retained earnings should be the cumulative profit or loss of the entity less cumulative distributions to owners. However, the AASB notes that if the third option were to require actuarial gains and losses to be recognised as a separate component of equity (and not directly to retained earnings) then the IASB would be introducing another requirement in IASB Standards to recycle profits. Current AASB Standards specifically prohibit the recycling of amounts and the AASB does not support accounting requirements that lead to recycling. Accordingly, the AASB does not support the introduction of a further option in IAS 19 and supports requiring the recognition of actuarial gains and losses in the income statement.

The AASB believes the optimal solution regarding the recognition of actuarial gains and losses associated with defined benefit plans is likely to emerge from the IASB work on Performance Reporting and the long-term Employee Benefits project. Accordingly, the AASB considers that these projects should be fast-tracked.

Question 2 – Initial recognition of the effect of the limit on the amount of a surplus that can be recognised as an asset

Paragraph 58(b) of IAS 19 limits the amount of a surplus that can be recognised as an asset to the present value of any economic benefits available to any entity in the form of refunds from the plan or reductions in future contributions to the plan (the asset ceiling). The Exposure Draft proposes that entities that choose to recognise actuarial gains and losses as they occur, outside profit or loss in a statement of recognised income and expense, should also recognise the effect of the asset ceiling outside profit or loss in the same way, i.e. in a statement of recognised income and expense.

Do you agree with the proposal? If not, why not?

If the third option were introduced into IAS 19, the AASB would support the proposal to recognise the effect of the asset ceiling in the same manner as actuarial gains and losses.

Question 3 – Subsequent recognition of actuarial gains and losses

The Exposure Draft proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should not be recognised in profit or loss in a later period (i.e. they should not be recycled).

Do you agree with this proposal? If not, why not?

As indicated in Question 1, current AASB Standards specifically prohibit the recycling of amounts and the AASB does not support accounting requirements that lead to recycling. Accordingly, pursuant to our response in Question 1, if the third option were introduced into IAS 19, the AASB would not support recycling the actuarial gains and losses. The AASB notes that the IASB will be considering the concept of recycling in its Revenue Recognition project, and believes that the IASB should not introduce further requirements that involve recycling until due consideration has been given to the concept.

Question 4 – Recognition within retained earnings

The Exposure Draft also proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should be recognised immediately in retained earnings, rather than recognised in a separate component of equity and transferred to retained earnings in a later period.

Do you agree with this proposal? If not, why not?

As indicated in Question 1, the AASB acknowledges that a number of IASB Standards, such as IAS 16 *Property, Plant and Equipment*, IAS 21 *The Effect of Changes in Foreign Exchange Rates* and IAS 39 *Financial Instruments: Recognition and Measurement* already permit or require amounts to be recognised directly in, and as a separate component of, equity. In contrast, there is no precedent in existing IASB Standards for the third option proposed in the IASB ED for the recognition of current period gains and losses directly in retained earnings. Accordingly, if the third option were introduced into IAS 19, the AASB believes that actuarial gains and losses should be recognised in a separate component of equity, rather than directly in retained earnings.

Furthermore, the AASB believes that the recognition of actuarial gains and losses as a separate component of equity is necessary if recycling of actuarial gains and losses is introduced.

Question 5 – Treatment of defined benefit plans for a group in the separate or individual financial statements of the entities in the group

(a) The Exposure Draft proposes an extension of the provisions in IAS 19 relating to multi-employer plans for use in the separate or individual financial statements of entities within a consolidated group that meet specified criteria.

Do you agree with this proposal? If not, why not?

(b) The Exposure Draft sets out the criteria to be used to determine which entities within a consolidated group are entitled to use those provisions.

Do you agree with the criteria? If not, why not?

The AASB agrees with the IASB proposal to extend the treatment for multi-employer plans for use in the separate or individual financial statements of entities within a consolidated group that meet specified criteria. The AASB also agrees with the proposed criteria.

Question 6 – Disclosures

The Exposure Draft proposes additional disclosures that (a) provide information about trends in the assets and liabilities in the defined benefit plan and the assumptions underlying the components of the defined benefit cost and (b) bring the disclosures in

IAS 19 closer to those required by the US standard SFAS 132 *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

Do you agree with the additional disclosures? If not, why not?

The AASB broadly agrees with the proposed disclosure requirements, subject to the following amendments to clarify the requirements:

- Paragraph 120(o) requires the defined benefit obligation, assets, the surplus or deficit in the plan and the experience adjustments to the plan liabilities and assets for the current and the previous four periods to be disclosed. The AASB does not believe this level of detail is necessary because an entity's financial statements would normally include comparative figures for one or two periods – users of the financial statements would already be able to obtain four years of comparative information by referring to the entity's previous financial statements. If paragraph 120(o) is introduced into IAS 19, the AASB recommends that transitional provisions are included to enable entities to disclose this information prospectively from the date that the revised IAS 19 is operative (i.e. entities will not be required, but may choose to do so, to disclose four years of comparative information until four years after the operative date of the revised Standard).
- Paragraph 120(p) requires an estimate of the expected contributions for the next fiscal year to be disclosed "as soon as it can reasonably be determined". The AASB recommends that paragraph 120(p) is worded as:

  "the employer's best estimate of contributions expected to be paid to the plan during the next fiscal year beginning after the balance sheet date, unless it is unable to be reasonably determined, in which case a statement to that effect shall be made".
- Paragraphs 120(b) and 121 extend the requirement to disclose a description of the defined benefit plan to include all terms used to determine the defined benefit obligation. The requirement implies that an entity will need to disclose how each type of benefit is calculated. If this is intended, the AASB believes that this requirement will add a significant amount of detail to the notes, particularly for large defined benefit plans with multiple categories of membership or employers with multiple plans, without providing significant benefit to users.

Question 7 – Further Disclosures

Do you believe that any other disclosures should be required, for example the following disclosures required by SFAS 132? If so, why?

(a) a narrative description of investment policies and strategies;

(b) the benefits expected to be paid in each of the next five fiscal years and in aggregate for the following five fiscal years; and

(c) an explanation of any significant change in plan liabilities or plan assets not otherwise apparent from other disclosures.

SFAS 132 also encourages disclosure of additional asset categories if that information is expected to be useful in understanding the risks associated with each asset category.

IAS 19 (as proposed to be amended) contains a significant number of disclosure requirements. The AASB recommends that the following disclosure requirements, contained in AASB 119 should be included in a revised IAS 19:

Aus121.1 An entity shall disclose details of arrangements for employer contributions for funding for each defined benefit plan. In complying with this requirement, an entity shall disclose:

(a) the surplus or deficit measured as the difference between accrued benefits and the net market value of plan assets determined in accordance with AAS 25[1] *Financial Reporting by Superannuation Plans* and which, in the absence of more recent information, has been determined as at the date of the most recent financial report of the superannuation plan;

(b) the current contribution recommendations;

(c) details of the funding method used to make the contribution recommendation; and

(d) the economic assumptions used to make funding recommendations.

1 This is the Australian equivalent to IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

Aus121.2 An entity shall disclose details of the nature of any asset or liability recognised in the balance sheet, including any legal liability to make up a deficit or the manner in which the employer may benefit from any surplus.

These disclosure requirements were incorporated into AASB 119 *Employee Benefits* to provide information to users regarding arrangements for employer contributions / funding. The AASB noted that the defined benefit liabilities (or assets) reported in accordance with AASB 119 will not necessarily reflect the basis on which the contribution rates have been set (the funding basis) and considered this information to be useful.

The AASB believes that any further disclosure requirements should be addressed as part of the IASB's long-term Employee Benefits project.

Editorial comments

Paragraph	Comment
93B	This paragraph refers to the "columnar format referred to in paragraph 100 of IAS 1". The reference should be to paragraph 101 of IAS 1.
120(h)(ii)	The first word should be "the".
Appendix F	The Exposure Draft provides an illustrative example of the statement of recognised income and expense based on the IAS 1 illustrative example and including the additional line item "Actuarial gains / (losses) on defined benefit plans" (as proposed by the third option) in the example. The AASB recommends if the third option is introduced into IAS 19, this additional line item be included in Appendix F as a consequential amendment to the IAS 1 illustrative example.