Institute of
CHARTERED ACCOUNTANTS
of New Zealand

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International Accounting Standards Board
30 Cannon Street
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Dear Anne

Exposure Draft of Proposed Amendments to IAS 19 Employee Benefits
Actuarial Gains and Losses, Group Plans and Disclosures

Thank you for the opportunity to comment on the proposed amendments to IAS 19.

We are supportive of amending standards where such amendments will improve the overall quality of financial information. However, we do not believe that introducing a third option in IAS 19 will achieve this objective without also addressing the fundamental deficiencies in the accounting treatments currently permitted by IAS 19. We suggest that relying on disclosure of actuarial gains and losses as currently required by IAS 19 is a better short term approach than amending the recognition principles as proposed.

Our responses to each of the specific matters for comment are attached. If you have any queries, or require clarification on any matters in the submission, please contact me or Simon Lee (simon_lee@icanz.co.nz).

Yours sincerely

Joanna Perry
Chair – Financial Reporting Standards Board
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SPECIFIC MATTERS FOR COMMENT

IASB 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?

FRSB Response

We do not agree with the proposal to introduce a third option into IAS 19 in relation to recognition of actuarial gains and losses on defined benefit plans by allowing recognition of actuarial gains and losses as they occur outside of the profit or loss, in a statement of recognised income and expense.

As a matter of principle we do not support options in accounting standards. Permitting a variety of accounting treatments for the same underlying accounting phenomenon impairs the comparability and quality of financial statements. However, given that IAS 19 currently permits entities to adopt a variety of approaches to accounting for actuarial gains and losses on defined benefit plans, it is also necessary to consider whether the proposal will improve the overall quality of financial information.

Changes to financial reporting standards should be made if they will improve the overall quality of financial information reported. IAS 19 currently permits two broad methods to account for actuarial gains and losses on defined benefit plans – the corridor approach and any other systematic method that recognises the actuarial gains and losses at a faster rate than the corridor approach.

While the proposed approach could improve the transparency and quality of information about actuarial gains and losses on defined benefit plans we do not believe introducing the proposed amendment will achieve this objective unless application is limited or the current options permitted in IAS 19 are removed. Both options currently permitted under IAS 19 are deficient. The corridor approach is deficient because it does not faithfully represent the underlying economic events. The corridor approach does not require all actuarial gains and losses to be recognised, only those gains and losses that fall outside of the 10% corridor. In addition the corridor approach permits those actuarial gains and losses that are recognised to be deferred and amortised. This results in recognition of assets or liabilities that do not meet the definition of assets and liabilities as set out in the IASB *Framework for the Preparation and Presentation of Financial Statements.*

The other option under IAS 19 is also potentially deficient in this regard in our view, because it permits the adoption of "any systematic method" and undermines the comparability of financial information.

We would support the proposed amendment as a short-term solution only if it:

- replaced the corridor approach and/or the option to adopt any other systematic method that results in faster recognition of actuarial gains and losses; and
- is made clear to constituents that it is only a short term solution pending completion of the IASB project on reporting comprehensive income.

This would at least improve the consistency and comparability of financial information and signal to constituents that a more comprehensive review of IAS 19 is planned.

We acknowledge that it would be difficult at this stage to replace either of the current approaches in IAS 19. This being the case we recommend that reliance be placed on ensuring adequate information is disclosed. IAS 19, paragraph 120, requires disclosure of defined benefit plan obligations – both funded and unfunded. Relying on such disclosures is a less intrusive approach, ensures transparency and provides users with the information needed to assess the performance and position of an entity without further undermining comparability by introducing an additional recognition option. Relying on these disclosures in the short term would also avoid cutting across the outcome of the IASB's project on reporting comprehensive income.

We believe that all gains and losses should be recognised in the profit and loss statement (performance statement). Conceptually there is no distinction between actuarial gains and losses on defined benefit plans and other gains and losses. We note, however, that the suite of IAS/IFRS is not consistent in this regard.

We encourage the IASB to accelerate its project on reporting comprehensive income. The outcome of this project will affect many standards and will help resolve issues, such as recognition of actuarial gains and losses on defined benefit plans, in a principled and consistent manner.

IASB 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 an entity in the form of refunds from the plan or reductions in future contributions to the plan (the asset ceiling).[1] 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, ie in a statement of recognised income and expense.

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

[1]The limit also includes unrecognised actuarial gains and losses and past service costs.

FRSB Response

Subject to our response to question 1, we agree that if the third option was introduced it would be important to ensure it was applied consistently.

IASB 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 (ie they should not be recycled).

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

FRSB Response

Subject to our response to question 1, we agree that actuarial gains and losses should not be recycled. We also agree with the IASB's view that there is no obvious rationale that could be used to determine how much to recycle in any particular reporting period.

Financial statements must faithfully represent the underlying economic event, reflect the substance of a transaction, and provide information useful to users of the financial statements.

Recycling, in substance, reflects a transfer between classes of equity. Recycling does not reflect a change in the underlying financial position or performance of an entity and therefore does not faithfully represent the underlying economic events.

All actuarial gains and losses should, in our view, be recognised in the profit and loss statement (performance statement) in the period in which they occur. The fact that this is not the case emphasises the importance of progressing the performance reporting project as soon as possible. As noted in the Basis for Conclusions a consistent policy on recycling within the suite of IFRS is yet to be resolved. We encourage the IASB to progress its project on reporting comprehensive income as a matter of priority.

IASB 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?

FRSB Response

Subject to our response to question 1, we agree that actuarial gains and losses should be recognised in retained earnings and not in a separate component of equity. This reinforces the IASB view (BC12) and our view that actuarial gains and losses are items of income or expense. As noted above, we believe that gains and losses should be recognised in profit and loss in the period in which they occur.

IASB 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?

FRSB Response

We are comfortable with the proposal to extend the provisions in IAS 19 relating to multi-employer plans on the basis that this will help ensure consistent and comparable reporting by entities in similar situations. We note that in New Zealand multi-employer plan arrangements are relatively rare.

However, we are concerned that the proposal appears to introduce a differential reporting regime based on cost-benefit considerations. Cost-benefit concerns are, in our view, more appropriately dealt with in the IASB's project on small and medium (non-publicly accountable) entities.

(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?

FRSB Response

As noted above we would be concerned if a differential reporting regime was introduced in a piecemeal fashion into individual standards. Reporting concessions to address cost-benefit considerations need to be developed on a consistent basis across all standards.

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IASB 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?

FRSB Response

We agree with the proposed disclosures except as noted below.

Paragraph 120 (n) requires disclosure of a sensivity analysis in respect of assumed medical cost trend rates. While medical cost trend rates may be important in some jurisdictions we wonder whether it would be more appropriate to make the requirement more generic. We note also that IAS 1, paragraph 116, already requires disclosure of the key sources of estimation uncertainty.

IASB 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.

FRSB Response

We do not support including the above additional disclosures into IAS 19.

Some of the example disclosures outlined above may be more appropriately included as part of a management commentary. Some of these disclosures may also be addressed more generally in other standards. For example, IAS 1 *Presentation of Financial Statements*, paragraph 103(c), probably addresses (c) above. Care needs to be taken to ensure that the benefits of requiring disclosure of additional information exceed the costs of preparing that information.