FAR

FAR is the institute for the accountancy profession in Sweden

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IASB Exposure Draft of a Proposed Amendment to IAS 19, Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures

FAR, the institute for the accountancy profession in Sweden, is responding to your invitation to comment on the Exposure Draft of a Proposed Amendment to IAS 19, *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures.*

General comments

We note that the IASB is proposing an additional option in spite of its expressed intentions in the Preface not to permit choices in accounting treatment. We believe that the adoption of an additional option will impair comparability and cause confusion in an accounting area where the inherent complexity already is relatively high. We believe that the IASB should not increase the number of choices of accounting treatment, but instead continue to work in this accounting area to develop one choice of accounting method that also brings about the maximum transparency into the financial statements.

Question 1 – Initial recognition of actuarial gains and losses

IAS 19 requires actuarial gains and losses to be recognized 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 recognize actuarial gains and losses as they occur, outside profit or loss, in a statement of recognized income and expense.

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

Response

We note that the IASB is proposing an additional option in spite of its expressed intentions in the Preface not to permit choices in accounting treatment. We believe that the adoption of an additional option will impair comparability and cause confusion in an accounting area where the inherent complexity already is relatively high. In this respect, we wish to highlight that the IASB does not necessarily regard the proposed option as an ideal solution, but notes that it would produce transparent information about defined benefit plans. We believe that changes should only be made for the better. As such, we believe that the IASB should not increase the number of choices of accounting treatment, but instead continue to work in this accounting area to develop one choice of accounting method that also brings about the maximum transparency into the financial statements.

If the proposed additional option will be implemented we would encourage the IASB in the final standard to include guidance on the disclosure of the accounting changes.

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

Paragraph 58(b) of IAS 19 limits the amount of a surplus that can be recognized 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). The Exposure Draft proposes that entities that choose to recognize 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 recognized income and expense.

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

Response

We believe that these proposals are a logical consequence of the proposal to recognize actuarial gains and losses as they occur in the statement of recognized income and expense.

Question 3 – Subsequent recognition of actuarial gains and losses

The Exposure Draft proposes that, when actuarial gains and losses are recognized outside profit or loss in a statement of recognized income and expense, they should not be recognized 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?

Response

The proposed amendments to IAS 19 could be seen as pre-empting the outcome of the IASB's project on comprehensive income in this respect. We therefore believe that the issue of recycling should be studied in a comprehensive way.

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 recognized income and expense, they should be recognized immediately in retained earnings, rather than recognized 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?

Response

We believe that these proposals are a logical consequence of the proposal to recognize actuarial gains and losses as they occur in the Statement Of Recognized Income and Expense without any subsequent recycling in the profit or loss.

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?

Response

(a) We agree that the multi-employer plan rules prescribed in paragraphs 29 through 35 of IAS 19 should also be applicable to entities in a consolidated group. However, we found it difficult to interpret the proposed amendments to paragraph 34 and 34A and, therefore, we recommend the IASB to consider an enhancement of the wordings of the proposed amendments.

(b) We believe that the multi-employer plan rules prescribed in paragraphs 29 through 35 of IAS 19 should be applicable to all entities in a consolidated group, and that there should be no distinction between the ultimate parent company and its subsidiaries. According to the proposed paragraph 34B a listed parent company will never be able to apply defined contribution accounting although the subsidiaries will be able to apply such accounting. This seems illogical.

Also, we found it difficult to understand why there is a distinction between one wholly-owned subsidiary where the ultimate parent produces IFRS consolidated financial statements and another wholly-owned subsidiary where the ultimate parent produces for example US GAAP consolidated financial statements. If there is no consistent and reliable basis for allocating the plan surplus or deficit, we find it difficult to argue that the resulting accounting treatment should be different in the two situations mentioned above.

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?

Response

We agree with all additional disclosures except the proposed disclosure on sensitivity analysis about medical cost trends rates, which we think should be removed from the final standard. We believe that in most instances the requirements in IAS 1 paragraph 116 (Key Sources of Estimation Uncertainty), will cover the issues highlighted in the IASB's exposure draft and that a reference in IAS 19 to said paragraph in IAS 1 would be sufficient.

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.

Response

We do not believe that these disclosures should be required, nor any others beyond those proposed in the exposure draft.

Other comments

- In paragraph 93B a reference is made to paragraph 100 of IAS 1. It appears that the correct reference should be made to paragraph 101 of IAS 1.

- We do not understand why a reference to paragraph 61 is necessary in the first sentence of paragraph 159B. The amendment to paragraph 61 is related to the addition of paragraphs 93A-93D, which are covered later in paragraph 159B.

Yours sincerely,

Jan Buisman
Chairman, Accounting Practices Committee

Dan Brännström
Secretary General