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Mr Robert Garnett
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Our ref MT/288

Contact Mary Tokar
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18 October 2007

Dear Bob

IAS 19 *Employee Benefits – Changes to a plan caused by government*

We note from the September 2007 *IFRIC Update* that the IFRIC tentatively decided to remove from its agenda the issue of accounting for the effects of a change to a defined benefit plan caused by a government. The reason noted for not taking this issue on the agenda is that any guidance beyond that given in IAS 19 would be implementation guidance rather than an interpretation.

We support your statement that the source of the change (i.e., whether this is imposed by employer or government) should not affect the accounting but we believe the scope of this agenda decision goes beyond the consideration of the change originator. As outlined below, we believe it could impact the accounting for plan amendments by employers. We therefore recommend narrowing the scope of the agenda decision to the issue of the originator of change only, without referring specifically to accounting for plan amendments imposed by government as is currently the case in the last two bullets.

After discussing the issue with our network of employee benefits specialists, we are concerned that the current drafting is overly broad and therefore may create confusion. We believe that the nature of changes to pension schemes caused by governments in different jurisdictions may be complex, and can involve multiple amendments. If the scope remains as broad as currently proposed, it would be more appropriate to take this issue on to the agenda for interpretation.

We believe that this agenda decision underestimates different considerations that are necessary in applying IAS 19 to plan changes whether imposed by *government* or *employer*. For example, such considerations may include the following:

- What constitutes a plan amendment? We are concerned that the last two bullet points may imply that *any* change in a plan constitutes a plan amendment. In our view, in order for a change to be a plan amendment there has to be a change to (i) the benefit to the employee and (ii) the agreement between an employer and an employee (IAS 19.7 definition of past service cost). From experience, we know that the question of whether a benefit to an employee has changed or not can be difficult to answer. Consider for example a simplified case in which the employee is entitled to receive at retirement a cash entitlement in place of a certain amount of regular payments and that cash entitlement increases as a result of a change in legislation. If IFRIC were to further consider this issue, we believe it would be helpful to provide indicators to help in the judgement required such as: (i) Are benefit changes viewed from an employer (cost to employer) or employee perspective? (ii) Are changes assessed on a gross or net basis, for example if they interact with social security taxes/ benefits? (iii) Does there need to be a change to the agreement or not?

- Whether the change in legislation constitutes an amendment to an existing plan or rather introduces a new plan? IAS 19.97 refers to the introduction of a new defined benefit plan and changes to existing benefits that are treated as past service cost. However, legislative changes may result in a reclassification from a defined benefit to a defined contribution plan or *vice versa*. In the case of a change in classification from defined contribution to defined benefit (e.g. legislation changes the obligation of the employer), we believe that this should be treated as the introduction of a new plan that gives rise to past service cost even though the benefits to the employee did not change. It would be helpful to acknowledge that changes by government also may lead to reclassifications of plans.

We believe the scope of the agenda decision should be narrowed or otherwise, the issue should be taken on to the agenda for interpretation. If IFRIC were to agree with our suggestion, please refer to the proposed wording in the appendix.

* * *

Please contact Mary Tokar at +44 (20) 7694 8288 or Thomas Schmid +44 (20) 7694 8566 at if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

cc. Andrew Vials

Appendix

IAS 19 *Employee Benefits*—Changes to a plan caused by government

The IFRIC was asked to provide guidance on accounting for the effects of a change to a defined benefit plan resulting from action by a government.

The IFRIC noted that IAS 19 already provides guidance with respect to the issue of whether the identity of the originator of the change affects the accounting ~~on accounting for the effects of changes~~:

- ~~Paragraph 73 of IAS 19 states that 'actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits' (emphasis added);~~

- ~~Paragraph 97 of IAS 19 states that 'past service cost arises when an entity introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan' (emphasis added);~~

- BC 55 of IAS 19 explains the Board's decision to reject the proposal that 'past service cost should not be recognised immediately if the past service cost results from legislative changes (such as a new requirement to equalise retirement ages for men and women) or from decisions by trustees who are not controlled, or influenced, by the entity's management'.

That is, the Board did not believe that the source of the change should affect the accounting. Therefore, the accounting for changes caused by government should be the same as for changes caused by an employer.

~~The IFRIC noted that IAS 19 therefore indicated that:~~

- ~~When a change in a plan caused by a government affects actuarial assumptions, this change should be accounted for as an actuarial gain or loss;~~

- ~~When a change in a plan caused by a government affects benefits for service before the change, this change should be accounted for as past service cost.~~

~~The IFRIC acknowledged that, in some circumstances, it might be difficult to determine whether the change affects either actuarial assumptions or benefits payable and noted that judgement is required. However, the IFRIC noted that although a change in benefits will always require changes in actuarial assumptions, changes in actuarial assumptions relating to the cost of providing benefits do not necessarily imply that the benefits have changed. The IFRIC also noted that any guidance beyond that given in IAS 19 would be more in the nature of implementation guidance than an Interpretation.~~

For this reason, the IFRIC [decided] not to add this item to the agenda.