Project **Post-employment benefits**

Topic **Comment letter summary**

Background and objective of this paper

1. The comment period for the Board's exposure draft *Defined Benefit Plans* (the ED) ended on 6 September 2010. At the time of writing this paper we had received around 225 comment letters. An analysis of those comment letters by constituent type and geographical region is included as Appendix A.
2. The objective of this paper is to summarise, in very broad terms, the comment letters and the feedback received during these activities in order to provide the Board with an overview of the main issues raised by respondents.
3. In addition to the formal feedback provided through these comment letters, the staff and some Board members undertook an extensive program of outreach activities during the exposure period. Activities included live webcasts (conducted by the IASB and in partnership with other organisations), Q&A sessions, meetings, talks, conference presentations, conference calls, articles and email correspondence with a wide range of preparers, users, actuaries, auditors and other pensions professionals from a wide variety of geographic backgrounds.
4. This paper does not provide a quantitative review of the comments received or attribute comments to individual respondents. This paper reflects both formal and informal feedback received.

Summary of comments and issues

Overall

5. The responses to the ED and other feedback received have been supportive of the overall objectives of improving transparency, comparability and understandability by eliminating the options for recognition and presentation of changes in assets and liabilities relating to defined benefit plans and improving disclosures about those plans. However in many cases, this support is based on the condition that the Board will perform a comprehensive review in the future, and, if the Board decides not to perform such a review, then the response could have been different. Some do not support the limited scope of the project and suggest that effort would be better spent on proceeding directly to a comprehensive review.

6. Some expressed concerns the proposals might have unintended consequences, including concerns that the proposals would lead to socially undesirable behaviour from plan sponsors and adverse effects on the level of provision of benefits through defined benefit plans. This might include closure of defined benefit plans, entities' decision to reduce or eliminate offers of defined benefits and failure to meet public policy objectives. Others expressed concerns that the proposals might affect investment allocation within plans, for example, that the proposals might reduce the incentive to invest in equities.

7. Many are also concerned about divergence from US generally accepted accounting principles (US GAAP), particularly regarding presentation. While most acknowledge that removing the corridor will result in comparable statements of financial position for entities reporting in IFRSs and US GAAP, some propose that the IASB adopt the presentation requirements in US GAAP, specifically the recycling from other comprehensive income (OCI) to profit and loss based on the corridor method, as an interim step until such time as the Board undertakes a comprehensive review.

8. Some agree with the assessment in the Basis for Conclusions that the benefits to users of improved comparability, understandability, disclosures and reduction in diverse practices will exceed the costs to preparers of adopting and continuing to apply the changes. However some believe that the cost of the additional disclosures will be greater than the benefits and would favour scaling back the disclosure requirements. We discuss the response to the Board's assessment of benefits and costs in Agenda Paper 6.

9. This paper covers the main areas of the ED as follows:

   (a) Recognition (Paragraphs 10 - 13)

   (b) Disaggregation and presentation (Paragraphs 14 - 30)

   (c) Disclosures (Paragraphs 31 - 37)

   (d) Other issues discussed in the ED (Paragraphs 38 - 63)

   (e) Other issues raised that were not discussed in the ED (Paragraph 65 - 68)

   (f) Transition (Paragraphs 69 - 71)

Recognition (Questions 1 and 2 in the ED)

10. The ED proposed that entities should recognise all changes in defined benefit obligations and in the fair value of plan assets when those changes occur. IAS 19 already permits entities to recognise all gains and losses when they occur, but also permits another option: to leave actuarial gains and losses unrecognized if they are within a 'corridor' and to defer recognition of actuarial gains and losses outside the corridor. The ED would remove that option. The ED also proposed that unvested past service cost should be recognized when the plan amendment occurs in order to improve the internal consistency of IAS 19.

11. Question 1 asked whether 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. There appears to be strong support for the removal of the corridor, both amongst users and preparers of financial statements. However, some

would prefer to keep the corridor until the Board addresses measurement and other aspects of accounting for post-employment benefits. Those who hold this view would prefer the Board to turn its attention to a comprehensive review now, rather than proceeding with the proposals.

12. Question 2 asked whether unvested past service cost should be recognised in the period of a plan amendment. In general, those that answered yes to question 1 also answered yes to question 2. However, a few respondents that agreed with the removal of the corridor disagreed with the proposal to recognise unvested past service cost in the period of a plan amendment either on the basis that a future economic benefit arises when the plan is amended or on the basis that the proposal was inconsistent with IFRS 2 *Share Based Payments*.

13. Agenda paper 4B contains further analysis and staff recommendations relating to the recognition of changes in defined benefit obligations and in plan assets.

Disaggregation and presentation (Questions 3 – 7)

14. The ED proposed a new presentation approach for changes in defined benefit obligations and the fair value of plan assets. Entities would split changes in the defined benefit obligation and the fair value of plan assets into service cost, finance cost and remeasurement components and would present:

    (a) the service cost component in profit or loss.

    (b) the finance cost component, ie net interest on the net defined benefit liability or asset, as part of finance costs in profit or loss.

    (c) the remeasurement component in other comprehensive income.

15. While many support the removal of options for presenting changes in defined benefit assets or liabilities, there are mixed views on the particular disaggregation and presentation proposals in the ED.

Disaggregation (Questions 3-5)

16. The majority of respondents support disaggregating changes in defined benefit obligations and the fair value of plan assets into a service cost, a finance cost and a remeasurements component (question 3).

17. The few respondents that disagreed with the disaggregation raised the following concerns:

    (a) some believe that the determination of an appropriate disaggregation method is intrinsically linked to the accounting model. Accordingly they believe that disaggregation should be considered as part of a fundamental review of IAS 19.

    (b) some believe that the Board should defer consideration of disaggregation until it is considered more broadly in the Financial Statement Presentation (FSP) project.

    (c) some believe that entities should present amounts relating to labour cost or personnel expense in aggregate as a net amount. Preparers that prefer this approach view the finance cost as arising due to the service cost and therefore view the service cost and the finance cost as a single component related to operating activities instead of financing activities. Some users also prefer this approach because it allows them to analyse an entity and the effect of its pension plan separately. That analysis would not be possible if entities disaggregate the changes and present each componentwith non-pensions items.

18. Many support the proposal to exclude from the service cost component amounts resulting from changes in demographic assumptions (question 4).

19. Agenda paper 4C contains further analysis and staff recommendations relating to the disaggregation of changes in defined benefit obligations and in plan assets and to the definition of the service cost component.

20. Responses to the proposed definition of finance cost (question 5) were mixed. Supporters of the net interest approach in the ED argue that it is a reasonable

compromise and a pragmatic solution to a complex problem. They acknowledge that it is not an ideal solution, however they believe it removes a bias towards risky assets that they believe has resulted from the existing expected return on assets approach. However, many preparers (and some users of financial statements) would like the Board to retain the expected return on assets. They argue that the net interest approach proposed in the ED does not represent the underlying economics of the plan assets, and therefore provides an artificial comparability that ignores the differences between investments in bonds and investments in equities. Agenda paper 4D contains further analysis and staff recommendations relating to the ERA approach and the net interest approach proposed in the ED.

Presentation (Question 6)

21. In many cases, respondents discussed the presentation proposals in the ED in the context of the fundamentals of performance reporting, the links with other related IASB projects including FSP and *Presentation of Items of Other Comprehensive Income* and the distinctions that are being made between items in OCI and items in profit and loss in various other IASB projects and current standards.

22. Many supported the proposal to present the service cost and finance cost components in profit or loss (question 6(a) and (b)) however some respondents believe that entities should be either required or permitted to present the service cost and finance costs in the same line item. Supporters of this approach argue that:

(a) both the service cost and the unwinding of the liability arise from a benefit provided to the employee (ie a holistic approach).

(b) the income from the plan assets reduces the cost of the employee benefit (ie the returns from plan assets are cost-reducing rather than income-generating). Those of this view would also support retaining the expected return on assets for the same reason.

(c) the finance cost arising from defined benefit plans is different in nature to other finance costs (a common view of the banks).

(d) presenting the service cost and finance cost components together is consistent with the proposal in the FSP project to present finance cost from operating items separately from interest related to financing.

(e) entities manage these costs in different ways and the presentation should reflect the way they manage these costs.

23. Many supported the proposal to present the remeasurements component in OCI and agreed with the Board's reasoning that these items have different predictive values and should be presented separately. However, some express concerns that they can identify no theoretical basis underlying the proposal to present the remeasurement component in OCI and they believe that this inevitably creates inconsistencies. Others consider the proposed use of OCI as a pragmatic approach that can be supported until the Board addresses performance reporting in the Conceptual Framework or another IASB project (such as FSP).

24. Many believe that amounts recognized in OCI should be reclassified to profit or loss in subsequent years, or that the Board should at least develop a theoretical basis for why some items should be recycled and others not. Those that supported recycling gave as reasons considerations relating to regulatory factors (such as distributable profits), or their belief that the all three components relate to labour cost and should all ultimately be presented as part of net income. Others had concerns about how costs should be capitalized as part of the measurement of assets. If recycling is not allowed or permitted, then the Board should clarify whether and how actuarial gains or losses should be included in the cost of such assets. When suggesting a basis for recycling, those with this view usually advocate a mechanism like the existing corridor method in a way similar to US GAAP, or on the basis of plan termination.

25. Some also stated that the presentation model in the ED is inconsistent with the Board's recent conclusions for financial assets, as expressed in IFRS 9 *Financial*

Instruments. Some commentators note that the proposed net interest approach is inconsistent with the Board's conclusions in other projects, and with IFRS 9.

26. A few respondents suggested that entities present actuarial gains and losses through profit and loss, either as a requirement, or by retaining the option currently in IAS 19. These respondents argued:

    (a) if an entity holds assets that do not meet the definition of plan assets and accounts for those assets at fair value through profit and loss, it should be able to account for changes in the defined benefit obligation through profit and loss. An example is an entity that holds assets to meet unfunded obligations.

    (b) there is no conceptual basis for presenting remeasurements in OCI, thus presenting all components in profit and loss is the conceptually superior answer and if not required, should at least be permitted.

27. We plan to discuss the presentation of the components of defined benefit cost at a future meeting.

Settlements and curtailments (Question 7)

28. The ED proposed that gains and losses on routine and non-routine settlements are actuarial gains and losses and should be included in the remeasurement component, and that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit and loss.

29. Many disagreed with the ED proposal to treat non-routine settlements differently from curtailments. Many commented that non-routine settlements and curtailments usually happen at the same time. Therefore requiring different accounting treatments for each component will introduce practical difficulties in determining the amount to allocate to each and will introduce structuring opportunities. Some advocated the same accounting for plan amendments, curtailments and non-routine settlements. However most respondents acknowledged that defining non-routine settlements and distinguishing them from routine settlements may present difficulties.

30. We plan to discuss the accounting for settlements and curtailments at a future meeting.

Disclosures (questions 8 - 12)

31. The ED proposed an objectives-based approach to disclosures, articulating disclosure objectives and proposing new requirements to support those objectives.

32. While many respondents supported the inclusion of disclosure objectives, they believed that supplementing the objectives with an extensive list of disclosure requirements would not achieve the result that the Board intended. Some respondents noted that this approach leads to 'one-size fits all' requirements that may not be flexible enough to adjust to each entity's individual circumstances. Some suggested that it would be better if the Board supported the disclosure objectives through the use of 'encouraged but not required' disclosures or by including examples illustrating the application of the disclosure objectives in different circumstances. Others suggested that guidance or some discussion is provided on the application of materiality to disclosures.

33. Many respondents stated that the objectives proposed by the Board were appropriate for defined benefit plans and that they reflected the objectives of financial reporting. Some respondents state the Board should make more specific mention of risk in the objectives. A few respondents did not believe that the Board had made an adequate case for requiring less information on plan assets than other standards, those with this view noted that in some jurisdictions entities have a high level of control over their plan assets.

34. Consistent with the views on the Board's approach to disclosure above, many commented that their support of the disclosure objectives was conditional on the information only being required when material, indicating that they had not appreciated how the notion of materiality applies to disclosure requirements.

35. Many respondents raise concerns about specific disclosure proposals, as follows:

(a) *Information about risk:* There was much support for including disclosures about exposure to risk. Some noted that the narrative disclosure about risk should be limited to any risks that are unusual or specific to the entity so that it does not include risks that all entities are exposed to in general (such as equity investments being exposed to market risk).

(b) *Sensitivity analysis:* There were varying levels of support for the sensitivity analysis requirements, from those that supported the requirements in full, supported part of the requirements, would prefer if the requirements were permitted but not required or would prefer if the requirements would be deleted. One respondent noted that sensitivity analysis is suggested as a disclosure in paragraph 129(b) of IAS 1 as an example of the type of disclosure to help a user understand the 'judgments that management makes about the future and about other sources of estimation uncertainty'. This respondent supported the proposed disclosure in the ED on the basis that it was additional guidance on applying the requirements in IAS 1 to defined benefit plans.

(c) *Actuarial assumptions:* There was much support for the Board's replacement of the current list of actuarial assumptions that require disclosure with an approach requiring entities to use their judgment in determining which actuarial assumptions to disclose.

(d) *Process used to determine demographic assumptions:* This received little support. Respondents noted the following concerns:

  (i) The requirement may lead to boilerplate disclosure that would not be particularly useful. The process often consists of experts performing experience studies and making professional assessments.

  (ii) It is not clear what the objective of the requirement is and how this information would be used. For instance, without understanding the demographics of the members it is difficult to see a user benefiting from the disclosures.

(iii) Disclosure of the assumptions should be adequate. Evaluating the process to determine the appropriate assumptions would be a normal part of an audit, and users rely on the entity, its actuaries and auditors to ensure the demographic assumptions are reasonable.

(e) *Alternative measures of the defined benefit obligation:* Most respondents did not support the proposal to require disclosure of the defined benefit obligation excluding the effect of salary changes. The concerns expressed included:

(i) it would be inappropriate to require a disclosure only because it would be relevant to some users in limited circumstances,

(ii) the disclosure would not be relevant in many jurisdictions because it would depend on the nature of the benefits upon termination which would vary by country and by plan.

(iii) disclosing an alternative measure of the liability would contradict the measurement requirement of IAS 19.

(iv) the albeit low cost of this benefit is outweighed by the limited user benefit, noting that this would apply to many other similarly low cost requirements that would just add to the volume of disclosures and only be useful in limited circumstances.

Some suggested that instead of the proposed disclosure, a disaggregation of the defined benefit obligation would be better as it would break the amount down into parts such as the vested benefits, accrued but not unvested benefits, future salary increases and other constructive obligations.

(f) *Asset-liability matching strategy* Views on the proposals regarding asset-liability matching strategies were mixed. Some supported the disclosure, others felt that it should be part of a broader disclosure regarding risk management and investment strategy and many felt that it should be removed. Those that felt it should be part of a broader discussion about risks suggested linking the disclosure with the requirement to describe the nature of risks that the plan exposes the entity to, by requiring the entity to describe how it manages those risks. Respondents that did not support the asset-liability matching disclosure were concerned that:

(i) Any disclosure of strategy would be generic and boilerplate.

(ii) A user will be able to perform a better assessment using the disclosures on plan assets and on the defined benefit obligation (ie the results of such a strategy are more relevant than a narrative discussion).

(iii) The requirement may imply that an entity should be doing asset-liability matching.

(g) *Contributions that differ from current service cost:* Many did not support the disclosure of factors that could cause contributions to differ significantly from current service cost. Respondents noted the following:

(i) There are many arbitrary factors why contributions would differ from service cost. In some jurisdictions, contributions are not regulated and are totally discretionary.

(ii) The disclosure would need to be prepared based on assumptions on the future (such as the volatility of the plan assets).

(iii) There is often no direct relationship between contributions and service cost. Contributions are usually determined based on local funding requirements. The defined benefit obligation is measured using a different basis under funding requirements.

(iv) This disclosure only considers funded plans and does not consider plans that are closed (ie where service cost is zero). Disclosure about future cash flows is also relevant for unfunded plans.

Respondents suggested that disclosure of the maturity of the defined benefit obligation is more relevant for both funded and unfunded plans, as would disclosure about the effect of regulatory funding deficits and any commitment the entity has under local law. One respondent suggested requiring disclosure of the factors, other than service cost, that an entity expects to affect contributions.

36. Many respondents were concerned with the ED proposal to eliminate the distinction between post-employment benefits and other long-term employee benefits and require the proposed defined benefit disclosures to be applied to all long-term employee benefits. We intend to ask the Board to consider separately whether the proposed disclosures should apply to other long-term employee benefits.

37. We plan to discuss disclosures with the Board at a future meeting.

Other issues in the ED (questions 13 and 14)

38. The ED proposed to amend IAS 19 to incorporate the requirements of IFRIC 14 and various IFRIC rejection notices, to simplify the drafting and to address those issues raised by respondents to the discussion paper *Preliminary Views on Amendments to IAS 19* that:

(a) could be addressed expeditiously,

(b) do not require a fundamental review of defined benefit obligation measurement, and

(c) would lead to a worthwhile improvement in the reporting of defined benefit plans.

39. These proposals related to:

(a) IFRIC 14 (paragraphs 41 - 42)

(b) Taxes and administration costs (paragraphs 43 - 47)

(c) Attribution (paragraphs 48 - 49)

(d) Mortality assumptions (paragraphs 50 - 51)

(e) Risk sharing (paragraphs 52 - 54)

(f) Multi-employer plan exemption and disclosures (paragraphs 55 - 58)

(g) The definition of short term and long term (paragraphs 59 - 60)

(h) to merge the post-employment benefit and other long term employment benefit categories (paragraphs 61 - 63)

40. We intend to discuss each of these issues in a future meeting.

IFRIC 14 (questions 13(a) and 13(b))

41. The ED proposed that IAS 19 incorporate, without substantive change, the requirements of IFRIC 14 *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. It also proposed to define 'minimum funding requirement' as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan.

42. Most agreed with these proposals. However some, particularly respondents from Canada and Japan expressed significant concerns about the application of the current requirements of IFRIC 14 and the proposed definition of minimum funding requirement. These concerns were also expressed by EBWG members. Some suggested that the Board should either clarify the existing requirements or not incorporate IFRIC 14 until it is able to review the requirements in IFRS 14.

Taxes and administration costs (questions 13(c) and 13(d))

43. The ED proposed that taxes payable by the plan should be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax and that the return on plan assets should be

reduced by administration costs only if those costs relate to managing plan assets. However, it did not propose guidance regarding what administration costs should be included in the measurement of the defined benefit obligation or how they should be allocated to service periods.

44. Many agreed with the Board's proposal to clarify the treatment of taxes. However some raised concerns about how the proposals would be applied in particular tax regimes and requested further clarification. Those concerns included the treatment of future taxes on asset returns and of taxes paid by the employer.

45. There was less support for the Board's proposal to clarify the treatment of administration costs than there was for taxes. Some disagree with the ED's underlying conceptual assumption that administration costs should be included in the defined benefit obligation if they represent part of the ultimate cost of providing the benefits and would prefer to expense such costs as incurred.

46. Regardless of whether respondents agreed or disagreed with the conceptual merits of the proposals, many raised concerns about how entities should estimate such costs and allocate them to current, past and future service. Difficulties include:

    (a) identifying the costs to include – this might be straightforward for some plans. However for an in-house administered plan, determining what should be included becomes less clear (ie the staff administering the plan, staff supervising them, a portion of the rent, CEO's salary and so forth).

    (b) allocating the costs between current service, past service and future service. This would be straightforward for closed plans, but difficult to do for the majority of open plans.

47. Some pensions professionals noted that the effect of diversity in treatment of administration costs could be significant. Some estimate that the Board's proposals would cause an increase in the defined benefit obligation of 5-6% if an

entity previously did not include administration costs in the defined benefit obligation.

Attribution (question 13(e))

48. The ED proposed to clarify that expected future salary increases should be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefit in later years. This question is relevant in determining whether the attribution of benefits to periods of service should follow a straight-line allocation or the benefit formula.

49. While most respondents supported the proposed clarification, some noted that the proposals will expand rather than narrow differences between the accounting for economically-similar defined contribution and defined benefit plans (such as contribution based promises) and would prefer the Board to defer this amendment until it undertakes a comprehensive review.

Mortality assumptions (question 13(f))

50. The ED proposed to clarify that 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

51. Many agreed that mortality assumptions require clarification and agreed with the ED proposal. However some requested further clarification. A few did not believe that IAS 19 requires clarification or did not agree with the ED proposal.

Risk sharing (question 13(g))

52. Some defined benefit plans include features that share the benefits of a surplus or the cost of a deficit between the employer and plan participants. Similarly, some defined benefit plans provide benefits that are conditional to some extent on there being sufficient assets in the plan to fund them. Such features share risk between the entity and plan participants.

53. The ED proposed to amend paragraphs 64A and 85(c) to require explicitly that features that reduced the ultimate cost of the entity meeting its obligation be

considered in determining the best estimate of the defined benefit obligation. Those amendments were intended to provide greater clarity and reduce diversity in the way that risk-sharing and conditional indexation features are accounted for.

54. Many respondents agreed that risk sharing should be taken into account in determining the ultimate cost of the benefit. Some respondents who work with plans with such features welcome the Board's proposals to account for these features. However they think that the proposals are not clear enough and have concerns about how the proposals will be implemented. A few respondents do not believe that accounting for these types of plan is possible under the existing IAS 19 framework and would prefer the Board does not address risk sharing until it can consider classification and measurement of plans comprehensively. The staff is continuing to work with interested parties to seek ways to resolve this issue.

Multi-employer plan exemption and disclosures (question 10 and 14)

55. Users have welcomed the proposed disclosures for multi-employer plans (MEPs). Many multi-employer plans and advocates of multi-employer plans are concerned about the requirement to quantify a withdrawal liability because:

    (a) they are concerned about the additional cost that the withdrawal liability disclosure will entail; and

    (b) they question whether the disclosure would provide useful information if there was very little probability of withdrawal.

56. On 1 September 2010, the US Financial Accounting Standards Board (FASB) published an exposure draft proposing to expand disclosures about an employer's participation in a multiemployer plan. The proposed disclosures in the FASB exposure draft are similar to the proposals in the Board's ED and we will continue to monitor the FASB's progress and feedback they receive.

57. The ED also asked respondents to describe any situations in which an entity has a consistent and reliable basis for allocating the obligation, plan assets and cost

of a defined benefit multi-employer plan to the individual entities participating in the plan.

58. Many responded that while accounting for multi-employer plans as defined benefit plans is uncommon, it does occur occasionally and a blanket exemption would not be appropriate. Some have suggested that the Board amend the relevant paragraphs to reflect this fact.

Definition of short-term and long-term (no question asked)

59. The ED proposed to clarify that the distinction between short-term and long-term employee benefits depends on the period between the date when the employee renders the service that gives rise to the benefit and the date when the entity expects the benefit to become due to be settled.

60. There is continuing concern regarding the proposed definitions. These concerns relate to the meaning of the words ‘expected to be due to be settled’ and also concerns regarding when an entity should be making the classification decision, when it should reconsider the reclassification and what the unit of account should be for the classification (ie whether employee’s individual benefits need to be classified separately or whether the plan as a whole needs to be classified).

Merging of the post-employment and other long-term employment benefit categories (no question asked)

61. The ED proposed to remove any difference between the accounting for post-employment benefits and the accounting for other long-term employee benefits. This would result in entities applying the net interest approach and the proposed disclosures to other long-term employee benefits.

62. Most respondents expressed strong opposition to merging the post-employment and long-term employment benefit categories. Many noted that accounting for other long-term employee benefits is not problematic, and believe there is no benefit in disaggregating and presenting the gains and losses in the way proposed for defined benefit plans. Currently, gains and losses arising from

other long-term employee benefits are recognised in the period in which they occur and presented in profit or loss.

63. Although the ED identified this change in paragraph BC77, the Board did not specifically debate the amendment before publishing the ED. Some have commented that the Board should have debated this change in public and could have communicated the change better.

Other issues raised that were not discussed in the ED

64. Some respondents to the ED have requested the Board address additional issues, which do not relate to the proposals in the ED. Given the restrictions on staff and Board time, the Board needs to consider the extent to which it should consider these additional issues in finalizing the ED. We describe three of the main issues arising below. We will continue to identify any relevant issues and will raise any such issues with the Board in due course. In addition, we plan to present to the Board a complete list of all issues that the comment letters request we address, for discussion by the Board on an exceptions basis.

Interim reporting

65. The ED did not propose any change to the interim reporting of defined benefit plans. However, respondents have raised concerns that it is unclear how often plan assets and the defined benefit obligation need to be remeasured (ie whether at each interim reporting date, when a significant event occurs such as a settlement or curtailment etc). Respondents were also concerned about how the frequency of measurement will affect the calculation of net interest and actuarial gains and losses in interim and annual reports and whether the assumptions and amounts underlying that calculation should be fixed at the beginning of the year or updated periodically during the year. We intend to discuss interim reporting at a future meeting.

Timing of recognition for plan amendments, settlements and curtailments

66. Some respondents requested clarification of when a plan amendment, settlement and curtailment have ‘occurred’. Possibilities suggested include when the change is adopted, communicated to affected members, or when the change is effective. The staff will consider this point next month together with the discussion of the presentation of the effects of settlements and curtailments.

Discount rate

67. The ED did not propose any change to the requirements in paragraph 78 that require an entity to use a high quality corporate bond rate, or a government bond rate if there is no deep market in corporate bonds, to discount the defined benefit obligation. Some respondents have requested the Board consider this issue because the requirement means that entities with similar employee benefit obligations can report them at very different amounts depending on whether there is a deep corporate bond market or not. These respondents expressed concerns that the net interest approach proposed in the ED would magnify the effect of this difference.

68. However, in August 2009 the Board published the exposure draft *Discount Rate for Employee Benefits* aimed at addressing issues relating to the discount rate expeditiously. In October 2009, the Board considered the responses to the ED. Those responses indicated that the proposed amendment raised more complex issues than had been expected. The Board therefore decided to adhere to its original plan to address measurement issues only in the context of a fundamental review. As a result, we do not envisage that we will ask the Board to discuss the discount rate before the amendments are finalised.

Transition (Question 15)

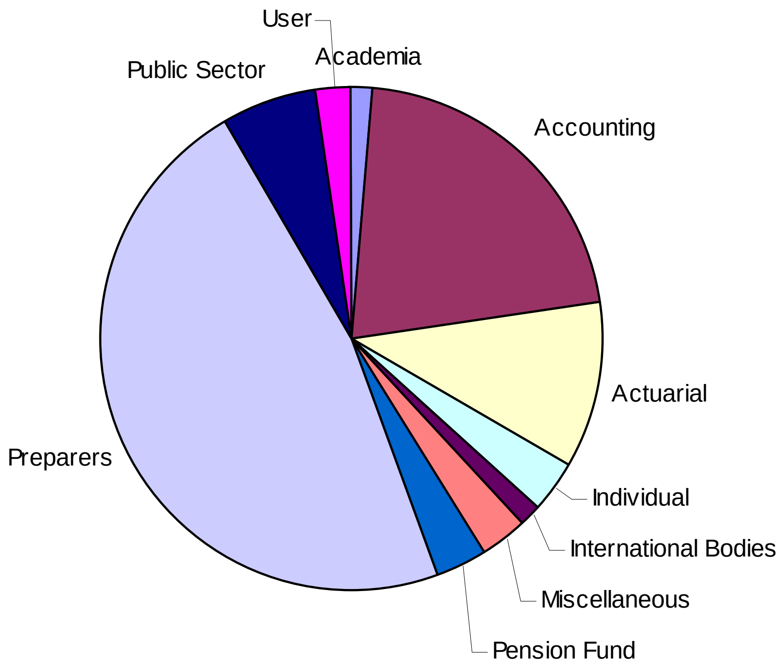
69. The ED proposed that the amendments are applied retrospectively in accordance with the default transition requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

70. Many respondents supported retrospective application. Some respondents were concerned that retrospective application might be difficult for some disclosure requirements, such as the sensitivity analysis, and asked the Board to consider transition for disclosures separately when finalizing the amendment. Some respondents suggested that prospective application would be more appropriate, mainly because of concerns that the requirements will require them to recalculate amounts capitalized as part of inventories and other assets.

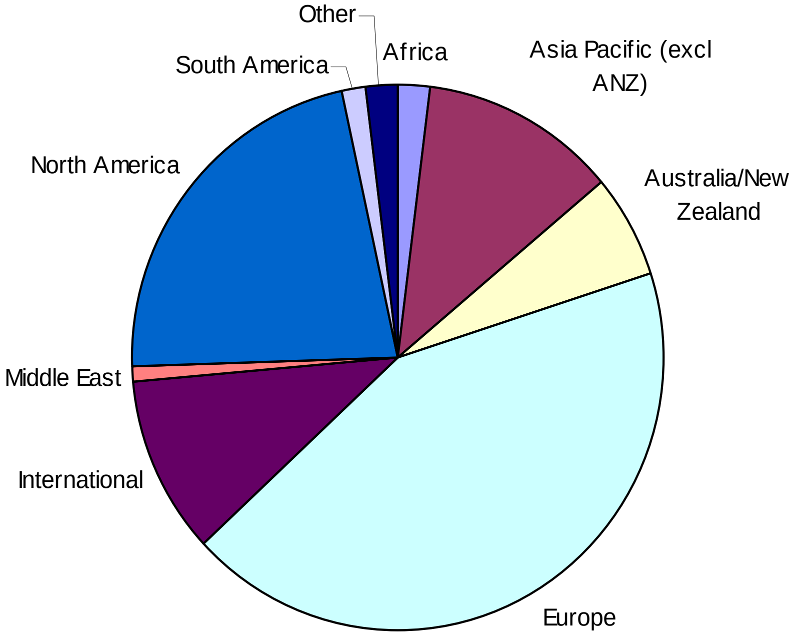
71. We plan to address transition at a future meeting.

Appendix A – Analysis of comment letters by type and region

By type of constituent



By geographic region



Appendix B – Questions in the ED

Recognition

Question 1

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?

Question 2

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

Disaggregation

Question 3

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

Defining the service cost component

Question 4

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?

Defining the finance cost component

Question 5

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)

Presentation

Question 6

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?

Settlements and curtailments

Question 7

(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?

(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)

(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?

Disclosures

Defined benefit plans

Question 8

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?

Question 9

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?

Multi-employer plans

Question 10

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?

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

Question 11

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?

Other comments

Question 12

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

Other issues

Question 13

The exposure draft also proposes to amend IAS 19 as summarised below:

(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)

(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)

(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)

(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)

(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)

(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)

(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)

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

Multi-employer plans

Question 14

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?

Transition

Question 15

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

Benefits and costs

Question 16

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?

Other comments

Question 17

Do you have any other comments on the proposals?