STAFF PAPER

July 2016

IFRS® Interpretations Committee Meeting

Project	Exposure Draft of proposed amendments to IAS 19 and IFRIC 14		
Paper topic	Comment letter summary of proposed amendments to IAS 19		
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Purpose

1. The objective of this paper is to provide a summary of the feedback received on the proposed amendments to IAS 19 *Employee Benefits*, included in the Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a refund from a Defined Benefit Plan* (the ED).[1] In particular, this paper addresses the following issues:

   (a) the accounting when a plan amendment, curtailment or settlement occurs (Question 4 of the ED (Q4));

   (b) the interaction between the asset ceiling and past service cost or gain or loss on settlement (Question 3 of the ED (Q3)); and

   (c) the transition requirements for the proposed amendments to IAS 19 (Question 5 of the ED (Q5)).

[1] Agenda Paper 6A summarises the feedback received on the proposed amendments to IFRIC 14 *IAS19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

Structure of the paper

2. Within this paper, we have split the feedback into that which relates to what we view as the main issues for redeliberation (outlined in the main body of this paper), and that which relates to other issues (outlined in Appendix A to this paper). Accordingly, this paper is organised as follows:

   (a) summary of the proposed amendments and an overview of the feedback received;

   (b) summary of the main issues identified by respondents;

   (c) Appendix A—summary of other feedback received on the proposed amendments to IAS 19; and

   (d) Appendix B—Extract from the ED: Proposed amendments to IAS 19 and the related Basis for Conclusions

3. The purpose of this paper is to provide information only. At this meeting, we will explain and discuss the feedback on the main issues but we are not asking the Interpretations Committee to make decisions. Interpretations Committee members are not required to read the feedback in Appendix A to this paper for the July meeting. However, all of the feedback will be relevant when redeliberating the proposed amendments to IAS 19, and accordingly we thought it would be helpful to provide members with all of the feedback at this stage.

Summary of the proposed amendments and an overview of the feedback received

Q4—Accounting when a plan amendment, curtailment or settlement occurs

Summary of the proposed amendments

4. The proposed amendments to IAS 19 address how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement (plan event) occurs during a reporting period. The proposed amendments specify that:

(a) when an entity remeasures the net defined benefit liability (asset) applying paragraph 99 of IAS 19 (ie when a plan event occurs), the entity would determine:

(i) the current service cost and the net interest for the period after the remeasurement using the assumptions used for the remeasurement; and

(ii) the net interest for the remaining period based on the remeasured net defined benefit liability (asset).

(b) the current service cost and the net interest in the current reporting period before a plan event would not be affected by, or included in, the past service cost or a gain or loss on settlement.

5. Appendix A to this paper includes the proposed amendments to IAS 19 together with the Basis for Conclusions, which summarises the rationale for these proposed amendments.

Overview of the feedback received

6. Seventy-one respondents commented on Q4. Close to half of those respondents agreed with the principles underlying the proposed amendments. Other respondents either disagreed with the proposed amendments or expressed concerns about specific aspects of the proposed amendments.

7. Respondents who generally agree with the principles underlying the proposed amendments say the proposed amendments would:

(a) result in more useful information;

(b) help reduce diversity in practice; but

(c) not result in significant additional costs.

8. The main issues identified by respondents are:

(a) consequences of a 'minor' plan event (Issue I); and

(b) inconsistency with the requirements in IAS 34 *Interim Financial Reporting* (Issue II).

9. Further information on these issues is included in the section on 'Summary of the main issues identified by respondents' in paragraphs 19-37 of this paper. Appendix A provides a summary of other issues that respondents have identified on these proposed amendments.

Q3—Interaction between the asset ceiling and past service cost or gain or loss on settlement

Summary of the proposed amendments

10. The accounting for a plan event may cause a reduction or elimination of a surplus, which may mean that the effect of the asset ceiling also changes. Consequently, the Board decided to clarify that, when a plan event occurs, an entity:

    (a) would recognise and measure the past service cost or a gain or loss on settlement in profit or loss as required by paragraphs 99–112 of IAS 19, before recognising the changes in the effect of the asset ceiling; and

    (b) would recognise changes in the effect of the asset ceiling in other comprehensive income as required in paragraph 57(d)(iii) of IAS 19.

11. The proposed amendment confirms that an entity recognises the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling.

Overview of the feedback received

12. Sixty-nine respondents commented on Q3. Most respondents agree with the principles underlying the proposed amendments. However, some of these respondents express concerns about specific aspects of the proposed amendments.

13. Respondents who generally agree say that the proposed amendments would:

    (a) provide helpful clarification of existing requirements; and

    (b) promote consistent application.

14. The main issues identified by respondents are:

    (a) inappropriate recognition of a gain or loss on settlement (Issue I); and

    (b) effective recycling of amounts recognised in OCI (Issue II).

15. Further information on these issues is included in the section on 'Summary of the main issues identified by respondents' in paragraphs 38-47 of this paper. Appendix A provides a summary of other issues that respondents have identified on these proposed amendments.

Q5—Transition requirements

Summary of the proposed amendments

16. The Board proposes that an entity would apply the amendments retrospectively. Nonetheless, the Board proposes providing an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit costs that are included in inventories). This exemption is similar to the exemption granted in respect of the amendments to IAS 19 in 2011.

Overview of the feedback received

17. Sixty-seven respondents commented on the transition requirements for the proposed amendments to IAS 19 (Q5). More than half of the respondents were in agreement with the proposed transition requirements. Of the remaining respondents, approximately half disagreed and the remaining respondents expressed concerns about specific aspects of the proposed transition requirements.

18. Appendix A provides a summary of the feedback received from respondents on the transition provisions.

Summary of the main issues identified by respondents

Q4—Accounting when a plan amendment, curtailment or settlement occurs

19. The main issues identified by respondents on Q4 of the ED are:

    (a) consequences of a minor plan event (Issue I); and

    (b) inconsistency with the requirements in IAS 34 *Interim Financial Reporting* (Issue II).

Issue I—Consequences of a 'minor' plan event

20. Some respondents express concerns about the consequences of the proposed amendments for a partial plan event (ie a plan event that affects only a portion of a plan). In particular, these respondents identify the following issues:

(a) the interaction of the proposed amendments with the concept of materiality (Issue I-1);

(b) the unit of account and lack of comparability (Issue I-2);

(c) additional costs resulting from the proposed amendments (Issue I-3); and

(d) the potential to make changes to achieve a particular accounting treatment (Issue I-4).

21. Each of these issues is discussed in more detail below.

Issue I–1—The interaction of the proposed amendments with the concept of materiality

22. Paragraph BC19 of the ED states:

> Consequently, the amendments do not change the requirements in IAS 19 on whether and when an entity should remeasure the net defined benefit liability (asset); the existing guidance in paragraph 99 requires an entity to remeasure the net defined benefit liability (asset) when a plan amendment, curtailment or settlement occurs…

23. Paragraph BC 17 of the ED states:

> …The IASB observed that the requirement to apply IFRS only to material items as described in paragraph 8 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* would continue to apply.

24. Some respondents (mainly actuarial firms / bodies) comment that it is not clear how an entity would apply the general requirements about materiality that are discussed in BC17 of the ED in the context of the proposed amendments to IAS 19. Respondents are concerned that the proposed amendments could lead to remeasurements triggered by only minor amendments to a plan or a portion of a plan.

25. For example, an entity might make an amendment to a plan that affects only a small portion of plan members. The effect of the amendment on the past service cost is considered immaterial. However, if there has been a significant change in financial conditions since the start of the year (eg significant changes in the discount rate), then the effect on the current service cost and net interest for the post-event period could be material.

26. In that case, these respondents ask whether, in determining materiality, an entity takes into account the effect of the plan event not only on the past service cost or settlement gain or loss (as an entity is currently required to do) but also on the current service cost and net interest for the post-event period. These respondents say this could lead to more frequent remeasurements of the defined benefit liability, which they do not think is an intended consequence of the proposed amendments.

Issue I–2—The unit of account and lack of comparability

27. Several respondents say that the proposed amendments may reduce the comparability of financial statements between entities with similar plans. For example, if two entities have similar pension plans and one entity has a plan event that affects only a small portion of its plan members during the reporting period, the entity with the plan event will be required to revise its current service cost and net interest for the entire plan (and not just for the portion of the plan that is affected). In contrast, the other entity will not be required to make similar revisions. Similarly, some respondents say that the proposed amendments may reduce comparability of pension plans within an entity.

28. Paragraph BC16 of the ED specifies that the unit of account for post-employment benefits is the plan. Two respondents ask the Board to provide requirements on the unit of account in cases for which there is a partial plan event (ie one that affects only a portion of the employees within a plan). These respondents say that, in these cases, an entity should potentially consider the group of employees affected by the plan event as a separate unit of account. Accordingly, an entity would update current

service cost and net interest for the period after the plan event only for the group of employees affected by the plan event and not for the entire plan.[2]

Issue I–3—Additional costs resulting from the proposed amendments

29. Paragraph 99 of IAS 19 states:

> Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

30. Paragraph BC17 of the ED states that the Board 'concluded that the expected benefits [of the proposed amendments] would outweigh any additional costs from the amendments, because paragraph 99 of IAS 19 already requires the net defined liability (asset) to be remeasured'.

31. Several respondents say that when a plan amendment occurs that affects only a small portion of the plan members, the entity is required to assess only the value of the affected liabilities before and after the amendment to determine past service cost. Similarly, in a partial settlement, the entity is required to assess only the settled liability to determine a gain or loss on settlement. These respondents comment that, in such cases, entities often adopt computational short-cut methods as permitted by paragraph 60 of IAS 19. Entities employ these short-cut methods because the effect of remeasuring the liabilities is typically small when only a small portion of plan members are affected.

32. However, applying the proposed amendments, an entity would be required to remeasure the entire net defined benefit liability (asset). These respondents think that the effect of this remeasurement is significant, so an entity would be required to undertake a detailed, expensive and onerous approach as the effect of the remeasurement would be material.

[2] Ernst & Young Global Limited (CL43) and The Belgian Accounting Standards Board (CL68)

Issue I–4—The potential to make changes to achieve a particular accounting treatment

33. Some actuarial firms / bodies comment that in response to changes in market conditions during the year, an entity could make minor plan amendments solely to achieve a particular accounting treatment. For example, if the discount rate increases significantly from the beginning of a reporting period, an entity could make a minor plan amendment during the year so that the entity can reduce the service cost for the period after the plan amendment, because of the effect of discounting the current service cost.[3]

Issue II—Inconsistency with the requirements in IAS 34

34. Paragraph B9 of IAS 34 states:

> Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant one-off events, such as plan amendments, curtailments and settlements.

35. Paragraph BC18 of the ED states:

> The IASB also discussed whether it should address the accounting in IAS 19 when 'significant market fluctuations', which are referred to in paragraph B9 of IAS 34 *Interim Financial Reporting*, occur during the annual reporting period. The IASB decided not to address this issue, because it observed that addressing this issue is too broad to be included in this proposal.

36. A large number of respondents (mainly accounting firms, standard setters and accounting bodies) comment that the Board's decision to not address the accounting in IAS 19 when 'significant market fluctuations' occur during a reporting period will result in divergent practices.

[3] JLT Benefit Solutions Limited (CL 25), The International Actuarial Association (CL 40) and Hymans Robertson LLP (CL 42)

37. For example, one respondent said:

> We therefore suggest to change these amendments and to clarify that changes in market conditions during the reporting period will not affect service cost, other than when a plan amendment, curtailment or settlement occurs. Therefore we believe paragraph B9 of IAS 34 should be amended accordingly, clarifying that significant market fluctuations will affect calculation of pension cost only when significant one-off events occur, such as plan amendments, curtailments and settlements. An alternative could be that the words 'for significant market fluctuations since that time' are simply removed from B9. [The Dutch Accounting Standards Board]

Q3—Interaction between the asset ceiling and past service cost or gain or loss on settlement

38. The main issues identified by respondents on Q3 of the ED are:

    (a) inappropriate recognition of a gain or loss on settlement (Issue I); and

    (b) effective recycling of amounts recognised in OCI (Issue II).

39. Each of these issues is discussed in more detail below.

Issue I—Inappropriate recognition of a gain or loss on settlement

40. Several respondents—mainly actuarial firms and bodies—express concerns about plan events that occur when an entity cannot recognise a surplus (or a portion of a surplus) due to the asset ceiling. These respondents note that, in this situation, the proposed amendments clarify that the entity would recognise the past service cost or the gain or loss on settlement in profit or loss even though there may be no corresponding change in the amount recognised on the balance sheet. These respondents say it is counterintuitive for an entity to recognise an amount in profit and loss from using a surplus that has previously been determined as having no value to the entity.

41. To understand this issue, assume an entity settles its defined benefit obligation in full on 31 December 20X5, without making any additional payment. The balances relating to the defined benefit plan at the date of settlement are as follows:

Item description	**Balance**
Present value of defined benefit obligation	CU(10,000)
Fair value of plan assets	CU 12,000
Surplus	CU 2,000
Effect of the asset ceiling	CU(2,000)
Carrying amount in the statement of financial position	CU -

42. These respondents say that, in the above example, the proposed amendments to IAS 19 clarify that the plan assets transferred to settle the obligation will be CU12,000, ignoring the effect of the asset ceiling CU(2,000). The entity will recognise a loss of 2,000 in profit or loss as the difference between CU(10,000)[4] and CU12,000[5] and a change in the asset ceiling of CU(2,000) in other comprehensive income (OCI). This is on the basis that the assessment of the asset ceiling and the calculation of the gain or loss on settlement are two distinct steps.

43. Some of these respondents comment that an approach now precluded by the proposed amendments to IAS 19 would be to recognise the plan assets transferred to settle the obligation of CU10,000, using the fair value of the plan assets CU12,000 less the effect of the asset ceiling CU(2,000). Using this approach, the entity does not recognise a gain or loss on settlement, reflecting the fact that no payment has been made to settle its net defined benefit asset.

44. For example, one respondent said:

> It seems unusual that a change that has no effect on the asset recognised in respect of the plan surplus should generate a

[4] The present value of the defined benefit obligation being settled.

[5] The fair value of plan assets transferred for the settlement.

> non-zero charge (or credit) in P&L. It also seems unusual that, if the surplus is restricted because the trustee has the power to use the surplus to augment member benefits, and then the trustee (rather than the entity) uses the surplus in exactly the way envisaged by the asset restriction, that the impact of the plan amendment is still recognised in P&L. [The Institute and Faculty of Actuaries]

45. Some respondents ask the Board to include a numerical example illustrating how the proposed amendments affect the calculation of past service cost or the gain or loss on settlement, and the changes in the effect of the asset ceiling when a plan event occurs.

Issue II—Effective recycling of amounts recognised in OCI

46. Some respondents say that recognising a gain or loss on settlement in profit or loss contradicts the requirement in paragraph 122 of IAS 19. Paragraph 122 of IAS 19 prohibits the reclassification to profit or loss of amounts previously recognised in other comprehensive income.

47. These respondents acknowledge the Board's view that the proposed amendments are consistent with this paragraph because the assessment of the asset ceiling and the profit or loss recognition of past service or settlement costs are two distinct steps. However, the respondents say that the proposed amendments effectively lead to such a reclassification. This is because the two steps noted by the Board are inextricably linked when an entity is required to remeasure the net defined benefit obligation (asset) due to a plan event.

Question for the Interpretations Committee
Does the Interpretations Committee have any comments or questions on the feedback received on the proposed amendments to IAS 19?

Appendix A

Summary of other feedback received on the proposed amendments to IAS 19

A1. This section provides a summary of the other feedback received on the proposed amendments to IAS 19.

Q4—Accounting when a plan amendment, curtailment or settlement occurs

A2. Some respondents request other clarifications to the proposed amendments and provide some editorial suggestions. In particular, these respondents request clarification on:

a. the trigger for, and timing of, remeasurements; and

b. editorial and other issues.

The trigger for, and timing of, remeasurements

A3. Some respondents request clarifications on:

a. the triggering event for the remeasurement of the current service cost and net interest; and

b. the date from which an entity calculates the revised current service cost and net interest.

A4. Each of these issues is discussed in more detail below.

The triggering event for the remeasurement of the current service cost and net interest

A5. Two actuarial firms / bodies comment that the proposed amendments are not clear on whether the recalculation of the current service cost and net interest for the post-event period is triggered by the plan event itself or when an entity is required to remeasure the net defined benefit liability (asset) applying paragraph 99 of IAS 19. These respondents say that many plan events affect only the future costs and do not affect accrued benefits. In these cases, an entity is not required to remeasure the net defined benefit liability (asset) applying paragraph 99 of IAS 19 because there is no effect on past service cost.[6]

[6] Aon Hewitt Limited (CL41) and The Institute and Faculty of Actuaries (CL75)

A6. These respondents ask the Board to clarify when the proposed amendments apply (ie to any plan event, or only when an entity is required to remeasure the net defined benefit liability (asset) applying paragraph 99 of IAS 19).

The date from which an entity calculates the revised current service cost and net interest

A7. Paragraph 103 of IAS 19 states:

> An entity shall recognise past service cost as an expense at the earlier of the following dates:
>
> (a) when the plan amendment or curtailment occurs; and
>
> (b) when the entity recognises related restructuring costs (see IAS 37) or termination benefits (see paragraph 165).

A8. Two actuarial firms/bodies ask the Board to clarify whether the proposed amendments to remeasure current service cost and net interest would apply when an entity recognises past service cost as an expense, which could be earlier than the plan event (applying paragraph 103 of IAS 19) or only when the plan event occurs.[7]

Editorial and other issues

A9. Some respondents identify editorial and other issues with the proposed amendments to IAS 19. In particular, these respondents question:

a. the proposal to keep the current wording of BC64 of IAS 19; and

b. the scope of inputs to be updated.

A10. Each of these issues is discussed in more detail below.

The proposal to keep the current wording of BC64 of IAS 19

A11. The ED proposed adding a footnote to BC64 of IAS 19, instead of deleting BC64, to explain the fact that the accounting required by the proposed amendments to IAS 19 is different from the accounting described in paragraph BC64.

[7] The Japanese Society of Certified Pension Actuaries (CL29) and The International Actuarial Association (CL40)

A12. Several respondents (mainly standard setters, accounting bodies and accounting firms) disagreed. These respondents suggested that the Board delete paragraph BC64 of IAS 19 or otherwise clarify that paragraph BC64 is no longer applicable.

The scope of inputs to be updated

A13. Some respondents—mainly preparers and industry groups—agree that adjusting the current service cost and net interest is necessary to account for the pension plan after a plan event occurs. However, they think that relevant information could be provided by updating the current service cost and net interest for only the inputs affected by the plan event; for example, a decrease of plan participants. These respondents say that it is neither necessary nor useful to update current service cost and net interest for changes in market conditions beyond the control of the entity, or for changes in other inputs unaffected by the plan event.

A14. In contrast, two respondents—one accounting body and one accounting firm—recommend clarifying that an entity would update all inputs in determining the current service cost and net interest after the plan event occurs. These respondents say that the proposed amendments as currently drafted could be interpreted as requiring an entity to update only some inputs to those costs.[8]

Editorial suggestions

A15. Several respondents suggest some editorial change to the draft amendments to make the requirements easier to understand. More specifically:

a. Some respondents comment that the intention of proposed paragraph 99A of IAS 19 is unclear and could result in some misunderstandings.

b. Some respondents comment that the use of the word ‘ordinarily’ in proposed paragraphs 67A, 123, 125 and 126 of IAS 19 is confusing and might be read to imply that an entity needs to look beyond the circumstances described in those specific paragraphs.

[8] Deloitte Touche Tohmatsu (CL 51) and The Group of Latin American Accounting Standard Setters (CL 69).

Q3—Interaction between the asset ceiling and past service cost or gain or loss on settlement

A16. Some respondents suggest some editorial changes to the draft amendments to make the requirements easier to understand. In particular, some had specific concerns about proposed paragraph 64A of IAS 19.

A17. Proposed paragraph 64A of IAS 19 states:

> When a plan amendment, curtailment or settlement occurs, past service cost or a gain or loss on settlement shall be measured and recognised in profit or loss as required by paragraphs 99–112 and the asset ceiling shall affect neither this measurement nor this recognition. After the recognition of the past service cost or a gain or loss on settlement, an entity shall determine changes in the effect of the asset ceiling based on the updated surplus, using the fair value of the plan assets and the discount rate used to remeasure the net defined benefit liability (asset) after the plan amendment, curtailment or settlement, as required by paragraph 99. Remeasurements of the net defined benefit liability (asset) include changes in the effect of the asset ceiling and shall be recognised in other comprehensive income as required by paragraph 57(d)(iii).

A18. Some of these respondents say that the proposed requirements in paragraph 64A are unclear. They suggest that the requirements could be better articulated by specifying the order in which an entity applies the steps, for example:

a. Step 1: Determine and recognise remeasurements to update assumptions before the recognition of any gain or loss for the plan event;

b. Step 2: Determine and recognise any gain or loss for the plan event; and

c. Step 3: Determine the effects of the change in the asset ceiling.

A19. Proposed paragraph 64A of IAS 19 is included within the section in IAS 19 titled 'Statement of financial position'. Some respondents say that the requirements in proposed paragraph 64A relate to the recognition and measurement of past service cost or settlement gain/loss and the related changes in the effect of the asset ceiling; they do not relate to presentation in the statement of financial position.

Q5—Transition Requirements

A20. Respondents who generally agree with the proposed transition requirements say that they would:

a. enhance the comparability and clarity of financial information provided; and

b. are justified because, in their view, the benefits outweigh the costs.

A21. Respondents who disagree with retrospective application of the proposed amendments raised the following issues which are discussed below:

a. cost versus benefit considerations;

b. nature of a plan event as a one-off event; and

c. separate presentation of cumulative remeasurements as a component of equity.

A22. Each of these issues is discussed below.

Cost versus benefit considerations

A23. Paragraph BC20 of the ED states:

> The IASB decided that an entity should apply the amendments retrospectively to achieve comparability between periods and entities when a plan amendment, curtailment or settlement occurs, in accordance with the general requirement of IAS 8. The IASB also noted that the amendments do not require new estimates to be made.

A24. Nonetheless, several respondents are concerned about retrospective application of the proposed amendments to IAS 19 saying that the benefits do not outweigh the costs. Some of these respondents say retrospective application of the amendments would require new calculations, and those calculations may be costly to obtain.

A25. For example, one respondent says:

> …Retrospective application of the amendments will require calculations for plan members where no calculations were previously undertaken. The data to perform those calculation may not exist or may be very difficult or costly to obtain. That is especially the case where it is not a simple matter to determine accurate Plan asset values for the remaining assets (for

> example if the plan holds a significant amount of unlisted assets that are not regularly valued) or an accurate DBO for the remaining members of the Plan (because no data was collected for them because they were not a part of the event in question). [The International Actuarial Association]

A26. Another respondent says that, even if a plan event did occur in a prior reporting period, the amounts recognised in the statement of financial position as at the current and prior reporting period would not change. Accordingly, the amendments would affect only the amounts recognised in profit or loss and other comprehensive income. The respondent says that the benefits derived from this information for the users of the financial statements would be limited and do not outweigh the cost of providing this information.[9]

Nature of a plan event as a one-off event

A27. Several respondents disagree with retrospective application. This is because some think that retrospective application is particularly useful for recurring and ongoing items/events. In contrast, they think that a plan event is a unique/one-off event and retrospective application would not improve comparability of financial statements. These respondents suggest that prospective application would be consistent with the prospective treatment of transactions within the scope of the amendments to IFRS 2 *Share-based Payment* and IFRS 3 *Business Combinations* in the *Annual Improvements to IFRS 2010-2012 Cycle*, which are also unique/one-off events.

Separate presentation of cumulative remeasurements as a component in equity

A28. Four respondents say that entities in some jurisdictions present the cumulative amount of remeasurements recognised in other comprehensive income as a separate component of equity. This is because paragraph BC100 of IAS 19 states that transfers within equity are permitted. These respondents ask the Board to provide relief from retrospective application for balances that are presented as a separate component of equity. If this relief is not provided, entities would be required to

[9] The Dutch Accounting Standards Board (CL15).

revisit transactions that potentially occurred several years ago, and will incur significant costs in updating the cumulative amount of remeasurements.[10]

[10] The Canadian Accounting Standards Board (CL10), KPMG IFRG Limited (CL19), Deloitte Touche Tohmatsu Limited (CL51) and The Group of Latin American Accounting Standard Setters (CL69)

Appendix B

Extract from the ED: Proposed amendments to IAS 19 and the related Basis for Conclusions

[Draft] Amendments to IAS 19 *Employee Benefits*

Paragraphs 99, 123 and 125–126 are amended and paragraphs 67A, 99A and 178 are added. New text is underlined and deleted text is struck through. Paragraphs 67 and 124 have not been amended but have been included for ease of reference.

Recognition and measurement: present value of defined benefit obligations and current service cost

...

Actuarial valuation method

67 **An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.**

67A Ordinarily, the current service cost shall be determined using the assumptions at the start of the annual reporting period. However, if the net defined benefit liability (asset) is remeasured as required by paragraph 99, the current service cost for the remaining portion of the annual reporting period after the remeasurement shall be determined using the assumptions used to measure the defined benefit obligation that reflects the benefits offered after the plan amendment, curtailment or settlement. The remeasurement that is required by paragraph 99 shall not affect the current service cost for the period before this remeasurement.

...

Past service cost and gains and losses on settlement

99 **Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement. An entity also shall remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan after the plan amendment, curtailment or settlement.**

99A An entity shall determine the current service cost and net interest in accordance with paragraphs 67A and 123. The current service cost and net interest shall be excluded from the past service cost and from the gain or loss on settlement.

...

Net interest on the net defined benefit liability (asset)

123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, ~~both as~~ unless the net defined benefit liability (asset) is remeasured as required by paragraph 99. Ordinarily, both the net defined benefit liability (asset) and the discount rate are determined at the start of the annual reporting period. ~~, taking~~ However, an entity takes account of any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments and as a result of any remeasurement that is required by paragraph 99. If the net defined benefit liability (asset) is remeasured as required by paragraph 99, the net interest for the remaining portion of the annual reporting period shall be determined by applying the discount rate used to remeasure the net defined benefit liability (asset) that reflects the benefits offered after the plan amendment, curtailment or settlement. The remeasurement that is required by paragraph 99 shall not affect net interest for the period before this remeasurement.

124 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 64.

125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate ~~specified in paragraph 83, both as~~. Ordinarily, the fair value of the plan assets is determined at the start of the annual reporting period. ~~, taking~~ However, an entity takes account of any changes in the plan assets held during the period as a result of contributions and benefit payments and as a result of any remeasurement of the plan assets that is required by paragraph 99. An entity shall use the discount rate(s) that were applied in accordance with paragraph 123. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

126 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate ~~specified in paragraph 83, both as~~. Ordinarily, the effect of the asset ceiling is determined at the start of the annual reporting period, however, an entity takes account of any changes in the effect of the asset ceiling as a result of the accounting that is required by paragraph 64A. An entity shall use the discount rate(s) that were applied in accordance with paragraph 123. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

...

Basis for Conclusions on the Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (Proposed amendments to IAS 19 and IFRIC 14)

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Remeasurement on a plan amendment, curtailment or settlement (paragraphs 67–126 of IAS 19)

BC13 The IASB received a request to address the accounting treatment in accordance with IAS 19 for issues related to the remeasurement of the net defined benefit liability (asset) in the event of a plan amendment, curtailment or settlement. The IASB noted that, after the amendments issued in 2011, paragraphs 123 and BC64 of IAS 19 imply that an entity should not revise any assumptions for the calculation of the current service cost and net interest during the period, even if an entity remeasures the net defined benefit liability (asset) as required by paragraph 99 of IAS 19. The IASB is concerned that ignoring the effects of such an event (ie a plan amendment, curtailment or settlement) in the period following the event when calculating the current service cost and net interest would not result in useful information.

BC14 Consequently, the IASB concluded that an entity should use the updated assumptions and take account of the changes in the net defined benefit liability (asset) that could arise as a result of the remeasurements for a plan amendment, curtailment or settlement during a period, when determining the current service cost and net interest for the period following the event. It proposed adding paragraph 67A of IAS 19 and amending paragraphs 123 and 125–126 of IAS 19 to address this point.

BC15 The IASB also decided to address the classification of the current service cost and past service, when a plan amendment or curtailment occurs during a reporting period, because practical questions were raised. The IASB observed that paragraph 102 of IAS 19 explains that the past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. Paragraph 8 of IAS 19 defines the current service cost as the increase in the present value of the defined benefit obligation resulting from employee service in the current period and the IASB noted that the current period means the current reporting period. Consequently, the IASB concluded that the current service cost in the current reporting period before a plan amendment or curtailment should not be included in the past service cost.

BC16 During its deliberations, the IASB also noted that the requirement to remeasure the net defined benefit liability (asset) is determined on a plan-by-plan basis (not on a country basis or an overall entity basis). The last sentence of paragraph 57 of IAS 19 implies that the unit of account for post-employment benefits should be a plan-by-plan basis and paragraph 99 of IAS 19 implies that the calculation reflects the benefits offered under ‘each plan’. The IASB concluded that no amendment was needed to IAS 19 in respect of this matter.

BC17 The IASB identified that the expected benefits from the amendments include providing more relevant information, enhanced understandability and eliminating diversity in accounting when a plan amendment, curtailment or settlement occurs. The IASB considered concerns about the costs of implementing the proposed amendments. However, the IASB concluded that the expected benefits would outweigh any additional costs from the amendments, because paragraph 99 of IAS 19 already requires the net defined benefit liability (asset) to be remeasured. The IASB observed that the requirement to apply IFRS only to material items as described in paragraph 8 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* would continue to apply.

BC18 The IASB also discussed whether it should address the accounting in IAS 19 when 'significant market fluctuations', which are referred to in paragraph B9 of IAS 34 *Interim Financial Reporting*, occur during the annual reporting period. The IASB decided not to address this issue, because it observed that addressing this issue is too broad to be included in this proposal.

BC19 Consequently, the amendments do not change the requirements in IAS 19 on whether and when an entity should remeasure the net defined benefit liability (asset); the existing guidance in paragraph 99 requires an entity to remeasure the net defined benefit liability (asset) when a plan amendment, curtailment or settlement occurs. The intention of the amendments is to confirm that an entity should determine the current service cost and net interest for the remaining portion of the period by using the updated assumptions used in the more recent measurement required by paragraph 99.