

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
United Kingdom
EC4M 6XH

19 October 2015

Dear Mr Hoogervorst

Exposure draft 2015/5 – 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)

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) 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)* ('the exposure draft').

We welcome the Board's initiative in addressing a number of areas of accounting for defined benefit plans that currently cause problems in practice and for the most part, subject to some points of detail, support the proposals in the exposure draft.

We recommend, however, that the Board clarify the effect of the proposals on the accounting in interim financial statements subsequent to a plan amendment, curtailment or settlement (particularly any interaction with the accounting for significant market fluctuations in an interim period).

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V. Poole', with a stylized, flowing script.

Veronica Poole
Global IFRS Leader

Appendix

Question 1 – Accounting when other parties can wind up a plan or affect benefits for plan members without an entity's consent

The IASB proposes amending IFRIC 14 to require that, when an entity determines the availability of a refund from a defined benefit plan:

- (a) the amount of the surplus that an entity recognises as an asset on the basis of a future refund should not include amounts that other parties (for example, the plan trustees) can use for other purposes (for example, to enhance benefits for plan members) without the entity's consent.*
- (b) an entity should not assume a gradual settlement of the plan as the justification for the recognition of an asset, if other parties can wind up the plan without the entity's consent.*
- (c) other parties' power to buy annuities as plan assets or make other investment decisions without changing the benefits for plan members does not affect the availability of a refund.*

Do you agree with the proposed amendments? Why or why not?

We agree with the proposal for the reasons set out in the Basis for Conclusions on the exposure draft.

As a point of detail, we recommend that proposed paragraph 12C be amended to clarify that it refers only to the purchase of annuities as plan assets rather than at the point of winding up of the plan.

Question 2 – Statutory requirements that an entity should consider to determine the economic benefit available

The IASB proposes amending IFRIC 14 to confirm that when an entity determines the availability of a refund and a reduction in future contributions, the entity should take into account the statutory requirements that are substantively enacted, as well as the terms and conditions that are contractually agreed and any constructive obligations.

Do you agree with that proposal? Why or why not?

We agree with the proposal for the reasons set out in the Basis for Conclusions on the exposure draft, but as a point of detail suggest that a cross-reference to the explanation in paragraph 61 of IAS 19 of what constitutes a 'constructive obligation' in the context of defined benefit plans could usefully be added to the proposed amended paragraph 7 of IFRIC 14.

Question 3 – Interaction between the asset ceiling and past service cost or a gain or loss on settlement

The IASB proposes amending IAS 19 to clarify that:

- (a) the past service cost or the gain or loss on settlement is measured and recognised in profit or loss in accordance with the existing requirements in IAS 19; and*
- (b) changes in the effect of the asset ceiling are recognised in other comprehensive income as required by paragraph 57(d)(iii) of IAS 19, as a result of the reassessment of the asset ceiling based on the updated surplus, which is itself determined after the recognition of the past service cost or the gain or loss on settlement.*

Do you agree with that proposal? Why or why not?

We agree with the proposal but are concerned that its explanation in proposed paragraph 64A is unclear.

We believe that the proposal could be better expressed by specifying the order of entries to be made subsequent to the remeasurement required by paragraph 99 of IAS 19 as:

Step 1

Recognise any change in the effect of the asset ceiling resulting from the plan amendment, curtailment or settlement in other comprehensive income.

Step 2

Recognise past service cost or gain or loss on settlement (which will then reflect the 'gross' gain or loss excluding any effect of the asset ceiling) in profit or loss.

In addition, we recommend that a simple example of the proposed approach to a settlement transaction be added below paragraph 109 of IAS 19.

Question 4 – Accounting when a plan amendment, curtailment or settlement occurs

The IASB proposes amending IAS 19 to specify that:

- (a) when the net defined benefit liability (asset) is remeasured in accordance with paragraph 99 of IAS 19:
 - (i) the current service cost and the net interest after the remeasurement are determined using the assumptions applied to the remeasurement; and*
 - (ii) an entity determines the net interest after the remeasurement 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 amendment, curtailment or settlement are not affected by, or included in, the past service cost or the gain or loss on settlement.*

Do you agree with that proposal? Why or why not?

We agree with the proposal to update the assumptions used to determine current service cost and net interest following a plan amendment, curtailment or settlement as this will provide more useful information.

However, we recommend that the effect of this proposal be clarified by:

- specifying in proposed paragraph 67A and 123 that all inputs that are amended in calculating the remeasurement required by paragraph 99 of IAS 19 are also amended in determining current service cost and net interest subsequent to a plan amendment, curtailment or settlement. As currently drafted, the proposed paragraphs could be interpreted as requiring amendment of only some inputs to those costs; and
- amending paragraphs BC62-64 of the Basis for Conclusions on IAS 19 to explain the evolution of the IAS 19 requirements as, notwithstanding the proposed addition of a footnote, it is unhelpful to retain a paragraph that does not reflect the Board's current position. Given the lack of clarity noted below on the accounting in interim financial statements, it would be confusing to retain wording that states that the defined benefit cost is not impacted by more recent measurement of the benefit obligation due to a plan amendment, curtailment or settlement.

In addition, we are concerned that the proposed amendments do not adequately address the accounting in interim financial statements. Logically, the proposed accounting might apply equally to interim financial statements but paragraph B9 of IAS 34 is currently silent on this issue and in the absence of clarification we believe that divergence in practice is likely to develop. Furthermore, the concept of 'significant market fluctuations' is one that is restricted to IAS 34 and is not addressed by the exposure draft. Unless it is specifically addressed by the Board the treatment of 'significant market fluctuations' could be interpreted as being treated consistently with other remeasurement events in interim financial statements, resulting in frequent revisions of current service cost and net interest as high quality corporate bond yields fluctuate. This would not, in our view, be practicable or appropriate.

For this reason, we recommend that the effect of the proposed amendments on interim financial statements in general and specifically as regards significant market fluctuations be specified (including, assuming the Board does not propose to extend the requirements proposed in the amendments to 'significant market fluctuations', by addition of an explanation of that decision in the basis for conclusions to IAS 19 or IAS 34).

As in our response to Question 3 above, we believe that addition to IAS 19 of an example illustrating the effect of a plan amendment, curtailment or settlement on subsequent current service cost and net interest would be helpful.

Question 5 – Transition requirements

The IASB proposes that these amendments should be applied retrospectively, but proposes providing an exemption that would be similar to that granted in respect of the amendments to IAS 19 in 2011. The exemption is for adjustments of the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit expenses that are included in inventories) (see paragraph 173(a) of IAS 19).

Do you agree with that proposal? Why or why not?

We agree with the proposal for retrospective application to an entity's assets and liabilities but note paragraph BC100 of the Basis for Conclusions on IAS 19 acknowledges that transfers within equity are permitted and that in some jurisdictions there exists a practice to maintain a separate component of equity representing the cumulative value of remeasurements recognised in other comprehensive income. We suggest that relief from retrospective application of the amendments to such balances be provided to avoid any necessity to revisit transactions that potentially occurred many years ago.