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International Accounting Standards Board  
30 Cannon Street  
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EC4M 6XG

19 October 2015

Dear Sir

**Exposure Draft ED/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**

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network<sup>1</sup>, this letter summarises views of member firms that provided comments on the ED.

We agree with proposals to amend IAS 19 and IFRIC 14, except for the transitional arrangements where we believe that instead of fully retrospective application, the amendments should be applied prospectively from the start of the earliest comparative period presented in the financial statements in which the amendments are adopted. Given that many defined benefit plans have been in existence for a substantial period of time, and that fully retrospective application would appear to result only in a transfer between reserves for periods prior to those to be presented in the financial statements in which the amendments are to be adopted, we are not convinced that the benefits of fully retrospective application would outweigh the costs.

We also note that the drafting of the proposed paragraph 99A could be read in a way that we doubt is intended, and have included suggested amended text in our response to question 4.

*Amendments to the Basis for Conclusions*

It is not clear how the IASB proposes to amend the Basis for Conclusions to IAS 19, in particular for the change in accounting for defined benefit plans that are remeasured in accordance with IAS 19.99 during an accounting period. We assume that the Basis for Conclusions will be updated and issued together with the proposed amendments when they are finalised.

However, we find the final sentence in the proposed footnote to BC 64 unhelpful and suggest that it is deleted (this reads: 'Paragraph BC64 does not provide either principles or guidance'). While the Basis for Conclusions does not form part of the related IFRS, it does

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provide an explanation of how the Board reached its conclusions in the context of the principles to be applied. This can be helpful in the practical application of the related IFRSs.

On the assumption that additional paragraphs BC64A, BC64B et seq will be added to explain the Board's redeliberations and the rationale for the change in its conclusions for remeasurements during reporting periods (and if this is not currently planned, we suggest that those paragraphs are added), it would seem appropriate for the footnote to BC64 to end with a statement that in 2015 the Board revisited its previously issued guidance and changed its mind, together with a reference to the paragraphs in the Basis for Conclusions that explain how and why those changes were made.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at [abuchanan@bdoifra.com](mailto:abuchanan@bdoifra.com).

Yours faithfully



Andrew Buchanan

*Global Head of IFRS*

## 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 proposed amendments.

We agree that the amount of a surplus to be recognised as an asset on the basis of a future refund should not include amounts that plan trustees (or other parties) can use for other purposes without the agreement of the entity. This is consistent with the definition of an asset, which requires that a resource is controlled by an entity.

We note that IASB's discussion in paragraph BC5, and agree that there is a distinction between the gradual settlement of a plan, and a plan which includes terms under which other parties can wind up the plan without the entity's consent. This latter ability means that a surplus could be utilised to settle additional costs which would arise on the early winding up of a plan.

We also agree with the discussion in paragraph BC6, that a trustee's ability to buy annuities as plan assets is in principle no different from any other investment decision which can be made, and that this is not the same as the ability to enhance benefits or to wind up a plan early.

***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.

However, we note that the term ‘substantively enacted’ is not defined, although it is used in a number of contexts in IFRS (including IAS 12, IAS 19 and IFRIC 14). As a result, it is possible that different interpretations might exist as to what constitutes a ‘substantively enacted’ statutory requirement. We suggest that the IASB considers developing a clear definition, to be applied across those IFRSs that use the term, to avoid the potential for diversity in practice.

**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 proposed amendments which clarify appropriately the interaction between the measurement and recognition of past service cost or a gain or loss on settlement, and the effect of the asset ceiling.

**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 approach set out above, and note that this would result in enhanced consistency in accounting for a plan that is subject to an amendment, curtailment or settlement during a reporting period. We agree with the IASB's comments in paragraph BC13 that to ignore the effects of such a plan amendment, curtailment or settlement could result in the subsequent current service cost and net interest not representing useful information.

However, the new proposed paragraph 99A can be interpreted in a way that does not reflect the description in question 4, with the second sentence reading:

*'The current service cost and net interest shall be excluded from the past service cost and from the gain or loss on settlement.'*

While it would seem unlikely to be the intention, this could be read as requiring that the gain or loss on settlement is calculated using the net defined benefit liability (asset) that existed at the start of the reporting period, because paragraph 99A requires the current service cost and net interest to be excluded from the gain or loss on settlement. We suggest that the second sentence is amended to read:

*'The current service cost and net interest shall be accounted for separately from...'*

**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 do not agree that the amendments should be subject to full retrospective application. Defined benefit plans may have been in existence for many years, with the potential for multiple plan amendments, curtailments or settlements to have taken place in the past. While the necessary information might be available to enable full retrospective application, we are not convinced that the benefits would outweigh the costs, and note that the result for periods prior to those presented in the current financial statements would be only a reclassification between reserves.

Instead, in order that there would be consistency of amounts presented in profit or loss, we suggest that the amendments are applied prospectively in their entirety from the start of the earliest period presented in the financial statements in which the amendments are adopted.