Amendments to IAS19 Employee Benefits

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 immediately when they occur. Do you agree? Why or why not?

We agree with EFRAG's position.

Question 2
Should entities recognise unvested past service cost when the related plan amendment occurs? Why or why not?

We agree with EFRAG's view.

Question 3
Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? Why or why not?

We agree with the proposed disaggregation of defined benefit costs.

Question 4
Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? Why or why not?

Yes, we agree that changes in demographic assumptions should not be presented as part of the service cost but included in the remeasurement 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?

We agree with EFRAG's position.

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?
Why or why not? Why or why not?

We agree with EFRAG's view to consider service cost in profit or loss as operational costs, interest income or expenses as finance costs in profit or loss and remeasurements in other comprehensive income.

Question 7
a. Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and therefore presented in the remeasurement component? 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?
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? Why or why not?

We agree with EFRAG's response.

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 affects the amount, timing and variability of the entity's future cash flows.

Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

We agree with EFRAG's response.

Question 9
To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:
a. information about risk, including sensitivity analyses;
b. information about the process used to determine demographic actuarial assumptions;

c. the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth;
d. information about asset-liability matching strategies; and
e. information about factors that could cause contributions to differ from service cost.
Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?

We think that, although a principle-approach is a good approach, it seems that enforcement will be more difficult.
In our opinion there should be a right balance between a mandatory list of disclosures and a principle base approach. The amendments to IAS 19 should provide illustrative examples in order to help preparers to comply the requirements.

Question 10
The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? Why or why not?

We agree with the additional disclosures proposed by the IASB.

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? Why or why not?

We agree with EFRAG's answer that the additional disclosures are useful.

Question 12
Do you have any other comments about the proposed disclosure requirements?

We agree with the Principle Based Approach defended by the Board. Although we believe that it should remain some mandatory discloser related to demographic assumptions namely expected mortality rates.

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.

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.
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.
d. The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets.
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.
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.
g. Risk sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation.
Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why? Do you agree? Why or why not? What alternative do you propose?

We agree with EFRAG's position. In our opinion the costs of managing the plan assets should be deducted from the return on those assets, since it is a cost directly attributable to that return. In our experience we believe that it is possible to separate the costs of managing the plan assets from other costs incurred.

Question 14
IAS 19 requires that entities 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, many plans that meet the definition of a defined benefit multi-employer plan would also meet the condition for defined contribution accounting.
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?

We consider that if the defined benefit allocation is possible and reliable, than defined benefit accounting should be used since it provides more useful and relevant information for users than the defined contribution accounting with disclosures.

Question 15
Do you agree that entities should apply the changes resulting from the proposed amendments retrospectively? Why or why not?

We agree because it should be treated as a change in accounting policy according to IAS 8.

Question to EFRAG´s constituents
Concerns have been raised about the availability of the information needed by entities for a full retrospective application. Do you believe that the information needed for a full retrospective application is available to entities? If not, what information would not be available?

We believe that this information is available for preparers for the needs of the retrospective application as defined by the Board.

Question 16
In the Board's assessment the main benefits of the proposals are:
- Reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.
- Eliminating some presentation options currently allowed by IAS 19, thus improving comparability.
- Clarifying requirements that have resulted in diverse practices.
- Improving information about the risks arising from an entity's involvement in defined benefit plans.
- Improved comparability between entities
- Improved disclosures about defined benefit plans.

Do you agree with the Board's assessment? Why or why not?

We agree with the Board's assessment.

In the Board's assessment 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 in applying the existing version of IAS 19.
Do you agree with the Board's assessment? Why or why not?

We agree with the Board's assessment, see response bellow.

Question to EFRAG's constituents
In your assessment, do the benefits of these proposals outweigh the costs? Please support your response with evidence of the benefits and costs you believe grow from these proposals.

We believe that the benefits of the amendment are substantially higher than the costs with the preparation of this information. We think that the costs that entities had previously with the application of this standard are not substantially different from the costs resulting from this amendment.

Question 17
Do you have any other comments on the proposals?

No, we do not.

Lisbon, 25th August 2010