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Mr Hans Hoogervorst
International Accounting Standards Board
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Our ref **MV/288**
Contact **Mark Vaessen**

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Dear Mr Hoogervorst

Comment letter on ED/2015/5 Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan

We appreciate the opportunity to comment on the International Accounting Standards Board's Exposure Draft (ED) *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 have consulted with, and this letter represents the views of, the KPMG network.

We support the Board's proposed amendments to clarify whether other parties' power to enhance benefits for plan members or wind up a plan affects the availability of a refund, the interaction between the asset ceiling and the past service cost or a gain or loss on settlement and the accounting when a plan amendment, curtailment or settlement occurs during a period. The Appendix to this letter contains our responses to the specific questions raised in the ED, including some drafting suggestions.

Please contact Mark Vaessen or Kim Heng, at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix: Responses to specific questions

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 and with the Board's arguments in the ED's Basis for Conclusions.

However, we recommend that the amendments clarify in paragraphs 12A and 12B how other parties (e.g. the trustees) would have rights to make decisions without the entity's consent, for example, through legislation or the trust deed. This clarification would help to guide entities on where to look for such rights and reinforce that the rights need to be substantive.

In addition, we would suggest amending paragraph 12C to focus on the principle that the power to make investment decisions does not affect the availability of a refund. The power to buy annuities is only an example of an investment decision and should not be the focus of the guidance. Therefore, we recommend amending paragraph 12C as follows (new text proposed by us is underlined, deleted text proposed by us is strikethrough).

Other parties' power to ~~buy annuities as plan assets or make other investment decisions~~ without affecting the benefits for plan members (for example, to buy annuities as plan assets) shall not affect the availability of a refund.

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 because:

- the requirement to consider constructive obligations is already included in paragraph 61 of IAS 19 (where IFRIC 14 is an interpretation of IAS 19) and therefore we believe that it reflects the current guidance. Therefore, clarification that these types of obligations should be considered under IFRIC 14 is useful; and
- the concept of ‘substantively enacted’ is already included in paragraph 21 of IFRIC 14 and therefore clarification that the concept applies broadly to IFRIC 14 is useful.

However, we recommend the final amendments clarify how the guidance on constructive obligations applies to assets by explaining that an entity cannot recognise assets based on constructive obligations, but that such obligations can prevent the recognition of an asset or a larger asset. This is consistent with the requirements of IAS 19 to consider constructive obligations in the context of the recognition of liabilities, but not in the context of recognition of additional assets¹.

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.*

¹ We note ED 2015/03 *Conceptual Framework for Financial Reporting* (paragraph 4.8(b)) includes ‘rights arising from constructive obligation of another party’ as an example of a right that may constitute an asset. Notwithstanding this, based on the current conceptual framework we do not believe another party’s constructive obligation should result in an asset of the entity.

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

We accept the proposal on the basis that it will eliminate the current diversity in this area, and find the explanation made in BC12 of the ED that the proposal does not conflict with the requirement of paragraph 122 of IAS 19 that remeasurements recognised in other comprehensive income are not reclassified to profit or loss in subsequent periods helpful.

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 for similar reasons to those included in the ED's Basis for Conclusions (in particular in BC17) – i.e. because it would result in more useful and precise information and would not be costly to preparers as the information is already available for the remeasurement required under paragraph 99 of IAS 19.

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 that retrospective application (with the proposed exception) is a better transition approach than prospective application because it achieves comparability between periods and

entities, and would be consistent with the approach used to apply the amendments to IAS 19 in 2011.

However, we request the Board considers whether the benefits would exceed the cost of retrospective application. We are especially concerned with the cost/benefit equation relating to the amendments described in questions 3 and 4 above which are more event driven. We note that prospective application for event driven transactions would more be consistent with recent and proposed amendments to other standards such as IFRS 2 and IFRS 3². Retrospective application may be particularly burdensome for entities that present a separate caption within equity for amounts related to defined benefit plans as they would be required to identify and consider the effect of the proposed amendments on the accounting for plan amendments, curtailments or settlements that have occurred during the entity's life to assess whether a reclassification between equity captions is required.

² Examples are:

- Amendments to IFRS 2 as part of *Annual Improvements to IFRSs 2010-2012 cycle*.
- Amendments to IFRS 3 as part of *Annual Improvements to IFRSs 2010-2012 cycle*.
- Amendments to IFRS 3 as part of *Annual Improvements to IFRSs 2011-2013 cycle*.
- Exposure Draft 2014/05 *Classification and Measurement of Share-based Payment Transactions – Proposed amendments to IFRS 2*.