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Chairman

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JH/
n°50

IASB
30 Cannon Street
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UNITED KINGDOM

Dear Sir or Madam,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the Exposure draft on proposed amendments to IAS 19.

As the IASB's intention is to address limited issues raised by the standard and as its plans are to perform a comprehensive review of employee benefit accounting, we would like to state that our comments should be read in the context of this short term project and might be different in the context of the planned comprehensive review, notably as regards issues related to the measure of performance.

The ANC agrees on the immediate recognition of all changes in the value of plan assets and in the employee benefit obligation. The ANC acknowledges that this amendment together with the recognition of remeasurements in other comprehensive income improves the information conveyed by the balance sheet. However, despite the merit of the immediate recognition and of the elimination of the corridor option, we have reservations about the consequences of the exposure draft proposals with respect to the presentation of the entities' performance. We think that IASB proposals lead to the dilution of the concept of profit and loss as remeasurements in other comprehensive income will never be recycled.

ED 2010/3 proposes that past service costs should be recognised when incurred. In the current IAS 19, non vested past service cost is recognised over the vesting period. We would be in favour of maintaining this current position as it is consistent with the fundamental principle in IAS 19 whereby benefits are exchanged for services rendered.

ED 2010/3 proposes that the expected return on plan assets should be replaced by the discount rate used to measure the defined benefit obligation. Even if applying the "discount rate" to the net liability will not generally lead to a perfect representation of the funding arrangements, we think that it has nevertheless the merit of being a practical expedient that will facilitate the preparation and the understanding of financial statements.

Regarding the changes in the definitions of some employee benefits, we are not supportive of the IASB proposals. We think that the exposure draft wording of the definition for short-term employee benefits does not clarify the IASB intentions and raises several practical difficulties. We also have reservations with the proposed merger of the category "other long term benefits" within the global category "long term benefits". Other long term benefits will no longer fall under the limited accounting requirements which are justified by the current IAS 19 by materiality considerations.

Regarding the proposals to expand the disclosures, the ANC regrets that much of them are too general, burdensome or costly.

Our detailed answers to the discussion paper's questions are set out in the appendix I.

If you have any questions concerning our comments, we would be pleased to discuss them.

Yours sincerely,

Jérôme HAAS

Appendix

Recognition

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 when they occur. (Paragraphs 54, 61 and BC9–BC12) Do you agree? Why or why not?

The ANC agrees with the proposal to recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur because:

- It is more consistent with the conceptual framework. Under the “corridor” option assets and liabilities may be recognized that do not meet the corresponding definitions in the framework.
- It improves the comparability of financial statements by eliminating an option.
- It improves the quality of financial reporting by making the numbers in the statement of financial position and comprehensive income more transparent and easier to understand.

Question 2 :

Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?

We are not satisfied with the conceptual justification for this proposal.

We note the Board’s arguments in favour of recognising unvested past service costs when the related plan amendment occurs (see Discussion Paper 2.20):

- Consistency with the general requirement in the existing IAS 19 to attribute benefits to periods of service using the benefit formula
- Consistency with immediate recognition of all gains and losses arising from defined benefit plans

However, as indicated in paragraph 2.20 of the Discussion Paper the Board does not consider its current proposal to be the best conceptual answer.

We also note that attributing unvested benefits arising from plan amendments to future service from employees would be consistent with other IFRSs and in particular with IFRS 2 Share-based Payment.

In the ANC's view, unvested additional benefits arising under a plan amendment are related to future service even though they may be attributed to past services by the plan benefit formula. The Board's proposal does not respect the principle whereby benefits are exchanged for services received. In our view the benefits should therefore be recognised in profit or loss over the period in which the relevant services are rendered and not in the period of the plan amendment.

If the Board wishes to change the requirements related to unvested past service cost which would imply a change in the attribution of benefits to periods of services, we suggest that it occurs in the context of a more comprehensive review of IAS 19.

Disaggregation

Question 3 :

Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18).Why or why not?

The ANC considers that the proposed disaggregation into three components provides useful information which helps understand the changes in plan assets and obligations that occur during the period. The separation of re-measurements from the other components should improve the predictive value of the latter.

Whilst the ANC agrees with the disaggregation approach proposed it disagrees in some cases with the way the three components are defined (see below).

Defining the service cost component

Question 4 :

Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?

The ANC agrees with the proposal to exclude from service cost the effect of changes in demographic assumptions (mortality, turnover etc.).

Defining the finance cost 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? (Paragraphs 7, 119B, 119C and BC23–BC32)

The Board's view against the expected rate of return is based on the idea that it is subjective and allows manipulation of reported results. The Board's proposal is to replace the expected rate of return by a notional interest rate which is unrelated to the actual allocation of plan assets.

Even if applying the "discount rate" to the net liability will not generally lead to a perfect representation of the funding arrangements, we think that it has nevertheless the merit of being a practical expedient that will facilitate the preparation and the understanding of financial statements given that there are merits in applying the same rate to assets and liabilities.

Presentation

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?

(Paragraphs 119A and BC35–BC45) Why or why not?

The ANC agrees with the proposed presentation approach which provides useful information for users and makes a distinction between those items which have greater predictive value presented in profit or loss and re-measurements presented in other comprehensive income.

However, in view of the importance of profit or loss as a performance indicator, we are concerned that the items recognized in other comprehensive income will never be reflected in profit or loss.

Another concern relates to the classification of the impact of discounting in the interest cost by entities in the banking industries as the concept of finance cost is not suitable for this industry.

Settlements and curtailment

> **Question 7 :**
>
> (a) Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) 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? (Paragraphs 98A, 119A(a) and BC48)
>
> (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? (Paragraphs 125C(c), 125E, BC49 and BC78).Why or why not?

(a) We believe that routine and non-routine settlements are of a different nature. Non-routine settlements often involve a negotiation (e.g., a renegotiation of the plan) and are comparable to plan amendments or curtailments. As a consequence, we consider that non routine settlements should be accounted for similarly to plan amendements and curtailments in profit and loss. We agree that routine settlements give rise to experience adjustments and should be considered as actuarial gains or losses to be accounted for as items of other comprehensive income.

(b) As stated in (a) above, we believe amendments, curtailments and non-routine settlements are of a similar nature as they involve new negotiations and should be treated through profit or loss. As stated in our answer to question 2, unvested past service costs should be spread over the remaining required service period.

(c) We agree with the disclosure requirements.

Disclosures

> **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 affect the amount, timing and variability of the entity's future cash flows. (Paragraphs 125A and BC52–BC59)
>
> Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

We agree with the objectives but are concerned about some of the exposure draft proposals (see the answer to question 9).

Question 9:

To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:

(a) information about risk, including sensitivity analyses (paragraphs 125C(b), 125I, BC60(a), BC62(a) and BC63–BC66);

(b) information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e));

(c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f));

(d) information about asset-liability matching strategies (paragraphs 125J and BC62(b)); and

(e) information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c)).

Are the proposed new disclosure requirements appropriate? Why or why not?

If not, what disclosures do you propose to achieve the disclosure objectives?

Whilst we agree with the disclosure objectives (see Q.8 above), there are a number of cases set out below where we consider the information may not be useful, or may be too voluminous or too general and do not meet the disclosures objectives. We also consider that the requirements should be sufficiently flexible to allow for the difficulty in providing the information.

(a) information about risk, including sensitivity analysis

Whilst we agree in principle on the need for sensitivity analysis, we do not agree with the requirement, set out in 125I (a) ii in respect of the effect of a change to actuarial assumptions "that was reasonably possible at the beginning of the reporting period and would have affected current service cost that was determined for the reporting period". We find this requirement burdensome and consider it would be sufficient to provide the information as at the end of the reporting period as it would be required by 125I (a) i.

(b) information about the process used to determine demographic actuarial assumptions

We consider that the brief description of the process used to determine demographic actual assumptions as required by paragraph 125G(b) is likely to be too general to be useful. Moreover, we have doubt on the nature of the information to be provided.

(c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth

We are not convinced of the usefulness of this information and consider that it might be confusing for users to have an alternative measure of the long term defined benefit obligation.

(d) information about asset-liability matching strategies (paragraphs 125J and BC62(b))

ED 2010/3 proposed that an entity shall disclose details of any asset-liability matching strategies used by the plan, including the use of annuities and other techniques such as longevity swaps, to manage longevity risk.

In principle this information would be relevant. However, in order to avoid the risk of voluminous and complex information, we think that it should be left to the entity to decide what relevant information can be provided. Moreover, information about the hedging of risks may not be available to the entity e.g. where the fund is external and has an independent manager.

(e) information about factors that could cause contributions to differ from service cost(paragraphs 125K and BC 62 (c).

ED 2010/3 proposes that an entity shall provide a narrative discussion of factors that could cause contributions over the next five years to differ significantly from current service cost over that period.

We can see an interest in providing information about an entity's expected contributions to the plan over a reasonable period of time considering the level of uncertainty involved. This requirement should be sufficiently flexible to take into account of an entity's capacity to provide such information e.g. it might not be possible to provide information over a 5 year period.

We do not, however, see any interest in providing the information with respect to future service costs particularly since the accounting for defined benefit plan in IAS 19 aims to distinguish contributions from service costs. We also have the same remark about the practical difficulty of providing this information.

Question 10:

The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? (Paragraphs 33A and BC67–BC69) Why or why not?

We agree with the requirements except for those set out in 33A (c) and (d).

We question the relevance of information relating to the number of, and the entity's proportion of, members required by 33A (c).

With respect to 33A (d) we think it would not be necessary to provide information on the allocation of surpluses and deficits on wind up of the plan unless of course a wind up has effectively been decided. We question the relevance of this information in a going concern situation and believe it will just increase unnecessarily the volume of disclosures.

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? (Paragraphs 34B, 36, 38 and BC70) Why or why not?

We understand the objective of a better consistency in the disclosures required for entities participating in state plans or defined benefits plans that share risks between various entities under common control (group plans) with the disclosures in paragraphs 125A-125K.

However we think that the usefulness of the proposed disclosures in the context of state plans or group plans can be challenged.

For entities that participate in state plans, the proposed disclosure requirement would result in information with no additional value as compared to the information publicly available. Practical difficulties may also arise when it would come to obtain an IAS 19 valuation of the obligation as a whole (such valuation generally does not exist) and to assess one entity's share in the state plan obligations.

For entities participating in group plans the information required would be onerous and redundant with the disclosures provided by the employer sponsoring the plan. It would be also irrelevant since details that are not directly linked to the entity's employee benefits would be provided.

Question 12

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

(Paragraphs 125A–125K and BC50–BC70)

In § 125 E (c), actuarial gains and losses arising from experience adjustments have been eliminated from the disclosures required by IAS 19. We consider that this disclosure provides useful information on the reliability of the assumptions. The separate disclosure of actuarial gains or losses based on the nature of the assumptions is for us less relevant.

In § 125 F, the proposed split of the fair value of the plan assets based on active and non active market categories will be difficult. The disaggregation between “government debt instruments” and “other debt instruments” is not relevant either as the credit rating of government debt instruments may not be homogeneous. In addition, practical difficulties may arise regarding the proposed disaggregation in respect of funds' investments that are managed by insurance companies. Therefore, we would be in favour of maintaining the current distinction in IAS 19.

Other issues

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. (Paragraphs 115A–115K and BC73)

(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. (Paragraphs 7 and BC80)

(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. (Paragraphs 7, 73(b), BC82 and BC83)

(d) The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84–BC86)

(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. (Paragraphs 71A and BC87–BC90)

(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. (Paragraphs 73(a)(i) and BC91)

(g) Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92–BC96)

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

(a) and (b) IFRIC 14

We are not sure that IFRIC 14 has been incorporated without substantive change as some background and basis for conclusions included in IFRIC 14 which we feel useful have not been retained when incorporating the interpretation in IAS 19.

In addition, we note that the wording is not exactly the same. For instance, the term "enforceable" has been added in the definition of the "minimum funding requirement". It is not clear from the basis for conclusions what problem has been addressed by this additional word. Some view the "requirement to make contributions" as similar to "enforceable requirement to make contributions".

The proposed definition of a minimum funding requirement in paragraph 7 relates to any kind of long term benefit plan. We suggest that this definition is limited to defined benefit plans, as it is the case in IFRIC 14. The definition should not be extended to defined contribution plans as these plans cannot involve for the employer any requirement to pay further contributions to make good a shortfall in the plan assets.

(c) Tax payable by the plan

We suggest changing the definition in §7 and the requirement of §73b to refer to "taxes payable with respect to the plan". Our proposed change would address the situations where contributions are paid directly by the entity. In any cases, the words "plan itself" need to be clarified as they can be understood as meaning "a fund". According to IAS 19, a plan does not refer to any legal entity and therefore cannot be required to pay taxes.

In addition, we wish that the IASB be more specific on the nature of taxes referred to in §7.

(d) The return on plan assets shall be reduced by administrative costs

We agree with the proposal which is consistent with the rationale in IAS 19 as amended. As we wish to keep the concept of expected return, the administration costs for managing the plan assets would be considered when assessing the expected return.

(e) Expected future salary increases

We have some sympathy with the proposed paragraph 71A as it clarifies the current IAS 19 in a way that seems to be consistent with the general practice. However, we have some difficulty to assess at this stage all the consequences that this change could entail. We suggest then that the IASB add illustrative examples of different situations where an employee's service in later years leads to materially higher level of benefit than in earlier year (e.g. an example with the effect of expected future increases in salaries and another where benefits are contingent on performance targets).

(f) Mortality assumption

The exposure draft proposes to make explicit that the mortality assumptions used are current estimates of the expected mortality rates of plan members. We do not see what problem this precision may solve since the defined benefit obligations are in practice determined based on current estimates of the expected mortality rates. Besides, even if we agree with the reference to the mortality rates of plan members (emphasis added); it should be reminded that demographic data may not be available at plan level. We are therefore concerned with the relevance and reliability of, and the cost associated with the determination of specific mortality tables. In our view, the amended IAS 19 should make clear that standard mortality tables are generally sufficient and that there is no requirement to create specific mortality tables at plan levels.

(g) Risk sharing and conditional indexation features

The inclusion in the estimate of the defined benefit obligation of employees' contribution that will be receivable in respect of current service cost or past service cost is something new which is not clear. We do not see how future contribution can be divided in a component that relates to future services and in another component that relates to the reduction of any existing deficit.

Question 14

IAS 19 requires entities to 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, this would apply to many plans that meet the definition of a defined benefit multiemployer plan. (Paragraphs 32(a) and BC75(b))

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?

The description of 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, could be better performed by entities participating to such plans.

For this reason, the ANC would like to stick to some general principles.

We are aware that the Board discussed an approach that would correspond to a blanket exemption from the defined benefit accounting requirements in IAS 19 for entities that participate in multi-employer plans. We agree with the Board's final conclusion that extending the exemption would not be appropriate for all multi-employer plans and that for instance an entity which is a dominant participant in a multi-employer plan should not be exempted from the accounting for the plan as a defined benefit plan.

However, we would be in favour of introducing more consistency in the guidance on state plans and on multi-employer plans. IAS 19-36 states that "an entity shall account for a state plan in the same way as for a multi-employer plan". IAS 19- 38 further states that in most state plans the entity has no obligation to pay the future benefits: "its only obligation is to pay the contributions when they fall due and if the entity ceases to employ members of the state plan, the entity will have no further obligation to pay for the benefits earned by its own employees in previous years". We see no reason for not including this guidance in paragraphs 29-32B on multi-employer plans. This proposed amendment would allow entities to classify multi-employer plans as defined contribution plans when fact and circumstances demonstrate that they are similar to state plans funded on a pay-as-you-go basis.

Question 15

Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?

We normally see no major difficulty with a retrospective application of the amendments. However, we note that the current IAS 19 does not require identifying the actuarial gains and losses on other long term benefit plans due to consideration of materiality. The reclassification of "other long term benefits" in the category "long term employee benefits" will require determining retrospectively the actuarial gains and losses from the date of application.

In addition, we think that for many entities with a large number of plans and locations in different jurisdictions, the costs of calculating the defined benefit obligation on the new basis will be high.

As a consequence, we would be in favour of an amendment that provide for an option for limited retrospective application that is consistent with the exemptions permitted by IFRS1. The date of the mandatory application should provide the entities enough time in order to be able to perform the required calculations.

Question 16

In the Board's assessment:

(a) the main benefits of the proposals are:

(i) reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.

(ii) eliminating some presentation options currently allowed by IAS 19, thus improving comparability.

(iii) clarifying requirements that have resulted in diverse practices.

(iv) improving information about the risks arising from an entity's involvement in defined benefit plans.

(b) 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 when they apply the existing version of IAS 19.

Do you agree with the Board's assessment? (Paragraphs BC103–BC107) Why or why not?

We do not agree with:

- (a) (iii) as there are many amendments designed to clarify the current IAS 19 but do not achieve this objective (please refer to our answers to questions Q13) ;
- (a) (iv) as the proposed disclosures are too voluminous and in some cases not relevant (please refer to answers to questions 9 to 13) ;
- (b) as new disclosures and retrospective application should be costly.

Question 17

Do you have any other comments on the proposals?

ED 20010/3 proposes to define short term benefits as benefits "expected to become due to be settled within twelve months of the end of the reporting period".

We do not agree with the new definition as it does not clarify the intended distinction. Besides, a classification based on the expected date of settlement rather than on the entitlement raise some application issues. More guidance should be given on whether and how transfers from short term benefits to long term benefits (and vice versa) could or should be made. Further clarification is also needed on whether the assessment of the likely date of settlement should be made at the plan level or at the individual level and on whether the same benefit should be split into two different categories with different measurement and recognition requirements. We do not agree either on the classification of "other long term benefits" in the category "long term employee benefits" as we see such a change uselessly burdensome. We indeed have sympathy with the current requirements that allow for limited disclosures due to materiality considerations.

In addition, in respect of the payment of some bonuses contingent on performance targets, the difference between the estimated bonus and the actual bonus will be recognised in other comprehensive income. We are of the view that such difference is not the same feature as an actuarial gain or loss and that it should in any case impact the profit and loss.