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# Association of Accounting Technicians response to:

## 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

# Association of Accounting Technicians response to 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

## 1. Introduction

1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the IASB Exposure Draft on "Reassessment on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan" published on 18th June 2015.

1.2. AAT is submitting this response on behalf of our membership and from the wider public benefit perspective of achieving sound and effective administration in the field of audit and accountancy.

1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further. As requested, AAT has not addressed matters either in IAS 19 or in IFRIC 14 that are not addressed in this Exposure Draft, other than the comments made in the conclusion.

## 2. Executive summary

2.1. AAT considers that it is vital that prudence is adopted when accounting for the liabilities (including refunds and reductions in contributions) of entities to defined benefits pension schemes (3.7, below).

2.2. As has been experienced in the global economy, and particularly in the U.K. over the last ten years or more, there are many factors outside of the entity's control which can affect the commitments to be met by an entity which operates a defined benefits scheme, such as changes in workforce numbers, early retirement and severance packages, changes in final pay levels and extended life expectancy which impact on benefits payable, as well as general economic conditions which impact on the value of pension fund investments and returns generated.

2.3. In the run up to the 2007 financial-crisis there were instances where entities took advantage of a fund surplus in order to reduce their contribution levels or even, on occasions, have past contributions refunded[1]. Only to find their action was ill advised after the banking crisis impacted on the global-economy.

2.4. While it might be claimed by some that the problems outlined above reflect inappropriate use of optimistic actuarial valuations, defined benefits schemes' funding problems could have been ameliorated by more prudent accounting during the preceding "boom" years (3.7, below).

[1] PWC Survey of Pension Schemes published 2007, 53% of larger companies and 31% of smaller employers had pension schemes in surplus

## 3. AAT response to the IASB Exposure Draft on "Reassessment on a Plan Amendment Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan

3.1. The following paragraphs outline AAT's response to the proposals contained in the exposure draft.

**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?**

3.2. AAT agrees with the proposed amendments on the basis that the availability of a refund to the reporting entity should be accounted for by taking a prudent approach at all times.

3.3. Where the availability of a refund is effectively under the control of third parties, including scheme trustees, a prudent approach necessitates that the entity should not consider a refund as an asset, even if that refund is to be made on the basis of adjustments to levels of future contributions.

**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?**

3.4. Statutory requirements are effectively the same as the control exercised by a third party as referred to in question 3 (below) as a result AAT agrees that in instances where a reduction in future contributions is determined the entity should be required to both take into account the substance of the statutory requirements applicable, as well as the contractual terms and conditions and constructive obligations of the scheme in question and at the same time adopting a prudent approach.

**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?**

3.5. AAT welcomes the proposed clarification of IAS 19 in respect of accounting for the past service cost or the gain or loss on settlement as well as the effect of changes in the asset ceiling on the basis that the former reflects an adjustment to the costs of employment on an ongoing basis, and the latter reflects an adjustment arising exceptionally from investment performance on a reassessment of the asset ceiling at the time the reassessment is carried out.

**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?**

3.6. AAT supports the proposed amendment to IAS 19 as regards accounting requirements when a plan amendment, curtailment or settlement occurs as ensuring that current service costs and the net interest are reflected in terms of changes in the scheme conditions which will have occurred in the current accounting period.

3.7. However, AAT considers that paragraph 99 of IAS 19 should be amended to encourage a prudent approach to the evaluation of the current fair value of plan assets by requiring actuarial assumptions to be based on “long term” interest rates and market prices (rather than “current”) so as to minimise the risk of deferring short term future liabilities into the longer term purely on the basis of current performance of the fund exceeding expectations and not being sustainable in line with statutory obligations.

**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?**

3.8. AAT agrees with the proposal for the amendments to be applied retrospectively as it is considered vital that current balance sheets should reflect a prudent position as regards defined benefits scheme liabilities and assets and previous period balances shown as comparatives should be presented on a comparable basis.

## 4. Conclusion

4.1. AAT welcomes the proposed amendments to the extent that if they are adopted they will result in a more prudent approach to accounting for liabilities arising from defined benefits schemes (3.5, above).

4.2. While the proposed amendments are intended to be applied in situations where an entity might expect a reduction in its liabilities to a defined benefits scheme, AAT considers that it is a prerequisite that the same prudent approach must be applied to the underlying actuarial assumptions applied to the evaluation of the entity’s liabilities and contribution levels whereby the impact of the near certainty of future recessions and longer life expectancies are anticipated. Consequently, a prudent approach to taking credit for reductions in scheme liabilities is advocated (3.7, above).

4.3. AAT considers that it is also critical to adopt a prudent approach to recognising possible understated liabilities by the recognition of potential future adverse factors and not basing assumptions on current conditions only (3.6-3.7, above).

## 5. About AAT

5.1. AAT is a professional accountancy body with over 49,500 full and fellow members[2] and 82,400 student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 members in practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

## 6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

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[2] Figures correct as at 30 Sept 2015