



August 10, 2010

Via website posting: <http://www.iasb.org/>

Re: Exposure Draft Comment: **Defined Benefit Plans: Proposed amendments to IAS 19 Employee Benefits(ED/2010/3)**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Exposure Draft: **Defined Benefit Plans: Proposed amendments to IAS 19 Employee Benefits(ED/2010/3)**. We believe that, although limited in scope, the proposals will bring significant improvements in accounting for defined benefit plans and further the goal of convergence.

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?

Comments

CGA-Canada agrees with the merits of the proposal 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. We believe that the proposal will result in a more faithful representation of decision-useful information for the users of the financial statements and enhance transparency. We contend that, despite expected changes in the current measurement model, deferred recognition of all changes in the present value of the defined benefit obligation and in the fair value of plan assets should be discontinued. The accounting standards should not seek to conceal or smooth volatility, while recording transactions and economic events which themselves are volatile in nature. Conceivably, the standard setting process should give discounted consideration to the probable adverse stakeholder behaviour consequent to, and subsequent to, the pronouncement of a standard. While remaining mindful, it is contended that it is not within the scope of the IASB's mandate to encourage or discourage corporate or investor behaviour by means of accounting standards, particularly where substance is negatively affected.

Question 2

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

Comments

CGA-Canada endorses the proposal to recognise unvested past service cost when the related plan amendment occurs. We believe that this proposal compliments the main proposal of the ED, and is consistent with the principle of conservatism. The proposal would serve to enhance transparency and provide timely information to the users of the financial statements of an entity.

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?

Comments

It is suggested that service cost, finance cost and remeasurements should be disaggregated as they possess different attributes and predictive values. Also, the level of uncertainty associated with their timing and amount present differences. As a result, their disaggregation will enhance comparability and provide decision-useful information. We also contend that a composite defined benefit cost amount is not appropriate for the inter-firm and intra-firm comparisons, in the absence of any information regarding the drivers of changes in this cost.

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?

Comments

CGA-Canada concedes that the service cost component should exclude changes in the defined benefit obligation resulting from changes in the demographic assumptions because such changes are similar to remeasurement made in light of new information. We are aware that such exclusion may be exploited for earnings management; however, we reiterate, as stated in our comments to Question 1, that the accounting standards should be derived from a sound conceptual basis.

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)

Comments

CGA-Canada supports the proposal that the finance cost component should comprise net interest on the net defined benefit liability (asset), as determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset). The current requirement in IAS 19 of accounting for the expected return on plan assets separately does not consider the fact that such return comprises the change in the value of plan assets because of the passage of time and other changes. We believe that the proposal in the ED will simplify calculation of the finance cost and eliminate the subjectivity of judgement with respect to expected return on plan assets. The application of the discount rate specified in paragraph 78 to the net defined benefit liability (asset) will promote consistency in the application of the standard. Although the proposal will result only in approximate, and not the precise, calculation of the finance cost, it is considered an improvement over the current requirement of IAS19, as it is better to be approximately right than precisely wrong.

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?

Comments

- (a) CGA-Canada concurs with the Board's proposal to present the service cost in profit or loss. We note that, unlike the current requirement in IAS 19, even the past service cost will be immediately recognized in profit or loss. We appreciate that this new proposal is more conservative than the current requirement under IAS 19.
- (b) CGA-Canada concurs with the Board's proposal to present the net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss. This presentation is consistent with the related proposal to measure this cost as the net interest on the net defined benefit liability (asset), as determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset).
- (c) CGA-Canada does not concur with the Board's proposal to present remeasurements in other comprehensive income. The alternative view is held that such presentation is not consistent with the proposal to present a single net defined liability (asset) in the statement of financial position, and it is considered more appropriate to present changes in net defined liability (asset) in the statement of comprehensive income, specifically in profit or loss, despite the different predictive values of the individual components. In short, we are challenged in deeming that the volatility is better embedded in the statement of other comprehensive income, than in profit or loss. As stated in our comments to Question 1, the accounting standards might better not attempt to conceal or smooth volatility while recording transactions and economic events which themselves are volatile in instances where substance is disproportionately negated.

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?

Comments

- (a) It is reasonable that gains and losses on routine and non-routine settlement are actuarial gains and losses and should be included in the remeasurement component because such gains result from the difference between the net defined liability (asset) remeasured at the transaction date on the basis of the actuarial assumptions and the actual settlement amount. However, we are more hesitant to agree

with the Board's proposal to present all remeasurements of gains and losses on routine and non-routine settlement in other comprehensive income, for the reasons stated in our comments to Question 6(c).

- (b) CGA-Canada concurs with the proposal that curtailments should be treated in the same way as plan amendments. We agree with the rationale that a curtailment is similar to a plan amendment, and it is consistent to treat gains and losses on curtailment in the same way as gains and losses on plan amendments, and to present them in profit or loss.
- (c) We agree, also, that entities should disclose (i) a narrative description of any plan amendments, curtailments and non-routine settlements, and (ii) their effect on the statement of comprehensive income. We note that this requirement is identical to the existing requirement in the current IAS 19 and, hence, the entities are not expected to be burdened with any additional costs or efforts for providing this information. Within the envisioned concept, there is inconsequential justification to discontinue this requirement.

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?

Comments

CGA-Canada recognizes that the disclosure requirements must consider the trade-off between the "fair representation" requirements articulated in paragraph IAS 1(17c) and "materiality" as explained in paragraph IAS 1(31). We believe that "fair representation" of an entity's financial statement entails full disclosure of risks arising from an entity's defined benefit plans because an entity's liability arising from its defined benefit plan is unlimited, similar to the case of insurance contracts. Accordingly, we suggest the following enhancement to the objectives of disclosing information about an entity's defined benefit plans:

(d) to describe how demographic, interest rate, liquidity and economic risks related to the entity's defined benefit plans affect the amount, timing and variability of the entity's future cash flows.

We note that this objective is already supplemented to some extent by the paragraphs 125C (b), 125I, 125G (b), 125H and 125J of the ED.

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?

Comments

The proposed new disclosure requirements are considered desirable for providing the users with the information necessary to assess the risk arising from an entity's defined benefit plan. However, we note that these new requirements will place additional burden on all the entities, in general, and the entities with significant other long term benefits, in particular. The requirements for sensitivity analysis are new and disaggregation of actuarial gains/losses into demographic and financial assumptions may prove to be complex as, in many cases, these assumptions are interrelated. It will be a challenge for a transnational entity to maintain consistency in collecting and aggregating this type of information in respect of different defined benefit plans operating across various jurisdictions, for example. Hence, we suggest that the Board might reconsider the issues arising from the proposed new disclosure requirements and provide additional guidance.

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?

Comments

CGA-Canada concurs with the proposal for additional disclosures about participation in multi-employer plans because the risk profile of a participating entity in such plan is significantly different and the additional disclosures should aim to facilitate assessment of the risks arising from such plans for the entities. We note that the proposal is also consistent with the current views of FASB on this matter.

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?

Comments

CGA-Canada concurs with the proposal to align disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control with those for other entities. We agree also with the Board's rationale that such update is required for the

consistency of disclosure requirements among the entities, irrespective of the structure of their employee benefit plans.

Question 12

Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)

Comments

CGA-Canada posits that the proposed disclosure requirements in the ED favourably seek to strike a fine balance between “materiality” and “fair representation”. However, we believe that, because of the flexibilities given to the entities for appropriate level of disclosures, diversity in practice is likely, and the comparability of the financial statements will be subject to diminishment. We hesitate to agree with the Board’s contention that the plan assets are held only indirectly by the entities, and that highly disaggregated information about these assets is, as a result, not necessary. The Board has not elaborated the reasoning relied on to conclude that the plan assets are not equivalent in every respect to assets held directly by the entity. We believe that, depending upon the contract, the liabilities of the entities arising out of defined benefit plans could be unlimited. As noted in our comments to Question 9, because of the complexities related to the proposed new disclosures, the Board might reconsider the issues arising from the proposed new disclosure requirements and provide additional guidance.

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?

Comments

CGA-Canada agrees with the Board's proposed amendments described in (a) to (g) above because, although the scope of this project is limited, we believe that these amendments can efficiently and expeditiously improve the clarity of guidance provided in IAS 19, without the need for further elaborate deliberations. The proposed amendments should diminish the diversity in practice.

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?

Comments

CGA-Canada contends that the question of properly allocating actuarial risks associated with the current and former employees of other entities among all the participating entities in a multi-employer plan can be best addressed by professional actuaries. We endorse the proposal and rationale articulated in paragraphs 32(a) and BC 75(b), on the presumption that the Board considered inputs from the professional actuaries while formulating proposals stated in these paragraphs.

Question 15

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

Comments

The Board's rationale that it would not be unduly burdensome for entities to apply the proposed changes to IAS 19 retrospectively and, accordingly, that entities should apply the proposed amendments to IAS 19 retrospectively, in accordance with IAS 8 *Accounting Policies, changes in Accounting Estimates and Errors*, can be supported.

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?

Comments

CGA-Canada is in general agreement with the Board's assessment of costs and benefits of the proposal, subject however, to comments made elsewhere in this letter.

Question 17

Do you have any other comments on the proposals?

Comments

CGA-Canada is encouraged by the Board's proposal to discontinue the "Corridor Method" prescribed in the current IAS 19 which is considered complex, arbitrary and inconsistent with the objective of transparency and the principle of conservatism. We contend, however, that the proposals in the ED, if finalized, would alter timing as well as placement of the recognition of the changes in the net benefit liability (asset) and, hence, may have practical implications on the debt covenant requirements and measurement of key performance indicators for the entities having leveraged capital structures. We suggest that, while proposing the effective date of transition, the Board should give reasonable time to entities for making the necessary adjustments.

We also note that the contents and nature of OCI is indirectly characterized by this project and other projects on financial instruments and the proposed amendments to IAS 1. In lieu of this piecemeal approach, we continue to be supportive of a broad review of the conceptual and structural basis of OCI.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamallesh Gosalia at kgosalia@cga-canada.org or alternatively the undersigned at rlefebvre@cga-canada.org.

Sincerely,

[Original signed by:]

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