

**Mr Hans Hoogervorst
International Accounting
Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom**

Ref: The IASB's Exposure Draft *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*

Dear Mr Hoogervorst,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to the IASB's due process regarding the 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 Employee Benefits and IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. We are pleased to provide you with the following comments with the aim of improving the enforceability of IFRSs and the transparency and decision usefulness of financial statements.

ESMA agrees that the issues included in the ED needed clarification. ESMA supports the proposed amendments addressing whether other parties' power to enhance benefits for plan members or wind up a plan affects the availability of a refund. We furthermore agree with the proposed amendments regarding the interaction between the asset ceiling and the past service cost (gain) or a gain or loss on settlement. ESMA agrees with these amendments and expects that they will result in less divergence in practice.

Finally, ESMA agrees with the proposals addressing the accounting when a plan amendment, curtailment or settlement occurs.

Our detailed comments on the ED are set out in the Appendix I to this letter. Please do not hesitate to contact us should you wish to discuss all or any of the issues we have raised.

Yours sincerely,



Steven Maijor

Appendix I – ESMA’s detailed answers to the questions in the ED

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?

1. ESMA notes that the impact of the unconditional power of a trustee or similar party to use the surplus in a defined benefit plan is not specifically addressed in IAS 19 and IFRIC 14. ESMA believes that the proposed amendments will reduce divergence in practice and result in more relevant information. Therefore, ESMA welcomes and supports the three proposed clarifications.
2. In our view, if other parties have the power to unilaterally decide to use the surplus or part of it, to change the pension promise, for example by enhancing benefits for plan members, the entity’s access to the surplus could be prevented. Consequently, we agree with the proposed amendments that the amount of the surplus recognised as an asset should not include amounts that parties independent from the entity can use for other purposes without the entity’s consent.
3. Furthermore, ESMA agrees with the proposed amendments that 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. We agree with the Board’s view that in such case the entity cannot unconditionally realise the economic benefits of the surplus through gradual settlement of the plan as this could be prevented by other parties.
4. We also agree with the Board that other parties’ (especially the trustees’) power to buy annuities as plan assets or other investment decisions are different from a trustees’ power to use a surplus to enhance benefits or to wind up the plan as the latter changes the plan liabilities. The power to exercise investment decisions may have an impact on

the amount of surplus available, but does not restrict the entity's right to the surplus and thus would not prevent the entity from recognising a surplus as an asset.

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 the proposal? Why or why not?

5. ESMA agrees with the proposed clarification as we believe that it will lead to less divergence in practice. ESMA notes that this proposal is consistent with the requirements of paragraphs 61 and 87-88 of IAS 19. Furthermore, paragraph 21 of IFRIC 14 uses the concept of substantively enacted or contractually agreed terms and conditions of the minimum funding basis and IAS 12 *Income Taxes* uses a similar concept for substantively enacted tax rates and tax laws. ESMA believes that the proposed amendments will help reducing divergence in practice and will provide more relevant information.

Question 3 – Accounting when other parties can wind up a plan or affect benefits for plan members without an entity's consent

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 the proposal? Why or why not?

6. We support the amendment to clarify the process of remeasurement of a defined benefit liability (asset) as we believe that this clarification will lead to less divergence in practice.

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 remeasurement are determined using the assumptions applied in 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 the proposal? Why or why not.

7. ESMA considers that paragraphs 123 and BC64 of IAS 19 imply that an entity should not revise any assumptions for the calculation of the current service cost and net interest during the period, even if an entity remeasures the net defined benefit liability (or asset). As ESMA is of the view that ignoring the effects of changes in the assumptions for the remainder of the period after a remeasurement took place will not result in provision of useful information, we support and welcome the Board's proposed amendments.
8. The proposed treatment might eliminate what was considered by some to be an inconsistency of paragraph BC64 of IAS 19 with paragraph B9 of the Illustrative Examples on IAS 34 *Interim Financial Reporting* which explains that an entity adjusts pension cost for an interim period for significant market fluctuations and for significant one-off events, such as plan amendments, curtailments and settlements.
9. ESMA notes that the principle in paragraph 58 of IAS 19 requires an entity to determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. Consequently, it could be argued that the proposed amendments only apply this principle.
10. Nonetheless, the proposed amendment would impact the comparability of certain aspects between different plans of the same entity, as current service cost and net interest of plans with an amendment, curtailment or settlement would be calculated on updated assumptions (including actuarial assumptions), whereas current service cost and net interest of all other plans would be based on the assumptions from the beginning of the period. However, this decrease in comparability is compensated by the relevance of information provided.

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 the proposal? Why or why not?

11. ESMA agrees with the proposed limited retrospective application as we believe that the costs associated with full retrospective application of the amendments would outweigh the associated benefits.