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ED/2015/5 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

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2015/5 *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* (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We agree with the substance of each of these three amendments, subject to some detailed comments set out as part of our responses to the specific questions.

Our responses to the ED's Invitation to Comment are set out in the Appendix.

If you have any questions on our response, or wish us to amplify our comments, please contact our Global Head of IFRS, Andrew Watchman (andrew.watchman@gti.gt.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C Sharp
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Responses to Invitation to Comment 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 substance of each of these three amendments.

With respect to proposed amendment (a), we agree that the sponsoring entity does not have an unconditional right to a surplus if trustees or other third parties have an unfettered right or ability to use that surplus in some other way. The surplus would not appear to meet the definition of an asset in such circumstances.

With respect to proposed amendment (b), we agree it would be inconsistent to assume a gradual settlement of the plan as the justification for the recognition of an asset if other parties can take actions that would prevent that happening.

With respect to proposed amendment (c), we agree that the power to buy annuities as plan assets or make other investment decisions relates to the future value of plan assets and does not relate to the entity's right to a refund of a surplus. We therefore agree with the Board's view that this power should not, in isolation, prevent the entity from recognising a surplus as an asset. We would, however, note that the analysis might differ if a third party has the power to require settlement of plan liabilities, for example by requiring the transfer of certain obligations under the plan to an insurance company in a manner that eliminates the employer's legal and/or constructive obligation. Such a transaction may involve settling liabilities for amounts in excess of the obligation determined in accordance with IAS 19. In these circumstances the third party could be argued to have the power to use some or all of the surplus for other purposes.

Finally, we note that the proposals refer only to the recognition of an asset. There is no reference to the recognition of a liability in accordance with paragraph 23 and 24 of IFRIC 14. These paragraphs explain that a minimum funding requirement (MFR) may give rise to a liability. Paragraph 23 requires an entity to determine whether the contributions payable to reduce a funding deficit (on an MFR basis) will be 'available' as a refund or reduction in future contributions after they are paid into the plan. It would seem that a refund would not be available if the trustees have the power to use any existing or future IAS 19-basis surplus for other purposes. It is not entirely clear if the power would affect availability on the basis of a reduction in future contributions. Either way we think that the interaction between the

proposed amendments and paragraph 23 and 24 of IFRIC 14 should be explained, perhaps in the final Basis for Conclusions.

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 do not object to the proposal to amend IFRIC 14 as proposed. We note that the reference to statutory requirements that are 'substantively enacted' is consistent with paragraph 21 of IFRIC 14 and with other areas of IFRS such as income tax accounting. The concept of constructive obligations is used extensively in IAS 19.

That said, we doubt that these amendments would have any practical effect. This is because we believe these concepts are already taken into account when applying IFRIC 14. Nonetheless we acknowledge that the proposal would serve to clarify this beyond doubt.

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?

We agree with the proposed amendments.

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 proposed amendments.

We think that using the revised assumptions following a significant one-off event such as a plan amendment, curtailment or settlement will provide more relevant information and will lead to enhanced comparability and understandability. We also note that the proposed amendments do not affect existing requirements as to the frequency of plan remeasurements. The proposals should not therefore result in significant costs for preparers.

We also believe that these amendments will clarify how to determine current service cost and the net interest after the remeasurement following a plan amendment, curtailment or settlement. In this respect paragraphs 123 and BC64 of IAS 19 suggest that the sponsoring employer should not revise any assumptions for the calculation of the current service cost and net interest during the reporting period. However paragraph B9 of the Illustrative Examples accompanying IAS 34 *Interim Financial Reporting* refers to pension cost for an interim period being "adjusted for significant one-off events, such as plan amendments, curtailments and settlements". This guidance seems inconsistent with paragraphs 123 and BC64 of IAS 19 and therefore causes confusion.

We also suggest that the IASB could now delete (or amend) paragraph B9. B9 seems redundant if the proposed clarifications are made to IAS 19. Alternatively, B9 could be amended to mirror the new wording in paragraph 99 of IAS 19 regarding significant one-off events, and also to clarify the reference to adjustments for significant market fluctuations.

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 with providing this limited relief from full retrospective application, based on cost and benefit considerations.