Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

19 October 2015

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

Dear Hans,

IASB Exposure Draft ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan*

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft (ED).

We support the IASB's initiative to clarify the application of the requirements in relation to the availability of refunds from a defined benefit plan under IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* and the accounting treatment under IAS 19 *Employee Benefits* for issues related to the remeasurement of the net defined benefit liability (asset) in the event of a plan amendment, curtailment or settlement. Nevertheless, we have suggested improvements in the Appendix of this letter that would clarify the proposed amendments.

In addition, we noted that the IASB has not addressed the inconsistency between IAS 19 and IAS 34 *Interim Financial Reporting*. This relates to the question of when an entity should remeasure the net defined benefit liability (asset) as part of this proposal, in particular, when 'significant market fluctuations' occur during the reporting period. In view of the potential diversity in practice, we suggest that the IASB reconsiders this issue and provides clarification as soon as possible.

Our responses to the questions raised in the ED are explained in more detail in the Appendix.

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓
Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603
Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

If you have any questions regarding the matters raised in this letter, please contact me or Eky Liu, Associate Director of the Standard Setting Department (eky@hkicpa.org.hk).

Yours sincerely,

Christina Ng
Head of Financial Reporting

CN/EL

Encl.

Detailed comments on IASB ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan*

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?

While we support the IASB's aim to clarify the application of paragraphs 11 and 12 of IFRIC 14, we do not consider the proposed paragraphs 12A and 12B to be useful in explaining the application of paragraphs 11 and 12. The proposed paragraphs 12A and 12B appear to be case specific rather than principles-based and they will only be clear if examples with fact patterns are provided in IFRIC 14. Therefore, instead of adding the proposed paragraphs 12A and 12B, we recommend that the IASB develops illustrative examples using the fact pattern in paragraph BC 1 of the ED to clarify the application of the principles in paragraphs 11 and 12 of IFRIC 14.

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 support the proposal to clarify that an 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 when the entity determines the availability of a refund and a reduction in future contributions.

We consider that the proposed amendments are aligned with:
- the concept of 'substantively enacted' that have been used in paragraph 21 of IFRIC 14 and IAS 12 *Income Taxes*. We agree that an entity should not take into

account future changes in regulations or tax if they are not yet substantively enacted; and
- the current requirements for an entity to account for its legal or constructive obligation when measuring its defined benefit obligation according to paragraphs 61 and 88 of IAS 19.

Nevertheless, we consider that paragraph 7 of IFRIC 14 (including the IASB's proposed additional text) could be improved to make the requirement easier to understand. We recommend the following changes to the proposed amended paragraph 7 of IFRIC 14:

> "An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan that are contractually agreed, as well as constructive obligations, and any statutory requirements that are substantively enacted, at the ~~end of the reporting period~~ date of this determination. For example, ~~When a plan amendment, curtailment or settlement occurs and~~ an entity determines changes in the effect of the asset ceiling as required by paragraph 64A of IAS 19 when a plan amendment, curtailment or settlement occurs~~, it shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan that are contractually agreed, as well as constructive obligations, and any statutory requirements that are substantively enacted, at the date of this determination~~."

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 to clarify that recognising past service cost or a gain or loss on settlement and assessing the asset ceiling are two distinct steps.

However, we consider that this clarification could be improved by including a numerical example under paragraph 64A of IAS 19. The example should illustrate how the proposed amendments affect the calculation of past service cost or the gain or loss on settlement, and the changes in the effect of asset ceiling when a plan amendment, curtailment or settlement occurs.

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?

General comments

We agree with the proposed clarification on the calculation and classification of current service cost and net interest when the net defined benefit liability (asset) is remeasured under a curtailment or settlement. Such an event normally leads to a scalable change in the defined benefit plan and hence results in greater impact on the remeasurement of the defined benefit liability (asset) and the calculation of current service cost and net interest.

However, it is not uncommon for Hong Kong employers to voluntarily raise the benefit levels of individual employees throughout the year. Such discretionary top-up of individual benefits by the employers would appear to fall within the definition of a 'plan amendment' under paragraph 104 of IAS 19, which states that:

> "A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan."

Accordingly, a plan amendment involving only minor changes to the defined benefit plan would trigger the requirements of the proposed amendments even if it is expected to result in insignificant impact to the current service cost and net interest if they were to be determined according to the proposed amendments. We are concerned that the additional costs of implementing the proposed amendments in this situation would outweigh the expected benefits of providing more relevant information.

We note that the IASB has considered the costs and benefits of the proposed amendments and that "the requirement to apply IFRS only to material items as described in paragraph 8 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* would continue to apply" in this proposed amendment (paragraph BC 17 of the ED).

We understand that it is the IASB's usual practice to carry forward the basis for conclusions of the ED into the basis for conclusions of the final standard. But in light of the above concern, we would like to emphasise to the IASB the importance of ensuring the message in paragraph BC 17 of the ED will be carried forward to the final basis for conclusions of the standard.

Alternatively, the scope of a 'plan amendment' could be made clearer if the IASB clarifies the definition of a 'plan amendment', in particular, whether minor changes to the defined benefit plan falls within the definition of a 'plan amendment'.

Proposed footnote to BC 64 of IAS 19

We also note that the IASB has proposed incorporating the following footnote to paragraph BC 64 of IAS 19 as a result of the proposed requirements on the calculation of the current service cost and net interest when a plan amendment, curtailment or settlement occurs:

> "[Draft] *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (Amendments to IAS 19 and IFRIC 14), issued in [date], amended IAS 19. These amendments provide guidance on the calculation of the current service cost and net interest if an entity remeasures the net defined benefit liability (asset) as required in paragraph 99. The accounting required by these amendments is different from the accounting described in paragraph BC64. Paragraph BC64 does not provide either principles or guidance (emphasis added)."

We find this footnote and paragraph BC64 of IAS 19 confusing when read together as:
- the first sentence of the existing paragraph BC64 of IAS 19 seems to be contradictory to the proposed amendments; and
- it is not clear how the accounting treatment as required by the proposed amendments is different from those described in paragraph BC 64 of IAS 19.

Therefore, instead of incorporating the footnote, we recommend that the IASB re-considers amending the text in BC 64 of IAS 19 and explains clearly in the basis for conclusions how the calculation of the current service cost and net interest would be different when a plan amendment, curtailment or settlement occurs as a result of the proposed amendments.

Inconsistency in the approaches of IAS 19 and IAS 34 *Interim Financial Reporting* on when a net defined benefit plan should be remeasured

Paragraph 99 of IAS 19 requires that a net defined benefit liability (asset) is remeasured only when a plan amendment, curtailment or settlement occurs, while paragraph B9 of IAS 34 requires an entity to perform the remeasurement under the following two circumstances:

- significant market fluctuations; or
- significant one-off events, such as plan amendments, curtailments and settlements.

We note that the IASB has considered this inconsistency but "decided not to address this issue, because it observed that addressing this issue is too broad to be included in this proposal" (paragraph BC 18 of the ED). However, this mismatch would create inconsistency in the application of the standards which results in diversity in practice.

We therefore recommend that the IASB re-considers this mismatch and clarifies which approach (i.e. the approach under IAS 19 or IAS 34) is appropriate.

Provision of numerical illustrative examples

Consistent with our response to Question 3 above, we recommend that the IASB provides numerical examples in the standard to illustrate the proposed amendments on the calculation of the current service cost and the net interest when an entity is required to remeasure the defined benefit liability (asset) in accordance with paragraph 99 of IAS 19. One example could be a case where a curtailment occurs after the entity has sold out part of its business during the year. The example could illustrate how the current service cost and the net interest would be determined before, and after, the curtailment according to the proposed amendments.

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 support the proposal to apply these amendments retrospectively as this would enhance comparability of financial information. We do not foresee any significant cost burden to the preparers in Hong Kong as the proposed amendments mainly clarify the existing requirements in IAS 19 and IFRIC 14, and are largely consistent with the current practice in Hong Kong.

Notwithstanding our comment directly above, for cost-benefit reasons, we agree with the proposal to provide an exemption for adjustments of the carrying amount of assets outside the scope of IAS 19 before the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied.

~ End ~