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International Accounting Standards Board
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E-mail: CommentLetters@iasb.org

October 8th, 2015

Dear Sir or Madam,

The German Institute of Pension Actuaries (IVS), a subsection of the German Actuarial Association (DAV), appreciates the opportunity to comment on the IASB's "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".

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?

(a) and (b) are of minor relevance for German pension plans. Regarding pension plans of German multinational companies, we generally agree to the concept that a surplus of plan assets should be capped according to the asset ceiling rules if another party (such as the trustee) has the power to use this surplus for other purposes (such as additional benefits).

We take the view, however, that there must be a realistic probability for the third party to be able to execute its power to dispose of the surplus assets. If the power is just a potential one that will not be used under realistic circumstances (i.e. if there is no surplus based on funding valuation principles rather than IFRS accounting principles) the surplus assets should be accounted for uncapped in order to give a fair and true view on the reporting entity's financial position. For further details, we refer to Pension Europe's comment letter.

We agree with the proposed amendment in (c) which is consistent with current German practice.

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 agree with the proposed amendment which is consistent with current German practice.

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 both proposed amendments which are consistent with current German 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 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 do not agree with **(a) (i)**. The proposed amendment will not only increase the cost for the companies, but increase the risk that financial reports will be more difficult to understand and comparability might get lost. We would like to illustrate this with the two following examples:

> **Example 1: Company A** settles 30 % of the benefit obligation of its defined benefit plan in the middle of the period. According to the proposal in (a) (i) the current service cost and net interest for the remaining 70 % of the obligation (which are not affected by the settlement!) will change for the rest of the period, if the assumptions at the remeasurement date differ from the assumptions at the beginning of the period. **Company B**, however, which has the same obligation as Company A after settlement throughout the whole period will have to account for 70% of the current service cost of Company A in the first half of the period, but for a different current service cost in the second half of the period.
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> **Example 2: Company A** increases the level of the benefits of a plan in the middle of the period. As the discount rate accidentally is higher than at the beginning of the period the current service cost for the second half in the period is lower than in the first half of the period despite of the higher level of benefits. **Company B** which has the same level of increased benefits throughout the whole period will have to account for higher current service cost in the second half of the period.

If IAS 19 was amended despite our objections, we would be afraid that the loss in comparability could lead to further requirements as to recalculate current service cost and net interest at any interim reporting date or even without any interim reporting or special event. This would increase the cost for the entities without giving valuable information.

Furthermore, we do not fully agree with the proposed amendment **(a) (ii).** The net interest after the remeasurement should reflect any change of benefit level, of benefit payments (including settlements) and contributions to plan assets and of the number of plan participants but should not be based on the remeasured net defined benefit liability as determined at the date of the special event using actual assumptions or fair values as of that date (see above).

To our mind, **(b)** needs further clarification.

Our understanding of the proposed amendment is as follows: The board intents that – if a plan amendment, curtailment or settlement occurs – the current service cost and net interest for the period before the event

1. should remain unchanged, and
2. the effect of the event on these cost components (i.e. the benefit cost accrued during the period before the event) should not be included in the past service cost or the gain or loss on settlement.

This means that the past service cost and gain or loss on settlement do not include effects on the DBO for benefits accrued during the current period until the date of the event but only effects on the DBO for benefits accrued until the beginning of the current period.

If our understanding of the board’s intention is correct, we do not agree with the proposed amendment because it would be possible to increase the level of benefit during the current period without showing any effect in profit or loss.

> **Example 3:** A company increases the benefit for the current period at the end of the period. The past service cost would be 0 as prior periods are not affected. The current service cost remains unchanged as the event takes place at the end of the period. The effect on the DBO is completely shown as a remeasurement outside the p&l.

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 do not agree with the proposed amendment.

If the amendments to IAS 19 were applied retrospectively, past service cost, gain or loss on settlement and even current service cost and net interest would have to be recalculated for events in prior periods. The figures are not available which means additional cost for the companies without much benefit.

To our mind, a restatement of prior periods is not necessary because plan amendments, curtailments and settlements are very special events which are disclosed and commented on separately if deemed material. Even if there was a plan amendment in the previous period and a settlement in the current period, both events would not be comparable.

Furthermore, as stated above, comparability gets lost in case of a special event. Therefore, a restatement would merely show the illusion of better comparability of the current and prior periods.

If the transition requirements remain unchanged we agree to the exemption for adjustments of the carrying amount of assets outside the scope of IAS 19 as the same exemption was granted in 2011.

We would be happy to discuss our views with you in more detail or answer any further questions you may have.

Yours sincerely,

Dr. Horst-Günther Zimmermann
Chairman of the Board German Institute of Pension Actuaries
(Institut der Versicherungsmathematischen Sachverständigen für Altersversorgung e.V.)