

International Accounting Standards Board  
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Submitted electronically through the IASB Internet site ([www.iasb.org](http://www.iasb.org))

**Exposure Draft ED/2010/3 Defined Benefit Plans (Proposed amendments to IAS 19)**

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2010/3 *Defined Benefit Plans (Proposed amendments to IAS 19)* (the ED). We have considered the ED as well as the accompanying draft Basis for Conclusions.

**Support for most of the proposals**

We welcome the ED and consider that most of the proposals represent improvements to the current version of IAS 19 *Employee Benefits*. In particular, we support the Board's proposal to eliminate the 'corridor' mechanism for smoothing the impact of actuarial gains or losses. We also support the proposals to disaggregate the net change in the defined benefit obligation and the fair value of plan assets into three components: service cost, finance cost and remeasurements.

Also, we support the recognition of service cost and finance cost in profit and loss with the remeasurement components to be recognised in other comprehensive income (OCI). Having said this, our support of this proposal is to be read in the context of this ED being a short-term project to improve the current IAS 19. We currently see no clear conceptual basis to determine which gains and losses should be recognised in OCI rather than through profit or loss. However, for practical reasons, we agree that this issue should be addressed as part of other projects and should not delay the outcome of this project to improve IAS 19.

**Disagreement with some proposals**

We do not support the proposal to treat other long-term benefits in the same way as post-employment benefits. We do not agree that non-routine settlements should be presented in OCI.

**Need for broader review of disclosure requirements, including sensitivity analysis**

Although we agree that most of the proposed new disclosures satisfy the defined disclosure objectives, we are concerned that the volume of disclosures related to long-term and post employment benefits is at risk of becoming excessive.

We also note that the extent of sensitivity disclosure in IFRS is increasing. As noted in more detail in our comment letter on Exposure Draft *ED/2010/7 Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*, we have a concern that an ad hoc approach to sensitivity disclosures may mislead users into believing that the sensitivity information provided captures the areas of greatest significance and uncertainty.

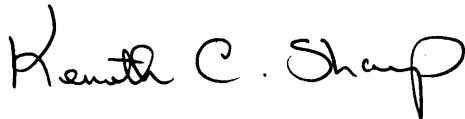
We therefore suggest that the disclosure framework phase of the Board's ongoing conceptual framework project should include specific consideration of the role and value of sensitivity analysis and similar, alternative scenario-type disclosure.

We expand on these comments in our responses to the ED's Invitation to Comment, which are set out in the Appendix to this letter.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive, flowing style.

Kenneth C Sharp  
Global Leader - Assurance Services  
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## Invitation to comment questions

### Recognition

**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?**

We agree. We see no conceptual basis for the deferral or smoothing of actuarial gains and losses. The options currently available to entities to defer recognition of actuarial gains and losses increase complexity, reduce comparability and result in the recognition of amounts in financial statements that have little relationship to economic reality.

**Question 2 - Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?**

Yes. We agree that the unvested benefits relate to past service and so form part of the defined benefit obligation at the reporting date. This proposal is consistent with the immediate recognition of all changes in the defined benefit obligation. It also increases consistency with the general approach in IAS 19 to allocate benefits to periods of service regardless of whether they have vested.

### Disaggregation

**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?**

Yes. This disaggregation results in the presentation of items of income and expense with different levels of predictive value separately. This is consistent with paragraph 28 of the *Framework for the Preparation and Presentation of Financial Statements*, which notes "the predictive value of the income statement is enhanced if unusual, abnormal and infrequent items of income or expense are separately disclosed".

### Defining the service cost component

**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?**

Yes. We agree that current and past service cost as defined in the ED should reflect the performance- and service-related changes in the defined benefit obligation. Demographic assumptions are not performance- or service-related.

Also, we agree with the Board that there are different drivers of changes in the pension obligation which have different predictive values. Consequently we agree that separating changes in non-performance related factors from changes arising from employee service or benefits earned will enhance the ability of users to make their own assessments about the possible changes in the underlying assumptions and their impact on future costs.

Defining the finance cost component

**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)?**

Yes. Determining net interest on the net defined benefit liability (or asset) provides a consistent approach between the statements of financial position and comprehensive income. In particular, using the same rate to calculate interest income on plan assets and to discount the defined benefit liability provides greater consistency and comparability between entities.

The use of a single rate to calculate net interest cost or income then raises the question as to what rate to use. We share the Board's concerns about the expected return on plan assets (BC41) and add that the expected return anticipates future higher returns rather than reflecting existing market conditions. Consequently, we prefer the proposed 'notional' rate.

Using this notional rate instead of the expected rate may increase the differences between the interest income recognised in profit or loss and the actual return on plan assets. These differences will, under these proposals, be recognised in other comprehensive income (OCI) without subsequent reclassification into profit or loss. This is likely to have a negative impact on profit or loss, particularly for plans invested in equities (as the expected return on equities is generally higher than the high-quality corporate bond rate). Some may therefore argue to subsequently reclassify these rate of return differences into profit or loss. However, as explained in our response to Question 6, we support the recognition of such differences in OCI without reclassification.

Although we acknowledge the limitations of the proposed approach and in particular the use of the discount rate specified in paragraph 78 of the ED, we are convinced by the arguments presented in the Basis for Conclusions (BC23-BC32) that this provides a suitable short-term practical expedient. However, in the longer term, we believe that a wider review of the measurement of post-employment benefit plans is needed. In particular, we believe that the Board's basis for conclusions on the use of high quality corporate bonds to determine the discount rate (IAS 19.BC26-34) should be revisited.

Presentation

**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?**

Yes. In the context of a short-term project to improve current IAS 19, we support the proposed presentation.

As noted above, we support disaggregation of the defined benefit cost into components with different levels of predictive value and the recognition of service- and performance-related elements in profit or loss. The measurement of net interest cost based on the net defined benefit liability (or asset) has the advantage of a symmetrical treatment of interest cost on the defined benefit obligation and interest income on plan assets.

The question as to where remeasurements should be recognised is more difficult to answer as there is currently no clear conceptual basis to decide which gains and losses should be recognised in OCI rather than through profit or loss. Similarly, there is no conceptual basis to decide which of the gains or losses recognised in OCI should be subsequently reclassified into profit or loss.

Despite this lack of a clear conceptual basis, we believe that the recognition of changes in the defined benefit obligation resulting from changes in actuarial assumptions is appropriate and uncontroversial. The presentation of the return on plan assets is more problematic.

As noted in our response to question 5 above, there may be significant differences between high quality corporate bond rates and the actual return on plan assets. Reporting the actual return on plan assets directly in profit or loss would create significant short-term volatility and may not provide the most useful information for users. Subsequent reclassification of differences between the notional and actual return would require complex analysis to determine the amounts to be reclassified and their timing. This would add significant complexity to the proposed treatment and, in our view, would not be appropriate until a more fundamental review is completed.

Settlements and curtailments

**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?**

Generally, only routine settlements are provided for in actuarial assumptions and we agree that such settlements should therefore be recognised as remeasurements to be consistent with other actuarial gains and losses.

However, non-routine settlements usually result from management action and decisions rather than routine remeasurements of actuarial assumptions and so in nature may be more similar to curtailments. Consequently, we believe these would be better presented in profit or loss. This would however require a different and more robust definition of non-routine settlements, perhaps along the lines of "settlements not anticipated or provided for in the plan rules".

We also suggest that the current guidance IAS 19.109-115 relating to the measurement of settlement and curtailment gains and losses is modified rather than deleted to demonstrate more clearly the intended meaning of non-routine settlements. In particular, we suggest guidance is needed to make it clear that any effective amendment to the terms of the plan made in order to achieve a non-routine settlement (and/or related curtailment) should first be identified and accounted for as a past service cost. Only the difference between the defined benefit obligation remeasured to reflect those revised benefits and the cost of settlement should be reported as the gain or loss on non-routine settlement.

**(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)**

Yes.

**(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?**

We believe that separate disclosure of these items with narrative support is useful in providing an understanding of the causes of gains and losses and/or changes in the value of the net defined benefit liability in the period. However if, as we suggest above, plan amendments, curtailments and non-routine settlements are all recognised in profit or loss, we do not believe it is necessary to distinguish the three items if they occur simultaneously. It would be sufficient to give the disclosure on an overall basis.

Disclosures

Defined benefit plans

**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?**

Yes, we agree the objectives are appropriate. However, the practical role of an objectives-based approach is reduced by the volume of existing and proposed specific, mandatory disclosures. Consequently, we believe it would be appropriate to permit management more discretion to determine the specific disclosures required to satisfy the objectives based on specific facts and circumstances. This could be based on the example in IAS 8.30, which sets out a general disclosure requirement. IAS 8.31 then states "In complying with paragraph 30, an entity considers disclosing: . . .".

**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?**

We agree that most of the disclosures proposed contribute to meeting the objectives stated in the ED (as outlined in question 8 above). However, in addition to our general comment regarding the volume of disclosure above, we have the following comments on specific aspects.

**Paragraph 125H** proposes disclosure of the present value of the defined benefit obligation adjusted to exclude the effect of projected growth in salary rates. The ED has reaffirmed (paragraph 71A) the Board's belief that future salary increases should be included in the measurement of the plan obligation. We do not support 'alternative-scenario' disclosures but believe that disclosure should be restricted to matters relevant to the amounts recognised in the financial statements. We are not convinced by the argument in BC60(f) that the cost of providing this information is outweighed by 'some' user benefit. Such arguments could be extended to a wide variety of alternative scenarios and supplementary information which would add length and complexity to financial statements and risk obscuring the areas of greatest significance to users.

**Paragraph 125I** proposes disclosure of sensitivity analysis relating to both the defined benefit obligation at the end of the period and the service cost during the period. Notwithstanding our support for the specific proposal, we suggest that more work is merited to assess the appropriate role and practical usefulness of sensitivity analysis in financial reporting (see our covering letter).

**Paragraph 125K** proposes disclosure of information about factors that could cause contributions to differ from service cost. The reference to contributions restricts this disclosure to funded plans but the information is equally relevant to benefit payments under unfunded plans. Consequently, we recommend the requirement be expanded to include unfunded plans.

Multi-employer plans

**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?**

The disclosures proposed are useful to identify the additional risks faced by participants in such plans as outlined in the Basis for Conclusions.

State plans and defined benefit plans that share risks between various entities under common control

**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?**

We agree with this proposal as the information needs of users are the same regardless of the control structure.

Other comments

**Question 12 - Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)**

As noted previously, we agree that most of the proposed disclosures contribute to the objectives in paragraph 125A but are concerned that the volume of disclosures is at risk of becoming excessive and unduly onerous. We therefore suggest that a more fundamental review of post-employment benefit disclosure be made once the disclosure phase of the Board's ongoing conceptual framework project is completed.

Other issues

**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?**

In general, we agree with the proposals above, subject to the following comments:

**(c) and (d) Tax and administration costs:** This appears to be a reasonable approach and fits a principle that the return on plan assets should be net of the directly attributable costs of administering those assets, particularly as the fee structure in many plans is linked to a percentage of the return earned. However, the definition of the return on plan assets (paragraph 7) requires the deduction of 'any tax payable by the plan' (emphasis added). We believe this is too wide a definition. To achieve greater consistency in application, guidance would be helpful to clarify the main types of taxes and the approach expected in each case.

**(e) Expected future salary increases:** We agree for the reasons expressed in BC89. This provides a consistent result to that reflected in an average-salary type scheme which in substance provides the same benefits.

**(g) Risk-sharing and conditional indexation features:** Plans that share some risks between employers and employees do not fit easily into the defined contribution or defined benefit accounting models. Consequently, the current requirements may not deal adequately with these types of schemes. We agree that such schemes should continue to be accounted for as defined benefit schemes under the IAS 19 model but believe the approach to risk sharing and indexation should be reconsidered more fully as part of a fundamental review.

Multi-employer plans

**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?**

Defined benefit accounting should apply if an entity has a reliable basis for allocating the obligation, plan assets and cost. This provides more relevant information for users. However, we cannot identify a sufficiently consistent and reliable method for such allocation.

Transition

**Question 15 - Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?**

Yes, for the reasons presented in BC97.

Benefits and costs

**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?**

We agree that much of the information required is already available in order to apply the existing version of IAS 19. However, the added sensitivity disclosure and the proposed change to a single category of long-term benefit will result in additional costs (see response to question 17 below).

Other comments

**Question 17 - Do you have any other comments on the proposals**

Proposed single category of long-term benefits

There is no specific question addressing the proposed change to a single category of long-term benefits. If enacted, this will require other long-term benefits to be accounted for in the same way as post-employment defined benefit plans. In particular, remeasurements would be recognised in OCI rather than profit or loss; the change in the benefit obligation will need to be disaggregated into three components; and substantially greater disclosure will be required.

Although this proposed change may increase consistency between the accounting for post-employment benefits and other long-term benefits, we do not believe this is necessary given the different nature of the benefits. For example, a two- or three-year salary bonus scheme is not subject to the significant estimate-uncertainty and volatile remeasurement changes that support the more complex treatment of long-term post-employment benefit plans.

This change will increase the cost and complexity of accounting for other long-term employee benefits. We do not see the benefit of this change and do not consider this to be an improvement.

Definition of short-term versus long-term employee benefits

We do not understand what is meant by 'expected to become due to be settled'. It is not clear if this means the earliest contractual settlement date (due to be settled) or the expected settlement date. BC79 suggests it is the expected date. We do not have a strong preference for use of the contractual or expected date but greater clarity is needed as to which is intended.

Additionally, the definitions and descriptions in paragraphs 4 and 7 of short-term and long-term benefits are unclear. In particular, it is not clear if benefits with multiple settlement dates extending beyond twelve months should be classed as wholly long-term or should be split into short-term and long-term components.

If the intention is a single classification based on expected date of the final settlement, we suggest the following definition:

"Long-term employee benefits are employee benefits (other than termination benefits\*) which, at the inception of that benefit, the entity expects to be settled in whole or in part more than twelve months after the end of the reporting period in which the employee renders the related service."

\*If the Board decides not to proceed with the proposed single category of long-term benefit (see above), then the definition can be expanded to exclude post-employment benefits.

Editorial issues

**Illustrative Example - Example 6:** Why is the opening surplus restriction excluded from the opening and closing totals of the net defined benefit liability while the 20X8 movements in the restriction are included? This seems to be an error. The disclosures are complex so it is important that the examples are clear.

Also, in the plan assets table, the last line should read 'At 31 December 20X8' not 20X7.

A clearer link between examples 1 and 6 would be helpful. This could be achieved by basing them on the same entity and period so that the relevant amounts in example 6 are reflected through example 1.

**ED paragraph 96A:** This should cross reference to ED paragraph 119A which now deals with the recognition of service cost and curtailments instead of paragraph 61.