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REQUEST FOR FEEDBACK – QUESTIONNAIRE

ACCOUNTING FOR PENSION PLANS WITH AN ASSET-RETURN PROMISE

QUESTIONS TO CONSTITUENTS

EFRAG invites comments on all matters in this Discussion Paper, particularly in relation to the questions set out below. Comments are more helpful if they:

- Address the question as stated;
- Indicate the specific paragraph reference to which the comments relate; and/or
- Describe any alternative approaches that should be considered. Comments should be received by 15 November 2019.

QUESTION 1 - SCOPE

The Discussion Paper addresses only those pension plans that have an asset-return based promise and hold the assets upon which the benefits are dependent. Do you think that the approaches could also be applied to those plans with an asset-return promise, where the plan does not hold the reference assets?

Yes, because the value of the promise can be calculated separately from the fair value of the assets. This is why we believe that these approaches can also be applied for plans with an asset-return promise where the plan does not hold the reference assets.

QUESTION 2 - ASSESSMENTS OF APPROACHES – ASPECTS TO CONSIDER

Do you agree with the aspects of qualitative characteristics considered in the assessment of the various approaches in Chapter 5? If not, which aspects do you think should/should not have been considered?

Do you agree with the assessments of the various approaches made in Chapter 5 (=assessment of the approaches – see slide later on?

Remarks on the statements:

- *Is the information understandable?*

  Remark: The Capped Asset Return Approach is at least as understandable as the other methods.

QUESTION 3 - ASSESSMENT OF APPROACHES – ASSESSMENT OF COMPLEXITY

The assessment in Chapter 5 of the costs related to the various approaches presented in this Discussion Paper, only considers implementation costs. Do you think that the complexity related to preparing financial information in accordance with the approaches would differ significantly? If yes, which approaches would be the most complex and least complex to apply?

The fair value-based approach and the fulfilment value approach are complex and more costly given the needed calculations of the yearly option prices. The needed variables as basis for the calculation are less objective. However theoretically these methods are the most correct.

The Capped Asset Return Approach is closer to the current IAS19 techniques and is less complex.

QUESTION 4 - CHOICE OF APPROACH

Which of the three alternative approaches, presented in this Discussion Paper, do you support? How should it be further developed?

We support Alternative 1, the Capped Asset Return Approach, which can be more refined for defined contribution plans with a minimum legal guaranteed return as being an approach with projection by the minimum guaranteed return.

Under this approach, the entity first projects the final benefit entitlement using the minimum guaranteed return as legally obliged and discounts the resulting benefit using the yield on high-quality corporate bonds.

The resulting present value is compared with the actual minimum guaranteed reserve based on the legal return obligations. The maximum of the 2 amounts is the amount we refer under “projection by the minimum guaranteed return”.

In our view, this method is close to the Capped Asset Return approach.

QUESTION 5 - PRESENTATION OF REMEASUREMENTS UNDER THE FAIR VALUE BASED APPROACH AND THE FULFILMENT VALUE APPROACH

This Discussion Paper assumes that remeasurements under the Fair Value Based approach and the Fulfilment Value approach are presented in profit or loss. Do you agree with this approach? If not, how would you present components of defined benefit costs other than service costs?

We agree with this approach.

QUESTION 6 - RISK ADJUSTMENT FOR FULFILMENT VALUE APPROACH

As stated in paragraphs 4.56 to 4.57, this Discussion Paper proposes that a risk adjustment for non-financial risks is made when discounting the pension obligation under the Fulfilment Value approach. Do you agree? Which risks do you consider such an adjustment should cover?

A risk adjustment for non-financial risks should be integrated in the calculations. It should reflect the uncertainty of the used estimations.

QUESTION 7 – DISCLOSURE

Do you think that additional disclosure requirements about pension plans, included in scope of this Discussion Paper, should be added to the requirements of IAS 19?

The answer is positive in the case of the Fair Value Based approach and the Fulfilment Value approach. Some explanation is required about the used techniques and variables of the option prices used to express the minimum guarantee. The same reasoning if a risk adjustment is integrated in the model.

QUESTION 8 – ALTERNATIVE APPROACHES

Do you think there are other approaches to account for the pension plans within the scope of this Discussion Paper that should have been considered? If so, which approaches?

See question 4

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