COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
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March 4, 2014

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

Att: Akemi Miura
Email: amiura@ifrs.org

RE: Outreach request - Remeasurement at plan amendment or curtailment

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1], the standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies welcomes the opportunity to respond the Outreach request-Remeasurement at plan amendment or curtailment.

Background of the issues

When a plan amendment or curtailment occurs, an entity remeasures the net DBL using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment or curtailment, as the first step in determining the past service cost (IAS 19.99).

The net DBL is therefore determined three times in connection with an event, as follows:

(i) The 'expected amount' of the net DBL before the event, based on actuarial assumptions at the end of the prior year and cash movements.
(ii) The net DBL before the event remeasured using:
- the current fair value of plan assets; and
- current actuarial assumptions, reflecting the benefits offered under the plan before the event.

[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

(iii) The net DBL after the event remeasured using:
- the current fair value of plan assets; and
- current actuarial assumptions, reflecting the benefits offered under the plan after the event.

The difference between the amount of the DBO in (ii) and (iii) is the past service cost (IAS 19.102).

The difference between (i) and (ii) does not include any effect of the event. There is a diversity of views and the arguments for and against its recognition are set out below (Issue 1).

There is also diversity about whether some or all of the actuarial assumptions which are used in determining current service cost and net interest for the post-event period should be updated to the current actuarial assumptions (including current market interest rates and other current market prices), reflecting the benefits offered under the plan after the event (i.e. those used in measuring the amount of (iii)) (Issue 2).

The fact pattern

Entity X accounts for its defined benefit plan in accordance with IAS 19 (2011) in its financial statements for the year ending 31 December 2013. Accordingly, on 1 January 2013 X determined the defined benefit cost for 2013. On 20 March 2013, X commits to a restructuring plan that reduces by half the number of employees covered by the defined benefit plan. The restructuring plan meets the criteria in IAS 37 and, as a result, a curtailment loss (past service cost) is recognised on 20 March 2013.

Divergent views identified by the submitter

The submitter observed the diversified views as the table below explains.

			Update the actuarial assumptions to determine current service cost and net interest?	
Issue 1	Issue 2	Remeasure net DBL on the statement of financial position by recognising total gain/loss?	Financial assumptions	Demographic assumptions
View 1	View A	No	No	No
View 1	View C	No	No	Yes
View 2	View A	Yes	No	No
View 2	View B	Yes	Yes	Yes
View 2	View C	Yes	No	Yes

Note: The number of employees for whom current service cost will arise is not a demographic assumption as described in IAS19.75-98, but instead a matter of fact in each period of service. The number of employees is therefore updated for the post-event period, even if the actuarial assumptions are not updated.

View 1: Net DBL remeasurement is not recognised at curtailment

Under this view, the net DBL is NOT remeasured to the amount of (iii). The difference between the expected net DBL amount of (i) and the remeasured net DBL amount before the event of (ii) is not recognised (in OCI) at the time of the event. The remeasurement is performed solely to exclude the effect of the remeasurement from past service cost.

As a result, the carrying amount of the net DBL after the event is the expected amount of (i) less the difference between the amounts of (ii) and (iii), i.e. less the past service cost.

The proponents of this view believe that it is most consistent with the IASB's intentions as summarised above described in IAS 19.BC64.

View 2: Net DBL remeasurement is recognised at curtailment

Under this view, the net DBL is remeasured to the amount of (iii). Proponents of View 2 point out that, as highlighted in the first sentence of IAS 19.BC60, remeasurements should be recognised in the period in which they arise. They therefore believe that the remeasurement gain or loss (i.e. the difference between (i) and (ii)) should be recognised (in OCI) when that remeasurement is performed.

View A: No assumptions are updated to determine current service costs and net interest in the post-plan amendment or curtailment period

Under this view the actuarial assumptions are not updated to the current actuarial assumptions for the post-event period. Actuarial assumptions are only updated during the year-end assessment together with remeasuring the net DBL.
The proponents of this view believe that it is most consistent with the IASB's intentions as described in IAS 19.BC63 and BC64.

View B: All actuarial assumptions (financial and demographic) are updated to determine current service costs and net interest in the post-plan amendment or curtailment period

Proponents of View B point out that a plan amendment or curtailment may have a significant impact on an actuarial assumption(s), such as the rate of employee turnover. Therefore, not updating actuarial assumptions would result in an inappropriate measurement of current service cost for the remainder of the reporting period which does not reflect the present situation.

Proponents of updating the actuarial assumptions generally also support recognising the remeasurement gain or loss (i.e. View 2 under Issue 1).

Supporters of this approach note that IAS 19.BC64 does not form part of the standard itself, which is silent. They also point to IAS 34.IE.B9 which indicates that the actuarially determined pension cost rate calculated at the end of the prior period should be adjusted for significant one-off events, such as plan amendments, curtailments and settlements.

View C: The financial assumptions are not updated but the demographic assumptions are, to determine current service costs and net interest in the post-plan amendment or curtailment period

Only the demographic assumptions, which include the rate employee of turnover, are updated and the financial assumptions remain the same.

Proponents of this view believe that IAS 19.80 clearly requires the financial assumptions to be based on market expectations at the end of the [previous] reporting period, but silently implies the demographic assumptions being updated when a plan amendment or curtailment occurs. Supporters of View C also point to IAS 34.IE.B9.

Questions

Q1. In your jurisdictions, are curtailment or plan amendments common?
If yes, are you aware of any difficulties or challenges in your jurisdiction to decide;
- whether an entity recognises remeasurement gain or loss at a plan amendment or curtailment (Issue1), or/and
- whether an entity recognises update assumptions to determine current service costs and net interest in the post-plan amendment or curtailment period (Issue2)?

Yes. Curtailments are common in Brazil due to mergers, shutdown of plants and other events. In these cases, gain and losses related to amendments or curtailments are immediately recognized, and assumptions to determine costs after the events are also updated.

Q2. If you answered 'Yes' to Q1, what is the prevalent interpretation for each issue? In addition, if possible, could you please briefly describe the rationale for that prevalent interpretation/ treatment?

The immediate recognition of gain and losses at the moment of the amendment or curtailment allows the timely recognition of the movements on the plan. By not doing so, an entity could not be able to accurate estimate the effects after the changes in population of participants are incorporated into the remaining plan.

Q3. If you answered 'Yes' to Q1, to what extent do you observe diversity in practice in respect of each issue?

Based on our experience, we have not seen diversity in practice in Brazil.

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If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

Idésio da Silva Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)