Federation of European Accountants

Ian Carruthers
Chairman
IPSASB
IFAC
Submitted via website

Brussels, 15 April 2016

Subject: Response to ED 59 Amendments to IPSAS 25 Employee Benefits

Dear Chairman,

The Federation of European Accountants (the Federation) is pleased to provide you with its comments on ED 59: *Amendments to IPSAS 25 Employee Benefits*.

The Federation supports the approach taken in this ED that aligns, as far as possible, IPSAS 25 with International Accounting Standard 19.

In particular, the Federation supports the proposed removal of the 'corridor approach' from IPSAS 25, which will result in all changes in the present value of plan assets being recognised in the period in which they incur. This should help increase consistency in reporting between different public sector entities.

The Federation also agrees with the ED in its continued divergence with IAS 19 in respect of determining the rate used to discount the post-employment defined benefit obligations. We believe that entities should be permitted to select the most appropriate discount rate based on their asset profile.

Finally, the Federation agrees with the proposed amendments to the components of defined benefit cost, albeit we regard the recognition of changes in fair value of plan assets through net assets/equity as being a temporary measure until a more fundamental review of the accounting of such fair value adjustments can be completed.

Kind regards,
On behalf of the Federation of European Accountants,

Petr Kriz
President

Olivier Boutellis-Taft
Chief Executive

Annex 1 - Detailed responses to Specific Matters for Comment

Specific matter for comment 1

Do you agree with the proposals in the Exposure Draft for revision of IPSAS25? If not, please indicate what proposed amendments you do not agree with and provide reasons.

(1) Overall the Federation agrees with the proposed revisions of IPSAS 25 contained in ED 59. We have provided below further comments on some of the key changes proposed.

Removing the 'corridor approach'

(2) The Federation supported the removal of the corridor approach from IAS 19 in 2010, so that all changes in the present value of the defined benefit obligation and in the fair value of plan assets should be recognised when they occur. This was primarily on the basis that there did not appear to be a conceptual justification for deferring the recognition of part of the changes in the benefit obligation and plan assets.

(3) The Federation also supported the proposed amendments because the option to use the corridor approach impaired comparability between different entities.

(4) For the same reasons, we support the removal of the corridor approach from IPSAS 25, albeit we have been made aware that the consequences of removing the corridor approach can have a significant impact on many entities currently applying IPSAS 25.

Discount rate

(5) The Federation supports the continued divergence between IPSAS 25 and IAS 19 in respect of setting the rate used to discount post-employment defined benefit obligations. We did not support the amendment to IAS 19 that based the discount rate on the market yields at the reporting date of high quality corporate bonds (HQCBs) (unless there was no such market – in which case the yield on government securities could be substituted).

(6) The Federation took this position because, although we recognised concerns regarding the reliability of estimated rates of return in practice, we were not convinced that the return on HQCBs would accurately reflect the actual return on fund assets, except where the fund assets themselves were HQCB's. Consequently, we did not believe that a rate of return based on HQCBs would provide more relevant information than the entity's own expectation about the return of actual plan assets.

(7) Consequently, the Federation supports IPSAS 25's approach that the entity should make a judgement whether the discount rate is best approximated by reference to market yields at the reporting date on government bonds, HQCBs or by another financial instrument.

New components of defined benefit cost

(8) The Federation supports the alignment of IPSAS 25 with IAS 19 in respect of the presentation of the components of defined benefit costs. We welcomed the disaggregation of defined benefit costs into these three components when IAS 19 was revised in 2011 as each of these components of the defined benefit costs had different characteristics and risk profiles. We also considered that the changes to the presentation would improve comparability in the disclosure of such costs between different entities.

(9) We also consider that, as IPSASs have no equivalent of the Other Comprehensive Income (OCI) statement, the proposal in the ED to present the remeasurement component in net assets/equity is the best alternative available to the IPSASB in order to keep a consistent treatment with IAS 19.

(10) However, in our 2010 response to the proposed amendments to IAS 19 we highlighted conceptual issues with changes in the fair value of the plan assets being recognised through the OCI and asked the IASB to start a fundamental debate on the use of the OCI, including recycling. Consequently, we would regard the current treatment of remeasurements in this ED as being a temporary measure until a more fundamental review of how fair value adjustments should be recognised is completed.

Specific matter for comment 2

IPSAS 25 currently includes a section on Composite Social Security Programs (paragraphs 47-49). The IPSASB is considering deleting this section because the IPSASB is not aware that it has been applied in any jurisdiction. If you do not agree that this section should be deleted, please provide a reason for your response along with any proposed revisions.

(11) The Federation has no firm views on this matter other than to comment that we believe that it does no harm to leave the section on Composite Social Security Programmes in the standard and it may prove useful in the future should any jurisdiction seek to apply it.