Botswana Accountancy Oversight Authority

25 July 2022

International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

Dear Sir/Madam

**BAOA SUBMISSION ON IPSASB'S EXPOSURE DRAFT: RETIREMENT BENEFIT PLANS**

The Botswana Accountancy Oversight Authority (The Authority) takes this opportunity to comment on the IPSASB's Exposure Draft: Retirement Benefit Plans

Our comments to the 'Questions for respondents' are presented at the Appendix attached.

Kindly e-mail us at dmajinda@baoa.org.bw or phone directly on +267 3919735 if further clarity is required on any of our comments.

Yours faithfully,

Duncan Dankie Majinda
Chief Executive Officer

## Appendix

### Specific matter 1

**This Exposure Draft (ED) proposes amending the IAS 26 definition of defined benefit plan to include all retirement benefit plans that are not defined contribution plans. The definition proposed for a defined benefit plan is consistent with IPSAS 39, Employee Benefits, as follows: 'Defined benefit plans are retirement plans other than defined contribution plans'**

**Do you agree with this proposal? If not, why not?**

We agree with the proposed definition of defined benefit plans as the definition is clear, and the application guidance set out in AG12- AG15 (definitions)clearly distinguishes between defined benefit plans and defined contribution plans.

### Specific matter 2 – Paragraph 9 (see paragraph BC14)

**This ED proposes to retain the IAS 26 definition for 'actuarial present value of promised retirement benefits' as it addresses the plan perspective rather than to use the IPSAS 39 definition for 'present value of a defined benefit obligation'.**

**Do you agree with this proposal? If not, why not?**

<u>Response</u>

Yes, we agree. This is because the IAS 26 definition is simple, straightforward, and easy to understand by a wide range of users of the financial statements as it does not bear difficult accounting jargon in comparison to the definition from IPSAS 39.

Furthermore, the inclusion of the word 'actuarial' in the IAS 26 definition gives prominence to the level of accountability placed on the valuation in that it has been performed by an expert i.e., an actuary. Management demonstrates transparency through the use of expert validated data, 'actuaries', which is aimed at enhancing the integrity of disclosures made in the financial statements.

Actuarial valuation should be done on a regular basis and when there is no valuation performed during a particular period, entities must make an assessment to determine whether valuation obtained in prior periods remains relevant. The accounting policy adopted by an entity should be applied consistently across the financial periods.

The BC could, however, be improved to explain the differences in valuation, which presumably would arise from the allowance to use valuation which is not based on an actuarial estimate. As long as actuarial valuations are not required for each reporting period (which would be costly and cumbersome) this change appears reasonable, since the use of actuaries would tend to more accurate estimates. Furthermore, where defined contribution pension funds report under IAS 26 (as in Botswana), aligning the valuation basis will ease consolidation.

**Specific Matter 3**

**This ED proposes that for defined benefit plans the actuarial present value of promised retirement benefits be recognised and presented on the face of the statement of financial position as a provision for that obligation. This removes two options in IAS 26 which permit the actuarial present value of promised retirement benefits to be only disclosed in the notes to the financial statements or in a separate actuarial report.**

**Do you agree with this proposal? If not, why not?**

Response

We agree with the proposal to recognise and present the actuarial present value of promised retirement benefits on the face of the statement of financial position due to its materiality to the financial statements as a whole and the lack of options for most governments to pass the related risks elsewhere despite the challenges of funding the defined benefit plans by many governments.

**Specific matter 4 – Paragraph 11 (see paragraph BC16)**

**IAS 26 does not specify whether or where the retirement benefit obligations for defined contribution plans should be recognised and presented. To achieve the objective of increased transparency and accountability, the ED proposes that defined contribution obligations should be recognised and presented on the face of the statement of financial position.**

**Do you agree with this proposal? If not, why not?**

Response

Yes, the Authority agrees to the proposal for the same reasons given at Specific matter 3 above.

**Specific Matter 5:**

**IAS 26 allows plan assets to be valued at amounts other than fair value. This ED proposes that plan investments should be measured at fair value.**

**Do you agree with this proposal? If not, why not?**

Response

We agree with the proposal to measure benefit plans at fair value. In comparison to other measurement basis, fair value would give a more accurate value of the benefit plans investments. Also, given that there is now considerable guidance under IPSAS on different asset specific approaches to fair value this change appears reasonable.

**Specific Matter 6- paragraph 13**

**IAS 26 allows the actuarial present value of promised retirement benefits calculated using either current or projected salaries. This ED proposes that only projected salaries should be used.**

**Do you agree with this proposal? If not, why not?**

Response

Yes, we agree. We are of the view that a single method of calculation will significantly enhance comparability. Projected salaries provide a more prudent basis for valuing plan liabilities, as they factor in time value of money and they are more forward looking. The estimates would give a true reflection of how much the employee should expect as a retirement benefit. The use of current salaries has the potential to understate the actuarial present value.

**Specific Matter 7- paragraph 15(c) and 19**

**This ED proposed that a retirement benefit plan be required to prepare a cash flow statement, whereas IAS 26 is silent on this. This ED also proposes the cashflow statement be prepared using the direct method.**

**Do you agree with this proposal? If not, why not?**

Response

Yes, we agree. The Statement of cash flows provide the users with useful information on how funds have been used/allocated. In the absence of a Statement of Financial Performance, the direct method is justified, the information disclosed will be useful as it will show key areas where the cash of the fund is used. This is also consistent with the objective of the exposure draft which is to increase transparency and accountability.

**Specific Matter 8 - paragraph 15(c) and 19**

**The ED proposes prospective application of the requirements of the standard which would require an opening and closing statement of financial positionaccordance with the standard but no comparative figures in other financial statements. Do you agree with this proposal? If not why not.**

Response

Yes, we do agree. In line with the concept of making adoption of standards less expensive and less complex, prospective adoption appears reasonable.

**Specific matter 9**

**Public sector retirement benefit plans are structured and/or regulated in many different ways and jurisdiction- specific requirements on how to account for contributions and**

**benefits may vary. As a result, this ED proposes not to require contributions or benefits to be accounted for as any specific element in the financial statements, which is aligned with the approach taken in IAS 26. Instead, implementation Guidance and Illustrative Examples are provided to demonstrate different accounting presentations depending on the how the contributions and benefits are viewed.**

**Do you agree with this proposal? If not, why not?**

Response

Yes, we agree with the proposal since the classification will depend on the structure and different jurisdictionary regulations of the retirement benefit plans. As a result the implementation and illustrative are ideal in applying best practice.

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