01 August 2022

BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO EXPOSURE DRAFT 82 – *RETIREMENT BENEFIT PLANS*

Introduction

The Botswana Institute of Chartered Accountants ("BICA") is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The BICA mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards IPSASB's Exposure Draft 82 – *Retirement Benefit Plans*. We provide our comments to each specific question as per the exposure draft.

Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

Signed electronically

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RESPONSES TO SPECIFIC QUESTIONS

Specific Matter for Comment 1

This Exposure Draft (ED) proposes amending the IAS 26 definition of 'defined benefit plans' 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 benefit plans other than defined contribution plans'.

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

Response

IAS 26 definition for defined benefit plan is "*a retirement benefit plan under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service*" whereas IPSAS 39 defines it as "*post-employment benefit plans other than defined contribution plans*"

Since IPSASB advocates for consistency within the suite of IPSASs and that the definition for a defined benefit plan has already been rendered by IPSAS 39 it would follow that ED 82 should follow the same definition to avoid creating any inconsistency in definitions. We therefore concur with the decision of IPSASB.

Specific Matter for Comment 2:

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?

Response

IAS 26 defines actuarial present value of promised retirement benefits as "*the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered*". IPSAS 39 defines the present value of a defined benefit obligation as "*the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods*"

IPSASB proposes to adopt the IAS 26 definition as opposed to the IPSAS 39 definition since the IAS 26 definition addresses the plan perspective. In so doing IPSASB will effectively create an inconsistency between this ED and IPSAS 39 contrary to its norm.

In view of the inconsistency that this proposal will create, we recommend that IPSASB should either:

a) amend the IPSAS 39 definition to align it with this ED or
b) abandon its proposal and apply the IPSAS 39 definition so that there is consistency in the IPSAS literature.

Specific Matter for Comment 3

This ED proposes that for defined benefit plans the actuarial present value of promised retirement benefits be recognized 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

IAS 26 effectively provides preparers of financial statements with 3 options in which to present the actuarial present value of promised retirement benefits namely on the face of the financial statements or in the notes to the financial statements or in a referenced separate accompanying actuarial report.

In its proposals, IPSASB is of the opinion that presentation of actuarial present value of promised retirement benefits and the corresponding assets are likely to form a significant part of a retirement benefits plan and therefore presenting such key information on the face of the financial statements would make it readily available to users.

Based on the foregoing we therefore are in concurrence with IPSASB's proposal.

Specific Matter for Comment 4

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

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

Response

Items presented on the face of the statement of financial position are classified as either assets, liabilities, or equity items. Since there are differing views on the precise nature of defined contribution obligations, that is, whether they are liabilities of uncertain timing and/or amount (and thus should be accounted for as provisions); or potential distributions to owners; or stakeholders' equity, it implies that without a clear guidance on how to treat them, preparers of financial statements may end up presenting them differently thus leading to challenges to users of such financial statements. IPSASB having realised that the nature of defined contribution obligations may be linked to the design of the defined contribution plan opted not to describe them as any particular element of financial statements.

Given the foregoing, we are of the opinion that defined contribution obligations should not be recognized and presented on the face of the statement of financial position until such time that IPSASB will provide guidance on how to classify such obligations..

<u>Specific Matter for Comment 5</u>

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

Measurement of plan investments at fair value enables decision makers to determine whether plan has requisite resources to pay its obligations when the fall due. However, at certain times it may be difficult to determine the fair value of an asset and therefore requiring that such assets be measured at another value. This is the approach taken by IAS 26. However, IPSASB proposes a deviation from this approach by proposing that the use of fair value be guided by respective IPSASs that are relevant to the type of asset.

By taking this approach, IPSASB has ensured that preparers of financial statements will have to consider respective relevant IPSASs when determining how to measure plan investments.

In view of the foregoing, we concur with the IPSASB proposal as it will not only create uniformity in the measurement of plan investments but will also avoid inconsistent application of similar items.

<u>Specific Matter for Comment 6</u>

IAS 26 allows the actuarial present value of promised retirement benefits to be 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

Actuarial present value of promised retirement benefits represents the amount likely to be paid to employees upon leaving the scheme. Such benefits will usually be based on the current salary of the employee at the time of retirement.

Using current salaries rather than projected (future) salaries to calculate actuarial present value of promised retirement benefits may lead to understatement of such obligations. IPSASB also noted that using projected salaries is consistent with IPSAS 39, under which the present value of a defined benefit obligation is required to be measured using projected salaries.

IPSASB is also of the opinion that using projected salaries is consistent with the objectives of ED 82 to increase the transparency and accountability of retirement benefit plans for retirement benefit obligations owing to participants.

Based on the foregoing we therefore concur with the proposal.

Specific Matter for Comment 7

This ED proposes 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 cash flow statement be prepared using the direct method.

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

Response

One of the key proposals identified by IPSASB is that including a cashflow statement in a retirement benefit plan will ensure that

a) there is consistency throughout the suite of IPSAS literature requiring that cash flow statements align with the requirements of IPSAS 1 – Presentation of Financial Statements
b) users are allowed to see the actual cash outflows as opposed to what is shown in the statement of financial position which is prepared on an accrual basis.

IPSASB also recommended the use of the direct method since the standard does not require the preparation of a statement of financial performance therefore making it impracticable to prepare a cashflow statement using the indirect method, as there will be no surplus or deficit to adjust for non-cash items to derive net cash flows from operating activities.

Based on the foregoing we concur with the proposal made by IPSASB..

Specific Matter for Comment 8

This ED proposes prospective application of the requirements of the Standard, which would require an opening and closing statement of financial position in accordance with the Standard but no comparative figures in other financial statements.

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

Response

The key information in the General-Purpose Financial Statements of a retirement benefit plan comprises the obligation for future benefits, the extent of any deficit, and the change in those figures over the reporting period.

On adoption of the standard, a retirement benefit plan will be required to prepare an opening and closing Statement of Financial Position, and other Statements prospectively. This is therefore likely to best serve the needs of users of retirement benefit plan information since it will enable the plan to provide such key information sooner than if retrospective application were required.

Retrospective application of the requirements of a standard usually leads to the provision of additional historical information which may impact on the availability of key information to the users of the financial statements.

Based on the foregoing we concur with the IPSASB's proposal.

Specific Matter for Comment 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 how the contributions and benefits are viewed.

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

Response

We are of the view that regardless of structure and/or regulations for a retirement benefit plan, contributions will either be classified as revenue or as contributions, giving rise to an obligation and conversely benefits would either be treated as an expense or a reduction in an obligation.

In view of the foregoing, we propose that IPSASB should rather be very specific in its approach and classify contributions and benefits based on the above criteria.