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Conseil de normalisation des comptes publics

Le Président

Paris, July 18, 2022

Mr Ross Smith
Technical director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
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Re: Response to ED82, *Retirement Benefit Plans*

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on ED82, *Retirement Benefit Plans* published in April 2022 (ED82).

The CNOCP appreciates the effort put into converting IAS 26, *Accounting and Reporting by Retirement Benefit Plans* into requirements for the public sector. Conversely, commenting on ED82 somehow slightly puts us off as we have very little experience with IAS 26 in the private sector in France.

We note that information on the effects of various types of plans on the employers' financial position and financial performance is already reported on through the application of IPSAS 39, and we find that ED82 somehow duplicates that information for defined benefit plans. We would support that requirements should focus on the actuarial value of future cash inflows and outflows from the perspective of the plan whatever the type of plan. That information would alert on possible future shortage in the financing of the plan. As such, a pronouncement that would require sustainable information would usefully complement both IPSAS 39, *Employee Benefits* and IPSAS 42, *Social Benefits*, all the more as RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* is non-authoritative.

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Basically, the question we feel that remains unanswered in ED82 is: Should arrangements with no governance body entail accounting consequences for the parties to the arrangements, or should information be provided for transparency and sustainability reporting purposes only?

We also are of the opinion that the distinction between the two types of plans is less meaningful from the retirement plan perspective than it is from that of the employer, where the employer has to determine whether a liability for future benefits should be recognised.

In addition to the above, we would like to share the following comments more directly focused on the proposals in ED82.

Consistency with IPSAS 1

While paragraph AG23 asserts that the future standard will override the requirements of IPSAS 1, appendix B, *Amendments to other IPSASs* does not seem to show a scope exclusion for the application of IPSAS 1 to retirement benefit plans in the scope of ED82. We believe that such a scope exclusion is critical to allow for retirement benefit plans to present financial statements that are substantially different from those required in IPSAS 1. For that reason, we would suggest that a scope exclusion from those paragraphs in IPSAS 1 that prescribe the content of the financial statements, be it only a partial exclusion, should be introduced in the final pronouncement. This is critical in those situations where the retirement benefit plan is an arrangement that is also a legal entity: should the plan apply IPSAS 1 or the future pronouncement? We believe that paragraph 7 is confusing as to which standard should apply.

Consistency of the definition of defined benefits obligation with that of a liability in the Conceptual Framework

AG16 states that "*This [draft] Standard requires the obligations to participants to be recognised and presented on the face of the statement of financial position* […]". The obligation to participants is therefore assessed as a liability irrespective of whether the entity has little or no alternative to avoid an outflow of resources. We may provide instances of retirement benefit plans that are statutory and compulsory, and where the Government may be in a position to find an alternative, however theoretically. Furthermore, neither AGs nor BCs discuss the compliance of the obligation with the main features of the definition of a liability. As such, we find that the recognition requirements in ED82 are rules-based and are not fully in line with the definition of a liability[1]. We would therefore strongly recommend the IPSASB that the rationale for the recognition of a liability on the face of the statement of financial position should be reviewed.

1 See paragraph 5.14 of the Conceptual Framework: "*A liability is a present obligation of the entity for an outflow of resources that results from a past event.*"

Allowing for some flexibility in the presentation of the obligation for future benefits

Forward-looking information is critical to assess retirement benefit plans' long-term sustainability from the plan's perspective. We would therefore strongly recommend that the future standard should provide the opportunity to disclose the actuarial present value of promised retirement benefits, when not a present obligation giving rise to a liability of the plan, in the notes to the financial statements or in a separate actuarial report. This would require those plans that do not present the obligation for future cash outflows as a liability to still present forward-looking information on the sustainability of the plan, which is a step forward better quality financial information. Absent such requirements, those same plans would fall out of the scope of ED82 and present no information at all, thus impairing transparency and accountability.

Why single out defined contribution obligation?

We fail to see the need to include a definition of defined contribution obligation only, it seems, to highlight the liability arising from defined contribution plans. In our view, both types of plans give rise to an obligation to serve future benefits from the perspective of the plan. We struggle to understand why the service of those future benefits should be reported on differently depending on the type of the plan. We find that the rationale for that distinction is not explained clearly enough in the AGs and BCs and we would appreciate if the IPSASB could elaborate more on this. As an alternative, we would suggest that the concept of defined contribution obligation should be further explored and elaborated on, mainly to develop guidance as to how to measure its present value, which would provide important forward-looking information. Moreover, with a view to report on the sustainability of a defined contribution plan, useful information should focus on the actuarial value of future cash inflows and outflows. We believe that this would allow participants that bear the investment risk to assess the plan's sustainability.

Additionally, with respect to hybrid plans and their description in paragraph AG16, we find it utterly confusing that a plan identified as of the type "defined benefit" should recognise a liability relating to the type "defined contribution".

Definition of the scope

Some of our constituents find it difficult to fully grasp the scope of the draft standard. This may simply be that the reference to IPSAS 42, *Social Benefits* in paragraph 5 of the scope section could be expanded on more clearly. In addition, ED82 does not address retirement plans where participants are employed by entities that are either from the public sector or from the private sector. This would cause an issue for defined contribution benefit plans with contributors that are employers from both the private and the public sectors: which standard should apply: IAS 26 or the future IPSAS? Lastly, no IPSAS addresses the reporting of the long-term sustainability of plans set up by governments to mitigate the effect of social risks. Current requirements in IPSAS 42 do not go that far as the IPSASB decided not to require providing the entity's best estimate of the projected cash outflows for the next five reporting periods[2]. This is all the more confusing in France since plans that would fall in the scope of ED82, as well as other plans based on solidarity mechanisms ("répartition") outside the scope of ED82, are similar in their financing and management.

Insufficient guidance on transition in the core text

In addition, with respect to transitioning to ED82, the proposed paragraphs on transition are silent on the application to retirement benefit plans that already present financial statements in accordance with IPSAS 1. Should those entities merely follow ED82 requirements as of the effective date of the future standard, hence stop complying with IPSAS 1 at that date? How should they communicate on that change, namely to justify the reason they decided to depart from IPSAS 1? We would therefore appreciate if the future pronouncement could provide some more guidance on transition.

For the reasons above, we would urge the Board to reconsider the proposals in ED82 for consistency purposes with the Conceptual Framework and with IPSAS 1, as well as for retaining presentation options for future benefit outflows outside the statement of financial position when appropriate.

We present detailed responses to the Specific Matters for Comments in the appendix.

Yours sincerely

Michel Prada

[2] See IPSAS 42.BC116.

APPENDIX

Specific Matter for Comment 1

The 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?

In the context of using IAS 26 as a starting point, we believe that consistency with IPSAS 39 is key and in that sense we would agree with the proposal.

However, some constituents are confused that when it comes to defined contribution plans, the definition in ED82 is not aligned with that in IPSAS 39 even though the same term is used. Furthermore, BC11 does not provide a rationale for retaining the IAS 26 definition for defined contribution plans. We would suggest that the Board should have another look at explaining why consistency with IPSAS 39 is put forward for one type of plan and not for the other, be it only to clarify that the definition in the future standard is from the perspective of the plan rather than from that of the employer.

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?

In general, we would agree on using a different terminology in ED82 from that in IPSAS 39 when referring to different notions. We understand from BC14 that differences between the two notions arise from differences in measurement. To enhance clarity, we would appreciate if ED82 could elaborate on the extent and nature of the differences. This would also allow constituents to form a view as to the usefulness of having two sets of financial statements presenting different figures for the obligation arising from a defined benefit plan.

Specific Matter for Comment 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?

We would like to take the opportunity of this question to express our strong disapproval that ED82 does not allow for the actuarial present value of promised retirement benefits to be presented elsewhere than on the face of the statement of financial position.

First of all, to be recognised in a statement of financial position, an obligation has to meet the definition of a liability. The analysis of whether the actuarial present value of promised retirement benefits meets all the features in the liability definition should be carried out on a case by case basis from the perspective of the plan rather than from that of the employer. Indeed, serving future benefits is a liability of the employer in a defined benefit plan, but does it automatically translate into a liability of the plan? Moreover, the reference to "potential" obligation[3], hence not present, in paragraph AG20 somehow weakens the analysis that it always qualifies as a liability. We therefore feel that the definition of retirement benefit obligations in paragraph 9 and the recognition requirements in paragraph 10, as currently drafted, are rules-based.

For the reasons above, we believe that retaining the possibility for a plan to present information on the future benefits outside the statement of financial position when appropriate would allow for the plan to present useful information on its sustainability. This would provide better quality information to users, be they investors or future retirees, and it would greatly enhance comparability, transparency and accountability.

Specific Matter for Comment 4

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, this ED proposes that defined contribution obligations should be recognised and presented on the face of the statement of financial position.

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[3] The reference to "potential obligation" comes from paragraph 26 of IAS 26.

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

As commented on in the cover letter, we believe that the focus of the future standard should be on providing information that allows users and beneficiaries to assess the sustainability of the plan. With respect to the defined contribution obligation, we fail to see in the proposals how future benefits should be measured. Also, with a view to assess fully the sustainability of the plan, we believe that information on future inflows should also be provided. Lastly, we think that the proposed requirements could be made simpler if the future pronouncement did not distinguish the two types of plans.

Additionally, we question the logic that prevails in the proposals that, on the one hand, hybrid plans are akin to defined benefit plans, and should therefore recognise the actuarial present value of promised retirement benefits as a liability, while, on the other hand, paragraph AG3(a) implies that the defined contribution obligation should be disclosed to achieve the objective of reporting by a defined benefit plan. Furthermore, paragraph AG16 states that "*A hybrid plan will also have defined contribution obligations*". It is utterly confusing that a plan identified as of the type "defined benefit" should recognise a liability relating to the type "defined contribution".

Specific Matter for Comment 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?

We agree that, from the plan's perspective, plan assets should be measured at fair value. This is because users are looking for information on investment return that is best provided by measuring plan assets at fair value.

Specific Matter for Comment 6

IA 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?

We believe that, in a sustainability approach to the project, using projected salaries would provide better quality forward-looking information.

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?

To begin with, we do not think that IAS 26 is silent on whether a retirement benefit plan should prepare a cash flow statement. Our understanding is rather that IAS 26 merely provides requirements for additional information to that required by IAS 1[4], *Presentation of Financial Statements* that is specific to the activity of the retirement benefit plans. In that sense, IAS 26 does not depart from IAS 1, while the proposal in ED82 is that the future standard should override the requirements of IPSAS 1. We believe that overriding IPSAS 1 is a critical issue for the internal consistency of the IPSAS suite of standards.

As to whether a cash flow statement should be required, we would agree that it should be required given that a retirement benefit plan's activity is essentially investing (depending on the type of the plan), and receiving and disbursing cash. As to using the direct method, we agree with the justification in AG30 in that the structure of the other financial statements required, namely the absence of a statement of financial performance, does not provide for an annual surplus or deficit. Hence it wouldn't be easier to use the indirect method.

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?

We would agree with proposing prospective application: the less complex the transition requirements, the better. However, we would appreciate if the consequence of a prospective application explained in BC24 was relocated to the core text, so as to know what to expect when transitioning to the future standard.

As mentioned in our cover letter, we struggle to see how a retirement benefit plan that already produces financial statements in accordance with IPSAS 1 may adopt the new pronouncement. On that issue, we would be grateful if the future transition paragraphs could help by stating first if a retirement benefit plan has a choice in applying either IPSAS 1 or the future pronouncement, and then how it should communicate on a change compared to the previous reporting periods.

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[4] IAS 1 requires the presentation of a cash flow statement as part of the primary financial statements.

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 elements 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?

The classification of contributions and benefits in the cash flow statement is addressed in AG31 which states that the solution to this classification issue should be found in the terms of the retirement plan. We agree with this statement. However, we think it would be more efficient if that statement was illustrated with examples showing how the terms of a plan may influence the classification of contributions received and benefits paid. The three examples in the appendix "Illustrative Examples" provide illustrations in which no linkage is made between the terms of the plan and the selected method for classifying cash inflows and outflows. We therefore do not find those examples helpful.

Lastly, no further explanation is provided in BC20-21 and we observe that the issue of the classification of contributions and benefits is addressed within the measurement section. We would therefore recommend that BC20-21 should be relocated in the Presentation of Financial Statements section of the Basis for Conclusions.