EXPOSURE DRAFT 82 (ED 82)
Retirement Benefit Plans

The Program and Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
277 Wellington Street West, 6th floor
Toronto, Ontario M5V 3H2 CANADA

Brasília, Brazil
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Dear Technical Director,

The Under-Secretariat of Public Accounting, of the Brazilian National Treasury Secretariat, and the Under-Secretariat of Social Security Systems, of the Social Security Secretariat of the Ministry of Labor and Social Security of Brazil, jointly present the contributions to be taken into consideration in the analysis process of Exposure Draft 82 - Retirement Benefits Plans. Both institutions are responsible, respectively, for the regulation of Brazilian public sector accounting and the public pension systems.

We consider this a matter of utmost importance, given the relevant impact on the process of recognition, measurement, and disclosure of the actuarial result and the obligations assumed as a result of the pension plans.

In particular, we would like to contribute with the Specific Matter for Comment 5 - Paragraph 12, which asks the following question: "*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*?".

Thus, we will make the following contributions.

The regulations related to the management of the pension plans of the public entities in Brazil are under the competence of the Social Security Secretariat, which has as normative base the federal legislations about the theme and the Federal Constitution. Additionally, related to the investments to be made by the managers of public pension plans, there are norms from the National Monetary Council - CMN to be followed.

In this sense, CMN Resolution number 4,963, of November 25th ,2021, allowed the investments of the Special Social Security Systems (RPPS) in private financial assets issued by banking financial institutions authorized to operate by the Brazilian Central Bank (BCB). These private financial assets, which have different terms of duration, are not traded in the secondary market. In other words, the relationship existing in the investment occurs exclusively between the issuing bank and the RPPS, as investor.

This is, in short, a relationship in which the investor acquires a credit security from the issuing bank, in order to be guaranteed a return in the agreed period. Since there is no negotiation in the secondary market, as occurs with government bonds, there is no possibility of the investor transacting this bond in the secondary market with another party interested in acquiring this paper. The investor, therefore, will necessarily have to hold the security until maturity.

Thus, the financial assets that make up the RPPS investment portfolios must be initially recognized at acquisition cost, formed by the amount actually paid in the transaction, plus brokerage and fees, and are classified and measured in two categories: available for future trading or for immediate sale (fair value); or held to maturity (amortizable cost), under the terms of art. 145 of MTP Administrative Rule no. 1,467, of June 2, 2022.

The financial assets acquired for the purpose of being traded, regardless of the term to elapse from the date of acquisition, must be recorded in the category of available for trading or for sale. The financial assets for which there is the intention and financial capacity of the RPPS to keep them in the portfolio until maturity may be recorded in the category of financial assets held to maturity.

In this sense, the financial assets in the category available for trading or for sale, must be measured by fair value, at least monthly, in order to reflect its real value, observing the accrual basis.

It is important to note that the classification of the RPPS' financial assets held to maturity, assets intended for immediate sale and assets available for future sale is based on the intention of the fund managers, in accordance with the investment policy established for the RPPS, considering the needs of the regime and the characteristics of the financial assets invested.

The classification of financial assets between the categories available for sale and held to maturity considers, therefore, the characteristic of the investment and the business intention of the RPPS.

In relation to the methodology for determining the market value or fair value, it is verified that it must be based on consistent and verifiable criteria, as well as values disclosed by entities that represent market participants. In the eventual unavailability of information, the following parameters may be used

> I - the average trading price on the day of the assessment or, when not available, the average trading price on the previous business day;
>
> II - the probable net realizable value obtained by adopting a pricing technique or model; or
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> III - the price of a similar security, taking into consideration, at least, the payment and maturity terms, the market risk and the currency or index.

This also applies to government bonds issued by the National Treasury, to the fixed income financial assets of financial institutions available for trading, and to the goods, rights, and other assets allocated to the RPPS.

With respect to financial assets in the category of held to maturity, they must be recorded at their acquisition costs, plus income earned, and the following parameters must be met:

I - demonstration of the financial capacity of the RPPS to keep them in portfolio until maturity;

II - demonstration, in an unequivocal manner, by the managing unit, of the intention of keeping them until maturity;

III - compatibility with the terms and rates of present and future obligations of the RPPS;

IV - separate accounting classification and control of assets available for trading; and

V - mandatory disclosure of information concerning acquired assets, the impact on actuarial results and accounting requirements and procedures, in the event of alteration in the form of asset pricing.

The fact of allowing financial assets to be held to maturity is in line with the best management conditions of the RPPS, especially in the existence of high interest rate scenarios.

By defining the diversification of the investment portfolio in order to obtain an optimal portfolio, asset managers seek to maximize the equity of the social security fund at any moment in time, considering the hypotheses considered.

Thus, it is understood that restricting the measurement of the plan's assets only to fair value could affect the management of the plan, reducing the potential gains with the diversification of the investment portfolio by the plan's managers. Furthermore, to require disclosure in the accounting statements in a way that is different from what occurs in the management of the pension plans makes the accounting information less relevant, since it would be prepared simply to comply with the norm, and not represent faithfully the real situation of the pension plans.

In view of the above, we disagree with what is stated in paragraph 12 of Exposure Draft 82 - Retirement Benefit Plans, considering that the IAS 26 approach faithfully reflects the management of pension plans.

Best Regards,

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