JULY 31, 2022

EXPOSURE DRAFT (ED) 82, RETIREMENT BENEFIT PLANS

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Manj has almost 30 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised several jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.

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Submitted electronically

31 July 2022

Dear IPSASB secretariat,

Retirement Benefit Plans

I am delighted to share my comments on exposure draft 82, retirement benefits.

The proposals in the consultation go to the heart of all international public sector accounting standards, i.e., to provide greater transparency and accountability to the users of the financial statements.

Retirement benefits are one of the largest costs for any organisation and as governments tend to be one of the biggest employers in a jurisdiction this is a significant cost. Greater clarity on recognition and measurement of retirement benefits is welcome.

The proposals maintain IPSASBs strategic aim to align public sector accounting standards to IASBs; It is clear to see where the Board have taken efforts to adopt the definitions as per IAS 26 where appropriate. However, there are some departures which are valid to accurately reflect public sector specific issues. For example, there is a choice in IAS 26, such as the presentation of the pension disclosures on the face of the statement of the financial position, or in a note or in a separate document. Given the significance of public sector pension liabilities, there is no doubt that these are going to be material and so need to be disclosed on the face of the financial statements hence the proposal is supported. By removing the option this eliminates any inconsistencies between public sector entities and across jurisdictions and aids comparability. This disclosure often attracts public interest so bringing this to the fore is strongly supported.

Some elements of the measurement will be problematic for some jurisdictions, so the additional guidance is appreciated. It may be worth allowing some time to transition to new requirements e.g., start with current salaries and move to projected salaries allowing time for actuaries to develop these calculations, say 2 to 3 years.

Detailed responses to the specific matters for comment are provided in the Annex.

Finally, thank you for the opportunity to comment. Once again, thank you to the team at IPSASB in preparing the webinar to support the ED. This is very helpful. If there are any questions, please do not hesitate to contact me.

Yours sincerely,

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Manj Kalar

Principal consultant

Annex 1: Detailed comments

Specific Matter for Comment 1: Para 9 (BC10-13)

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 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 the proposal? If not, why not?

I agree with this proposal.

This catch-all definition provides clarity to the preparers and users of general-purpose financial reports. Although the definition is expanded compared to IAS26, it reflects the reality in the public sector where there may be several different types of defined benefit plans.

Specific Matter for Comment 2: Para 9 (BC 14)

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 the proposal? If not, why not?

I agree with the proposal.

This meets the strategic aim for greater alignment with international accounting standards (IAS) as far as possible. The IAS 26 definition is equally applicable in the public and private sector. The challenge may be for some jurisdictions to obtain the actuarial present value, but this can be adapted from the private sector although it could take some time to prepare initially.

Specific Matter for Comment 3: Para 10 (BC15)

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 a separate actuarial report.

Do you agree with the proposed change? If not, why not?

I agree with this approach.

By removing the choice this allows for greater comparability between public sector entities and across jurisdictions. This approach also removes the incentive to gamify the presentation of a material liability for jurisdictions.

Specific Matter for Comment 4: Para 11 (BC 16)

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 contributions should be recognised and presented on the face of the statement of financial position.

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

I agree with this approach.

Governments tend to be the largest employers and as such will have a significant pension liability which is best presented on the face of the financial statements. In doing so there is transparency and allow for greater scrutiny by the users of the financial statements.

Specific Matter for Comment 5: Para 12 (BC19)

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

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

I agree with the guidance.

Like SMC 3, it is helpful to have clarity and direction regarding the measurement of plan investments. By removing the choice this allows for greater comparability between public sector entities and across jurisdictions. Although there may be fluctuations year on year in the fair values of plan investments it is the most realistic at the balance sheet date and is consistent with the valuation of other assets and liabilities.

Specific Matter for Comment 6: Para 13 (BC17)

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?

I agree that projected salaries would provide a more realistic basis for calculating promised retirement benefits, but this will introduce a lot of complex adjustments/assessments to arrive at the project salaries. This may not be easy to do in some jurisdictions as comparisons with the private sector may not be accurate e.g., the number of public sector employees that remain in the same organisation let alone sector for their career may be significantly higher, but progression/pay growth may be slower? It may be worth considering starting with current salaries and allowing jurisdictions a transitionary time period to move to projected salaries after there is time to undertake the analysis to form robust assumptions hence calculations.

Specific Matter for Comment 7: Paras 15 (c) and 19 (BC23)

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?

I agree with this proposal.

Whilst IAS26 is silent, clarity as to what is required is helpful to the user and helps the preparer to deliver greater transparency and accountability.

Specific Matter for Comment 8: Para 27 (BC24)

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 the financial statements.

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

I agree with this proposed approach.

Prospective application avoids significant expense for entities by removing the need to calculate, prepare and audit prior year comparatives. It will be a challenge to prepare opening and closing statement and preparers can focus on this.

Specific Matter for Comment 9: Para BC20-21 and implementation guidance

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?

All implementation guidance and illustrative examples are welcomed for preparers so that this can be adapted for the local circumstances; therefore, I agree with this proposal as it is the most practical and pragmatic.