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July 29, 2022

Mr. Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board (IPSASB)
International Federation of Accountants

Submitted via IPSASB website

Re.: IPSAS Exposure Draft 82,
Retirement Benefit Plans

Dear Mr. Carruthers,

We would like to thank you for the opportunity to provide the IPSASB with our comments on the proposed International Public Sector Accounting Standard – Retirement Benefit Plans (referred to hereinafter as "ED 82").

We highlight specific issues within general comments in this cover letter. Our responses to the various Specific Matters for Comment (SMC) are included in the appendix to this letter.

General Comments

The IDW has always supported the IPSASB's approach to continue maintaining the alignment of IPSAS with IFRS where appropriate for the public sector. Differences to IFRS should be justified by specific characteristics of the public sector. Deviations that are not founded on public sector specifics would only serve to irritate those users who deal with both sectors, including but not limited to those providing financial support, such as financial institutions and suppliers.

Nevertheless, we consider this project to be a public sector project rather than an alignment project. IAS 26 dates back to 1987 and is severely outdated according to current accounting practices. We identified accounting options available in IAS 26 as major weaknesses. In Germany, IAS 26 has no practical significance. Furthermore, the specifics of Retirement Benefit Plans in particular for civil servants need to be addressed.

We would like to raise an additional issue that is not covered by the SMC:

ED 82 addresses the practical problem that a current actuarial evaluation is needed for accurate presentation of retirement benefit plans. Paragraph 14 grants special relief by not requiring an actuarial evaluation each year. This will undoubtedly enhance acceptance among preparers of financial statements who lament high costs for appraisals. However, the relief must not come at the expense of the quality of the financial statements.

Paragraph 14 states: “If an actuarial valuation has not been prepared at the date of the financial statements, the *most recent* actuarial valuation, updated for any material transactions and material changes in circumstances, shall be used.” We concede that in practice it may be acceptable to have an actuarial valuation prepared every other year instead of annually. According to the Application Guidance (paragraph AG21), though, it is implied that preparing actuarial valuations every three or five years is sufficient as a rule, provided that preparers make an effort to produce a rough update. We doubt this and urge the IPSASB to aim for shorter intervals to ensure more accurate figures. After all, we are talking here about the most important item on the balance sheet!

We would be pleased to provide you with further information if you have any additional questions regarding our response and would be pleased to discuss our views with you.

Yours truly,

Melanie Sack
Executive Director

Viola Eulner
Technical Manager

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Appendix: Questions for Respondents and Perspectives Requested

Specific Matter for Comment 1 – Paragraph 9 (see paragraphs BC10 – BC13)

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?

We agree with the IPSASB's approach of aligning the definitions with IPSAS 39 (which is in line with IAS 19) rather than IAS 26. Incidentally, there is no deviation from IFRS accounting: Ultimately, IAS 26 arrives at the same result, as IAS 26.12 stipulates that hybrid plans are considered to be defined benefit plans for the purposes of this standard.

Specific Matter for Comment 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?

We agree. This makes it clear that the definitions are written from the perspective of the retirement benefit plan.

Specific Matter for Comment 3 – Paragraph 10 (see paragraph BC15)

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?

Yes, the proposal will improve the informative value of the financial statements. We support the project's aim of eliminating accounting options.

Key information should be recognized on the face of the statement of financial position and not just be hidden in the notes.

Specific Matter for Comment 4 – Paragraph 11 (see paragraph BC16)

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?

We agree for the same reasons outlined in SMC 3.

Specific Matter for Comment 5 – Paragraph 12 (see paragraph BC19)

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.

Specific Matter for Comment 6 – Paragraph 13 (see paragraph 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?

Yes, we agree. This accounting option in IAS 26 shows above all how outdated the standard is. Nowadays, the reasons given in IAS 26.24 for adopting a current salary approach are no longer convincing. Alignment is not warranted.

Specific Matter for Comment 7 – Paragraphs 15(c) and 19, (see paragraph 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?

IPSAS 1 (paragraph 21) defines a cash flow statement as an integral part of a complete set of financial statement. Because ED 82 (see paragraph AG23) overrides the requirements of IPSAS 1, it is consequential that the ED establishes a corresponding requirement.

The restriction to the method of direct presentation of the cash flow from operating activities is consistent in that no statement of financial performance is to be prepared for a retirement benefit plan according to the draft. However, it is not clear to us why ED 82 does not require a statement of financial performance as part of the financial statements. This needs further explanation. We do not see a particular reason for deviation.

Specific Matter for Comment 8 – Paragraph 27 (see paragraph 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 other financial statements.

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

We agree for reasons of practicability.

<u>Specific Matter for Comment 9 – Paragraphs BC20–BC21 and Implementation Guidance</u>

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?

We agree with this. Still, we assume the development of meaningful and detailed implementation guidance and illustrative examples requires sufficient time. Since there are many different requirements in practice, we assume that a careful and time-consuming process is required to gather and analyze respondents' feedback.