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27 April 2016

F.A.O. Mr. John Stanford
The International Public Sector Accounting
Standards Board
529 Fifth Avenue, 6th Floor
New York NY 10017, USA

by electronic submission through the IPSASB website

Dear John,

Re.: Exposure Draft 59: Proposed Amendments to IPSAS 25, Employee Benefits

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on Exposure Draft 59: Proposed Amendments to IPSAS 25, Employee Benefits (hereinafter referred to as “the ED”).

This letter includes general comments. We respond to the two Specific Matters for Comment (SMCs) in the appendix.

General comments

As previously communicated to the Board, the IDW supports the IPSASB continuing to align its suite of IPSASs to IFRS to the extent appropriate taking into account specific circumstances and particularities of the public sector, and in view of the objectives established in the IPSASB’s Conceptual Framework.

We agree that pension liabilities are highly significant in the public sector, particularly in regard to defined benefit plans. The general public has a significant interest in receiving transparent information as to employee benefits in the public sector, and pension commitments in particular, and holds the public sector entity accountable for decisions made in this respect.

We would like to express our support for the current initiative to align IPSAS 25 to its counterpart standard in IFRS, IAS 19. We comment further on the selected aspects of the ED's proposals in responding to the SMC, and include miscellaneous observations and wording issues in the appendices to this letter.

We hope that our comments will be useful in taking this project forward and would be happy to discuss any aspects of this letter.

Yours truly,

Klaus-Peter Feld
Executive Director

Gillian G. Waldbauer
Head of International Affairs

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APPENDIX 1:

Specific Matters for Comment

Specific Matter for Comment 1

Do you agree with the proposals in the Exposure Draft for revision of IPSAS 25? If not, please indicate what proposed amendments you do not agree with and provide reasons.

We generally support the proposed changes and comment on selected aspects as follows:

Removal of the Corridor Approach

We agree with the proposed removal of the corridor approach from IPSAS 25, mirroring recent changes to IAS 19. In our view both the lack of comparability allowed by the corridor approach and the diminished informative value as to the impact of pension commitments on an entity's financial position are key factors in this context.

The equivalent change made to IAS 19 a few years ago was, however, not without practical consequences. The improved transparency as to the financial impact of defined benefit pension plans, at the time investment returns were generally diminishing, may have been instrumental to many private sector employers questioning the longer-term sustainability of defined benefit schemes.

In Germany the relative drawbacks of defined benefit schemes from the employer perspective are well appreciated, and there appears to be high awareness of this issue within public sector entities. Whilst there remains diversity in practice, we understand that changes are occurring, with less pension entitlements being funded on a pay as you go basis and more reserves being set aside to finance future pension payments.

Proposed New Components of Defined Benefit Cost

We support the proposed changes and believe that the presentation of net defined benefit costs and liabilities (or assets) is less complex and far easier to understand than the presentation according to the extant IPSAS 25.

The IASB uses the construct of other comprehensive income (OCI) in accounting for actuarial changes; OCI does not feature in the IPSASs. We note that conceptual discussions on this and similar issues are ongoing in both Boards, and the ED proposal not to account for remeasurements of net defined benefit liabilities in surplus or deficit, but directly within net assets/ equity (para. 135C) in the statement of financial position, seems to be the most pragmatic approach at the present time, pending Board decisions in these areas.

Selection of a Discount Rate in Measuring Employee Benefit Obligations

The rate applied to discount defined benefit obligations is a highly sensitive issue because of the propensity for a very small change in the assumed rate to have a highly significant impact on the calculation of an obligation.

In order to limit subjectivity, the IASB adopted stringent requirements in IAS 19 as to selection of a discount rate. However, these requirements are proving challenging to apply in practice, since it is currently extremely difficult to find high quality corporate bonds against which to measure rates, and the incidence of negative interest in interbank lending is also difficult from a conceptual level.

We note that the IPSASB is not proposing to change the current requirements of paragraph 94 of IPSAS 25, and some public sector entities will continue to have more flexibility in their selection of a discount rate than provided in IAS 19.

In our view, the IPSASB's approach may well help to mitigate the practical issues currently being encountered in the private sector. However, from a conceptual viewpoint we are not convinced that there is sufficient justification in the longer term for the private and public sector to apply different discount rates for employee pension obligations. We would encourage both Boards to coordinate their approaches to discount rates going forward.

Specific Matter for Comment 2

IPSAS 25 currently includes a section on Composite Social Security Programs (paragraph 47-49)… The IPSASB is considering deleting this section because the IPSASB is not aware that it has been applied in any jurisdiction. If you do not agree that this section should be deleted, please provide a reason for your response along with any proposed revisions.

We do not have sufficient experience of composite social security plans to form a view.

As a matter of principle, it may be useful for the IPSASB to periodically canvass public sector entities in some way, so as to obtain an up-to-date overview of the nature of various schemes in use worldwide. This would enable the IPSASB to ensure that the various types of schemes and plans depicted throughout IPSAS 25 are in line with those currently used in the public sector.

APPENDIX 2:

Miscellaneous Observations

Lack of an Explanatory Memorandum

We note that the ED was accompanied only by an “at a glance” paper and not an explanatory memorandum as has generally been usual practice in the past. On the one hand this newer approach may be preferable in that it requires potential commenters to look at the proposed changes in the ED in its entirety, rather than being focused solely on issues to which they have been directed. However, it may also have drawbacks in terms of the willingness to respond, especially by parties less familiar with existing IPSASs and IFRSs. It will be interesting to learn whether response rates are impacted or not.

IPSAS 25, Employee Benefits

Paragraphs 13A, 14, 20 of the final document will need to be updated in line with the equivalent paragraph in ED 59, as the version exposed currently lacks the correct number references, when referencing to other appropriate paragraphs.

In principle, we would also recommend not changing extant references to specific numbered paragraphs to read “the previous paragraph” as proposed in paragraph 18, as subsequent amendments may lead to confusion.

We question whether the wording of paragraph 22 ought to be revised slightly in line with the Conceptual Framework (e.g., … an entity has an <u>established</u> practice <u>or history</u> of paying bonuses…)

We question whether the ordering of certain paragraphs is optimal. In particular, explanations of terms such as those provided in paragraphs 113C, D and E might be better placed immediately before, rather than after, the paragraph of required accounting treatment (113B).