



21th September 2010

International Accounting Standards Board  
30 Cannon Street,  
London EC4M 6XH,  
United Kingdom

Dear Board members,

Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF) the accounting standards setting body in Mexico, welcomes the opportunity to submit its comments on the *Exposure Draft: Defined Benefits Plans (proposed amendments to IAS 19 (the ED))*. Set forth below you will find our comments on the topics included in the ED, as well as on responses to the questions includes therein.

## **Recognition**

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### **Question 1**

*The exposure draft proposes that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. (Paragraphs 54, 61 and BC9–BC12) Do you agree? Why or why not?*

### **Response**

Yes, we agree with recognizing all changes in the present value of the defined benefit obligation and in the fair value of plan assets (overfunded or underfunded) when they occur as an asset or liability in the statement of financial position, as required by US GAAP.

### **Question 2**

*Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?*

## **Response**

Yes, we agree that entities should recognize unvested past service cost as incurred in the statement of financial position with the effect in other comprehensive income (OCI); however, our position is to reclassify all cumulative gains and losses in OCI to profit or loss (P&L) over an amortization period equivalent to the average remaining term of employment. This term corresponds to the expected recognition of the provision and, therefore, to the gradual elimination of uncertainties related to the amount, timing and beneficiaries. We believe it is necessary that the IASB reconsider the characteristics a component of OCI should have for segregation from P&L and on what basis earnings per share (EPS) should be determined, since a single criteria should be applied. In our opinion, a component of OCI is segregated because there are uncertainties at least with respect to the amount and timing of its realization, and EPS should identify the amount of earnings available for distribution. Consequently, upon elimination of the uncertainties, the gains and losses accumulated in OCI should be reclassified to P&L to be considered in EPS.

## **Disaggregation**

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### **Question 3**

*Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18) Why or why not?*

## **Response**

Yes, we agree that entities should disaggregate defined benefit cost into three components, but we strongly believe that the remeasurements should be recycled to P&L, based on the average remaining term of employment, as opposed to being immediately recorded in retained earnings.

## **Defining the service cost component**

### **Question 4**

*Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?*

## **Response**

Yes. Changes in demographic assumptions should form part of the actuarial gains and losses, and, as a result, should be excluded from the service cost component.

## Defining the finance cost component

### Question 5

*The exposure draft proposes that the finance cost component should comprise net interest on the net defined benefit liability (asset) determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset). As a consequence, it eliminates from IAS 19 the requirement to present an expected return on plan assets in profit or loss.*

*Should net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset)? Why or why not? If not, how would you define the finance cost component and why? (Paragraphs 7, 119B, 119C and BC23–BC32)*

### Response

There is a contradiction between the discount rate applied to the net defined benefit liability (asset) in terms of paragraphs 119B y 78, and the discount rate indicated in paragraph 102 to determine the fair value of plan assets. It is necessary to distinguish the rates to use for the determination of the defined benefit liability and those for the plan assets and not use a single discount rate for the net effect. It should be mentioned that the discount rate based on high quality corporate bonds indicated in paragraph 78 incorporates credit risk that does not relate to the entity, for which reason we prefer to use the rate of government bonds.

### Presentation

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### Question 6

*Should entities present:*

- (a) service cost in profit or loss?*
- (b) net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss?*
- (c) remeasurements in other comprehensive income?*

*(Paragraphs 119A and BC35–BC45) Why or why not?*

### Response

Yes. We agree with segregation into the three components as suggested above, but we insist on the recycling of remeasurements to P&L, based on the average remaining term of employment, as opposed to being immediately recorded in retained earnings.

## **Settlements and curtailments**

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### **Question 7**

- (a) *Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) Why or why not?*
- (b) *Do you agree that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss? (Paragraphs 98A, 119A(a) and BC48)*
- (c) *Should entities disclose (i) a narrative description of any plan amendments, curtailments and non-routine settlements, and (ii) their effect on the statement of comprehensive income? (Paragraphs 125C(c), 125E, BC49 and BC78) Why or why not?*

### **Response**

- (a) Yes, we agree, but insist on recycling of the remeasurements to P&L.
- (b) No. Plan amendments are comprised of vested and unvested past service cost; the vested portion should be recognized in P&L, but the unvested portion should be treated the same as actuarial gains and losses, as we indicated in (a).
- (c) Yes, we agree.

## **Disclosures**

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### **Defined benefit plans**

#### **Question 8**

*The exposure draft states that the objectives of disclosing information about an entity's defined benefit plans are:*

- (a) to explain the characteristics of the entity’s defined benefit plans;*
- (b) to identify and explain the amounts in the entity’s financial statements arising from its defined benefit plans; and*
- (c) to describe how defined benefit plans affect the amount, timing and variability of the entity’s future cash flows. (Paragraphs 125A and BC52–BC59) Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?*

## **Response**

Yes, we consider concise and practical disclosure of this type of information to be appropriate and useful to financial statement users, except with respect to the segregation of demographic assumptions from the financial assumptions indicated in items (ii) and (iii) of paragraph 125E(c). Additionally, we recommend using the term “divestiture” instead of “disposal” in paragraph 125E(h), since such term also includes “spinoffs”.

## **Question 9**

*To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:*

- (a) information about risk, including sensitivity analyses (paragraphs 125C(b), 125I, BC60(a), BC62(a) and BC63–BC66);*
- (b) information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e));*
- (c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f));*
- (d) information about asset-liability matching strategies (paragraphs 125J and BC62(b)); and*
- (e) information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c)).*

*Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?*

## **Response**

No. Although the aforementioned disclosures help predict future behavior of the provision and assigned resources, except for the items indicated in paragraphs 125C(b), 125J and 125K, we do not consider them to be essential for decision making, for which reason we believe they should be recommended and not required.

## **Multi-employer plans**

### **Question 10**

*The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? (Paragraphs 33A and BC67–BC69) Why or why not?*

## **Response**

Yes. The proposed disclosures are necessary and consistent with what is established in paragraphs 125A through 125K, although some disclosures are repetitive, such as what is indicated in paragraphs 33A(f.iii) and 125K.

## **State plans and defined benefit plans that share risks between various entities under common control**

### **Question 11**

*The exposure draft updates, without further reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control to make them consistent with the disclosures in paragraphs 125A–125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not?*

## **Response**

Yes. It is clear that the paragraph 34B disclosures apply to entities under common control that must issue separate or individual financial statements; however, it is not expressly indicated that State Plans must be disclosed on an individual basis, as applicable (paragraphs 36 and 38).

## Other comments

### Question 12

*Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)*

### Response

No.

## Other issues

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### Question 13

*The exposure draft also proposes to amend IAS 19 as summarised below:*

- (a) The requirements in IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, as amended in November 2009, are incorporated without substantive change. (Paragraphs 115A–115K and BC73)*
- (b) ‘Minimum funding requirement’ is defined as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan. (Paragraphs 7 and BC80)*
- (c) Tax payable by the plan shall be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax. (Paragraphs 7, 73(b), BC82 and BC83)*
- (d) The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84–BC86)*
- (e) Expected future salary increases shall be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years. (Paragraphs 71A and BC87–BC90)*

*(f) The mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. (Paragraphs 73(a)(i) and BC91)*

*(g) Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92–BC96)*

*Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?*

### **Response**

Yes. However, the segregation of demographic assumptions from the financial assumptions indicated in paragraph 73 is complex and does not provide any decision-making benefits for the typical financial statement user, for which reason such disclosure should be recommended and not required (item (f)). We agree with the remaining disclosures.

### **Multi-employer plans**

#### **Question 14**

*IAS 19 requires entities to account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. In the Board's view, this would apply to many plans that meet the definition of a defined benefit multiemployer plan. (Paragraphs 32(a) and BC75(b))*

*Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?*

### **Response**

Yes. We believe the stated conditions for considering a multi-employer plan as a defined benefit multi-employer plan are adequate and, as a result, we agree with them.

### **Transition**

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## Question 15

*Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?*

### Response

Yes. Considering the proposed changes to IAS-19, we consider retrospective application to be appropriate, particularly with respect to recognition of remeasurements in OCI for the purpose of enhancing comparability.

### Benefits and costs

## Question 16

*In the Board's assessment:*

*(a) the main benefits of the proposals are:*

*(i) reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.*

*(ii) eliminating some presentation options currently allowed by IAS 19, thus improving comparability.*

*(iii) clarifying requirements that have resulted in diverse practices.*

*(iv) improving information about the risks arising from an entity's involvement in defined benefit plans.*

*(b) the costs of the proposal should be minimal, because entities are already required to obtain much of the information required to apply the proposed amendments when they apply the existing version of IAS 19.*

*Do you agree with the Board's assessment? (Paragraphs BC103–BC107) Why or why not?*

## **Response**

Yes. In general terms we agree with the Board's assessment of the benefits of the proposals and, in particular, with the elimination of alternatives, except as previously indicated.

## **Other comments**

### **Question 17**

*Do you have any other comments on the proposals?*

## **Response**

Yes. If the IASB decides to recycle cumulative remeasurements in OCI to P&L a question arises as to how to handle routine and non-routine settlements and curtailments. In our opinion, any curtailments and settlements of the defined benefit obligation should be proportionally recycled.

Should you require additional information on our comments listed above, please contact me at 00-52-55-5596 5633/26/34 or by e-mail at [fperezcervantes@cinif.org.mx](mailto:fperezcervantes@cinif.org.mx)

Sincerely,

C.P.C. Felipe Perez Cervantes  
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