Responses to IPSASB Exposure Draft 82: Retirement Benefit Plans
(April 2022; Comments due: August 1st, 2022)

EXPOSURE DRAFT 82,

RETIREMENT BENEFIT PLANS

The Technical Director

International Public Sector Accounting Standards Board (IPSASB)

International Federation of Accountants

277 Wellington Street West, 6th floor

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Brasília, Brazil

August 1st, 2022

Dear Mr. Ross Smith,

The *Conselho Federal de Contabilidade* (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on IPSASB *Exposure Draft 82, Retirement Benefit Plans.* CFC, alongside with its regional arms - Regional Accounting Councils or *Conselhos Regionais de Contabilidade* (CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Permanent Committee for Public Sector Accounting Standards linked to Conselho Federal de Contabilidade (CP CASP – acronym in Portuguese).

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.

Regards,

Wellington do Carmo Cruz
Technical Vice-President
Conselho Federal de Contabilidade

CONTEXT AND GENERAL COMMENTS

The Brazilian Federation is composed by central, 26 states, the Federal District and 5,569 municipalities governments. These levels of governments are responsible for formulating, implementing, and evaluating public policies in cooperative and/or competitive arrangements.

The requirements of ED 82 apply to various governments, both central and locals since they are responsible for retirement plans of their employees. Pension plans are managed by entities that are part of the economic entity of governments, whose IPSAS are applicable, including IPSAS 39 – Employee Benefits. This creates challenges for the preparation of consolidated financial statements, since there may be differences in the assessment of liabilities related to the defined benefit plans for the different entities that report: pension plans and the government economic entity. This is caused by the fact IPSAS 39 restricts the measurement of benefits liabilities to employees using the projected unit credit method, which does not occur with ED 82. We believe that IPSASB should include specific requirements to address this issue.

It is also important to highlight that ED 82 does not address the regulatory gap regarding the general retirement plan for private sector employees under the responsibility of the federal government that does not fall into the scope of ED 82 and IPSAS 42 – Social benefits. The beneficiaries of such plan are employees of the private sector and, therefore, outside the scope of ED 82. Also, the benefits do not meet the criteria of IPSAS 42- Social Benefits, as they do not have the objective of mitigating the effects of social risks. The participants in such plan are employees of the private sector, regardless of the income level and whether or not they have other sources of income. The most vulnerable population, formed by those who do not have formal employment and have low income, is not a participant in the plan. It is also important to highlight that the government's obligation to participants is tied to their working time in the private sector.

Finally, in general, we agree with the adaptations of IAS 26 in order to increase transparency and accountability, with the exception of the requirements regarding the valuation of assets exclusively at fair value.

In the next section, we present our comments and answers on the specific matters of the exposure draft.

APPENDIX

ED 82 REQUEST FOR COMMENTS

Specific Matter for Comment 1:

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?

Answer:

CP CASP/CFC agrees with the definition proposed for a defined benefit plan.

Specific Matter for Comment 2:

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?

Answer:

CP CASP/CFC agrees with the retention of the IAS 26 definition of "actuarial present value of promised retirement benefits".

Specific Matter for Comment 3:

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?

Answer:

CP CASP/CFC agrees with the proposal about the recognition and presentation of actuarial present value of promised retirement benefits.

Specific Matter for Comment 4:

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?

Answer:

CP CASP/CFC agrees that defined contribution obligation should be recognized and presented on the face of the statement of financial position.

Specific Matter for Comment 5:

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?

Answer:

CP CASP/CFC does not agree that plan investment should be measured at fair value.

There are particularities of IAS 26 that have not been treated with the same emphasis presented in ED 82.

The treatment of assets that are financial instruments, for example, is described directly in the text of IAS 26 (paragraphs 32 and 33) and not in the application guide.

AG 19 of ED 82 describes that there would be exceptions to the unrestricted application of fair value for the measurement of plan assets, which we understand should be part of the main text of the standard.

Another issue is that ED 82 has withdrawn the possibility of not applying fair value when it is not possible to be estimated, as provided for in IAS 26 (paragraph 32). In situations with many uncertainties (such as the one we experienced at the beginning of the COVID-19 pandemic) it may not be possible to perform a reliable measurement of the fair value of certain assets of the plan. Restricting this application is assuming the premise that it will always be possible to obtain the fair value, which is not a realistic perspective in all scenarios.

As per IAS 26, the application of this exception must be justified by the reporting entity. We believe that ED 82 should adopt a similar approach.

Specific Matter for Comment 6:

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?

Answer:

CP CASP/CFC agrees that only projected salaries should be used.

Specific Matter for Comment 7:

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?

Answer:

CP CASP/CFC agrees with the proposal that a retirement benefit plan be required to prepare a cash flow statement.

Specific Matter for Comment 8:

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?

Answer:

CP CASP/CFC agrees with the prospective application of the requirements of the Standard.

Specific Matter for Comment 9:

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?

Answer:

CP CASP/CFC agrees with the proposal that the Standard not to require contributions or benefits to be accounted for as any specific element in the financial statements, which is aligned with the proposal taken in IAS 26.

Other Comments:

Answer:

CP CASP/CFC believes that IPSAB must submit specific requirements to address the issue regarding the difference in accounting policy related to the measurement of liabilities between the plan and the government as reporting entities.

In BC 18 it is described that, in some jurisdictions, a retirement benefit plan may use a measurement of the promised retirement benefits obligation other than that used by the plan sponsor. However, there is no mention to that in ED 82. We believe that it would be important to address this situation directly in ED 82.

In our view it is necessary to include paragraphs explaining the accounting treatment in the consolidated financial statements (as provided for in IPSAS 35) in cases where the retirement benefits plan adopts a different measurement from the sponsor and is an entity controlled by the sponsor.

Additionally, the retirement benefits standard does not address an issue that has a relevant impact on the fiscal condition of governments, the retirement plans for private sector employees who are under the responsibility of Central or National governments and are not social security programs.

The beneficiaries of such plan are employees of the private sector and, therefore, outside the scope of ED 82. Also, the benefits do not meet the criteria of IPSAS 42- Social Benefits, as they do not have the objective of mitigating the effects of social risks. The participants in such plan are employees of the private sector, regardless of the income level and whether or not they have other sources of income. The most vulnerable population, formed by those who do not have formal employment and have low income, is not a participant in the plan. It is also important to highlight that the government's obligation to participants is tied to their working time in the private sector.