SKPE/CSEP International accounting working group

Summary of discussions held in September 2022

Given the raise in yields and resulting increase of the expected return on plan assets and decrease of defined benefit obligation, the following topics have been discussed.

1. **Interest credit assumption**

   There are mainly 2 approaches in the market:
   a) Expected return on assets reduced by specific plan needs (required return; conversion rate losses, …)
   b) BVG interest credit on BVG retirement account and discount rate on over-mandatory part of the retirement account

   The conclusion was that approach a) is the usual default one. When justified by the characteristics of the pension plan, a different approach may be used.

   Further, the interest credit assumption could be, in some justified situation, lower than the discount rate.

2. **Minimum Liability**

   It has been discussed whether the Defined Benefit Obligation could be smaller than the statutory vested rights. There is no provision within IFRS supporting a minimum liability equal to the statutory vested rights.

   Such a position, which is not supported by a minority of the members of SKPE/CSEP International accounting working group, is supported by IAS 19 Basis for Conclusions (BC103 to BC105).

   As a result, there is no minimum liability equal to the statutory vested rights and contradicts previously published opinions on our website, such that they should be adjusted:

   a) "Hinweis der SKPE Arbeitsgruppe internationale Rechnungslegung zu IAS 19R – point 2 of the paragraph „IAS 19R und die Auswirkungen auf die Berechnung" and

   b) point 11 of General principles for valuation and reporting of Swiss pension plans' risk-sharing features under IAS19".

3. **Asset ceiling**

Some new approaches considering the salary increase assumption have recently been developed and observed in the market when computing the present value of economic benefit (PVEB).

Instead of using the usual accepted simplified formula for the PVEB:
(Net Service Cost – Employer Contribution) / (Discount Rate),
some suggest to modify this simplified formula by considering the salary increase assumption as follows:
(Net Service Cost – Employer Contribution) / (Discount Rate – Salary increase)

The result of the discussion was that, for the majority of the members of SKPE/CSEP International accounting working group, a convincing justification of the compliance of this modified simplified formula with IFRIC 14 was missing, but it was acknowledged that alternative simplified formulas to the usual accepted one, which are clearly supported by the Standard, may exist.

But, we confirm that the assumed salary increase for the next year is part of the expected employee contributions (in the calculation of the net service cost) and of the expected employer contributions used in the usual accepted simplified formula.

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