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

2 September 2010

Dear Sir or Madam,

RE: EXPOSURE DRAFT (ED) ON DEFINED BENEFIT PLANS

BUSINESSEUROPE is pleased to offer the following comments on the above ED.

As general background to understanding the basis for our comments we would like to spell out first the very general point that we do not believe that either the present IAS 19 or the proposed revision reflect adequately the features and characteristics of employee benefit plans as they have developed over the last decade, as e.g. in respect of the control structure as the sponsoring entities' powers have become more circumscribed (not covered in specific questions.) These have made the DC/DB bi-polar model increasingly untenable. We are therefore somewhat disappointed that the Board wishes to introduce changes in presentation which would in many cases exacerbate the present shortcomings. This would be the case, for instance, with regard to hybrid plans and through immediate recognition of transitory changes in valuations of assets and - even more particularly – liabilities not reflecting the long-term dynamics of the obligations. We fear that this "stop-gap" solution would in fact be in place for many years until a proper, thorough fundamental review of accounting for employee benefit plans is finally undertaken and its results implemented: in the meantime the capital markets would have in many cases to work with financial information, especially in the crucially important income statement, which would give inappropriate indications of performance and guidance for future flows. We would prefer the Board to carry out that fundamental review on employee benefits before imposing short-lived changes. However, if they nevertheless decide to push ahead with this stop-gap, to meet 2011 deadlines, then it is imperative that any changes in IAS 19 reflect the economic reality of hybrid plans and that a fundamental review must be given high priority on the post-2011 agenda.

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On the specific presentation proposals in the ED, we are generally in agreement but are very much opposed to certain specific items. In discussing them, we have been mindful of the fact that many proposals are arbitrary and not founded on accepted concepts as the Board has still not resolved basic underlying issues relating to the notion of performance, including the distinction of net income and OCI and reclassification (recycling.) Two key proposals which we find unacceptable are:

- that on the determination of the finance cost component – we find that the substitution of a notional time value of money for the expected return on plan assets would be a quite unsatisfactory way of meeting current objections to the subjectivity of the latter, being an amount quite divorced from actual flows, aside from being based on a rate which is itself problematic;

- the mandatory separation of the net finance cost from service cost – while this may often very well reflect the way in which the plans and the respective assets are managed in some entities, there will be other entities where the plans are managed on a much more integrated basis. We believe that the retention of the option to combine service and net finance cost in operating expenses should be retained to reflect differing management approaches.

On disclosures, we have considerable concerns with the way in which the Board is proposing to translate the overall disclosure objectives into specific disclosure requirements. The Board should avoid exhaustive lists of mandatory disclosures. Disclosures in this area are already very voluminous, and a more satisfactory way would need to be found "to provide users with relevant information not obscured by excessive detail." We also highlight in the appendix some specific proposals which appear to us inappropriate.

There are two other areas where we believe that, if a change is made, it should be only as a result of the future fundamental review and not as part of these short-term changes:

- *Costs relating to the management of plan assets*:
  We consider that, pragmatically, all such costs should be expensed as incurred and not included in the calculation of the balance sheet positions. No extra significant decision-useful information would be generated by the proposed approach to offset the costs of the extra complexity in calculation.

- *Proposals to extend the presentation principles of post-employment benefits to other employee benefits and to require a segregation of long-term elements of short-term benefits*:
  This would generally not result in any additional decision-useful information to justify the cost: the principles should pragmatically be left as they currently stand.

On risk sharing and conditional indexation, we agree that clarification of risk sharing and conditional indexation features is vital as they should be incorporated into the determination of the best estimate of the defined benefit obligation. However, we have serious doubts whether the overall approach proposed, with its basis on the old DB/DC distinction, could adequately reflect the manner in which many plans share the risks between employers and employees.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department

Appendix to BUSINESSEUROPE's Comment Letter on IASB Exposure Draft on Defined Benefit Plans

Responses to the specific questions asked in the Exposure Draft (ED)

Q.1 The ED proposes that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets immediately when they occur. Do you agree? Why or why not?

The question of immediate recognition / deferral is inextricably bound up with the measurement model adopted. A model which results in pension asset and liability values which properly reflect their long-term nature could well obviate the need for any deferral mechanism or other procedure for ensuring that information on income trends and flows is not rendered meaningless by short-term capital market volatility.

The current measurement bases, based on point-in-time market values, interest rates and returns, do not lend themselves well to this purpose. Being based on point-in-time data, they do not lead to a valuation which properly reflects the long-term dynamics of the obligation and a more appropriate going concern perspective. We appreciate, however, that such an approach would require longer-term study which should first be undertaken.

We would be concerned about the effect of abandoning the currently permitted deferral mechanisms in the interim without a practical approach for ensuring sensible, meaningful information on financial performance in the absence of a deferral mechanism. This would have to take into consideration that point-in-time remeasurements of pension assets and liabilities which currently arise are frequently substantially in excess of the real, underlying flows, and we ask, What is useful in these so-called "income / expense" amounts for the user? Flows and not assets/liabilities tend to be what companies and users focus on. Moreover, given the extremely long periods to maturity, the level of reliability of estimates of pension liabilities is by no means high, so to what extent can the information be said to meet cash flow predictability criteria?

We are most concerned that the proposed presentation approaches for presenting DB plans, when combined with immediate recognition of changes in plan assets and liabilities, would considerably undermine the usefulness of the income statement. Therefore, we prefer the Board to carry out a fundamental review on employee benefits before imposing short-lived changes. If they nevertheless decide to push ahead with this stop-gap, to meet 2011 deadlines, then it isi imperative that any changes to IAS 19 reflect the economic reality of hybrid plans and that, to avoid significant distortions of sustainable underlying performance, the expected return on plan assets must be retained, rather than the misleading liability discount rate. The fundamental review must then be given high priority on the post-2011 agenda.

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Q.2 Should entities recognise unvested past service cost when the related plan amendment occurs? Why or why not?

On the assumption of immediate recognition of changes in plan assets and liabilities, on which we have expressed serious concerns above, we would agree with the Board's view that unvested past service costs should be recognised in their entirety in the period in which a plan amendment is made.

Q.3 Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? Why or why not?

We are generally in agreement with the proposed requirement to disaggregate defined benefit cost into the three components but do not support how to certain of them would be calculated and the proposed presentation requirements in the income statement. In discussing the proposals, we have been mindful of the fact that many of them are arbitrary and not founded on accepted concepts as the Board has still not resolved basic underlying issues relating to the notion of performance, including the distinction of net income and OCI and reclassification (recycling.) Two key proposals which we find unacceptable are:

- that on the determination of the finance cost component – we find that the substitution of a notional time value of money for the expected return on plan assets would be a quite unsatisfactory way of meeting current objections to the subjectivity of the latter, being an amount quite divorced from actual flows, aside from being based on a rate which is itself problematic;

- the mandatory separation of the net finance cost from service cost – while this may often very well reflect the way in which the plans and the respective assets are handled in some entities, there will be other entities where the plans are handled on a much more integrated basis. We believe that the retention of the option to combine service and net finance cost in operating expenses should be retained to reflect differing approaches.

We agree that transparency on the various elements of DB cost is necessary – as now, in fact – but there needs to be sufficient flexibility as to where the disaggregated information is given in the financial statements (whether in the primary financial statements or in the notes.) This is necessary to counteract the present tendency for the primary financial statements to become more and more overloaded and "cluttered". However, we have some doubts on the proposed "geography" of presentation of the disaggregation, as explained in following answers, especially to Q.6.

We believe, nevertheless, that there could be some practical problems in deriving such disaggregated information in respect of any plans which are not currently captured by the present disclosure requirements of IAS 19 on DB plans, e.g. jubilee payments, sabbatical leave schemes, long-term cash bonuses, etc. The change of definition would certainly involve additional costs in respect of such plans, and we very much doubt that significant benefits would be thereby created to compensate them: we certainly hear no clamour among our users for such additional information (see also our answer on Q17 below.).

Q.4 Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? Why or why not?

We agree that the current service cost component should exclude such changes. There are various factors behind changes in the pension obligation which have differing predictive values. Separate presentation enhances the ability of the users to make their own assessment of possible changes in underlying assumptions and their impact on future costs. Current service costs will usually give information with the highest predictive value and be most related to the "performance" and activities of the period and therefore to sustainable underlying earnings.

Q.5 The ED 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?

While the proposed approach has a certain simplistic, pragmatic elegance, we cannot accept it as a solution. A much more meaningful and representative picture of the net finance cost would be achieved by retaining the expected return on plan assets for the income "leg", or at least some similar approach, less divorced from the actual flows from those assets than the proposal. It can surely not be satisfactory, for instance, to show in net income an imputed profit from plan assets which have been badly managed and generated zero or even negative returns over a period of years.

Our preference for retaining the expected rate of return approach is based also on the following considerations:

- The management of pension plans, including cash funding decisions, is often based on the long-term expected rate of return on plan assets.

- The use of the expected rate of return conveys more decision-useful information to users than an imputed income based on a theoretical discount rate, especially since the latter would be totally disconnected from the actual composition of asset portfolios. Expected-rate information is, we feel, also more decision-useful than the more volatile actual rate of return as it better portrays the long-term dynamics of the plan.

- The Board's proposed approach would tend to overstate the total costs of the employee benefits by understating income in terms of real asset returns, while using the "expected" return determined by actuaries overcomes the effects of temporary market fluctuations for portraying a long-term, going-concern situation.

- The expected return is apparently also found helpful by many users.

- There appears to be an anti-abuse motivation in the proposal, aimed at eliminating the possibility of "heroic assumptions" on expected rates of return. We believe that such approaches directed to prevention or limitation of abuse do not make for high-quality standards which should encourage transparency on expected future cash flows: it is the task of the regulators to deal with questions of abuse. For users who are still uncomfortable that the expected-returns approach might be abused, as with all the other subjective aspects of pensions accounting, there are solutions other than using unrealistic measurement bases, e.g. enhanced disclosures on rate assumptions would be more appropriate.

We would also like to reiterate our concern on the problem of appropriate discount rates where no deep corporate bond market exists. While spreads have recently "normalized" in e.g. Scandinavia, there is no guarantee that situations of temporary distortions of spreads will not recur, and in our view a revision to IAS 19 should be made to prepare for them. Please see our letter on the matter dated September 30, 2009.

Finally, may we repeat here our long-standing recommendation to the Board to define a generic principle on discounting for use in all standards. The discount rates and approaches currently specified by individual standards exhibit no discernible common concept and are therefore quite arbitrary.

Q.6 Should entities present:

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

Why or why not? Why or why not?

It is most disappointing that the Board has not yet undertaken work on a meaningful, practically helpful concept of performance, with solutions on the P&L/OCI distinction and on reclassification. Here as in many other projects the presentation proposals can only be regarded as arbitrary. It is also rather unclear how the proposals relate to ideas being developed in the Financial Statement Presentation project.

As already mentioned BUSINESSEUROPE submitted suggestions on the topic of performance in a document on "Financial Statement Presentation" dated March 25, 2008, and in the light of those suggestions we can concur with the presentation of remeasurements in OCI (low predictive value, little relation with probable cash flows in the foreseeable future according to the entity's business model.)

The question of whether remeasurements initially recognized in OCI should subsequently be recycled to net income is, of course, also very much dependent on the outcome of eventual work on performance. We lay considerable emphasis on retaining a meaningful presentation of net income, so recycling is a key consideration. As a short-term stop-gap and pending definitive work on performance, we would accept the proposed absence of recycling of remeasurements as that is what is currently laid down in IAS 19 for actuarial gains and losses initially recorded in OCI. This acceptance is nevertheless without prejudice for our position on recycling as a general principle for the long term.

On the presentation of service costs and net interest, we urge the Board to continue to permit an approach which properly reflects the varying ways in which DB plans are managed. Some entities manage the schemes in a holistic manner, encompassing assets and liabilities in tandem. Others make a clear separation between running the benefit scheme and investing the scheme's assets appropriately. The current approach should remain for entities to choose in their consolidated P&L statements whether service costs and net interest may be included together in "operating profit" or reported separately in "operating profit" and "financing costs" respectively according to the way their schemes are managed.

Q.7
a. Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and therefore presented in the remeasurement component? 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?
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? Why or why not?

We agree that, if the ED eliminates the potential for deferral of recognition of actuarial gains and losses, a detailed discussion of settlements and curtailments would not be needed. Also, pending the development of a proper, practically meaningful conceptual basis for performance etc., we can accept settlements and curtailments being accounted for in the same way as remeasurements and plan amendments respectively.

Q. 8 The ED 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.
Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

We could agree with these objectives but have several issues with the way in which the Board is proposing to translate them into specific disclosure requirements. Please see our answer on Q.9 below.

Q.9 To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:

- **information about risk, including sensitivity analyses;**
- **information about the process used to determine demographic actuarial assumptions;**

- **the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth;**
- **information about asset-liability matching strategies; and**
- **information about factors that could cause contributions to differ from service cost.**

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

We believe that the Board should avoid exhaustive lists of mandatory disclosures but rather ensure that the disclosure objectives are met in a clear and concise manner. The extensive list of disclosure requirements given in Paragraphs 125A-K gives us concern that disclosures on defined-benefit plans, already very voluminous in many annual reports, would become even more so. We therefore recommend that the Board review it much more critically so as indeed "to provide users with relevant information not obscured by excessive detail" (cf. BC53) while still achieving the general objectives set in paragraph 125A. We indicate below some specific points (referred to by ED paragraph) for closer consideration but stress that we think that Board should critically review the proposed requirements in a more holistic fashion:

- 125B: Where an entity has multiple plans in many different countries, it may be quite impractical to provide the information in the way proposed without a disproportionate expansion in disclosures. Indeed, overall there is in the ED little guidance on how the disclosure requirements in other parts of paragraph 125 could best be met in such global, multi-plan, multi-jurisdictions environments.

- 125C(a)(ii): It could be helpful to narrow this paragraph to require disclosure "if the regulatory framework is expected to have a material effect on the entity's cash flows over the next 5 years." Otherwise, this is likely to lead to "boiler-plate wording" describing the very complicated regulatory frameworks that exist in some jurisdictions.

- 125C(a)(iii): Similarly this requirement should focus on "any other entity's powers for the governance of the plan (e.g. trustee powers) that may have a material effect on the entity's cash flows over the next 5 years".

- 125C(b): We do not quite see the value in a narrative description as proposed as the risks should be self-evident from other disclosure requirements (e.g. asset concentrations in 125F, exposure to uncertainty in 125I and125K.)

- 125G: In our opinion it would be more meaningful to users to disclose material changes to demographic assumptions since the last period and when material demographic assumptions were last reviewed. Also, it is a pity to emphasise only absolute percentages as disclosure of %-deviations, for example of expected rates of return (which we hope would be retained) from – say – a risk-free rate or a 5-year average, could be helpful to investors and regulators. A description of the process of determining assumptions would be unlikely to go beyond boiler-plate and would not give decision-useful information.

- 125H: We strongly disagree with this specific requirement and the logic for disclosure that it illustrates. We think that disclosure of the assumptions would give users sufficient insight into sensitivity due to this factor without the substantial cost

of the full ABO calculation proposed. The justification given for the proposal seems to be based on the view that *some* users in *some* circumstances believe it is relevant or should have been the measurement basis in the first place. This is an approach to disclosure which ignores the cost and complexity implications and, if generally applied, would presumably result in numerous additional disclosures of only marginal usefulness in many standards.

- 125I: The purpose of the sensitivity analysis proposed in paragraph 125I(a)(ii) eludes us. The actuarial assumptions at the end of the reporting period will already have been determined afresh in order to calculate the year-end obligation, and knowing how the current year's service cost might have varied under out-of-date assumptions does not seem to provide users with any further decision-useful information about future cash flows.

- 125K: When it is borne in mind that funding is a quite separate matter from accounting, the proposed disclosure does not appear to us to be particularly useful. Since users are generally flow-focussed, it may well be more useful to concentrate the disclosure on factors that could cause contributions over the next five years to differ significantly from the (disclosed) levels of the current period. There are underlying factors which will always mean that contributions vary from service cost. Contributions are generally based on long-term views of the overall (net) funding requirements; plan deficits are often not funded immediately but may instead be eliminated over a number of years. Similarly, the benefits of a plan surplus are likely to be realised only gradually, through reduced contributions. We therefore do not see the logic of explaining why information used for different purposes should differ. On the other hand, we would warmly encourage the Board to examine the possibility of including quantitative disclosures of major schemes on their statutory/regulatory basis as it has been found that many investors are interested in these for indications of underfunding and similar situations which potentially impinge on the entity's cash flows. However, we recognize the complexity that could arise from disclosures on both funding and IAS 19 bases, so consideration of this point should only be as part of the suggested holistic review of all the disclosure requirements.

Q.10 The ED proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? Why or why not?

A limited review of the disclosure requirements of multi-employer plans is an inadequate response to the undesirable situation resulting from IAS 19 with regard to such schemes. As the Board has been made aware on numerous occasions we believe that the application of IAS 19 to various local forms of collective plans (e.g. Dutch industry plans) currently leads to substantial practical difficulties and to distortions of economic reality in the financial statements. The elimination of the possibility of deferring recognition of actuarial gains and losses would exacerbate this disagreeable situation by making unhelpful numbers even more volatile. See also our answer to Q.14 below.

Q.11 The ED 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? Why or why not?

We agree with the proposed amendments because users' information needs are the same regardless of the control structure. However, we recommend the Board to consider some relief for subsidiaries' separate financial statements where most or all of the shareholders are group companies and there are no traded securities. This would help obviate the costs of excessive disclosures in relation to users' needs in such cases.

Q.12 Do you have any other comments about the proposed disclosure requirements?

No.

Q.13 The ED also proposes to amend IAS 19 as summarised below:

- **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.**
- **"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.**
- **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.**
- **The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets.**
- **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.**
- **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.**
- **Risk sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation.**

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

<u>IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction:</u>

We agree.

<u>Tax payable:</u>

We agree with the proposed amendment.

Costs relating to the management of plan assets:

We consider that all costs should be expensed as incurred and not included in the calculation of the defined benefit liability. These expenses are within the entity's control (and, hence, avoidable) in the sense that the entity's future facts and circumstances will determine whether, and how much, expenses are incurred. We would also like to point out the practical difficulties involved in the proposal, as where a plan is administered as a whole, making allocation of expenses to asset and liability management arbitrary and meaningless, while there would also be some arbitrary decisions on which costs relate to current and prior service. Similarly, where the entity pays the expenses direct, a different accounting treatment would be used, although there is in substance no difference in the approaches. This seems to us to be an area where a pragmatic approach would be more appropriate.

Expected future salary increases:

Expected salary increases should be considered in determining the best estimate of the defined benefit obligation when a benefit formula expressed in terms of current salary allocates a materially higher level of benefit to later years.

Mortality assumptions:

In principle we agree that the best estimation of the liability should include the effect of current estimates of expected mortality rates of plan members, though we would like to have some clarification of the Board's intended meaning of "current".

Risk sharing and conditional indexation:

We agree that clarification of risk sharing and conditional indexation features is vital as they should be incorporated into the determination of the best estimate of the defined benefit obligation. However, we have serious doubts whether the overall approach proposed, with its basis on the old DB/DC distinction, could adequately reflect the manner in which many plans share the risks between employers and employees. The measurement requirements in no way deal adequately with the spectrum of risk-sharing that has evolved in plans – especially hybrid plans - over recent years, and an essential first step must be to resolve these inadequacies before presentation matters can be properly addressed, with risk sharing and conditional indexation being considered more fully in the measurement of the pension obligation. Please refer also to our response to Q.14 below.

Q.14 IAS 19 requires that entities 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, many plans that meet the definition of a defined benefit multi-employer plan would also meet the condition for defined contribution accounting.

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?

As mentioned above we are generally not satisfied with the Board's approach on hybrid pension plans without proper resolution of the current problems with these plans explained above and elsewhere, so that the financial statements can appropriately reflect the individual entity's liabilities, costs and expected cash flows. Many aspects of hybrid plans also relate to hybrid multi-employer plans, like:

- risk sharing arrangements between the employer, employees and retirees,
- shared funding of the plan,
- the plan being governed and administered by an independent board and as a consequence thereof the entity not being able, either 'de jure' or 'de facto', to control any deficit or surplus of the plan.

In addition for hybrid plans that are multi-employer plans, even where IAS 19 information is available and there is some reasonable allocation basis (e.g. percentage of payroll, head count), the resulting asset or obligation will have no relationship with any future cash inflow or outflow of the entity because the entity's contributions are based on an average branch or industry contribution, which only coincidentally would be in line with a contribution that would exist had a multi-employer plan arrangement not been in place. Therefore the objective of a reliable and consistent allocation of the entity's share in a surplus or deficit of the plan which reflects its future contributions will not be met.

When an entity becomes a dominant participant in a multi-employer plan which is not a hybrid plan, perhaps because other participants leave the plan, defined benefit accounting may seem better to provide useful and relevant information for users of financial information than defined contribution accounting with additional disclosures. Nevertheless, this seems to be an example of a rare case where it would be possible to make a reliable allocation.

Q.15 Do you agree that entities should apply the changes resulting from the proposed amendments retrospectively? Why or why not?

We agree that the amendment should be treated as a change in accounting policy.

Q.16 In the Board's assessment the main benefits of the proposals are:

- **Reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.**
- **Eliminating some presentation options currently allowed by IAS 19, thus improving comparability.**
- **Clarifying requirements that have resulted in diverse practices.**
- **Improving information about the risks arising from an entity's involvement in defined benefit plans.**
- **Improved comparability between entities**

- **Improved disclosures about defined benefit plans.**
- **Do you agree with the Board's assessment? Why or why not?**

In the Board's assessment 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 in applying the existing version of IAS 19.
Do you agree with the Board's assessment? Why or why not?

A uniform presentation basis may seem *in principle* a substantial benefit for users of financial statements and therefore desirable due to better comparability. However, we fear that may be illusory as it may treat similarly schemes which are in fact managed in very different ways and would thus reduce relevance.

Also, as we have hopefully made clear in our various explanations above, we retain doubts on the values produced by the underlying recognition and measurement criteria of IAS 19 which no amount of tweaking of presentation can compensate for. Indeed, the elimination of a deferral "buffer" could exacerbate distortions. A further deleterious knock-on effect of the elimination would be the higher volatility of reported equity which would involve some entities with solid balance sheets on a going-concern basis running into apparent but unreal problems of capital adequacy, covenants, etc. Furthermore, as we stressed in our response to Q.5, we strongly believe that the adoption of the proposed approach on net financing cost (in contrast to the use of expected return on plan assets) would be a negative move, taking pension expense further away from reality.

For us the top priority remains a fundamental review of accounting for employee benefits to provide a sound and acceptable basis for information presented.

Q.17 Do you have any other comments on the proposals?

(a) The ED would remove the distinction between other long-term employee benefits and post- employment benefits so that all long-term employee benefits are accounted for in the same way as post-employment benefits. This would mean that for all the other long-term employee benefits all remeasurements would have to be separately calculated and presented in OCI, with full disclosure information as for post-employment benefit plans. These other long-term employee benefits are generally relatively insignificant and not considered by users as relevant enough in comparison to post-employment benefit plans to require such a large amount of additional disclosure. We strongly believe that the cost of preparing this additional information for other long-term employee benefits would by far outweigh any benefits it would achieve.

(b) The ED would change the definition of short-term employee benefits so that the distinction between short- and long-term employee benefits would be based on management's expectation of the timing of settlement. This would make the existing simple principle unduly complicated. We favour basing the distinction between long- and short-term items on the basis of the earliest possible date of settlement. when the other party has a choice of settlement timing. Also, the idea of applying the requirements of long-term employee benefits (currently post-employment benefits) to the long-term portion of short-term employee benefits, in conformity with the proposal to remove the distinction between other long-term

employee benefits and post-employment benefits, would be extremely onerous and burdensome for preparers and would not provide any more decision-useful information. We would suggest classifying a benefit entirely on the basis of whether it is predominantly short- or long-term, determined according to the earliest date at which settlement might be required.

(c) We assume that the Board would in any case review the impact of a revised standard on IAS 34 and interim reporting. The measurement of the defined benefit obligation and of plan assets is a very substantial exercise, and we trust that the Board would continue to permit approximative techniques as at present. In this context it is perhaps worth highlighting a potentially confusing cross-reference in the proposed paragraph 119B to paragraph 78 in respect of the discount rate. Paragraph 78 covers the discount rate used to calculate the obligation for the closing balance sheet, whereas paragraph 119B is dealing with the rate used to calculate income for the year, any change in the discount rate during the year impacting remeasurements. In relation to interim reporting, the words "throughout the period ... taking account of any material change in the net liability/asset" in paragraph 119B regarding the determination of net interest cause concern because they could be taken to imply a need to carry out a full remeasurement of obligations and recalculate net interest each quarter/half-year if, for example, there was a significant market movement.

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