recd 22/4

Rådet för finansiell rapportering

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir,

Re: Discussion Papper - Preliminary Views on Amendments to IAS 19 Employee Benefits

We are carefully following the developments of the IASB's work on the proposals in the discussion paper (DP) *Preliminary Views on Amendments to IAS 19 Employee Benefits* towards an exposure draft. In light of the tentative decisions reached so far on the project on post-employment benefits related to the anticipated issuance of an exposure draft we would like to express our views on certain of the significant aspects of this future exposure draft. Specifically, we wish to draw to the IASB's attention certain recommendations raised in our September 22, 2008 comment letter (our "original letter"), and also want to draw to your attention a further concern that have crystallized due to the credit crisis on the measurement of defined benefit obligations (determination of the discount rate).

We continue to be supportive of the IASB's preliminary view that all changes in the defined benefit obligation and in plan assets should be recognized in the period in which they occur. We believe this is a significant improvement to financial reporting and will bring IAS 19 closer to FAS 158 (US GAAP). We also believe there is widespread support for such a change and it would be quite easy and also worthwile to make sure that this change is made in the pension reporting area by 2011. However, we do not agree with the tentative conclusion reached by the IASB to require actuarial gains and losses to be recognized immediately in the profit or loss. We believe the IASB need only require immediate recognition of all gains and losses in the statement of financial position, and leave the existing options in IAS 19 for presenting changes in those gains and losses either in profit or loss or in other comprehensive income.

In addition, we believe there is an immediate need for a review of IAS 19 when it comes to the determination of the discount rate to be used for pension obligations (see below).

Discount rate
Paragraph 78 of IAS 19 requires the post-employment benefit obligation to be discounted using a rate that is

"determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or governments bonds shall be

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consistent with the currency and estimated term of the post-employment benefit obligations."

We have observed the effect of the credit crisis on the measurement of defined benefit obligations in countries where deep markets exist on high quality corporate bonds. The higher rates applied to corporate bonds in such countries have caused substantial reductions in reported liabilities. At the same time it is important not to forget that there are a lot of countries in the world that do not have a deep market in corporate bonds. Sweden is such an example. The development of the government bond rate in Sweden has moved in the other direction, and has reduced from 4.5%, as of the end of 2007, to 2.9% as of the end of 2008, leading to a significant increase in reported pension liabilities. Swedish multinational enterprises, with significant operations in Sweden, the Eurozone, the UK and the US are finding themselves to have unsurmountable explanatory problems to explain to users of the financial statements that the defined benefit obligations are exposed to significant increases related to the pension obligations in Sweden while at the same time the defined benefit obligations in subsidiaries in the Eurozone, the UK and the US decrease significantly.

As can be seen from the Agenda paper 8D to the IASB meeting in March (paragraph 6d) the difference between corporate and government bond rates can have a material effect under the current circumstances. In our situation, equal obligations are valued at very much higher values in Sweden than in some countries next door (Eurozone countries such as Finland, Germany, Netherlands etc). The agenda paper suggests that differences of 50-60% can be found if you assume a credit spread of 2.25% and a duration of the pension liability of 20 years. The credit crisis has resulted in a reduced volume of trading in corporate bond markets. This has lead to the spread between corporate and government bonds widening further than historical levels. We are afraid that the credit spread in Sweden is significantly higher than 2.25 % thus suggesting that a pension liability in Sweden may exceed an obligation calculated based on a hypothetical corporate bond rate by as much as 100%. We strongly believe this is an unacceptably wide difference in valuation without any real justification. We do not understand it can be justified that Swedish enterprises have to report pension obligations at 100% higher amounts than is reported by enterprises within the Eurozone for an identical pension obligation, just because Eurozone enterprises have a deep market in corporate bonds. As a result, the resulting pension liabilities reported under IAS 19 for Swedish pension plans do not faithfully represent the underlying obligation. The credit crisis has highlighted the need to review the issue of determination of the discount rate expeditiously in order to create a level playing field between countries that do not have deep markets in corporate bonds and those countries that do have such deep markets. If the government bond rate continues to drop, we will soon find ourselves in a situation where we in Sweden measure the pension obligations at undiscounted cash flows.

One solution to create a level playing field between countries that have deep markets in corporate bonds and countries that do not have deep markets in corporate bonds is to prescribe a risk free rate, i.e., a government bond rate (as proposed in the EFRAG Discussion Paper *Financial Reporting of Pensions),* in all circumstances. Such a solution would most likely face massive opposition from countries with a deep market in corporate bonds. Accordingly, a better solution would be to allow for a principles-based approach to accommodate that enterprises in countries where no deep market exists in corporate bonds can determine a discount rate that is more justifiable. A possible solution would be to permit entities to make a reasonable estimate of what credit spreads might be in jurisdictions where the corporate bond market is not in practice considered deep or allow for the discount rate to be determined by reference to a synthetically constructed equivalent corporate bond. We do not see why enterprises outside of the Eurozone, the UK and the US should be forced to use a government bond rate in case there is no deep market in corporate bonds.

We have observed the IASB's view not to change the guidance in IAS 19 in this respect. We believe this is unacceptable, and will not enhance the quality and usefulness of financial information provided to the primary users of the consolidated financial statements.

Immediate recognition of actuarial gains and losses in profit or loss

We continue to be supportive of the IASB's preliminary view that all changes in the defined benefit obligation and in plan assets should be recognized in the period in which they occur. We believe this is a significant improvement to financial reporting and will bring IAS 19 closer to FAS 158 (US GAAP). We also believe there is widespread support for such a change and it would be quite easy and also worthwile to make sure that this change is made in the pension reporting area by 2011. However, we do not agree with the tentative conclusion reached by the IASB to require actuarial gains and losses to be recognized immediately in the profit or loss.

We are not alone in that respect. An analysis of the comment letters received by the IASB, shows that 12% support the tentative conclusion by the IASB (i.e., Approach 1 in the Discussion Paper). 23% of the comment letters support Approaches 2 and 3 which included variations of showing certain items in OCI. 8% of the comment letters support the FASB approach to recognize all actuarial gains and losses in OCI, with recycling to the income statement based on the corridor method. 12% support an alternative to recognize all actuarial gains and losses in OCI and 26% support a retention of the current option under IAS 19 to either recognize gains and losses in profit or loss or OCI. A presumption must be that the last category consists of constituents that want to continue to use the current option to recognize gains and losses in OCI but does not want to disallow entities to recognize such gains and losses in profit or loss if they so desire, a choice that almost no companies are making under current IAS 19. Accordingly, 69% support an approach whereby actuarial gains and losses are recognized in OCI whereas 12% support a requirement to recognize those gains and losses in the profit or loss. The tentative conclusion by the IASB is the very opposite of what a vast majority wants to achieve.

One reason that we are concerned is that a presentation approach where all changes in the fair value of plan assets as well as all changes in the present value of the defined benefit obligation are recognized in the profit or loss would inappropriately combine information with different predictive values. The fair value measurement of plan assets and the present value measurement of defined benefit obligations may not reflect the underlying cash flows expected to be received or paid. Movements in fair values or present values do not predict the future cash flow performance of the assets and liabilities related to pension plans, unless the entity intends to settle the defined benefit obligation and can find a willing counterparty. Where such plan assets and benefit obligations are not intended to be settled in the short term, which normally is the case, performance information should reflect what the business actually does and how it is managed. For example, a change in the discount rate will change the present value of the defined benefit significantly, although the future cash flows will not be affected since the estimated amount of pension payments has not changed.

We are aware that the IASB is considering to introduce a new subtotal such as profit before tax and pension remeasurements. We are skeptical to such an approach. Such a solution would not increase the value of the comprehensive income statement, and we therefore consider it better to recognize actuarial gains and losses in other comprehensive income, rather than introducing new subtotals in the statement. Even if the IASB would not require such subtotals to be included, we would expect many companies to insert such subtotals in the income statement.

In addition, an immediate recognition in the profit or loss would lead to significant differences compared to the recent developments under US GAAP. We believe there should be a level playing field with the US, and we should not create further significant differences.

We are certain that there will be major opposition to an exposure draft prescribing that actuarial gains and losses should be recognised in profit or loss. The situation is worsened by the fact that we believe that the measurement under IAS 19 is not correct, as discussed under the heading "Discount rate" above. As outlined above, there are considerable flaws in IAS 19 when it comes to the measurement of pension obligations in countries where no deep market in corporate bonds exist. To use the resulting pension obligation for measuring performance in the profit or loss is questionable.

Accordingly, we recommend the IASB to consider a fallback position of retaining the two options in IAS 19 that accommodate immediate recognition of the actuarial gains and losses either in the profit or loss or in other comprehensive income.

We believe the IASB should reconsider those aspects of the standards, as noted above, prior to final issuance of an exposure draft. We would welcome the opportunity to discuss these views with you in further detail. If you have any questions regarding our comments, please address our Executive member Carl-Eric Bohlin by email to carl-eric.bohlin@radetforfinansiellrapportering.se.

Stockholm, April 20, 2009

Kind regards

Anders Ullberg
Chairman