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26th September, 2008

Discussion Paper
Preliminary Views on Amendments to IAS 19 Employee Benefits

Dear Sirs,

Following a review of the above Discussion Paper, please see our answers to the questions posed below:

Question 1

Given the objective of the IASB project to address specific issues in a limited time frame, are there additional issues which you think should be addressed by the Board as part of this project? If so, why do you regard these issues as a matter of priority?

We do not feel that there are any additional issues that should be addressed at the moment that we have not dealt with further down within our answers. In fact the project is attempting to deal with a broad range of issues within the short term. The project would be more effective if it were focused on a few key issues, such as the elimination of the corridor approach instead of attempting to deal with a range of issues.

Question 2

Are there factors that the Board has not considered in arriving at its preliminary views? If so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

Other than as described below, we consider that there are no additional factors that should have been taken into account in arriving at the preliminary views.

We believe that the Board should consider the development of a meaningful approach to performance reporting before decisions can be taken reflecting on the consequences of changes in pension scheme assumptions in the income statement. Even relatively small changes in assumptions which are by their nature long-term can lead to significant volatility and we do not believe that this volatility should be reflected in the income statement.

Question 3

(a) Which approach to the presentation of changes in defined benefit costs provides the most useful information to users of financial statements? Why?

We would be in favour of Approach 2 as this minimises the volatility from year to year in the income statement.

Approach 1

Using this approach would create volatility in the income statement from period to period due to movement in discount rates and other remeasurements. We would be in favour of this approach only if elements under the control of management were included together in this statement and the changes in the liabilities due to discount rate movements etc are shown separately in the statement of other comprehensive income. Return on assets is we feel under the control of management.

Approach 3

This approach of showing remeasurements that arise from changes in financial assumptions in the statement of other comprehensive income is close to the approach AIB employs already. We feel that some measure of return on assets needs to be shown in the income statement. We agree that this is a subjective measure but we feel that appropriate disclosures of actuarial gains and losses on assets can deter companies from using an expected return that is too aggressive.

The retirement benefit disclosures in the notes to the accounts should be adequate to aid the user in understanding the retirement benefit expense and liability regardless of which of the above approaches is utilised.

(b) In assessing the usefulness of information to users, what importance do you attach to each of the following factors, and why:

- (i) presentation of some components of defined benefit cost in other comprehensive income; and
- (ii) disaggregation of information about fair value?

It would be useful for the user to see the elements which are under control of management together. It would be useful to see remeasurements that arise from changes in assumption separately from the above.

(c) What would be the difficulties in applying each of the presentation approaches?

We feel we have answered this as part of (a) above.

Question 4

(a) How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?

We believe that apart from the abolition of the corridor approach, no decisions should be taken until the finalisation of the presentation standard. If changes are to be made, then an agreement needs to be reached on an acceptable way of showing a reasonable return on assets if retirement benefit elements are going to be split between the income statement and statement of other comprehensive income.

(b) Please explain any alternative approach to presentation that provides more useful information to users of financial statements. In what way does your approach provide more useful information to users of financial statements?

See 3 a) above for changes to the approaches outlined.

Question 5

Do you agree that the Board has identified the appropriate promises to be addressed in the scope of this project? If not, which promises should be included or excluded from the scope of the project, and why?

Yes the Board has included the most important promises, defined benefit promises and contribution-based promises. However, no mention is given to hybrid schemes which are prevalent at the moment.

Question 6

Would many promises be reclassified from defined benefit to contribution-based under the Board's proposals? What are the practical difficulties, if any, facing entities affected by these proposals?

In the case of AIB we don't see any promises having to be reclassified from one promise type to another. However, an entity with many different schemes may have to do a review of all their schemes to ensure they are correctly classified. It is also very likely that schemes may have to be reclassified the opposite way from contribution based to defined benefit if the employer was exposed to salary risk etc.

Question 7

Do the proposals achieve that goal? If not, why not?

We feel it should mention contribution based schemes where the liability is held by a Trust and not under the control of the employer once the contributions are paid into the Trust.

Question 8

Do you have any comments on those preliminary views? If so, what are they?

AIB agrees with the decision to exclude the three items included in the preliminary views from this short term project.

Question 9

(a) Are there alternative measurement approaches that better meet the measurement objectives described in this paper? Please describe the approaches and explain how they better meet the measurement objectives.

We feel the measurement objectives mentioned in Chapter 7 are adequate.

(b) To what extent should the effect of risk be included as a component of the measurement approach at this stage of the Board's post-employment benefit promises project? How should this be done?

Risk should be taken into account in measuring the promise if appropriate. Salary risk wouldn't be an issue as it would be a defined benefit promise if salary risk was involved.

Question 10

(a) Do you agree that the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase? If not, why?

Yes we agree, it would not make sense to change the measurement depending on the stage of service the employee was at.

(b) What are the practical difficulties, if any, of measuring the liability for a contribution-based promise during the payout phase at fair value assuming the terms of the benefit promise do not change?

The difficulties would be no different to measuring during the accumulation phase. The correct discount rate, estimates of cash flows etc would have to be applied.

Question 11

(a) What level of disaggregation of information about changes in the liability for contribution-based promises is useful to users of financial statements? Why?

We do not believe that disaggregation is necessary.

(b) Do you agree that it is difficult to disaggregate changes in the contribution-based promise liability into components similar to those required for defined benefit promises? If not, why not?

Yes it would be difficult.

Question 12

Should changes in the liability for contribution-based promises:

- (a) be presented in profit or loss, along with all changes in the value of any plan assets; or
 - (b) mirror the presentation of changes in the liability for defined benefit promises (see Chapter 3)?
- Why?

This is not relevant for AIB but perhaps showing them in the profit or loss would be preferable as once the contributions are made the employer has no further liability.

Question 13

(a) What are the practical difficulties, if any, in identifying and measuring the ‘higher of’ option that an entity recognises separately from a host defined benefit promise?

Not applicable to AIB

(b) Do you have any other comments on the proposals for benefit promises with a ‘higher of’ option? If so, what are they?

No

Question 14

What disclosures should the Board consider as part of that review?

The Board should consider all disclosures mentioned in IAS 19 especially if presentation of the pension elements in the primary statements is going to change.

Question 15

Do you have any other comments on this paper? If so, what are they?

The transparency of the reporting for retirement benefit will be aided by the removal of the corridor approach which means all gains and losses will be shown in the year they occur.

Please contact me with any queries.

Yours sincerely

Brendan McHugh
Group Financial Controller