



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

July 27, 2004

Ms. Anne McGeachin  
Project Manager  
International Accounting Standards Board  
30 Cannon Street, London EC4M 6XH  
United Kingdom  
(Email: [CommentLetters@iasb.org.uk](mailto:CommentLetters@iasb.org.uk))

Dear Ms. McGeachin,

**Re: Exposure Draft of Proposed Amendments to IAS 19 Employee Benefits--Actuarial Gains and Losses, Group Plans and Disclosures**

The International Actuarial Association (IAA) appreciates the opportunity given to comment on the Exposure Draft of Proposed Amendments to IAS 19 Employee Benefits released April 2004.

If, upon reading these comments, you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the Accounting Standards Subcommittee, Tony Broomhead, or any of the other members of the subcommittee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely,

Yves Guérard  
Secretary General

Attachment

**A Commentary on the  
EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS  
ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES  
Released by the International Accounting Standards Board: April 2004**

**International Actuarial Association**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The Full Member associations of the IAA are listed in an Appendix to this statement. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries. The IAA appreciates the opportunity to provide comments on this IASB document.

**Due Process**

These comments have been prepared by the Accounting Standards Subcommittee of the Pensions and Employee Benefits Committee of the IAA, the members of which are listed below by name and association. The response has been circulated for comments to the Pensions and Employee Benefits Committee for additional input. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA’s official web site.

**Members of the Accounting Standards Subcommittee**

Tony Broomhead	Chairperson
Constantinos Economou	Actuarial Society of South Africa
Timothy Furlan	Institute of Actuaries of Australia
Gary Hibbard	Institute of Actuaries
Esko Kivisaari	Suomen Aktuaariyhdistys
Liam Quigley	Society of Actuaries in Ireland
Anne Grete Steinkjer	Den Norske Aktuarforening
Wilfried Van Messem	Association Royale des Actuaire Belges

**IAA Comments**

The following is a response to your invitation to comment on the exposure draft of proposed amendments to IAS 19 Employee Benefits issued by the IASB in April 2004. The Accounting Standards Subcommittee appreciates the opportunity to give its view on the proposals.

Please note that, in addition to this response, the subcommittee is also preparing a position paper that will include the following topics:

- (a) The minimum measure of liability that should be on the balance sheet;
- (b) Consistency in assumption setting;
- (c) Recognizing gains and losses; and
- (d) Multi-employer plans.

The position paper will be sent to the IASB and other international accounting standards bodies separately.

### **Response to Exposure Draft Questions**

The exposure draft posed seven questions, with an invitation to comment by July 31, 2004. Our response to each question follows:

#### **Question 1 – Initial recognition of actuarial gains and losses**

IAS 19 requires actuarial gains and losses to be recognized in profit or loss, either in the period in which they occur or on a deferred basis. The Exposure Draft proposes that entities should also be allowed to recognize actuarial gains and losses as they occur, outside profit or loss, in a statement of recognized income and expense.

Do you agree with the addition of this option? If not, why not?

#### **IAA Response 1**

We understand that probably the main reason why the IASB is providing this option is to allow for FRS 17 to replace SSAP 24 in 2005 as scheduled, and permit companies who have to adopt FRS 17 to comply with one of the permitted options under IAS 19.

We do not, however, agree with this addition for the following reasons:

- By having three alternative treatments for gains and losses (spreading, immediate recognition through the P&L, and immediate recognition outside the P&L), IAS 19 allows another fundamental level of choice, thus moving away from the goal of allowing comparability between companies' accounting for pensions (for example to US-GAAP).
- By not requiring the unrecognized actuarial gains or losses to be recycled (i.e. never hit the P&L), this could be considered indefinite deferral of the P&L impact.

#### **Question 2 – Initial recognition of the effect of the limit on the amount of a surplus that can be recognized as an asset**

Paragraph 5 8(b) of IAS 19 limits the amount of a surplus that can be recognized as an asset to the present value of any economic benefits available to an entity in the form of refunds from the plan or reductions in future contributions to the plan (the asset ceiling).<sup>\*</sup> The Exposure Draft proposes that entities that choose to recognize actuarial gains and losses as they occur, outside profit or loss in a statement of recognized income and expense, should also recognize the effect of the asset ceiling outside profit or loss in the same way, i.e. in a statement of recognized income and expense.

Do you agree with the proposal? If not, why not?

#### **IAA Response 2**

We agree that the approach to limiting surplus should be consistent with the approach to gain and loss recognition. However, as noted in our response to Question 1, we do not believe that entities should be permitted to recognize gains and losses in a statement of recognized income and expense.

### **Question 3 – Subsequent recognition of actuarial gains and losses**

The Exposure Draft proposes that, when actuarial gains and losses are recognized outside profit or loss in a statement of recognized income and expense, they should not be recognized in profit or loss in a later period (i.e. they should not be recycled).

The limit also includes unrecognized actuarial gains and losses and past service costs.

Do you agree with this proposal? If not, why not?

#### **IAA Response 3**

As noted in our response to Question 1, we do not believe that entities should be allowed to recognize actuarial gains and losses as they occur, outside profit or loss, in a statement of recognized income and expense. We, therefore, disagree with the proposal that they should not be recycled.

### **Question 4 - Recognition within retained earnings**

The Exposure Draft also proposes that, when actuarial gains and losses are recognized outside profit or loss in a statement of recognized income and expense, they should be recognized immediately in retained earnings, rather than recognized in a separate component of equity and transferred to retained earnings in a later period.

Do you agree with this proposal? If not, why not?

#### **IAA Response 4**

As noted in our response to Question 1, we do not believe that entities should be allowed to recognize actuarial gains and losses as they occur, outside profit or loss, in a statement of recognized income and expense. We, therefore, disagree with the proposal of immediate recognition in retained earnings.

### **Question 5 - Treatment of defined benefit plans for a group in the separate or individual financial statements of the entities in the group**

- (a) The Exposure Draft proposes an extension of the provisions in IAS 19 relating to multi-employer plans for use in the separate or individual financial statements of entities within a consolidated group that meet specified criteria.

Do you agree with this proposal? If not, why not?

- (b) The Exposure Draft sets out the criteria to be used to determine which entities within a consolidated group are entitled to use those provisions.

Do you agree with the criteria? If not, why not?

#### **IAA Response 5**

Since this is really only an issue of allocating pension expense within an organization, we agree with the Exposure Draft proposal, as well as the criteria for allowing this treatment.

### **Question 6 - Disclosures**

The Exposure Draft proposes additional disclosures that (a) provide information about trends in the assets and liabilities in the defined benefit plan and the assumptions underlying the components of the defined benefit cost and (b) bring the disclosures in IAS 19 closer to those required by the US standard SFAS 132 Employers' Disclosures about Pensions and Other Postretirement Benefits.

Do you agree with the additional disclosures? If not, why not?

## IAA Response 6

We are generally supportive of the additional disclosures, many of which already appear in the US standard SFAS 132R. There are, however, a few areas where we recommend changes or clarification:

- In paragraph 120, item (e) asks for a reconciliation of plan assets including expected return, item (l) asks separately for actual return. These requests could be simplified by requiring expected and actual return in item (e) and eliminating item (l).
- Item 120(h)(ii) should read “the effect...”
- Paragraph 121 has been amended with the addition of the following sentence: “The description of the plan (*provided in paragraph 120(b)*) shall include all the terms of the plan that are used in the determination of the defined benefit obligation.” Some large organizations have the obligation for over 100 defined benefit plans included in their consolidated accounts. It is clearly not practical to describe the terms of all of those plans and include them in the disclosure. An alternative approach would be to require the company to have those details available for review by the auditors.

We are also concerned that a number of these items refer to prior accounting periods – in one case up to four years prior. We would like the IASB to consider whether that prior information will be needed immediately, or whether the provision of that information will be more of a transition, so that the full history develops over the next 4-5 years.

## Question 7 - Further disclosures

Do you believe that any other disclosures should be required, for example the following disclosures required by SFAS 132? If so, why?

- (a) a narrative description of investment policies and strategies;
- (b) the benefits expected to be paid in each of the next five fiscal years and in aggregate for the following five fiscal years; and
- (c) an explanation of any significant change in plan liabilities or plan assets not otherwise apparent from other disclosures.

SFAS 132 also encourages disclosure of additional asset categories if that information is expected to be useful in understanding the risks associated with each asset category.

## IAA Response 7

We do not believe any additional disclosures should be required – a company wishing to provide such information can do so on an optional basis.

## Other Comments

While we have been preparing our response to the Exposure Draft, there have been Draft Interpretations issued by the IFRIC, some of which may result in changes to the language in IAS 19. Given the process within the IAA to enable member associations to comment on our submissions, it would have been preferable for such requests to have been incorporated in the Exposure Draft. For one of the requests, D6 Multi-employer Plans, our review was not completed prior to the comments deadline. However, we include it here for your consideration.

#### **Question 4**

*The appendix to the draft Interpretation sets out a proposed amendment to IAS 19, narrowing the scope of the definition of state plans and requiring them to be accounted for as defined contribution plans. Plans that are excluded from the definition of state plans will be multi-employer plans.*

*Do you agree with the narrowed scope of the definition of state plans?*

*Do you agree that state plans defined as proposed should be accounted for as defined contribution plans?*

#### **IAA Response**

We agree that state plans should be accounted for as defined contribution plans.

However, the suggested changes in the scope of the definition of “state plan” are problematic. There are plans where entities other than government bodies participate in the practical administration of the plan, but where, however, the plans are nation-wide or cover large sectors in the economy, the benefits are defined in legislation, and the level of pre-funding, the rules according to which liabilities are calculated and the contribution level are set by the government. Changes in these are made by government decisions only, and the employers have no influence on these changes. These plans involve significant risk pooling among all participating employers.

Under these plans the financial implications on employers do not differ from those under a plan that meets the suggested narrower definition of a state plan. In these cases defined benefit (DB) accounting would often create an asset to which the employer has no access or a liability which the employer cannot decide to settle in advance and which expires if the employer no longer has employees that are covered by the plan. The results provided by DB accounting would not be reliable but, indeed, often misleading, which would go against the fundamental objective of providing reliable financial information to investors.

Therefore we suggest that the definition of a state plan should not be categorically narrowed. Instead, it should be clarified so as to give a more precise meaning to the term “operated by”, e.g. in the following manner:

State plans are established by legislation to cover all enterprises (or all enterprises in a particular category, for example a specific industry) and are operated by national or local government or by another body whose operations are limited to administering the plan and regulated by the government to the same extent as in government-operated state plans.

**Full Member Associations of the IAA**

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)  
Institute of Actuaries of Australia (Australia)  
Aktuarvereinigung Österreichs (AVÖ) (Austria)  
Association Royale des Actuaire Belges (Belgique)  
Instituto Brasileiro de Atuária (IBA) (Brazil)  
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)  
Cyprus Association of Actuaries (Cyprus)  
Česká Společnost Aktuárů (Czech Republic)  
Den Danske Aktuarforening (Denmark)  
Egyptian Society of Actuaries (Egypt)  
Eesti Aktuaaride Liit (Estonia)  
Suomen Aktuaariyhdistys (Finland)  
Institut des Actuaire (France)  
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)  
Hellenic Actuarial Society (Greece)  
Actuarial Society of Hong Kong (Hong Kong)  
Magyar Aktuárius Társaság (Hungary)  
Félag Íslenskra Tryggingastærðfræðinga (Iceland)  
Actuarial Society of India (India)  
Society of Actuaries in Ireland (Ireland)  
Israel Association of Actuaries (Israel)  
Istituto Italiano degli Attuari (Italy)  
Institute of Actuaries of Japan (Japan)  
Japanese Society of Certified Pension Actuaries (Japan)  
Latvijas Aktuaru Asociācija (Latvia)  
Lebanese Association of Actuaries (Lebanon)  
Persatuan Aktuaria Malaysia (Malaysia)  
Colegio Nacional de Actuarios A. C. (Mexico)  
Het Actuarieel Genootschap (Netherlands)  
New Zealand Society of Actuaries (New Zealand)  
Den Norske Aktuarforening (Norway)  
Actuarial Society of the Philippines (Philippines)  
Polskie Stowarzyszenie Aktuariuszy (Poland)  
Instituto dos Actuários Portugueses (Portugal)  
Academia de Actuarios de Puerto Rico (Puerto Rico)  
Singapore Actuarial Society (Singapore)  
Slovensko Aktuarsko Društvo (Slovenia)  
Actuarial Society of South Africa (South Africa)  
Col·legi d'Actuaris de Catalunya (Spain)  
Instituto de Actuarios Españoles (Spain)  
Svenska Aktuarieföreningen (Sweden)  
Association Suisse des Actuaire (Switzerland)  
Actuarial Institute of the Republic of China (Taiwan R.O.C.)  
Faculty of Actuaries (United Kingdom)  
Institute of Actuaries (United Kingdom)  
American Academy of Actuaries (United States)  
American Society of Pension Actuaries (United States)  
Casualty Actuarial Society (United States)  
Conference of Consulting Actuaries (United States)  
Society of Actuaries (United States)