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Anne McGeachin
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30 Cannon Street
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Dear Ms. McGeachin,

IASB Discussion Paper (DP): Preliminary Views on Amendments to IAS 19 Employee Benefits

As a major UK investor, Legal & General welcomes the opportunity to comment on your Discussion Paper – Preliminary Views on Amendments to IAS 19 Employee benefits (the 'Discussion Paper').

As a member of the CFO Forum and the CEA we support the overall views in their response on behalf of the UK and European insurance industry:

We recognise that this Discussion Paper represents the first step in a comprehensive project on accounting for post-employment benefits and as such fully support the longer term aim of developing a converged employee benefits standard in conjunction with the US Financial Accounting Standards Board.

We note, however that by pursuing this interim approach, there may be areas which could result in inconsistencies with US GAAP, and also with other significant projects being addressed by the IASB. In particular, we feel that it may be too early to commit to major policy decisions as part of this project due to the current uncertainty in IFRS 4: Insurance Contracts – Phase II.

With regard to the issues raised in the Discussion Paper, our comments are as follows;

Presentational approaches
In relation to the presentational approaches we feel it is too early to reach a decision in light of other ongoing projects. We believe that this decision should be made only once the basic principles have been set out in the Financial Statements Presentation project.
We do however support an approach which would reduce volatility in the income statement to aid clarity and consistency between companies. We believe that, in many circumstances, it

We do however support an approach which would reduce volatility in the income statement to aid clarity and consistency between companies. We believe that, in many circumstances, it may be appropriate to have a smoothing mechanism to ensure that the reported profitability reflects the profitability of the business, this is especially important for many industries where the balance sheet is not fully valued at fair value.

Additional issues
We would like to take this opportunity to request that the definition of plan assets should be revisited as part of the next full review of pension accounting in order to include purchased annuities from subsidiary companies within a Group.
Under IAS 19, we interpret the standard to exclude such assets from plan assets even though they are protected by local regulation which leads to a lack of consistency and comparability with other companies.

This issue is also important as by excluding these assets a mismatch is created with matching some movements in plan liabilities e.g. actuarial assumption changes (which are currently reported in the SORIE) not being matched by the corresponding movement in the matching annuity assets, which are reflected in the income statement. Such accounting treatment is counter-intuitive, does not reflect the underlying financial position and represents a significant deficiency in IAS 19.

If you have any queries or questions on the above that you would like to discuss in more detail, please do not hesitate to contact me.

Yours sincerely,

A Palmer

ANDREW PALMER
Group Director (Finance)