International Accounting Standards Committee
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Discussion Paper Preliminary Views on Amendments to IAS 19

The Swedish Enterprise Accounting Group (SEAG) is a forum for Chief Accountants from the largest Swedish listed companies. SEAG is administered by the Confederation of Swedish Enterprise, to which most participating companies of SEAG are joined.

Representing preparers' point of view, SEAG welcomes the opportunity to comment on the abovementioned discussion paper.

We are aware that it is undesirable to allow different alternatives for the recognition of actuarial gains and losses. We understand that the broad main objective with the DP is to provide better information to users. However, looking at the benefit from certain short term improvements included in the discussion paper, we have objections. We believe most of the solutions proposed in the DP can be very complex and are likely to create additional issues. Those features are described below:

a) Recognition and presentation of defined benefit promises

- The immediate recognition will introduce substantial volatility to the comprehensive income statement. If the IASB decides that actuarial gain and losses should be recognized through P&L, many companies may find their P&L dominated by changes in the funded status of their retirement plan which seems meaningless information on financial performance.

- Not dividing the return on assets into an expected return and an actuarial gain or loss will also introduce volatility to the financial statements. Information on actual return versus expected return is already currently required in the disclosure notes. Additionally, according to Approach 2, interest income will be recognized in OCI which seems totally illogical, allowing different treatments of asset returns, depending on whether they are related to contribution based or defined benefit promises.

- Finally, the IASB has an active project on its agenda on financial statement presentation. Consequently, it feels premature to express a preliminary view on how the components of post employment benefit cost should be reported.

b) Definition and measurement of contribution based promises

- Even though the accounting for traditional defined contribution plans (DC) and defined benfit plans (DB) should not change, we believe that for many other types post employment benefits the accounting would change dramatically. The distinction between contribution-based promises and DB is lacking clarification which will ensure inconsistency. Additionally, we believe the definition of contribution-based promises is too complex and need to be clarified.

- Contribution based promises should be measured based on fair value, similar to the valuation of a contract that includes a derivative, and would consider: estimated cash flows, discount rates, risk associated with change in the liability. We believe that the question related to the measurement methodology needs to be answered and can only be part of a long term project. How should risk be quantified? Should risk be included the projected cash flow or discount rate? Additionally, the introduction of credit risk would probably introduce subjectivity.

c) Promise that provide a “higher of” option

- Under the IASB’s preliminary thinking, if an employer promises the higher of a DB promise and a contribution-based promise, the value of the host DB and the value of the incremental contribution-based promise would be measured and accounted for separately. The proposed accounting seems consistent with the treatment of financial options in IAS 39. However, it may be difficult to value this option in practice. Moreover, we believe that in many circumstances this would result in higher value for the obligation as the potential outcomes in which the contribution based promise would be greater than the DB promised would be reflected in the valuation.

We are pleased to be at your service in case further clarification to our comments will be needed.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE

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