International Accounting Standards Board
Project Managers
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DISCUSSION PAPER: PRELIMINARY VIEWS ON AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS

Dear Project Managers,

The Swiss Chamber of Consulting Pension Actuaries highly appreciates the opportunity to comment on the International Accounting Standards Board's Discussion Paper on Preliminary Views on Amendments to IAS 19 Employee Benefits (hereafter: "DP").

Since 1970, the Swiss Chamber of Consulting Pension Actuaries is the professional organization of the independent consulting pension actuaries in Switzerland. Our members provide actuarial, legal, administrative and investment consulting to pension schemes.

Due to the legal environment in Switzerland, pension accounting is one of the key issues and the discussion paper might lead to material changes in accounting for a large number of Swiss pension schemes.

The IAS 19 working group of the Swiss Chamber of Consulting Pension Actuaries would therefore like to bring to your attention the comments recapitulated below on the DP.

1. Fair Value Measurement and Contribution Based Promises

We agree with the decision to address measurement issues for hybrid plans such as plans with a guaranteed return promise. One of the requirements of the mandatory Swiss plan is a minimum return guarantee on the individual savings account (currently: 2.75%).

Under the current Projected Unit Credit method (hereafter: "PUC") the measurement of the defined benefit obligation can lead to inadequate results due to:

- back-loading resulting from the age related savings scales;
- transfer-in values from prior employers;
- voluntary payments of employees to cover a benefit shortfall; and
- withdrawal payments to the employees.

Fair value measurement might be an alternative methodology to measure the pension liabilities. The fair value for the embedded minimal return guarantee contained in typical Swiss pension plans seems logical and its measurement achievable (embedded derivative).

Nevertheless, additional guidance on the recommended fair value measurement approach will be needed for other plan elements, e.g.,

- valuation of the life expectancy risk; or
- valuation of the liability related to pension indexation.

Moreover, the recommendation to use discounted cash flows seems inconsistent with the “exit value” approach retained in the fair value project. The obligation under the fair value principle should in reality not be higher than the exit value.

Two different categories of pensioners seem logical in regard of the different measurement of the liability during the accumulation phase. However, a different obligation for two pensioners of the same age with the same gender and annual pension, one from a defined benefit promise and the other from a contribution-based promise is inconsistent and can not be understood by the readers of the financial information. Moreover, such an accounting would lead to major administrative difficulties. A pension fund would typically not distinguish between the two pensioners mentioned before.

Including credit risk in the measurement of the obligation:

- would be a significant change the use of AA corporate bonds or government bonds in the case no deep market is available;
- Seems to be an “entity specific” rather than a market based measurement attribute.

2. Definition of Contribution-Based Promises

According to the definition of contribution based promises as outlined in Para. 5.3 of the DP, the guaranteed return on the actual or notional contributions has to be linked to the return from an asset, group of assets or an index.

For the Swiss mandatory pension scheme, the guaranteed return promise is defined by the government; e.g. the government decides at latest after two years on the minimum return promise. It is therefore unclear, if the definition of a contribution-based promise would be satisfied for a typical mandatory Swiss pension plan, since the decision of the government is neither directly linked to a return on an asset or asset group nor linked to an index.

In Switzerland it is mandatory to provide death and disability benefits together with old age benefits. The death and disability benefits are typically linked to the old age account; and the disability pensions is typically defined as a fixed percentage of the salary covered under the plan. It is unclear from Para 5.60/5.61 of the DP, if these benefits would affect the classification of the plans; e.g. if such plans would automatically qualified as defined benefit promise. If the plans are still classified as contribution-based promises, the IASB should give some guidance in how the fair value of death and disability benefits should be measured.

For a short term project with only limited scope, several types of arrangements that were previously qualified as defined benefit plans would be qualified as contribution-based promises and therefore, would be measured at fair value. The impact of the proposal of the discussion paper to include career average plans and fixed amount plans in the category of contribution based promises is significant.

To include real defined contribution plans in the category of contribution-based promises might also be confusing, especially if they are disclosed in the category of contribution-based promises. It should be clear for the reader of the financial statements that under a real defined contribution plan the employer has no further risk than to pay the contributions.

We would therefore suggest that the measurement for these plans should be reviewed in the "long-term project".

3. Deferred recognition

The DP does not offer a very strong conceptual argument for preferring immediate to deferred recognition. Nevertheless, we can see that the fair value principle should also be applied for the presentation.

To recognize all actuarial gains or losses in P/L seems inappropriate as this would create a lot of (meaningless) volatility in the P/L especially for companies with significant pension exposure.

To introduce a new component "interest income" as outlined in Approach 3 (Para. 3.10 ff of the DP) seems to be another arbitrary measure. We would suggest retaining the element of expected return on pension assets since this is normally used to define the contributions in defined benefit plans and is relatively transparent if enough information is disclosed.

If we had to opt for one approach, we would mostly be in favour for Approach 3, assuming that not only the changes in the discount rate but also all other changes in financial assumptions would also be recognized in the OCI.

All three proposed approaches would create a significant divergence with US-GAAP in terms of recognition principles.

Alternatively, the IASB might also re-examine the current SORIE option which allows for all actuarial gains and losses to be recognized in other comprehensive income (OCI).

We would also like to point out that the immediate recognition of all actuarial gains or losses could have a significant impact on the equity ratio in light of Basel II for financial institutions and industrial companies likewise that need minimum equity ratios for banking credits.

If it is desirable to recognize in future years part of the actuarial gains or losses in the P/L the recycling option currently used under US-GAAP might be a good alternative.

4. Plans with a higher off option

Plans with a higher off option would be separated into two types of plans: contribution-based promise and defined benefit promise. To value the higher off option will bring unnecessary complexity. We doubt that this complexity will result in added value to pension accounting.

We would be happy to answer any questions on our comments. Please contact either Urs Barmettler (+41 44 287 80 89), member of the IAS 19 working group of the Swiss Chamber of Consulting Pension Actuaries or us.

Yours faithfully,

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Board Members of Swiss Chamber
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