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Le Président
JFL/PHS
N°509

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The Pensions Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Preliminary Views on Amendments to IAS 19 Employee Benefits

Dear Sir/Madam,

I am pleased to provide you with the CNC's comments on the above-mentioned discussion paper (DP) which are set out in detail in the Appendix. We appreciate the work carried out by the Board in order to improve the accounting for defined benefits plans.

The discussion paper proposes the elimination of deferred recognition of changes in defined benefit promises and in particular of the "corridor" option currently available in IAS 19.We agree with this approach to the extent that it achieves a faithful representation of pension assets and liabilities consistent with the Framework.

However, as we mention below in more detail, we feel uncomfortable with the conclusions of the Board on the presentation of changes in a defined benefits plan obligation, as long as the outcome of the IASB's financial statements presentation project is not known.

We note that the Board has decided to remove the option available under IAS 19 which allows actuarial gains and losses to be dealt with through other comprehensive income. We disagree with this decision which we consider premature.As part of debate on the financial statements presentation project, we recommend that the issue of recycling should also be dealt with.

The discussion paper addresses the measurement of pension promises based on contributions with a guaranteed return on assets. Whilst we welcome the inclusion in the scope of the

discussion paper of this issue for which no specific guidance currently exists in IAS 19, we disagree with the proposals of the discussion paper.

We think that it would have been possible to deal with the issue of measuring “guaranteed return” derivatives included in some pension promises without redefining the different categories of pension promise, which is too fundamental an exercise for a short-term project and is likely to prove confusing for users .

In addition, we consider that:

- The current distinction in IAS 19 between defined contribution and defined benefit plans, which is well understood by users and preparers, reflects a distinction based on the level of actuarial risk for the employer .This distinction would be blurred since the proposed contribution based category includes equally promises with some actuarial risk and others with no actuarial risk at all.
- The dividing line between contribution-based promises and the residual category of defined-benefit promises is unclear and promises of a similar nature could be measured differently (see Appendix §6.2.).
- The discussion paper proposes new measurement attributes for many promises which are adequately dealt with by IAS 19.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Jean-François Lepetit

APPENDIX

DISCUSSION PAPER

Preliminary Views on Amendments to IAS 19 Employee Benefits

Scope of the project

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?

CNC's reply

1.1. We welcome the Board's decision to deal with accounting for benefit promises based on contributions and a guaranteed return on assets .In our view, this is the most urgent issue to be dealt with in the short term project, considering the lack of guidance for measuring certain promises of this type in IAS 19.

1.2. With regard to the discussion of the recognition of changes in plan assets and liabilities in the period in which they occur, we note that Approaches 2 and 3 set out in Chapter 3 allow certain items to be dealt with through other comprehensive income .We suggest that it would also be appropriate on this occasion to discuss the issue of recycling these items.

Recognition and presentation of defined benefit promises

Question 2

Chapter 2 describes the Board's deliberations on the recognition of defined benefit promises .The Board's preliminary views are summarised in paragraphs PV2-PV4. 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?

CNC's reply

2.1. We do not think there are factors the Board has not considered in arriving at its preliminary views set out in PV2-PV4, although we do not necessarily agree with the conclusions drawn by the Board. Our comments on each of these preliminary views are set out below.

2.2. Although the issues of recognition and presentation are directly related to the project on financial statement presentation, the Board has decided not to wait for the outcome of this project and is therefore in danger of pre-empting its conclusions.

2.3. According to PV2 "Entities should recognise all changes in the value of plan assets and in the post-employment benefit obligation in the financial statements in the period in which they occur" .We agree with the immediate recognition of changes in assets and liabilities. However, we do not agree that all changes in assets and liabilities should be dealt with immediately through the income statement .In particular, we are in favour of actuarial gains and losses being dealt with outside the income statement for the reasons set out in 3(b) below.

2.4. PV3 stipulates that "Entities should not divide the return on assets into an expected return and an actuarial gain or loss." We do not agree and are sympathetic to the views expressed in 2.5 of the discussion paper .In particular, we support the view that period to period fluctuations in the value of plan assets are not relevant to users of financial statements as an element of profit or loss and introduce unnecessary volatility into reported performance. Because of the long term management perspective of pension assets, we consider the expected return more relevant to users .However, in order to deal with the criticism mentioned in 2.15. of the discussion paper, we think the Board should develop guidance to ensure the expected return reported is more transparent and consistent than it is in practice today.Finally, we understand that US GAAP requires the expected return on assets to be reported in profit and loss and that changing the current requirements of IAS 19 as proposed would therefore reduce the comparability of financial statements in the short term.

2.5. PV4 requires that "Entities should recognise unvested past service cost in the period of a plan amendment." We are not satisfied that there is a sufficiently sound conceptual justification for introducing this change to current requirements .The discussion paper recognises in §2.20. that the proposal "would result in an approach that is not consistent with what the Board thinks is the best conceptual answer." The arguments in favour of PV4 set out in §2.20. do not seem more compelling than those against ,presented in§2.18 and 2.19.In particular , there are no arguments to refute the view expressed in the exposure draft of amendments to IAS 19(June 2005) which regard increases in benefits with a vesting period as attributable to employees' future services until vesting date.

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?

(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?

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

CNC's reply

3(a)We find it difficult to reply to Q.3(a) because of the lack of visibility with respect to the outcome of the project on the presentation of financial statements .However , we do not believe that introducing more volatility into reported profit or loss serves users interests .This is particularly true when the volatility arises because of changes in estimation of a subjective nature which cannot be substantiated by reference to market values .Indeed , it must be stressed that market values are not generally available for corporate pension liabilities. All of the three approaches introduce varying degrees of volatility and we therefore find none of them totally satisfactory .In this respect, none of the 3 approaches appears superior to the current option under IAS 19 which permits actuarial gains and losses to be recognised in other comprehensive income .We do not find the arguments against this option set out in §3.32 of the DP convincing and recommend that an approach derived from the "SoRIE" should be given full consideration as an alternative to those proposed in the DP.

3(b) We believe that information on the operating and financial results of the reporting period is the most useful for users .This approach leads to presenting those items not considered to form part of the performance of the period in other comprehensive income.

(i)All of the three approaches proposed in the discussion paper treat service cost, including the effect of changes in non-financial assumptions through profit and loss. As stated above in 3(a) we consider that it would be more appropriate to deal with actuarial gains and losses in other comprehensive income and to disclose their different components in the notes.

(ii)As stated in 2.3. above, we are in favour of recognising the expected return in profit and loss and thus the related actuarial gains and losses would be dealt with through other comprehensive income .We do not believe that any other type of disaggregation of income from assets would be useful to users.

3(c) Paragraphs 3.27 to 3.31 give a reasonable assessment of potential difficulties linked to each approach .However we do not believe that the supposed practical difficulties should necessarily be decisive in choosing an approach e.g. approach 1, the immediate recognition of actuarial gains and losses in profit and loss, may well be the simplest to apply but it raises other issues as to the usefulness of the information provided to users.

Question 4

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

(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?

CNC's reply

4.1. We refer to our response to Q.3. above in which we recommend adopting the option available under IAS 19 to deal with actuarial gains and losses through other comprehensive income .The advantage of this approach is to improve the predictive qualities of the reported operating result whilst providing information on the effect of re-measurements through other comprehensive income.

4.2. The proposed treatment through other comprehensive income does not preclude a debate on recycling.

Definition of contribution-based promises

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?

CNC's reply

5.1. The discussion paper states in IN7 that "IAS 19 does not result in a faithful representation of the liability for some benefit promises that are based on contributions and a promised return on assets" .The discussion paper seeks to overcome this measurement defect by creating a new category of promises –"contribution-based promises"- measured at "fair value assuming the terms of the benefit promise do not change".

5.2.The proposed new category of "contribution-based promises" includes different types of promise that do not give rise to valuation difficulties under IAS 19 e.g. defined contribution plans , career average promises (see list of examples of contribution-based promises in §5.10.of the DP)

We confirm that in France we have not identified promises which cannot be properly measured under IAS 19, although we are aware that in other jurisdictions such as Belgium, Switzerland and Germany problems have been encountered with respect to the measurement of some defined contribution plans with guaranteed returns.

5.3. We disagree with the scope of the project which should be limited to addressing those cases where measurement guidance in IAS 19 is seen to be inadequate .We therefore recommend that the project should address exclusively the valuation of promises including embedded guarantees and financial options with a view to providing appropriate guidance in IAS 19.

5.4.The proposals in the discussion paper would lead to splitting defined benefit plans as currently defined in IAS 19 into two categories with different measurement attributes : (i)"contribution-based promises" to be measured at fair value and (ii)a residual category of defined benefit promises which would continue to be valued under the "projected unit credit method" e.g. "career average promises" would be measured at fair value and "final salary promises" according to the "projected unit credit method" .We question the conceptual justification for such a distinction and suggest that such fundamental changes go much further than the project's assigned objectives of introducing short-term improvements .The redefinition of the different categories of pension promise and their measurement attributes could only be considered within the scope of a full revision of IAS 19.

5.5. The current distinction in IAS 19 between defined contribution and defined benefit plans based on the existence of actuarial risk for the employer would disappear with the proposed creation of the new category of "contribution-based promises". The current distinction is clear and well understood by preparers and users. The proposed contribution-based category is a hybrid which includes promises with no actuarial risk (current defined contribution promises) and others such as career average type promises (current defined benefit promises) which do include actuarial risk. We are concerned that users will find the distinction harder to understand and the resulting information less relevant.

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?

CNC's reply

6.1. As stated in 5.4.above, we believe that potentially many career average promises and promises including a specified fixed return on contributions are likely to be reclassified from defined benefit to contribution-based promises.

6.2. We find the dividing line between defined benefit and contribution–based promises arbitrary and this may raise interpretation difficulties .Promise 9 in the discussion paper, which is equivalent to a percentage of the employee's average salary for the last three years before retirement, is classified as a defined benefit promise .Where would the line be drawn between career average and final salary based promises ?How, for example, would a promise based on the average of the last ten years' service be classified?

6.3. If an employee entered service during the 3 year period indicated in Promise 9, the contribution amount would be known for the related reporting period and would presumably be classified as contribution-based .The same promise to an employee who entered service before the 3 year period would be classified as a defined benefit. As a result similar promises would have different measurement attributes.

6.4. We note that multi-employer plans have been excluded from the scope of the project. They may be classified under current IAS 19 requirements as defined benefit plans but treated as defined contribution plans due to the unavailability of information relating to the employer's proportionate share of plan assets and liabilities .Some clarification of the status of such promises as regards the proposals in the discussion paper appears necessary .This latter remark is also applicable to state plans.

Question 7

Contribution-based promises, as defined in this paper, include promises that IAS 19 classifies as defined contribution plans .The Board does not intend this proposal to lead to significant changes in the accounting for most promises that meet the definition of defined contribution plans in IAS 19.

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

CNC's reply

7.1. We would not anticipate any significant changes of accounting for promises currently classified as defined contribution plans under IAS 19, except for those plans where payment is deferred although we have little experience of such plans. However, as stated in 6.3. above, a clarification of the status of promises under multi-employer plans appears necessary.

Question 8

Chapter 6 discusses recognition issues related to contribution-based promises.the Board's preliminary views are summarised in PV9-PV11.

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

CNC's reply

8.1. PV9 states that "An entity should recognise both vested and unvested contribution-based promises as a liability". The Board has decided not to address the question of whether unvested benefits are a liability within the scope of its project and has maintained the current requirements of IAS 19 (see Chapter 6 §6.3.)We agree that this subject cannot be dealt with as part of the short-term project and that it is therefore preferable to leave the requirements of IAS 19 unchanged.

8.2. According to PV 10 "An entity should allocate the benefits earned under a contribution-based promise to periods of service in accordance with the benefit formula". The Board has decided not to change the general provisions of IAS 19 in this respect. However, IAS19 requires entities to allocate the total benefits in a defined benefit plan on a straight line basis over the periods of service when the benefit formula assigns materially higher benefits to later periods of service. The Board has decided not to allow this departure from the benefit formula for contribution-based promises. For those defined benefit promises that would be reclassified as contribution-based promises under the Board's proposals, this would give rise to an effective change in the benefit allocation principle, as the straight line basis is no longer allowed . We do not think that such changes should be made within the scope of the short term project, in particular on a piecemeal basis without an overall conceptual approach.

8.3. PV 11 stipulates that "There should be no requirement to recognise an additional amount determined by the benefit that an employer would have to pay when an employee leaves employment immediately after the reporting date". We agree with the Board's decision to maintain the existing requirements of IAS 19 considering the scope of the short-term project.

Measurement of contribution-based promises

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.
(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?

CNC's reply

9(a)

(i)As stated in our comments in 6 above, we are not convinced that the Board has established a sufficiently sound conceptual basis for creating the new category of defined-contribution promises, nor are we convinced that the distinction between defined benefit and defined contribution promises provides more relevant information to users than the current requirements of IAS 19.

(ii)As stated in 5.3 above, we believe that the main issue to address is the measurement of "guaranteed returns" on assets .In our view this objective could be achieved by measuring this embedded derivative separately at fair value while the principal pension liability could be accounted for either as a defined contribution or a defined benefit plan. We note that this is consistent with the approach adopted for the "higher of "option (see Chapter 10) where the "host" defined benefit promise is accounted for separately to the option.

9(b)

(i)According to the discussion paper, contribution-based promises should be measured at"fair value assuming the terms of the benefit promise do not change". This measurement objective is deemed to be met by:

(a) An estimate of future cash flows

(b)Discounted to take into account the time value of money

(c) The effect of risk

The types of risk identified by the Board, with an indication of whether the Board considers they should be included, are as follows:

- Asset-based risk (should be included)
- Demographic risk(should be included)
- Credit risk of paying entity(plan plus employer)should be included although it may be difficult to measure
- Risk that the terms of the benefit change(not included)

(ii)The risk of uncertainty linked to the timing and amount of future cash flows is not dealt with by the Board (see7.21).This could be dealt with by sensitivity analysis in the disclosures (see below §14.3).
(iii)We disagree with the inclusion of the reporting entity's own credit risk in the measurement of its liabilities. We note that under current IFRS requirements, in particular in IAS 19 and IAS 37 but also in IAS 39, the majority of liabilities are not measured at fair value and do not take into account the reporting entity's own credit risk .In addition to the difficulties of introducing such a change mentioned in §7.28 of the DP, the CNC has set out the reasons for its opposition to this principle in its comment letter on the IASB's recent Fair Value Measurement Discussion Paper.
(iv)We agree with the position adopted by the Board in respect of asset-based risk, demographic risk and the risk that the terms of the benefit promise might change.
(v) Additionally, we would also stress that no guidance is given in the DP on how to determine fair value .Among the issues to be addressed is whether the nature of the assets invested should be taken into account in measuring the liability, since the expected expenditure for the employer could be different according to the asset allocation.

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?
(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?

CNC's reply

10(a) We agree with the Board's preliminary view set out in §8.2.that "an entity should measure the liability for benefits in the payment and deferment phases in the same way as in the accumulation phase" as we can see no conceptual justification for a different position. However, we note in §8.6. that the Board's proposals enable the same economic benefit to be measured differently, whereas by definition equivalent economic benefits must have the same value in the payout phase. This contradiction underlines that it is inappropriate to introduce different measurement attributes for equivalent promises. Instead of introducing an improvement to the requirements of IAS 19 these proposals create a new inconsistency within the standard.

10(b) In§8.10.the Board indicates that there may be practical difficulties in determining the fair value of a contribution based promise during the payout phase. The discussion paper indicates that if market prices were not available for annuities, entities would have to determine “a risk margin that includes the effect of demographic risk, particularly longevity risk”.

It is not clear to us why there would be more difficulties during the payout phase than during the accumulation phase.

Moreover , we regret that no example is given in the discussion paper of how the fair value of a contribution-based promise is determined .No indication is given ,for example , of the market value references for contribution-based promises.

Disaggregation, presentation and disclosure of contribution-based promises

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?

(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?

CNC’s reply

11(a) According to PV14 the Board’s preliminary view is that “an entity should disaggregate changes in the value of the liability for a contribution-based promise into only a service cost and other value changes”.

We further note, as stated in §9.16., that all changes in value of plan assets and benefit liability for contribution-based promises are presented in profit or loss. As is apparent in the table in§ 9.16, this presentation is not consistent with the presentation adopted for defined benefit promises under approaches 2 and 3.In approaches 2 and 3 a part of the actuarial gains and losses arising in respect of defined benefit promises is dealt with through other comprehensive income.

As stated in our reply under 3(b) above, we think that the information the most useful to users differentiates the operating result of the period and the financial result in profit or loss from other items in other comprehensive income. The treatment proposed for contribution-based promises is not consistent with this view and is potentially inconsistent, except under Approach 1, with the presentation of defined benefit promises.

11(b) We understand the difficulties in disaggregating the fair value of a contribution-based promise into separate components as explained in §9.6 and 9.7.

As stated in our answer to 9(a) above, we propose differentiating the principal pension promise from the embedded derivative.

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?

CNC's reply

12(a) We refer to our answers to Q3 and Q4, in which we recommend excluding from profit or loss actuarial gains and losses which would otherwise reduce the predictive value of the reported result. Accordingly changes in the fair value of the embedded derivative should be recognised in OCI.

12(b) We think presentation for defined benefit and defined contribution promises should be consistent.

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?

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

CNC's reply

13(a).We support the approach that measures separately the "higher of" option and the host defined benefit promise. This approach avoids changing the measurement attribute of the host benefit promise. One area of difficulty is the issue as to whether and how changes in asset allocation might be taken into account in measuring the option e.g. when employees shift their choice from a low to a higher risk investment category.

13(b).We have no other comments.

Other matters

The Board intends to review the disclosures required about post-employment benefit promises in a later stage of this project

Question 14

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

CNC's reply

14.1. The PAAinE discussion paper "The Financial Reporting of Pensions", to which the CNC contributed, contains a number of interesting proposals for improving disclosures to which the IASB may wish to refer.

14.2. As a general remark, existing disclosure requirements in IAS 19 and any new proposals should be carefully scrutinised from the cost/benefit standpoint.

14.3. Among the main items for consideration, we would suggest:

-Information on key measurement assumptions for liabilities and the relevant sensitivity analysis

-Information comparing actual and expected returns on assets

-Information on funding

-The basis for recognising items in other comprehensive income and, if applicable, recycling.

-Information on the measurement of derivatives

-Information on assets in a contribution-based scheme

Question 15

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

CNC's reply

15.1.We have experienced difficulty in understanding exactly what is meant in practice by "fair value assuming the terms of the benefit promise do not change" .We suggest, in order to enhance any further debate on this issue, that the IASB should provide constituents with some illustrative examples showing exactly what will change as compared to current requirements.