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23rd September 2008

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
UNITED KINGDOM

Dear Sir David,
Preliminary Views on Amendments to IAS 19 Employee Benefits

This letter comments on IASB's Discussion Paper 'Preliminary Views on Amendments to IAS 19 Employee Benefits'.

The Commonwealth Bank of Australia has a significant defined benefit superannuation plan with considerable plan assets and a large net surplus.

We believe that Approach 3 provides the most useful presentation of changes in defined benefit costs. For example, in the case of our organisation, if all actuarial changes in discount rates and return on plan assets had gone directly through profit and loss for the year ended 30 June 2008, it would have caused material volatility in reported profit of nearly 20% compared to the prior year.

The Bank is not normally in the business of managing a pension fund, however, with such a material outcome there could be undue management focus on the actuarial judgments taken in arriving at the assumptions for the fund.

We trust that you will give due consideration to our views on this paper.

Yours sincerely

Michael Venter

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Submission to the International Accounting Standards Board on Discussion Paper "Preliminary Views on Amendments to IAS 19 Employee Benefits"

23 September 2008

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? Is so, why do you regard these issues as a matter of priority?

No.

Question 2

Are there factors that the Board has not considered in arriving at its preliminary views? Is so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? Is so, why?

We support the following preliminary views:

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.

PV4 Entities should recognise unvested past service cost in the period of a plan amendment.

We do not support the view (per paragraph 2.2) that entities should not divide the return on assets into an expected return and an actuarial gain or loss and would like to comment on paragraph 2.15.

Firstly, adoption of the preliminary view will result in inconsistent reporting of the impact on reported fund surpluses/deficits of variances between actual experience and assumed experience in respect of key economic parameters. Reported pension cost is dependent on a long term salary inflation assumption. Like the return on asset assumption, this assumption is somewhat dependent on subjective judgement. Further, variations between actual salary increases and the long term assumption are recognised as actuarial gains/losses (just like variances between actual return on assets and expected return on assets). We cannot see any objective reasons for adopting different treatments for the salary inflation and return on asset assumptions.

Secondly, we believe that the impact of changes to the return on assets assumption on reported earnings has been largely exaggerated. Commonwealth Bank of Australia (CBA) has one of the largest defined benefit plans in Australia, with defined benefit assets at 30 June 2008 of several billion dollars, but we estimate that increasing the return on asset assumption from 8.5% pa to 9.5% pa would not have a material impact on net profit after tax.

Thirdly, it is already a requirement under IAS 19 that entities disclose the return on asset assumption (paragraph 120A(n)(ii)) and the basis for determining this assumption (paragraph 120A(l)). We believe these disclosure requirements are sufficient to protect against manipulation of the return on asset assumption.

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?

We believe Approach 3 provides the most useful information as this would enable users to:

- identify re-measurement of assets and liabilities; and
- determine the operating and financing costs of providing pension benefits.

Separate identification of the re-measurement of assets and liabilities is vital because:

1. It removes from profit or loss the noise caused by market volatility on the reported value of fund assets (which are marked to market) and the reported value of fund liabilities (due to the use of market based discount rates).

   We note that under IAS 19 pension fund liabilities are calculated using discount rate assumptions based on market yields on high quality fixed interest securities. As pension liabilities are long term in nature, a small change in the discount rate assumption could significantly change the value of fund liabilities. For example, the reported value of the defined benefit liabilities of CBA's major defined benefit plan at 30 June 2008 would have materially increased if the discount rate was reduced by 1% from 6.3% to 5.3% pa.

2. Changes in the value of fund liabilities due to changes in actuarial assumptions are generally one-off in nature and should be separated from reporting of the financial results of an entity's regular operations.

3 For example, in the case of CBA, if all actuarial changes in discount rates and return on plan assets had gone directly through profit or loss for the year ended 30 June 2008, it would have caused material volatility in reported profit of nearly 20% compared to the prior year. CBA is not normally in the business of managing a pension fund, however with such a material outcome there could be undue management focus on the actuarial judgments taken in arriving at the pension fund assumptions.

As we do not support the preliminary view that entities should not divide the return on assets into an expected return and an actuarial gain or loss, we believe that the financing costs of providing pension benefits should be the difference between interest cost and the expected return on assets (both determined using the current basis set out in IAS 19). The financing costs of providing pension benefits should be included under reported earnings.

(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?

As indicated earlier, we believe that re-measurement of assets and liabilities due to market volatility or one-off factors should be included within other comprehensive income. The specific components of pension costs which fall into these categories include:

- differences between actual investment return and the long term expected return on assets;
- differences between actual experience and actuarial assumptions used to value liabilities; and
- changes in assumptions used to calculate fund liabilities.

All other components should be included under reported earnings and sufficient details provided to ensure users can identify the operating and financing costs of providing pension benefits.

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

Approach 1 is the simplest approach to implement as it requires valuation of fund assets and liabilities at each valuation date. However, we expect entities to provide greater details of the changes in reported value of fund assets and liabilities. The absence of such details could result in inconsistencies and incomparable reporting.

Approach 2 is a little more complex than Approach 1, as service cost is an actuarial calculation. However, the inconsistency and comparability issues remain.

Approach 3 involves actuarial calculations, however, we have outlined an approach that should not involve significant difficulty with recognising expected return on asset assumptions within reported earnings.

Question 4

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

We do not believe Approaches 1 and 2 provide useful information to users of financial statements and should not be adopted. We believe Approach 3 provides users with appropriate useful information.

(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?

We support Approach 3 and so are not suggesting other alternative approaches to presentation.