DUTCH ACCOUNTING STANDARDS BOARD (DASB)

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International
Accounting Standards Board
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Our ref : AdK
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Re : Comment on DP Preliminary Views on Amendments to IAS 19 Employee Benefits

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to the discussion paper "Preliminary Views on Amendments to IAS 19 Employee Benefits".

Pensions are an important issue in the Netherlands. Therefore, in addition to our usual due-process we held in early July of this year a round table on the reporting of pensions in the Netherlands in the context of international developments. Over 100 high level participants attended, representing a cross section of those with an interest or an involvement in the subject. Our responses and comments also reflect the outcome of that round table as well as top-level consultations with the Netherlands government on this issue.

The Discussion Paper proposes some significant changes, such as the introduction of contribution-based promises and the abolition of the delayed recognition of actuarial results. We believe that significant changes should not be made prior to a fundamental review of the accounting for post-employee benefits. The changes in labour relationships (for example flexible contracts), labour mobility (life time employment with only one employer is rare these days) and terms of employment (for pensions average salary plans are now common, final pay plans are an exception) require a fundamental review of the current accounting for post-employee benefits. For such a fundamental review we refer for instance to the discussion paper 'The Financial Reporting of Pensions' of EFRAG/ASB. The discussion paper of EFRAG/ASB summarizes the critical conceptual arguments for the various possible approaches and therefore is in our view a very good starting point for this fundamental review and a basis for future changes of the current accounting standard for post-employee benefits. Therefore we are not convinced that without the suggested fundamental review these proposed amendments will lead to improvements of IAS 19.

The further arguments we have for our views are the following.

The Board only provides guidance for benefits that are based on contributions and a promised return. We believe that the impact of the proposed amendments to the definitions are very difficult to understand and not very clear. Also, the proposed amendments regarding the definition, resulting in several defined benefit plans to be accounted for as contribution-based promises will probably have an impact on many plans that provides benefits other than final pay plans. The impact of the changes in the definition for the existing plans is not clear. In our opinion the standard itself should be clear and if it is not, this should not be restored by additional guidance. In addition the guidance provided in the Discussion Paper regarding the measurement of contribution-based promises is not clear.

Furthermore the Board uses the framework as an argument for its proposal to amend the deferred recognition of some gains and losses. However, we believe that the arguments of the IASC when IAS 19 was issued – to achieve a proper matching of the outcome of long-term contracts and the short-term volatility of the capital markets – are still valid today. If there exists a discrepancy between the framework and the standard, then that should have been a further argument for a fundamental review of the accounting for post-employee benefits.

In the introduction of the Discussion Paper it is noted that many users and preparers of financial statements do not fully understand the information that entities provide about post-employment benefit promises. We acknowledge that. In practice a serious problem with IAS 19 is the rigid distinction between defined benefit en defined contribution plans. The introduction of contribution-based promises does not appear to solve the problems for all plans.
As discussed with IASB and IFRIC representatives earlier this year, we believe that there are other issues in respect of pension accounting that should be resolved. Most importantly for us this is the situation, quite common in the Netherlands. where the risks inherent in a pension plan are shared between the parties involved, i.e. employer, employees, former employees and retirees. Effectively, such a plan will, depending on the performance, result in variable benefits for the plan participants. In the appendix to our response letter we have provided a summary of the main features of such a plan and our views on the way it should be accounted for. This is an issue that needs a satisfactorily solution with urgency. The proposals in the Discussion Paper do not provide a solution for this problem.

One of the other issues that need to be resolved is the accounting for pensions through mandatory multi-employer plans, which are common in the Netherlands. For these mandatory industry-wide pension plans we would expect the same treatment as for state plans, because a reliable and consistent allocation of plan assets and liabilities is not possible. We are currently in the process of preparing a submission to IFRIC on this subject.

We conclude that the issues addressed in the discussion paper are not perceived as urgent and as an improvement.

Given the intense interest that pension accounting is attracting in the Netherlands over the last few years, we would appreciate an opportunity to discuss our comments in more detail with the Board and the staff. If you believe that that is feasible, we would welcome suggestions from your side for such a meeting.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

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?

As described in the introduction of our letter, we believe that the more fundamental changes in the discussion paper that would have a major impact, such as the elimination of the corridor method, the change in definition and valuation should not be changed prior to a fundamental review of the accounting of post-employment benefit promises.

If the Board decides to continue with the proposed changes we have the following comments.

Given the objective of the IASB project to improve comparability, we believe that the discussion paper should have included guidance regarding the measurement of the defined benefit liabilities with promises are conditionally indexed to the average salary increase. In the Netherlands many plans have this conditional indexation. IAS 19 does not provide guidance how to apply these conditional terms, such as the minimum level of funding, that is very common in the Netherlands, in the measurement of the defined benefit liabilities. As a result the outcome of the calculations is not understood and diversity in practice exists, which we believe should be addressed by the IASB or IFRIC.

We believe that the IASB should also have considered a possible amendment of the requirement of applying the high quality corporate bond (IAS 19.78). In many countries no deep market in high quality corporate bonds exists with a maturity date comparable to the benefit term. Applying the market rate on government bonds can have a significant different result, and diversity in practice exists.

We believe that another issue is more than worthwhile to be included in the Discussion Paper. This is the situation where the risks inherent in a pension plan are shared between the parties involved, i.e. employer, employees, former employees and retirees, a situation that is quite common in The Netherlands. Effectively, such a plan will, depending on the performance, result in variable benefits for the plan participants. In the appendix to our response letter we have provided a summary of the main features of such a plan and our views on the way it should be accounted for.

Recognition and presentation of defined benefit promises

Question 2 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?

We agree that the delayed recognition of actuarial gains and losses is not in accordance with the framework, but we also believe that the arguments of the IASC when IAS 19 was issued, are still applicable.

- Immediate recognition can cause volatile fluctuations in liability and expense and implies a degree of accuracy which can rarely apply in practice. This volatility may not be a faithful representation of changes in the obligation but may simply reflect an unavoidable inability to predict accurately the future events that are anticipated in making period-to-period measures; and

- In the long term, actuarial gains and losses may offset one another. Actuarial assumptions are projected over many years, for example, until the expected date of death of the last pensioner, and are, accordingly, long-term in nature. Departures from the assumptions do not normally denote definite changes in the underlying assets or liability, but are indicators which, if not reversed, may accumulate to denote such changes in the future.

The IASB should first resolve the fundamental issues relating to the presentation of financial statements, before amending the delayed recognition as this is part of recognition and presentation of pension plans as a whole. Taking out one element will result in a lack of balance, especially in the presentation of results.

We also refer to IAS 19 BC 41, 48K and 48M. We believe that the IASB should stick to its consensus expressed in these conclusions not to require immediate recognition of actuarial gains or losses before a comprehensive review of both accounting for post-employment benefits and reporting comprehensive income (BC 48K).

> 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?

(a) Recognizing all changes in the plan assets and liabilities in profit and loss would be the preferred method, but before the fundamental review about the accounting of post-employee benefits are finalized, we have preference for the second approach. The second approach recognizes service costs in profit and loss and all other changes in other comprehensive income. We prefer to change as less as possible in the accounting of pensions before the fundamental review has been finalized. We believe that approach 2 has the least impact on profit and loss.
The measurement of the items that are split in approach 3 is too complex and will not result in te understanding of preparers and users of post employee benefits in the financial statements.

(b) Although we see a benefit of the additional information and split, we question the consistency of the split to components as this is also not done with other forms of financing.

(c) As indicated by the IASC, approach 3 will be absolute incomprehensive, as it require different information than the current calculations. We do not foresee any difficulties when approach 1 or 2 will be applied, as the information is already available in the actuarial reports.

> 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?

(a) The Board can improve the approaches by a fundamental review about the accounting of post employee benefits. We prefer not to amend the current approach. To increase the comparability in the future, we recommend the Board to limit the number of approaches that can currently be applied after a fundamental review on pension accounting has taken place.

(b) The alternatives, which are inextricable bound up with the measurement model adopted depend on the results from the fundamental review about the accounting of post employee benefits.

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?

The current standard has a very rigid distinction between defined benefit and defined contribution plans. As a consequence the accounting of several plans in different countries, that had elements of both categories, is not satisfactory. We support the change for the benefits that are based on contributions and a promised return, but believe that the related proposed changes to the definitions are not clear for all plans in all countries. We believe that the standard should be clear and unambiguous and if it is not this should not be restored by additional guidance. This will lead to rules based standards instead of principles.
Furthermore the Discussion Paper does not provide sufficient guidance for the accounting of plans that are common in the Netherlands, specifically the situation in the Netherlands where the pension funds in the Netherlands are not controlled by the entity and the risks regarding the defined benefit are shared between the entity, the employees, and retirees, which is ultimately the case in the situation of multi-employer schemes.

For further details on shared risk plans reference is made to the attachment.

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?

We are unable to answer this question, as the new definitions are not very clear. We do not recognize the plans common used in the Netherlands in the examples provided and as a consequence, all existing plans would have to be assessed again.

Question 7
Do the proposals achieve that goal? If not, why not?

We agree that the proposal should have no effect on current defined-contribution promises where there is no guarantee and the contribution is paid in full very soon after the end of the period in which the service is rendered and is not recoverable by the entity. However, we suspect that the use of the input (estimated future cash flows, the effect of the time value of money and the effect of risk) may in practice change the values and timing of the recognition of some defined–contribution promises.

Recognition issues related to contribution-based promises

Question 8 Do you have any comments on those preliminary views? If so, what are they?

The text of the guidance in chapter 6 is not clear.

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?

We believe that the measurements aspects are not very clear. We understand that the contribution-based promises meant to be a simplification of DB-accounting and that the measurement of contribution-based promises is based on the expected cash flow (on current salary, including non-discretionary increases), and that the interest rate to be used for discounting should be the market rate. We concur with this approach.

The effect of risk makes it more complicated and we recommend including examples regarding the inclusion of the respective risk elements in the calculation of the liability. The inclusion of the risk element could also be delayed till finalization of the fundamental review about the accounting of post employee benefits.

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?

We believe that this question should be answered after the finalization of the fundamental review about the accounting of post employee benefits.

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?

The discussion paper does not provide sufficient guidance regarding the measurement aspects. We therefore believe that these questions are difficult to answer.

We are of the opinion that the disaggregation of contribution based promises should be similar to the requirements for defined benefit promises.

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?

We believe that this question should be answered after the finalization of the fundamental review about the accounting of post employee benefits.

We are of the opinion that the presentation and disclosure of contribution based promises should be similar to the requirements for defined benefit promises.

Benefit promises with a ‘higher of’ option

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?

We have no comments on the benefit promises with a “higher of’ option as these promises do not exist in the Netherlands.

Other matters

Question 14 What disclosures should the Board consider as part of that review?

We believe that the guidance regarding the disclosure should be provided after the finalization of the fundamental review about the accounting of post employee benefits.

Question 15 Do you have any other comments on this paper? If so, what are they?

We have no other comments than included in our response.

Appendix - Variable benefit plans

Features of a variable benefit plan

1. Variable benefit plans are pension plans in which the actuarial and investment risk associated with the employee benefit plan are predominantly subscribed by the plan participants (employees, former employees and retirees) and only limitedly by the sponsoring entity. The plan is legally separated from the entity and is administered and governed by an independent body (often a Foundation: from now on described as the pension fund).
2. A variable benefit plan contains a benefit formula that is linked to employees' remuneration and years of service with a benefit formula based on current salaries and conditional indexation rights.
3. A variable benefit plan is funded both by the employer and employee. The employee's component is withheld by the employer from the employee's salary and paid to the fund together with the part the employer is required to pay. The attribution of the employers and employees' part of contribution is subject to periodic labour agreement negotiations.
4. The contribution level payable to the pension fund is part of labour agreement negotiations between employer and employee (the latter represented by unions or work councils) but should at a minimum be sufficient cover the costs of future benefits according to the current terms of the plan and measured according to an actuarial valuation method. Employer and employees could agree to reduce the level of future benefits in order to avoid an otherwise necessary contribution level increase.
5. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law or by articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers.
6. The pension fund centrally administers the plan assets that are generated by the contributions of the sponsoring employer, and uses these assets only to provide benefits to the participants (formerly) employed by the sponsoring employer.
7. The employer(s) are not able to control, currently or potentially, the pension fund assets and activities because of the fact that the board is equally represented by employers and employees and consensus should be reached on each and every board's decision.
8. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund. Generally, this means that they will give instructions to investment funds to invest and administer the plan assets taking into account specific risk management policies, asset mix allocations and administrative procedures. The ultimate responsibility of the asset mix allocation rests with the board of the pension fund and not with the employer or group of employers contributing to the fund.
9. The board of the pension fund is responsible for a proper execution of the pension terms. Pension terms cover at least the following:
    a. Determination of pension benefits (plan benefit formula; indexation measures) and payment thereof;
    b. Conditions and procedures for individual value transfer; and,
    c. Possible measures to be taken in the case of shortfall in the fund's assets.
10. Typically measures that can be taken from year to year (and notably in case of underfunding) by the board of the pension fund are primarily a foregoing of the indexation of accrued pension entitlements (risk borne by active employees, former employees and retirees) because of the contractual arrangement that indexation can only be granted if the fund has sufficient resources. If after the foregoing of indexations, a shortage still exists compared to a minimum funding level, available measures are:

   a. A reduction of pension entitlements that are earned by the active employees in the current service period (risk borne by active employees);
   b. A reduction of accrued pension entitlements (risk borne by active employees, former employees and retirees);
   c. An increase of contribution levels payable to the fund (risk borne by employer and employees as result of the shared funding system.

11. The board of the pension fund is required by law or by the articles of association to act in the interest of the fund and of all relevant stakeholders in the plan and this includes the consequences of taking the aforementioned measures. Therefore, in a variable benefit plan all stakeholders are exposed to actuarial and investment risk but the risks rest predominantly upon the (former) employees and retirees since the benefits are variable in nature. Due to the conditionality of indexation grants the ultimate benefit to be paid to the retirees is subject to a high degree of variability (even with modest inflation forecasts, subsequent indexation might comprise approximately 70% of the ultimate payment to the retiree).
12. In case of a pension surplus the board of the pension fund decides on the allocation of the surplus among the stakeholders. Because of the fact that the indexation entitlements are conditional (depending on a sufficient level of the fund’s assets), the surplus is typically used for the indexation of pension entitlements (beneficiaries are the participants, active and former employees and retirees).
13. In case of termination of the plan or the fund itself, the board of the fund decides on the allocation of the surplus or the deficit amongst the stakeholders, taking into account the requirement to act in the interest of all relevant stakeholders in the scheme.

Problems in applying IAS 19 to variable benefit plans

14. Under IAS 19 variable benefit plans are classified as defined benefit plans due to the fact that the plans are defining a minimum level of benefits while not satisfying the criteria of a defined contribution plan according to IAS 19.
15. IAS 19 makes no distinction between an employer that solely subscribes the actuarial and investment risk (gaining from surpluses and suffering from losses) and employer(s) that only limitedly subscribe(s) these risks with other stakeholders in the plan.
16. From the perspective of employers participating in a variable benefit plan their primary obligation is to pay the agreed contributions to the fund. Paying the required contribution to the pension fund reflects from their perspective a transfer of control over the contributed assets to the board of the pension fund who is legally entitled to take subsequent allocation decisions.
17. A surplus of deficit in the pension fund according to the measurement principles of IAS 19 will not lead by any mechanism to a present obligation of the employer due to variety of reasons. At first, the most important determinant of the pension result for the employee, the post-contribution indexations, are conditional and will only be granted if sufficient assets are available. Secondly, not the IAS 19 measurement method but the local funding requirements are decisive whether or not the fund faces a surplus or a deficit situation. Thirdly, the board of the fund decides how and to which extent the deficits and surpluses should be divided among the stakeholders while the board is required to act in the interests of all stakeholders. At fourth, an increase of the contribution levels could be avoided by the sponsors of the fund, meaning employers and employees, if they agree to reduce the level of benefits in the coming period.
18. IAS 19 requires the sponsoring employer to recognise fully the defined benefit obligation and the plan assets associated with the plan. Based on the previous paragraphs this full recognition of the financial situation of the pension fund based on the IAS 19 measurement principles does not faithfully represent the present obligation of the sponsoring entity.

Proposed solution

19. Variable benefit plans should be accounted for as defined contributions plans if certain conditions are satisfied. These conditions are:

    a. The plan should be administered by an independent entity (pension fund) with a board in which the employer and participants to the plan are at least equally represented and which fully controls the assets and the activities of the plan;

    b. The board of the pension fund should be required by law or by the articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees and employers;

    c. A curtailment, settlement or amendment of the terms of the employee benefit plan must ultimately be approved by the board of the fund and could not be forced unilaterally by one of the stakeholders in the plan;

    d. In case of termination or unwinding of the pension fund the board of the pension fund decides how to allocate the surpluses or deficits among the stakeholders;

    e. In case of pension plan deficits or surpluses towards a legally or statutory required minimum funding level, the board of the pension fund decides how and to which extent the deficits and surpluses should be divided among the stakeholders;

    f. The plan benefit formula should be based on current or career average salaries; indexation of entitlements will only be granted by the pension plan if the plan holds enough resources (indexation is conditional on availability of funds);

    g. The plan should be mutually funded, both by employers and by employees. The funding level should be agreed by both parties. If the agreed funding level is not enough to cover all pension costs under the plan, the Board has a mandate to take adequate measures in order to align the future pensions costs with the agreed funding levels; and,

    h. In any case the funding level should is based on reasonable actuarial assumptions and should in this regard be sufficient to cover all the pension expenses in a determined future period .

20. The sponsoring employer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from variable benefit plans. For each separate plan the entity shall disclose:

    a. the relevant terms of the benefit plan;

    b. the relevant elements of the funding agreement (if any) with the pension fund, e.g. fixed contribution arrangements, maximum contributions levels, frequency of resetting pension contributions, predetermined relationships between funding level of pension fund and contribution level of the sponsoring entity and the actuarial assumptions that are used in setting the yearly or periodic contribution level;

    c. to the extent that a surplus or deficit in the plan may affect the amount of future contributions;

        i. any available information about that surplus or deficit;

        ii. the basis used to determine that surplus or deficit;

        iii. the implications, if any, for the entity;

d. The measures that the board of the fund might take in case of eventually arising surpluses and deficits within the plan; and,

e. Anything else deemed relevant considering the pension plan or pension fund.

Basis for Conclusions

21. The accounting requirements of IAS 19 applied in the situation of a variable benefit plan can lead to the recognition of assets that are not controlled and liabilities that are not present obligations of the reporting entity itself. A sponsoring employer to a variable benefit plan is at the most jointly controlling the investments and the activities of the pension fund indirectly through its representatives in the board of the pension fund. The board of the pension fund has a mandate to act in the interest of all participants in the plan and should not to be regarded as an extension of the (group of) reporting entity(ies) that participate in the plan.
22. Taken into account the definition of an asset in the framework it is obvious that the assets of a pension fund could not be regarded as a controlled resource of the participating entity because the entity is not in a position to control or influence the allocation decisions regarding these assets.
23. The pension plan as described above is acting in a fully independent position as a result of which the plan itself should be regarded as the primary obligor of a pension plan deficit. It is the primary responsibility of the pension plan board to take adequate measures in case a pension plan deficit occurs. A complicating factor is that in most jurisdictions pension plan deficits are not measured according to the IAS 19 methodology but according to local minimum funding requirements.
24. The granting of an indexation of build up pension entitlements is an important measure for all participants involved. To illustrate: the pension that ultimately will be paid to the retiree, consists for a majority part of indexations that have been granted in the past. Because of the fact that indexation is conditional and depends on the availability of resources in the plan, it is fair to state that the majority of risks that originates from the benefit promise rest upon the (former) employees and retirees.
25. Even in case of a pension plan deficit after the foregoing of indexation, the board should act in the interest of all parties involved.
26. One of the measures that might be taken in case of a surplus or a deficit situation is a decrease or an increase in contributions levels to be paid to the fund which can be avoided by the sponsoring employer and employees in mutual negotiations as explained earlier. This mechanism evidences the factor that the plan is co-sponsored by both employer and employees.
27. If agreed funding levels fall below minimum funding requirements according to local regulations, the Board should take measures which often will result in an amendment of the plan benefit formula meaning that the level of benefits in future years will decrease as well. Another possibility in which the entity will not suffer from a deficit situation is that an increase of the contribution level is paid by the employees . In a subsequent opposite situation of a surplus, employees will have negotiated that they will benefit fully from a contribution level decrease.
28. Especially in this co-sponsored and variable benefit situation the relationship between a IAS 19 deficit and a reliably measurable outflow of cash flows from the sponsoring entity is hard to draw due to the various factors described in the previous paragraphs. This raises the question whether, in case of a IAS 19-deficit, the reporting company really has a present obligation since it is not evident at all that the deficit causes a settlement by which the entity should give up resources embodying economic benefits (Framework, par 62). Apart from questions regarding the definition of a liability, recognition problems seem to occur as well, due to the fact that it is unknown whether and to what extent the deficit will lead to a probable and measurable outflow of resources (Framework, par 91).

29. As a result the assets and liabilities related to a variable benefit plan do not meet important elements of the definition and recognition criteria of assets and liabilities in the *Framework* and consequently the corresponding amounts are not a faithful representation of the sponsoring entity's assets and liabilities.
30. The appropriate alternative for variable benefit plans is a defined contribution accounting treatment with detailed and appropriate disclosures about the cash flow risks inherent in the plan as indicated before.
31. In a defined contribution system the pension costs in the financial statements of the employer are equal to the employer's part of the contributions paid to the fund. If the contributions are based on marked based actuarial estimates of the costs of the benefits earned in a period, pension costs will reflect the market value of pension entitlements earned in this period. Therefore, we regard this condition of actuarially determined contributions based on current market conditions as an important prerequisite. Sometimes local regulators will demand an even higher contribution level due to fixed charges for future indexation and solvency purposes. In this case the condition is also met because the contribution should be at least sufficient to cover the expenses.

To summarise, if the conditions of variable benefit plans are satisfied, defined contribution accounting accompanied by enhanced disclosure requirements of the financial position of the pension fund and the possible consequences on the required contribution levels at different scenario's, will provide the user of the financial statements more meaningful information with regard to the risk profile of the future funding of the pension fund than the current IAS 19 accounting treatment does.