BDO Global Coordination B.V.
Global Coordination Office

Boulevard de la Woluwe 60, B-1200 Brussels
Telephone: +32 2 778 0130 Fax: +32 2 778 0143
E-mail: bdoglobal@bdoglobal.com

COMMENT LETTER

To
International Accounting Standards Board
30 Cannon Street
London
EC4M6XH
United Kingdom

Date
26 September 2008

By email CommentLetters@iasb.org

Dear Sir,

Discussion Paper: Preliminary Views on Amendments to IAS 19 Employee Benefits

We are pleased to have the opportunity to respond on behalf of BDO International[1] to the IASB's invitation to comment on the Preliminary Views document, *Amendments to IAS 19 Employee Benefits,* which was issued in March 2008.

We support the desire to improve the quality and transparency of financial statements as regards Employee Benefits. However we question whether the fundamental change in the definition of schemes is something that should be made as a short term project. We are concerned that, in making such a large change in order to accommodate certain specific schemes, other unanticipated and unconsidered areas of uncertainty might arise.

We support the proposal to remove the current smoothing recognition. We would also support an approach that addressed particular types of scheme, such as guaranteed return or higher of, as a short term measure pending the longer term review of accounting for pension schemes.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them further, please contact either Helen Thomson at + 32 2 778 0134 or Andrew Buchanan at +44 (0)20 7893 3300.

Yours faithfully

Helen Thomson

BDO Global Coordination B.V.

---

[1] BDO International is a world wide network of public accounting firms, called BDO Member Firms, serving international clients. Each BDO Member Firm is an independent legal entity in its own country.

The network is coordinated by BDO Global Coordination B.V., incorporated in the Netherlands, with an office in Brussels, Belgium, where the Global Coordination Office is located.

BDO

IASB's Preliminary Views:

Responses to Questions

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?

Although a complete review of pensions accounting is necessary, we agree that the board should, as an interim measure, address only specific aspects of the existing standard.

However as noted above we do not agree that the proposed fundamental change in the definition of schemes is something that should be made as a short term project.

As part of the longer term project the standard should consider the situation where by law the employee and employer are required to share certain risks.

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 with the Board's preliminary view that entities should recognise all changes in the value of plan assets and in the defined benefit obligation in the financial statements in the period in which they occur.

We also agree with the Board's preliminary view that entities should not divide the return on assets into an expected return and an actuarial gain or loss. However we were uncertain how such an approach would be consistent with approach 3 in chapter 3 as paragraph 3.39 suggests using expected return to identify interest income on scheme assets.

We note the proposal that entities should recognise unvested past service cost in the period of a plan amendment. The rationale for such a change from the existing IAS 19 needs considered explanation given that "it is not consistent with what the Board thinks is the best conceptual answer" (Paragraph 2.20).

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?

To a large extent, any conclusions on presentation are dependent upon the final outcome of the financial statements presentation project and our comments may well change in the light of this.

We support Approach 1 for the reasons set out in paragraph 3.17. It would also be the simpler alternative to apply.
We have some concerns with approach 2 and 3. These include:

- Ensuring consistency between entities in dividing interest income and expense from other "financial assumptions";
- The need to identify "interest income" for plan assets;

IAS

- Inconsistencies between alternative 3 and the proposal not to divide the return on assets into an expected return and an actuarial gain or loss; and
- The scope for financial engineering if returns on income producing investments are treated differently to those on capital growth investments.

Whichever alternative is adopted, we feel that for such an approach to work the board must mandate the presentation of the component parts in the income statement in order to achieve consistency of reporting between different entities. Indeed, whichever of the 3 approaches the board intends to pursue, comparability of financial statements will not be achieved if entities do not disaggregate the income statement charge or are given freedom of choice as to whether to present different elements as operating or financing.

Question 3(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

Although we accept that different gains and losses have different predictive value, we do not believe that the solution is to "relegate" the importance of those changes in value to other comprehensive income. Instead, components should be disclosed in the notes to the financial statements so that users can make up their own minds as to the significance of their predictive value. Therefore we attach little importance to the first of these issues.

We do consider it important that there is an appropriate disaggregation of information about fair value so that users have a good insight into what has driven the change in fair values in any given period.

There is undoubtedly a link between the risk of a defined benefit obligation and the nature/quality of any assets, if any, that may have been set aside to fund it. Consequently, although we agree that the actual return on assets is the only number that should be recognised in the performance statements concerning scheme assets we also believe that it is necessary to reconsider whether it is appropriate to use the rate inherent in a high quality corporate bond to discount the scheme liabilities. However, we accept that reaching a conclusion on this issue may be too difficult in the short-term and does not provide sufficient reason for the board to reconsider whether entities should divide the return on assets into an expected return and an actuarial gain or loss

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?

To a large extent, any conclusions on presentation are dependent upon the final outcome of the financial statements presentation project and our comments may change in the light of this.

In the interests of comparability between different entities, whichever of the 3 approaches is finally decided upon, we believe the board should:

VH5

- specify the components of the changes in fair value of plan assets and plan liabilities that should be separately identified (i.e. the level of disaggregation); and
- mandate which section of the income statement (operating or financing) each gain and loss so identified should be presented within. We believe changes in assumptions and experience gains and losses related to the service cost should be presented as an operating expense, while the actual return on plan assets, and changes in assumptions about the discount rate together with experience gains and losses related to the discount rate should be presented as finance income and finance cost respectively.

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?

As noted above, we are concerned that a fundamental change in the definition of schemes is something that is proposed as a short term project.

As part of the longer term project the standard should consider the situation where by law the employee and employer are required to share certain risks.

Questions 6 to 15

In the light of the above we have not answered the remaining questions (6 to 15) in detail but make some observations below.

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?

Question 7

Do the proposals achieve [the goal of not leading to significant changes in the accounting for most promises that meet the definition of defined contribution plans in IAS 19]?

We do not believe that the proposals would lead to significant changes in the accounting for most promises that meet the definition of a traditional defined contribution plan in IAS 19.

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 not?

(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?

It seems odd if this means (as is admitted in Chapter 8 of the Discussion Paper) that the same vested liability would be measured in different ways depending on the way it was accumulated.

US

BDO

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

Under alternative 1 (which we support above), (a) and (b) above would appear to be the same.

145