Luxembourg, 19 September 2008

European Investment Bank

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Comment letter on the discussion paper *Preliminary views on amendments to IAS 19 Employee Benefits*

Dear Sir/Madam,

We thank you for providing us the opportunity to respond on your discussion paper *Preliminary views on amendments to IAS 19 Employee Benefits*.

You will find enclosed our detailed observations and responses to the questions raised in the discussion paper.

We remain of course available should you wish further clarification on our opinion.

Best regards,

Henricus C. J. Seerden
European Investment Bank

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?

We believe the proposed scope is quite comprehensive. However, we would urge to add the issue of the definition of the discount rate. Indeed, the current fixing of the rate at which to discount future payments of benefits, in particular in a defined benefit promise, is different from that of other financial liabilities of the entity. This causes distortions in the assessment of the financial position of an entity, in particular when pension promises account for a significant part of the entity's liabilities.

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 preliminary views expressed in paragraphs PV2-PV4 and did not identify other factors to be considered at this stage.

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?

In our opinion, approach 3 whereby only re-measurements arising from changes in financial assumptions are presented in OCI is the approach that provides the most useful information to users of financial statements. Under this approach, the full cost, i.e. both the service cost and related financial cost, excluding re-measurement, of providing pension promises during the year are reflected in profit or loss. Subsequently it becomes a matter of presentation to distinguish between the staff cost and the financial cost of pension provision. We agree in this respect with paragraph 3.20 that (temporary) price changes on long-term items have other predictive value than service and finance cost incurred during the year.

(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?

In our view, both the presentation of some components in OCI and disaggregation of fair value information (in the Notes to the Financial Statements) are important. That is also the reason why we prefer approach 3.

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

Approach 3 is obviously the approach that will prove to be most costly to the preparers. Therefore, and despite our preference, an impact study should be part of the due process that leads to the decision in favour of this approach. With this respect and referring to paragraph 3.29, it is preferable to use market yields on high quality corporate bonds to estimate the interest income on plan assets. This method has the advantage of comparability with the interest charge relating to the defined benefit obligation.

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?

We have no alternative approaches to presentation, other than the ones proposed by the Board.

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?

We believe that if you include some form of inflation adjustments during the vesting period, some of the promises that you list will be excluded from the scope of contribution-based promises and would become defined benefit promises.

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?

There will indeed be a reclassification of several promises that today are classified as defined benefit promises because of a slight residual risk for the plan sponsor. However, we believe that career average plans, which are quite common, would not be reclassified if indexation of previous salary amounts, e.g. to inflation, is included.

Among the practical difficulties linked to reclassification, we have identified:

- Uncertainty about the classification, i.e. the discussion paper does not draw a bright line between defined benefit and contribution-based promises;
- Different measurement after re-classification, leading to gains and losses that are solely linked to a change in accounting standards;
- Communication to plan members and investors about the new measurement method to be applied, especially if we consider that pension promises are usually very carefully scrutinised by plan members and their representatives, the social partners.

Question 7

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

In our opinion, the proposals achieve that goal, given that the IAS19 definition of defined contribution plans is narrower than the new definition of contribution based promises.

Question 8

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

We agree with the preliminary views in paragraphs PV9-PV11. We urge however for disclosure requirements with regards to the vested and unvested parts of the benefit obligation. While it is true that, under a going concern and accrual basis assumptions, as defined in the Framework, one cannot assume that unvested benefits remain unvested (in the case where the entity is taken as unit of account and not the individual plan member), it is nevertheless also true that users have an interest in knowing the amplitude of the unvested part, enabling them thus to assess the potential gains caused by unvested participants leaving the plan.

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.

The answer to this question will depend on the outcome of the debate on fair value measurement in general. Nevertheless, we observe, based on the information included in chapter 7, that the Board is not envisaging a fair value as “current market exit price”, i.e. the price to be paid to transfer the obligation, but rather the current value of the future benefit amounts to be settled.

(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?

In our opinion, the effect of risks should be included as a component of the measurement approach. However, one aspect of risk that we find difficult to include is the entity’s own credit risk. This would lead to the paradoxical result that the same pension obligation is more expensive for a plan sponsor with a high credit ranking compared to a plan sponsor with a lower ranking. We agree in particular with the statement in paragraph 7.28 that this would be a significant and difficult change. We also explicitly agree that the risk that the terms of the benefit promises change, should not be included in the measurement and should only lead to re-measurement in the reporting period during which they are decided, as concluded by the Board in paragraph 7.33.

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?

In the example set out in Chapter 8, both obligations are the same in the payment phase, with the same type of risks attached to it for the entity. Therefore we believe both obligations should be treated the same. This implies however, for obligation A, a measurement which is different during the accumulation phase as compared with the payment phase (where the promise is considered to be a defined benefit). This is again due to the difficulties surrounding the choice of the discount rate for the different types of promises, as already mentioned in our answer to question 1.

(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?

If the benefit resulting from a contribution-based promise is paid as an annuity until death, during the payout phase, it gets all the characteristics of a defined benefit promise. This will entail practical difficulties. One of the difficulties will be how to account for the “day one” profits or losses that are bound to occur because of the choice of the discount rate for defined benefit promises. The other difficulty will be the explanation and justification of such profits or losses to stakeholders, including social partners.

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?

We agree that the separation of service cost represents a sufficient level of disaggregation. It discloses to investors and other stakeholders the social cost of providing pensions.

(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?

We do not agree that it would be overly difficult to disclose components similar to those required for defined benefit promises. In our opinion, it is not more difficult to disaggregate these components for a contribution-based promise than for a defined benefit promise.

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 prefer that an approach similar to approach 3 in chapter 3 be adopted. Given that there will be little difference between a defined benefit promise that is "almost" contribution based and vice-versa, it would confuse the user if very different presentations are used.

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?

The practical difficulties would stem again from a different measurement basis for both types of promises. This could result in a higher measurement value for the type of promise that is in reality lower in value, if it were to be measured on the same basis.

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

There are practical difficulties inherent to the treatment of the "higher of" option, however, we welcome paragraph 10.8, where the Board decided to maintain as host promise the defined benefit promise if the value of the option (to opt for the contribution-based payout) is small.

Question 14

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

We believe that current disclosure requirements under IAS19, for defined benefit promises, should already be seen as a maximum. An exception would be the distinction between vested and unvested promises, as explained in our answer to question 8. Going even further would entail the risk of significant costs for the preparers and loss of relevance for the users, due to the flood of information to be analysed.

Question 15

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

We wish to end by re-emphasising our main concern. A different measurement base for types of promises that are often close to each other in their definition will create confusion for the users. The other danger is that it might lead an entity to choose terms for the plan that put it on either side of the borderline between the two types of promises, depending on the profit and loss that either choice would produce.