EXECUTIVE BOARD

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Onderwerp
ING response on IASB Discussion Paper "Preliminary Views on Amendments to IAS 19"

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Dear Sir David,

We have read your proposals contained in the Discussion Paper (DP) *"Preliminary Views on Amendments to IAS 19 Employee Benefits"*. We would like to thank you for the opportunity to comment on your proposals.

In this letter, we provide the comments on behalf of ING Group, a world-wide financial services organisation focusing on banking, investments, life insurance and retirement services. Based on market capitalisation at 31 December 2007, ING is one of the 20 largest financial institutions worldwide.

We have included below our most important comments on the DP. Our responses to the specific questions raised in the DP are included in the appendix. We note that we have contributed to the responses on this DP of several industry organisations, including the joint response of The European Insurance CFO Forum and the European insurance and reinsurance federation (CEA). We fully support the comments made in that response.

The issues in IAS 19

In our opinion, the current requirements in IFRS on accounting for employee benefits (IAS 19) need significant improvement. The requirements are detailed and complex and in many cases result in outcomes that are not in line with economic reality and are not well understood, neither by preparers nor by users. We therefore support an initiative to thoroughly reconsider accounting for employee benefits. We understand that the Board is planning to perform such fundamental review, but that it is unable to do so in the short or intermediate term. We regret that this area of accounting, which is of significant interest to many entities across all industries, in need of significant improvement and much criticised by preparers and users, cannot be dealt with in a shorter timeframe.

We believe that the current IAS 19 has two fundamental issues that should be addressed:

- The distinction between defined benefit (DB) and defined contribution (DC) plans. By strictly defining DC and defining DB as the remainder, many plans must be accounted for as DB, whereas in economic reality they are very similar to DC or at least include features that are very similar to DC. Employee benefit plans exist in many different forms, with many different features, and cannot be captured into two theoretical categories.
- The measurement model for defined benefit plans. The model (and specifically the "projected unit credit" method) is highly complex, is rule-based, is inconsistent with other requirements in IFRS (in that it recognises future obligations and recognises items that are not under control of the entity) and the outcome is difficult to understand.

The proposals in the DP

The DP attempts to address part of the first issue. We welcome the reconsideration of the distinction between DB and DC and the conclusion that certain plans that must be treated as DB under the current IAS 19 (including plans that guarantee a return and average-pay plans) are no longer considered to be DB.

However, we believe that there are other issues with the current distinction between DB and DC that should also have been addressed (including especially plans that are controlled by an independent party (fund) and in which the risks are shared between the employer, the employees and the retirees). Rather than introducing a new "bright line" distinction, we believe that the definitions should be principle-based and that benefit plans should be classified based on a review of all their terms and conditions.

Furthermore, the DP addresses this issue by introducing a new category of benefit promises with a new complicated measurement model. As long as the measurement model for employee benefits in general is not being reconsidered, we believe that it is premature to introduce a new measurement model for certain benefit plans. Furthermore, the measurement model proposed in the DP (*"fair value assuming the terms of the benefit plan do not change"*) is theoretical and unclear in many respects. Rather than introducing a new measurement model for DC at this stage, we believe that the measurement of DC should remain unchanged until the fundamental reconsideration of IAS 19 is completed.

The DP does not address at all the second issue. It defers the reconsideration of the measurement model for DB to an, undefined, second phase in the longer term. The DP does however propose to remove the "corridor approach", which is a fundamental component of the current measurement model. We strongly disagree with changing a key component of the measurement model without reconsidering the model itself. Although we do support the development of a better measurement model for DB, we fundamentally disagree with just removing the corridor now while leaving the measurement model unchanged.

Furthermore, despite that employee benefit accounting is part of the convergence efforts between the IASB and the FASB, we note that the proposals to remove the corridor approach will not result in convergence with US GAAP; conversely, the impact on the profit and loss account would be more divergent with US GAAP.

Conclusion

We believe that a fundamental reconsideration of the measurement of employee benefit liabilities is needed. We do not support the proposals to change the measurement model of DC (to "fair value assuming the terms of the benefit plan do not change") and DB (by removing the "corridor approach") as short term measures. These would not resolve the core issues and only result in more complexity and less relevance and understandability. We believe it would be better if the IASB would focus on accelerating the discussion on a structural review of employee benefit accounting. We are available to discuss these comments, and our views on a structural approach to employee benefit accounting, further with you and/or your staff.

Yours truly,

John Hele

Appendix: Responses to questions raised in the discussion paper

APPENDIX:
RESPONSES TO QUESTIONS RAISED IN THE DISCUSSION PAPER

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 that the core issue to be addressed is the measurement model in IAS 19 for DB plans. Although we realise that a fundamental review of employee benefit accounting is complex, we would have preferred if the IASB would have addressed the core issues as a priority project, rather than deferring these to the long-term and focusing its efforts on short-term proposals that do not resolve the key issues in IAS 19.

The distinction between the DB and DC plans in the current standard does not work in practice. We welcome the proposed changes to pension benefits that are based on contributions and a promised return. However, we believe that there are many other employee benefit schemes that have characteristics of both DB and DC that are equally important to be addressed, but remain unclear under the proposals.

Other current issues that need to be addressed include:

- pension plans that are controlled by an independent party (fund) and in which the risk regarding the defined benefit is shared between the employer, the employees and the retirees;
- treatment of mandatory multi-employer schemes; and
- treatment of (conditional) indexation.

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 believe that the Board has insufficiently considered that the corridor approach is a fundamental part of the current measurement model for DB. This was fully recognised when IAS 19 was issued by the IASC. All arguments that were considered at the time IAS 19 was issued continue to be relevant. Conversely, all arguments that are included in the DP in favour of removing the corridor approach were already considered when IAS 19 was issued.
We therefore fail to see what has changed since the issuance of IAS 19 that would imply that the corridor approach could be changed now. We specifically refer to the consideration in paragraph BC41 of IAS 19, which includes:

"The Board found the immediate recognition approach attractive. However, the Board believes that it is not feasible to use this approach for actuarial gains and losses until the Board resolves substantial issues about performance reporting. These issues include:
(a) whether financial performance includes those items that are recognised directly in equity;
(b) the conceptual basis for determining whether items are recognised in the income statement or directly in equity;
(c) whether net cumulative actuarial losses should be recognised in the income statement, rather than directly in equity; and
(d) whether certain items reported initially in equity should subsequently be reported in the income statement ('recycling').
When the Board makes further progress with those issues, it may decide to revisit the treatment of actuarial gains and losses."

We note that the Board is still discussing these issues about performance reporting as part of its Financial Statement Presentation project. There has been little progress in resolving these issues. We therefore fail to understand why the treatment of actuarial gains and losses in the corridor approach is being reconsidered now, without any clear progress on the issues identified when IAS 19 was issued.

Furthermore, we believe that convergence with US GAAP was insufficiently considered in preparing the DP. The proposals in the DP appear to increase divergence with US GAAP. For example, the removal of the corridor approach will reduce comparability in respect of the profit and loss account. We do not believe that this increased divergence will provide useful information to the users of financial statements and note that it is not in line with the IASB's longer-term aim of improving the accounting for employee benefits in conjunction with the FASB.

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?

As explained above, we fundamentally disagree with changing the corridor approach for actuarial gains and losses at this point in time, without fundamentally reconsidering the accounting for employee benefits.
Furthermore, we believe that the issues raised in this question are not specific to employee benefit accounting but should be addressed as part of the performance reporting issues in the Financial Statement Presentation project.

Having said that, we note the following:
Under Approach 1 all changes in the net pension liability are immediately recognised in the profit and loss account. We strongly believe that this approach does not provide relevant and useful information to users of the financial statements. Immediate recognition of unrealised actuarial gains and losses in the profit and loss account would distort operating results. Recognition of certain components in other comprehensive income (as proposed in Approaches 2 and 3) is preferable.

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?

The Board can improve the approaches by a fundamental review of the accounting for employee benefits. In the meantime, the current approach in IAS 19 should be maintained.

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 refer to our response on Question 1.

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?

The reclassification will include all plans that guarantee a fixed return or a return based on average salary (during the employment), which could be significant in certain jurisdictions. We believe that this reclassification represents an improvement, as it is more in line with the economic characteristics of these types of plans.

Significant practical difficulties are caused by the new measurement model "fair value assuming the terms of the benefit promise do not change". This is a new measurement attribute that is described only at a very high level in the DP. It has not been applied before and has not been tested in practice. It includes many similarities with the "current exit value" model that is proposed in the DP for insurance contracts. That model has raised many questions/issues that have not yet been addressed or resolved and are equally relevant to the proposals in this DP.

Question 7: The Board does not intend the 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?

We are unable to comment at this moment. The DP introduces a complete new measurement model, but assumes that the impact thereof on current DC plans is insignificant. We are of the opinion that this assumption should have been tested in more detail before a new measurement model is proposed.

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

Although we believe that the matters raised in this section should be part of the fundamental review of employee benefit accounting, we have no objections to the conclusions at this stage.

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?

As set out above, we believe that a fundamental review of the measurement model for employee benefits is necessary. Introducing a completely new measurement model for contribution based promises, while not addressing other issues regarding the distinction between DB and DC and the measurement model for DB, is not the appropriate solution for improving IAS 19. We believe that in the short-term the current measurement model for DC should be maintained. As noted above, we believe that the guidance provided on the proposed measurement model is too limited. The model is similar to the proposed model for insurance contracts (three building blocks). However, the principles of application expressed in this DP are very limited compared with the principles set out in the DP on insurance contracts. Furthermore, issues that have arisen with the DP on insurance contracts may be equally relevant to the measurement model proposed in this DP.

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 the measurement of an employee benefit plan must be consistent throughout its life and, therefore, 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. With regard to the practical difficulties, we refer to our response on Question 6.

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?

As explained above, we disagree with the introduction of a new measurement model for contribution-based promises at this stage. Furthermore, the DP does not provide sufficient guidance on the proposed new measurement model. Therefore, we believe that it is premature to comment on aspects of presentation and disclosure.

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?

The changes in the liability for contribution-based promises should mirror the presentation of changes in the liability for defined benefit promises. We see no reason why this should be inconsistent. Furthermore, our concerns with presenting all changes in employee benefit liabilities immediately in the profit and loss account, as expressed in our response on Question 3, equally apply here.

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 disagree that the liability should always reflect the "higher of" option. When the value of one promise is higher than the other, this does not necessarily mean that the participant will always choose the promise with the higher value. There could be other considerations or features that influence such decision, including, for example, the level of risk to the participant. Therefore, we believe that a probability-weighted approach to different options results in a more relevant and realistic outcome.

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

Given our responses on the questions above, we believe that it is premature to comment on disclosure requirements at this stage. We do note however that the current disclosures on employee benefits are already very extensive. We therefore believe that an overall reconsideration of disclosure requirements is preferable over an approach that only considers potential additional disclosures.

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

We refer to the comments in the main part of our letter.

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