

Department of Treasury and Finance



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Ms Anne McGeachin
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Dear Ms McGeachin

DISCUSSION PAPER *PRELIMINARY VIEWS ON AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS*

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments on International Accounting Standards Board Discussion Paper: *Preliminary Views on Amendments to IAS 19 Employee Benefits*.

HoTARAC is of the opinion that the IASB did not provide enough information in the Discussion Paper to justify the need for change in accounting for post-employment benefits. The IASB should have provided greater detail on the current issues, rather than simply stating that anecdotal evidence and academic research suggests that many users of financial statements do not fully understand the information that entities provide about post-employment benefit promises. Greater detail would have allowed HoTARAC to determine if the changes suggested in the Paper will address the current issues.

HoTARAC is also of the opinion that the IASB would achieve greater improvements in accounting for post-employment benefits if it took a principles-based approach to the Standard rather than the rules-based approach, as set out in the Discussion Paper. The IASB needs to explore why post-employment benefits needs a rules-based accounting Standard when accounting standards for other types of assets and liabilities are principles-based.

Given the two issues stated above, HoTARAC does not support the IASB in its undertaking of this Project. Nevertheless, HoTARAC has provided comment on the specific issues to assist the IASB in its consideration. HoTARAC supports the following individual proposals as set out in the Paper:

- the recognition of all changes in the value of plan assets and in the post-employment benefit obligations in the period in which they occur;
- the recognition of unvested past service cost in the period of the plan amendment;

- the recognition of both vested and unvested contribution-based promises as a liability;
- the allocation of benefits earned under a contribution-based promise to periods of services in accordance with the benefit formula;
- the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase; and
- the liability for contribution-based promises should mirror the presentation of changes in the liability for defined benefit promises.

A consensus could not be achieved amongst HoTARAC members in regards to the presentation of changes in post-employment benefits. The majority of members support Approach 1, presenting all changes in the value of plan assets and obligation in the Profit and Loss. Supporters of Approach 1 are of the opinion that this approach provides the most useful information to users of financial statements and is best aligned to the *Framework*. All of the supporters of Approach 1, currently recognise actuarial gains and losses through the Profit and Loss.

A minority of HoTARAC members supported Approach 3, presenting remeasurements that arise from changes in financial assumptions in other comprehensive income and all other changes in the Profit and Loss. Supporters of Approach 3 believe that this approach will reduce the volatility in the Profit and Loss associated with revaluations, allow users of financial statements to assess the stewardship of management without taking into account factors, which to some extent are outside the control of management and to estimate future cash flows on information that is not distorted by unrealised gains/losses.


HoTARAC does not support the introduction of the new unit of measurement "promises". It is HoTARACs opinion that the IASB did not adequately explain or justify this new unit of measurement in the Paper to allow constituents to determine its full implications. In particular, the IASB did not detail the level of disclosure required or if assets will need to be allocated to a promise.

Australian Governments currently report on a plan level in accordance with AASB 119 *Employee Benefits*. If the concept of promises is introduced, Australian Governments plans will need to be broken down and reported on a promise level. Based on the limited material on promises in the Discussion Paper, HoTARAC has estimated that the Australian Government military plan consists of at least nine promises and that other plans consist of at least two or three promises. HoTARAC does not see any benefits in this lower level of reporting, especially in regards to plan assets.

Detailed comments by HoTARAC on the Discussion Paper are attached.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Government Department of Finance and Deregulation on +61 2 6215 3551.

Yours sincerely



D W Challen

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

28 August 2008

Encl

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