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International Accounting Standards Board
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Dear Sir/Madam

Discussion Paper: Preliminary views on amendments to IAS 19 Employee Benefits ("PV")

The Global organisation of Ernst & Young is pleased to respond to the above discussion paper. We discuss below some of the broader issues raised by the PV. Our responses to the specific questions in the Invitation to Comment are set out in the Appendix to this letter.

As the IASB is aware, EFRAG has issued a discussion paper: The Financial Reporting of Pensions ("FRP"). The FRP is written as an attempt to undertake a fundamental reconsideration of accounting for pensions and that paper notes that the IASB and FASB longer-term joint project is intended to produce a common standard on post-employment benefit arrangements (for the purposes of this letter, and for ease, we have used the term pension). We agree that a fundamental reconsideration of accounting for pensions is required. However, we are not convinced that pensions or post-employment benefit arrangements should be considered as a separate 'issue' requiring separate accounting literature. Rather, we believe that the issues that arise in relation to pensions involve the following, all of which are being addressed by the Board:

- Recognition and measurement of liabilities (not those arising from financial instruments)
- Presentation of the movements in those liabilities
- Consolidation of separate pension schemes

If appropriate principles-based accounting standards were developed to address these items, we believe a separate pensions accounting standard would likely be unnecessary. Rather, it could be confined to a standard that simply applies those principles to pensions.

It is clear that IAS 19, in its current form, gives rise to practical problems which may be susceptible to short-term improvements. This is evident in the numerous IAS 19 related issues that have been referred to the IFRIC which have not been answered. We believe many of the matters referred to IFRIC have not been answered as they can only be answered in the context of an overall review of IAS 19. We have considered the PV in the context of these short-term improvements. However, in our view making short-term changes to IAS 19 that introduce inconsistencies in accounting for different employee benefit arrangements would not serve to improve financial reporting.

Presentation

We understand the conceptual problems with the currently permitted 'corridor approach' and note that the Board has proposed in the PV to eliminate it. This would be a move toward consistency with the conceptual framework. From a balance sheet perspective, the current IAS 19 approach of deferring the recognition of gains and losses is inconsistent with the framework. However, as the PV discusses, elimination of the corridor raises important presentation issues that need to be carefully considered.

Of the three proposed approaches, we believe that Approach 1, full recognition of all changes in the defined benefit obligation and value of plan assets in profit or loss, is the most consistent with the conceptual framework. However, given that the Board is still in the process of addressing fundamental presentation issues, in the short term we accept that other approaches to presentation may be appropriate.

We do not support the PV's Approach 2 to presentation because it excludes interest costs, a significant and real cost of providing pension benefits, from profit or loss.

We consider Approach 3 in the PV to be an acceptable alternative, if it were further developed. This approach seeks to present service cost, interest cost and interest income, together with changes in non-financial actuarial assumptions, in profit or loss, with the effects of changes in financial assumption presented in other comprehensive income. We agree with the Board that such an approach is the most complex of the three to implement, as the method of identifying the interest income to include in profit or loss would need to be determined. We have considered the possible methods of implementing Approach 3 outlined by the Board in paragraph 3.29 of the PV and prefer the second method described. That method would determine interest income on plan assets using dividends received on equity plan assets and interest earned on debt plan assets (using the current rate market participants would require for equivalent assets). The first method is inconsistent with the conclusion the Board has reached in paragraph 2.15 on distinguishing expected and actual returns on plan assets. The third method does not take into account actual (or even expected) return on plan assets, nor does it take into account the composition of plan assets.

Contribution-based Promises

We acknowledge the growth of hybrid plans and recognize the anomalies arising in accounting for them using the projected unit credit method. However, we are concerned that the proposals in the PV will give rise to differences in the measurement of economically similar pension commitments, depending on whether they are classified as a contribution-based or a defined benefit plan. As the PV highlights, this will be the case with pensions in the payment phase. We do not believe that it is appropriate to introduce such inconsistencies as part of a short term project and therefore do not support the Board's proposals in the PV. Accordingly, we do not support the introduction of the contribution-based promises approach, in the absence of broader deliberation of IAS 19.

If you would like to discuss our responses further please contact Leo van der Tas at 020 7951 3152.

Yours faithfully

Ernst & Young

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Appendix A

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 recognise the limits established on the project and would not seek to address any additional issues at this time.

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 to reconsider its preliminary views? If so, why?

We have provided commentary on the broader issues in the body of our letter.

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 costs 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?

We have addressed this in the body of our letter. However, we would also note that so long as full disclosure is made of the components of the change in pension assets and liabilities, whether by way of notes or as sub-analysis within the primary statement, differences in the decision usefulness of any of the proposed presentations may be insignificant. Whatever presentation is adopted, users seeking to understand the impact of pensions on the performance and financial position of an entity will need to review carefully the lengthy related disclosures and, we suspect, will draw their own conclusions from that information.

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?

Please see our views on the three approaches discussed in the PV within the body of our letter.

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?

For the reasons set out in the covering letter, we do not favour the Board's proposals in relation to contribution-based schemes, and accordingly, we have not commented in detail on the following questions. Please see our overall views on the contribution-based promises proposals within the body of our letter.

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?

Please see our overall views on the contribution-based promises proposals within the body of our letter.

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

Please see our overall views on the contribution-based promises proposals within the body of our letter.

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

Please see our overall views on the contribution-based promises proposals within the body of our letter.

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 Boards post-employment benefit promises project? How should this be done?

Please see our overall views on the contribution-based promises proposals within the body of our letter.

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?

Please see our overall views on the contribution-based promises proposals within the body of our letter.

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?

Please see our overall views on the contribution-based promises proposals within the body of our letter.

Question 12: Should changes in the liability for contribution-based promises: (a) be presented in the profit or loss, along with all changes in the value of plan assets; or (b) mirror the presentation of changes in the liability for defined benefit promises? Why?

Please see our overall views on the contribution-based promises proposals within the body of our letter.

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 proposal for benefit promises with a 'higher of' option? If so, what are they?

Please see our overall views within the body of our letter.

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

We are aware that the UK ASB has issued a reporting statement that includes a number of suggested "best practice" disclosures – the Board may wish to give careful consideration to