International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo 26 September 2008

Comments to the IASB discussion paper regarding amendments to IAS 19

IASB issued in March 2008 a discussion paper "Preliminary views on amendments to IAS 19 Employee Benefits". We appreciate the opportunity to comment on the paper. This letter expresses the views of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB).

We do support the work and the initiative of IASB in releasing this report, as we see the need for a limited quick fix of the current accounting for pension benefits within the current measurement framework, while we wait for the new principles to develop.

One general comment is that we believe that this quick fix should be based on the same main principles as the current IAS 19, and to the extent possible no changes of definitions and measurement models should be introduced. When there are different allowed treatments in IAS 19, the quick fix's starting point should be to reduce the numbers of possible solutions, preferably to only one single solution. Our main points of view are:

- *We welcome the release of the discussion paper and agree that IAS 19 needs some short term improvements.*
- *We agree with the proposal that changes in plan assets and benefit obligations should be recognised in the period they occur resulting in the removal of the corridor and other smoothing mechanism in the standard.*
- *However, we believe the treatment of changes in plan assets and benefit obligations should be based on one of the current allowed treatments in IAS 19, and not based on a new method introduced in this short term improvement project. Presenting all changes in the statement of profit and loss is our preferred solution.*
- *We do not support the introduction of the new contribution based promise definition and the new method of measuring defined contribution plans. We do not support the principles proposed, and most importantly we think that the proposed changes are too complex and ambitious for a short-term improvement project.*

Please find our comments to your questions in the appendix.

Yours faithfully
Norsk RegnskapsStiftelse

PP Siri C. Rosenblad

Erlend Kvaal
Chairman of the Technical Committee on IFRS

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 have three additional issues that in our opinion should be fixed within the current measurement model of IAS 19 as part of this "quick fix".

Discount rate.
In our view IAS 19 should only give guidelines regarding how to set an appropriate discount rate and what factors to include (time value of money, risks etc), but the discount rate should not be linked to a specific market rate (corporate bond market). We acknowledge however, that a fundamental review of the basis for the discount rate is not realistic to address in a quick fix.

However, we believe that it is relevant to address the consequences of the current interpretation of paragraph 78 for companies in countries that are integrated into international financial markets, but do not have developed domestic markets for high quality corporate bonds. These companies will today have to use the government rate as the discount rate for its pension obligations.
We believe that the lack of such a bond market should not influence the present value of the pension obligation. Furthermore, the use of government rate as the discount rate in such countries, leads to the fact that the financial statements for companies operating in these countries are not comparable with similar companies operating in countries with deep bond market.
Our view is that for pension plans in such countries one should be allowed to estimate a proper risk adjustment to the discount rate rather than being forced to use the government bond rate. Moreover, IAS 19 does not give any alternatives if the government bond market is inefficient. In many countries the market dept for government bonds may vary with the general market conditions and economic cycles.
In our opinion, countries with well developed financial markets do have access to high quality corporate bonds. The companies in such countries are able to utilize various financial strategies to accomplish the ultimate objective of obtaining high quality corporate bonds denominated in the countries' currency. We believe the utilization of such financial strategies should be consistent with the intent of paragraph 78 and we thus recommend that this issue is addressed in this quick fix.

Gross presentation in the balance sheet.
Gross presentation of any item in the balance sheet is the main rule in the framework and other standards such as IAS 8, IAS 32 etc. Indeed under IAS 32 there are strict rules regarding when an entity is allowed to net financial instruments. We do not see that any of the conditions in IAS 32.42-50 is met for a standard pension plan, if IAS 32 were to be used analogous.
In our view, the users of financial statements want the pension liability and the plan assets to be presented gross in the balance sheet. By presenting those items net, the relevant risk exposure of the balance sheet items, and of the equity, is concealed.
We acknowledge that this issue is discussed in the introduction to the paper (1.11), but we are not convinced that the conclusion is correct. Firstly, a vital issue for the users is the risk exposure, and thus not only whether or not the fund is controlled by the entity. Secondly, the assumption that the sponsor does not control the fund is weak and does certainly not apply to all pension plans/or countries. When the pension plan is organised in a separate pension fund, that fund is in many jurisdictions controlled by the sponsor. When the pension plan is organised in a life insurance company, the management of the funds is outsourced to the life insurance company, which is managing the funds on the clients' behalf as any other fund administrator. If the client is not satisfied with the life insurance company, the client may take the funds and move to another provider.

In both these cases it is our view that the funds are controlled by the sponsor. Thus we do believe that the funds and the pension liability should be presented gross in the balance sheet. This will in our view give the best information to the users of the financial statements.

Presentation in the statement of profit or loss.
Currently IAS 19 does not specify how an entity should present current service cost, interest cost and the expected return on plan assets in the statement of profit or loss (IAS 19.119). In our view the presentation in the statement of profit or loss should be addressed in IAS 19. In relation to our view of presenting the items gross in the balance sheet, it is also our view that the items should be presented gross in the statement of profit or loss, based on the nature of the items. This will give the users of the financial statements a better understanding of the nature of the items in the statement of profit or loss, and their relation to items in the balance sheet.

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 reasons for the Board to reconsider its preliminary views? If so, why?

We support the conclusions made by the Board in Chapter 2. Entities should recognise all changes in the value of plan assets and in the post employment obligation in the financial statements in the period in which they occur. In principle we support that entities should not divide the return on assets into an expected return and an actuarial gain or loss. However, that view does have some practical consequences related to presentation of changes in estimates (ref. our comments to question 4(a) below). Entities should recognise unvested past service cost in the same period as a plan amendment is made.

Question 3(a)
Which approach to presentation of changes in defined benefit costs provides the most useful information to users of financial statements? Why?

We do not want to take any position on this question at present. We have some sympathy for approach 1, and we overtly disagree with approaches 2 and 3.
However, we believe that the elimination of the option to defer recognition of changes in defined benefit assets and obligation cannot be addressed without a resolution of the issues linked to the presentation of these changes. Accordingly, we believe that the implementation of approach 1 should be timed to coincide with the revised Standard dealing with the presentation of financial performance (FSPP). Until completion of the FSPP, the alternatives currently available under IAS 19 to recognize changes in defined benefits amounts either in profit or loss or in other comprehensive income should be retained.

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

> This is, in our view, not important. We refer to the answer under question 3(a) for our basis for this conclusion.

(ii) disaggregation of information about fair value?

> We do not believe that disaggregated information about fair value changes for plan assets will give significant meaningful information to the users. A disaggregation into causes for fair value changes will to some extent be arbitrary. The information given about fair value of

assets/liabilities should be consistent with information required for other similar items in the balance sheet (ref. financial instruments, investment property etc.). Information about risks and returns for different classes of plan assets (bonds, shares, property etc) would however be relevant information.

Question 3(c)
What would be the difficulties in applying each of the presentation approaches?

Some difficulties are mentioned in our comments to question 3(a). The discussion paper refers in 3.28 and 3.29 to several difficulties both regarding how to regulate such calculations and also how to apply such regulations in practice. We believe a quick fix should not introduce increased complexity which also is inconsistent with other IFRSs. Approach 1 (and our suggested approaches under question 4 below) will not lead to any specific difficulties.

Question 4(a)
How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?

We support approach 1 and not the approaches 2 and 3. Approach 1 is simple, and does not need improvements.

Question 4(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 support approach 1. However, if for some reason, approach 1 is not possible our suggestion would be to keep the currently allowed treatment in IAS 19 with service cost, interest cost and return on plan assets in the statement of profit or loss, and all gains and losses in other comprehensive income.

This solution is mentioned and rejected in 3.32 in the discussion paper. But the rejection is based on IASB not wanting to include service cost in other comprehensive income, and that it requires the determination of an expected return on plan assets. We do see those concerns from a theoretical point of view, but we do believe that this solution should be reconsidered. This would be in accordance with the current allowed treatment (with gains and losses in SORIE). The advantage of this solution is that it does not introduce any new concepts; it is only a question of how to present the amounts we already have under the current measurement method. Particularly in Europe we have seen numerous companies that have adopted this allowed treatment. We do believe that this would be a practical solution in this quick fix and interim period until the new standard is in place and that the FSPP is concluded upon.

As mentioned under question 2 we do support the principle of not dividing return on plan assets, but we believe this should not be addressed in a quick fix. . The consequences of PV 3 are unforeseeable, and do have a domino effect on other quick fix solutions in the discussion paper.

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 disagree with the Board's proposals to redefine employee benefit schemes into defined benefits promises and contribution-based promises as part of a quick fix. The changes proposed, mainly in response to the identified issue of accounting for a certain type of cash balance plans, would have far reaching consequences that do not belong as part of a quick fix.

Furthermore, we believe that the distinction between final salary plans that are classified as contribution-based promises and those classified as defined benefit promises, on the basis of the description provided in the DP chapter 5, could be perceived as arbitrary.

Question 6
Would many promises be reclassified from defined benefit to contribution-based under the Board's proposal? What are the practical difficulties, if any, facing entities affected by these proposals?

The new definition will not have a major impact on regular Norwegian pension plans.

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

We are concerned that the new definition of contribution based promises will be to complex, and might cause changes for pension plans where the accounting treatment is in no urgent need for a quick fix under the current IAS 19.

The suggested measurement method for contribution based promises with a guarantee is rather complex and innovative. In our view the quick fix should give guidelines for the accounting for commonly used pension plans, which under current IAS 19 clearly does not results in financial statements that reflect the economic substance of the commitments the entity has in relation to employee plans. In our view that ambition could be fulfilled with easier methods than those suggested in the paper. Furthermore, the new complex regulations for many pension plans may have implications that we do not see today, and may lead to the development of new, tailored pension plans in order to adjust to the new regulations.

By changing the definitions and measurement model for all defined contribution based plans, there is a risk that straight forward contribution plans (without any economic reason) could be impacted. For such plans the appropriate questions should be – does the entity have an obligation at the balance sheet date? If no – no further action should be required. If yes – what is the fair value of that obligation? For most contribution based plans the question would be no – and there is no need to calculate a liability. In our view the IAS 19 should conceptually outline general principles regarding the measurement of such obligations. The practical solutions for specific pension plans should, if divergence appears in practice, rather be handled by IFRIC than in an accounting standard. We acknowledge however that such a conceptual change of IAS 19 should not be addressed in a quick fix.

Moreover, we are uncertain about the consequences, if any, of the removal of the definition of the defined contribution category in the accounting for some multiemployer plans and state plans that currently meet the definition of defined benefit plans, but are treated as defined contribution plans under IAS 19.32.

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

In our view the principle in Chapter 6 is fine, but it creates an inconsistency with the principle in IAS 19 for defined benefit plans (IAS 19.67). For many plans there is no explicit benefit formula, and this could result in all future pension benefits being earned in the last year of service. E.g. a pension plan that gives you X in a yearly pension payment, but you need to be in service until the day of retirement. If you leave earlier you keep nothing – i.e. the whole pension benefit is earned at the day of retirement. We do believe that such promises should be accounted for over the service period under this quick fix of IAS 19.

Question 9- Measurement of contribution-based promises

(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.

We believe that there is a need for a comprehensive debate about whether post-employment benefits are financial liabilities (which should be measured according to IAS 39) or whether they are provisions (and should be measured based upon the same principles as in IAS 37).

Given the objective (give users useful information about the amount, timing and uncertainty of future cash flows) and the similarities of the variables that are used for measuring the proposed contribution-based promises with those required for a defined-benefit promise, it seems difficult to justify using different measurement attributes for the two different categories of promises.

We believe that dealing with the question of the appropriate measurement attribute should be postponed to the long-term benefits project in order to allow full consideration of all the aspects of the accounting for post employment benefits.

(**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?**

We think that the evaluation of whether and how the effect of risk should be included in measuring a post-employment benefit obligation should be part of the IASB's long-term project on pensions, also if different risks should be dealt with in different ways (adjustments in the projected cash flows or adjustments in the discount rate).

Question 10 - Measurement of contribution-based promises
(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?

We dislike the fact that measuring the liability for benefits in the payout and deferment phases in the same way may lead to the same type of liability being measured in different ways depending on the way it was accumulated. In our opinion this is an indication that the introduction of the category contribution-based promises at this point of time is not wise. Such an introduction should be postponed until these issues are adequately resolved.

(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 do not believe that *fair value assuming the terms of the benefit do not change* should be introduced as a measurement basis in this project, as mentioned above. Having said that, we do not see any new difficulties regarding the measurement of the liability during the payout phase, which are not already present in the accumulation phase.

Question 11 - Disaggregation, presentation and disclosure of contribution-based promises
(a) What level of disaggregation of information about changes in the liability for contribution-based promises is useful to users of financial statements? Why?

As mentioned above, we do not agree with the introduction of the category contribution-based promises. If it is introduced, we think the level of disaggregation that follows from the Board's preliminary view is useful to the users of financial statements.

(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?

Yes.

Question 12 - Disaggregation, presentation and disclosure of contribution-based promises
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 support alternative (a). As mentioned in our answer of question 3(a), we do not support the alternatives 2 and 3 regarding presentation of defined benefit promises. We refer to our comments to question 3(a).

Question 13 - Benefit promises with a 'higher of' option
(a) What are the practical difficulties, if any, in identifying and measuring the 'higher of' option that an entity recognizes separately from a host defined benefit promise?

We believe that the proposed accounting method makes sense and that it is consistent with the treatment of financial options in IAS 39.However, as mentioned earlier, we are of the opinion that this issue should not be addressed as part of a quick fix.

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

No.

Question 14 – Other matters
What disclosures should the Board consider as part of that review?

We support the Board's intention of reviewing the disclosure requirements as part of this project, and think that a thorough examination of this topic is important. We believe that explicit information about mortality and disability rates should be considered.

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

We find it difficult to understand some of the accounting suggested in the paper, and miss numerical examples. We believe it is vital that examples accompany the future exposure draft, if issued. For such complex solutions as suggested in the paper we believe that field studies should be carried out in several different countries covering a broad range of pension plans, prior to introducing new measurement methods.