CANADIAN BANKERS ASSOCIATION

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October 2, 2008

Ms. Anne McGeachin
Senior Project Manager, Post-employment Benefits
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Ms. McGeachin:

Re: Discussion Paper – Preliminary Views on Amendments to IAS 19 Employee Benefits

The Canadian Bankers Association[1] ("CBA") appreciates the opportunity to comment on the International Accounting Standard Board's ("IASB" or the "Board") Discussion Paper on Preliminary Views on Amendments to IAS 19 Employee Benefits (the "Paper").

The CBA recognizes that the DP is the first phase of a more comprehensive re-examination of the accounting and financial reporting of employment benefits. In drafting our responses to the questions directed to the professional accounting public and other stakeholders, we have considered both the benefits and costs of short term required changes and longer term goals. The area of post-employment benefit accounting has been a heavily debated topic between our own constituents; we believe any changes should be considered carefully.

The preliminary views discussed in this discussion paper represent a significant shift in the accounting for post-employment benefits. We feel strongly that these elements require further thought and deliberation before they are brought into practice. The CBA recommends retaining the current IAS 19 accounting framework.

Our responses to the specific questions contained in the Discussion Paper ("DP") are included below. If you have any questions concerning our comments or suggestions, we would be pleased to discuss them.

We thank you for the opportunity to comment on this exposure draft and look forward to the issuance of the final standard.

Sincerely,

K Michell

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[1] The Canadian Bankers Association works on behalf of 51 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 249,000 employees to advocate for efficient and effective public policies governing banks and to promote an understanding of the banking industry and its importance to Canadians and the Canadian economy.

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?

The CBA does not believe that there are any additional specific issues that should be addressed 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 for the Board to reconsider its preliminary views? If so, why?

The discussion paper proposes significant changes to the current accounting under IAS 19 for post-employment benefits. The CBA does not believe these changes are necessary at the present time and believes that the Board needs to consider both the costs as well as perceived benefits of these changes. Some of the changes represent a marginal improvement in financial reporting; however, there needs to be a consideration of the incremental effort and cost required to change the financial reporting in comparison to the perceived benefit to users of financial statements.

The majority of financial statement users may not view the perceived benefit to be very significant at all. Some users may exclude the impact of pension cost because it does not provide a reasonable basis for projecting future earnings. We believe that current disclosure requirements of IAS 19 adequately allow all users to determine the impact of recognition of the funded status of the entity's defined benefit plans.

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?*

Each alternative requires an analysis of the costs and benefits. While there is an element in each methodology that appears to be useful to financial statement users, each also present a significant drawback.

Approach 1 is simplistic in its approach and avoids the need to specify allocation of different components of costs. Users may appreciate the reduced level of complexity. However, the significant detraction from this approach is that it would cause significant volatility in pension expense which is inconsistent with the long term nature of the accrued benefit obligation. Another drawback to this approach is that it does not take into account the impact of funding pension plans on the cost of pension to entities.

Approaches 2 & 3 recognize some portion of the changes in the fair value of the actuarial obligation in other comprehensive income. Recognition through OCI may be more faithfully representational of the unique nature of these gains and losses. The drawback of these approaches is that they take an arbitrary position of changes caused by discount rate changes, other financial assumptions and asset gains and losses. There does not seem to be a clear distinction between some of these elements that would suggest either approach would be more beneficial to the users of the financial statements. Indeed, either method may cause more confusion to financial statement users.

Additionally, the different treatment of asset returns — depending on whether they relate to contribution-based or defined benefit promises is inconsistent.

(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?*

The CBA views the current IAS 19 accounting framework as the more favourable option amongst presentation of components of defined benefit through OCI cost.

(i.) It is our view that the presentation of all changes of the defined benefit obligation wholly through net income is not appropriate. Presentation of some or all of the changes through OCI presents a better option because it recognizes the long term nature of these costs. However, which components to present through OCI and which components through net income are decisions that may take further discussion to resolve.

We believe that the disaggregation of information about the fair value through disclosures is more important from a decision-maker's position. Rather than the recognition of some components in net income and others in OCI, users would benefit from presentation that divides components of the fair value to understand drivers of that fair value amount.

An approach to disaggregate interest income on plan assets from other changes in fair value of plan assets, as described in Approach 3, is not useful for decision-makers. The Board outlined three arbitrary methods to identify interest income on plan assets - none of which, we believe, would provide more meaningful information to users.

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

We would not anticipate any significant difficulties in any of the three approaches, provided sufficient guidance is provided to financial statement preparers. Approach 1 is the simplest and would likely not pose difficulties. Approaches 2 & 3 require reporting entities to divide actuarial gains and losses into separate components, which the Board has provided some guidance.

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?*

This question merits further thought as the IASB project on post-employment benefits evolves over time.

Question 5 - 7

The CBA does not have any comments.

Question 8

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

The CBA cautions that the recognition of unvested benefits as liabilities under contribution based promises may drive significant shifts in business decisions and have unintended socio-economic consequences. Employers, wishing to see a reduction in liabilities on their balance sheets, as a result of required recognition of the full fair value of contribution based promises, may significantly cut employee benefits.

The impact of reduced employer provided pension benefits will likely put additional strain on an already overburdened public sector pension plan. Countries, such as Canada, facing a crisis in pension costs, may scale back benefits to retirees.

Question 9 - 11

The CBA does not have any comments.

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 CBA believes that the presentation of the changes in the liability for contribution based promises should mirror that of defined benefit promises. Therefore, we support present changes in the liability for contribution-based promises in the same manner as changes in the liability for defined benefit promises.

Question 13 - 14

The CBA does not have any comments.

Question 15

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

The CBA does not have any comments.