International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

25 September 2008

Dear Sir/Madam

Discussion paper: Preliminary Views on Amendments to IAS 19 'Employee Benefits'

We welcome the opportunity to provide comment on the above Discussion Paper. Please find as follows, our response to the questions raised (where we felt it relevant to comment):

Question 1: Given the objective to address specific issues in a limited time frame, are there additional issues which you think should be addressed?

We encourage the effort of the IASB to introduce reforms or improvements in the near term, while recognising that there is a set of longer term issues which also need to be addressed in this area.

We agree with the items which have been expedited as being achievable short term aims are appropriate and further looking to the other issues to be considered are particularly interested in the debate to take place around the recognition and measurement methodology applied to these obligations, as these seem to be inconsistent with the existing guidance on the recognition and measurement of other obligations. While perhaps not a shorter term item, we would also like to take this opportunity to request that the Board adds the issue of disclosure simplification to its longer term agenda. The post-retirement benefit disclosure is one of the largest single disclosures in our financial statements and we believe this gives undue prominence to these obligations particularly given (a) we are a mining company (and hence consider that there are many other areas of more relevance) and (b) our defined benefit pension arrangements are all closed to new members.

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

We believe approach 3 (to present remeasurements that arise from changes in financial assumptions in other comprehensive income and all other changes in the post-employment benefit obligation, other than benefits paid, in profit or loss) is the most decision-useful outcome as this removes the value movements arising from actuarial assumptions and from asset valuation (particularly where those assets are not controlled by the entity), while including the real business costs of the obligation (including the impact of the time value of money) in the income statement. We believe this approach is (a) more meaningful and (b) consistent with the reporting of other obligations (for example non financial obligations under IAS 37).

We agree with the Board's decision to eliminate the split of return on assets between expected and actual. While having such a split may be meaningful in measuring the investment performance of the scheme and its trustees – such schemes are often not under the control of the company and therefore such information is not considered relevant in understanding the actual entity's performance. In addition, reporting expected returns in the income statement is not consistent with the way in which most other asset returns are reflected (for example, sales or dividend income on investments).

We further believe that the second interest income determination approach outlined in paragraph 3.29 (being recognition of interest income equal to dividend income on equities and interest income on debt instruments) is most appropriate, as again this recognises the real income earned in the period. In support of this we do not believe the criticism of only recognising dividend income leading to companies seeking dividend paying investments (per paragraph 3.30) is founded as investment decisions in these funds are often not a management or company decision but rather a decision of the trustees or fund manager and therefore the accounting implication for the company would be of limited or no concern to such a decision.

As a result of the above we do not think approaches 1 or 2 are appropriate disclosure outcomes. Approach 1 will increase income statement volatility and in doing so will mask true business performance and in fact would potentially allow for profit manipulation through adjustments to the assumptions applied. We feel Approach 2 is inconsistent with existing accounting requirements where income earned on investment and unwind of discounting are both normally recognised in the income statement.

Question 3, part (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?**

It is important to show certain components in other comprehensive income as these are determined by the assumptions set by the actuary and are therefore not indicative of the entity's business performance.

In addition, individual actuaries may take different approaches to assumption setting or, as previously noted, assumptions could be used to manipulate profit - both of which would alter the profit outcome. In support of this please refer to the article reference which is included in our response to Question 14.

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

As previously noted, we are supportive of approach 3, together with interest income being recognised on an 'actuals' basis. We believe the option to record interest income on an 'expected returns' basis should be elminated for the reasons previously noted (in response to Question 3(a)).

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 welcome the introduction of the 'post employment benefits promise' within the standard. Not all post employment benefits are formally defined and we feel the use of the 'promises' concept includes such schemes. We agree that the Board has identified the appropriate promises to be addressed in the scope of the project.

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?

For our organisation there would be reclassifications of some minor schemes from defined benefit to contribution-based promises. In terms of our schemes, we do not see any practical difficulties with these proposals.

At present we have a scheme which is informal and has promised each member a percentage of their salary will be set aside as a pension for them when they retire. Each year the contributions are linked to an equity index and therefore the member will receive the contributions plus a small return which they can then choose how to receive on retirement (annual payments or lump sum). Per our reading of the discussion paper, we believe that this scheme would be reported as a defined contribution-based promise, but we are currently treating it akin to a defined benefit arrangement – in the absence of specific guidance.

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

In respect of the defined contribution schemes we currently have, we believe this is achieved.

Question 9, part (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.

A fair value (or quasi fair value) as is being proposed does not seem unreasonable, however we would expect that its recognition would follow that outlined for defined benefit promises (under our preferred Approach 3 that is to include current service costs and financing costs in the income statement and all other costs in the Other comprehensive income). To recognise all value movements in the income statement would be inconsistent with the accounting proposed for defined benefit arrangements.

Under this method we would recommend that actual contributions paid would be recognised in the income statement along with any effect of unwinding of discount and any income earned on pension assets (dividend or interest) and that all other movements by reflected in other comprehensive income.

We also don't believe that the objective that the cash flows are 'explicit' is necessarily realistic. We have a scheme which guarantees a minimum payment (based on contributions) together with growth relative to a share portfolio – the assumption of cash flows related to that growth is unlikely to meet this objective, particularly if a 'risk assumption' is required to be included in the calculation (unless growth was deemed to remain unchanged following the reporting date).

Question 9, part (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 believe that this measure is either a proxy for fair value or not. This would mean including, for example, asset values based on market conditions at the period end. Any other risk weighting to take account of potential movements in that value would seem inconsistent with the desire to achieve fair value and would be open to manipulation or inconsistent application across companies.

Question 10, part (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 agree that a different measurement outcome for the two obligations which result in the same cash outflots is not desirable and would therefore propose that separate measurement guidance is provided for all post employment obligations in the payout and deferment phases – we believe the move into the payment phase triggers a change in the nature of these liabilities (as they are no longer defined benefit or defined contribution) and therefore a possible opportunity to alter the measurement.

We believe it is more misleading and unhelpful to measure two identical obligations at different values than it is to ensure that an individual obligation is measured on a consistent basis over time.

Question 10, part (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?

If an equivalent instrument (e.g. an annuity) could be located in the market (in order to obtain a fair value) this would be an easy process. If such an instrument was not available we believe the standard should allow a discounted cash flow (with market assumptions) to be a suitable proxy for fair value (similar to what is currently allowed under the impairment standard).

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

It would be useful to show current service cost, finance costs and income earned on any assets related to the fund. We believe disclosure broadly consistent with that required for defined benefit promises is appropriate.

Question 11, part (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?

In terms of the schemes which we have, we do not anticipate any difficulties with disaggregating changes in the contribution-based promise liability into components similar to those required for defined benefit promises.

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
Why?

We believe the accounting for defined contribution promises should mirror that for defined benefit (to the extent possible) for the same reasons outlined in support of Approach 3 in our response to Question 3

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

We think that the Board should consider including sensitivity disclosures for the discount rate and the inflation assumption. We suggest that the effect of a 1% decrease / increase in the discount rate and the inflation assumption be disclosed. The discount rate and inflation assumption generally move in contra to each other and therefore the net effect might be the most meaningful.

The net discount rate has a substantial impact on pension obligations and in support of this we reference to the article on Pensions Accounting included in the August 9th edition of the Economist. This article shows that United Utilities and Scottish and Southern Energy in using differing pension assumptions (particularly discount rate) arrive at substantially different outcomes (the author of the article notes that Scottish and Southern's pension liability would be £350 million lower if it had used United's discount rate).

While we do believe this sensitivity would be very useful, we also take this opportunity to reiterate our original statement (included in our response to Question 1) regarding the possibility of simplifying or reducing the magnitude of disclosure currently given in respect of this particular obligation. As a example, given that the obligation is presented net (as assets aren't actually controlled by the entity) we believe that the analysis of movements in the period should similarly be provided net, rather than gross as is currently required.

Yours sincerely

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cc: Juliet Wall, Group Financial Controller