International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

12 September 2008

Discussion Paper, Preliminary Views on Amendments to IAS 19 Employee Benefits

Dear Sirs

The Roche Group has a turnover of CHF 46 bn. a year (EUR 28 bn.) derived from our worldwide healthcare business - pharmaceuticals and diagnostics - and employs nearly 80,000 worldwide. We have a market capitalisation (end 2007) of CHF 171 bn. (EUR 103 bn.) We have been preparing our consolidated financial statements according to IFRS/IAS since 1990 and therefore have a substantial interest in how these will develop, so we welcome this opportunity to give feedback on this DP. We have considered the DP very much in collaboration with other member companies of SwissHoldings and therefore restrict our comments to outlining our views on the key issues, referring you to SwissHoldings' more detailed letter on the various arguments.

General Remarks

We accept the need to address the issues raised in the discussion paper (DP). Since the IASB invited comments on the exposure draft which became IAS 19 (revised 2004), the existing 10% corridor method still permitted by IAS 19 has lost the support of many financial statement users and regulators, and FASB have issued FAS 158. Employee benefit accounting could be simplified by changing the recognition and presentation requirements for defined benefit (DB) employee benefits. Whilst we agree that further accounting guidance for the schemes the DP categorizes as contribution-based promises (CBP) is needed, we are concerned that the DP proposals will further complicate the existing IAS 19 requirements and create unnecessary difficulties in applying and explaining them.

One of our primary concerns is naturally how the DP proposals would be applied to Swiss pension plans. These are explained in the SwissHoldings letter.

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As suggested by SwissHoldings we would also prefer to the proposed approach a categorization of plans between promises with future salary risk and those without future salary risk, with the latter category split further between "standard" DC promises and other promises without salary risk, thus enabling the straightforward and –as far as we are aware – uncontroversial accounting and reporting for DC plans to continue without complication.

We share SwissHoldings' concern on the matter of discount rate selection criteria for CBP, which are not the same as for DB promises. As the Board does not wish to change discount rate criteria for DB promises now, CBP promises should be discounted at high quality corporate bond yields, and the discount rate selection criteria should be addressed in a later phase of the project.

Detailed questions in invitation to comment

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 Board may wish to consider the following issues:

- the impact of the proposal on the IAS 19 asset ceiling rules;
- derecognition criteria for post-employment benefit provisions (because of users' concerns on the impact on reported earnings of reductions in the recognised amount of these provisions);
- allocation to periods of service of the effect of voluntary purchases of additional rights by members with CBP promises;
- the issue of excluding unpaid contributions due from the reporting entity to the fund from the measurement of plan assets.

Question 2 - *Chapter 2 describes the Board's deliberations on the recognition of defined benefit promises. The Board's preliminary views are summarised in paragraphs PV2–PV4. 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?*

Support for deferred recognition of post-employment benefits among users and regulators has declined. Taking this into consideration, we do not disagree with the Board's preliminary views on recognition. However, we believe that it is under these circumstances extremely important for both users and preparers that an appropriate method of presentation is adopted which helps – or at least does not hinder – the identification of the actual flows and underlying earnings, which is also why we stress the importance of expected asset returns.

Question 3 - *the Board outlines three approaches….that illustrate ways in which information about post-employment benefit costs could be presented. The approaches are:*
Approach 1: An entity presents all changes in the defined benefit obligation and in the value of plan assets in profit or loss in the period in which they occur.
Approach 2: An entity presents the costs of service in profit or loss. Entities present all other costs

in other comprehensive income.
Approach 3: An entity presents remeasurements that arise from changes in financial assumptions in other comprehensive income. Remeasurements arising from changes in financial assumptions are prompted by changes in the discount rate and in the value of plan assets. An entity presents changes in the amount of post-employment benefit cost other than those arising from changes in financial assumptions (eg the costs of service, interest cost and interest income) in profit or loss.
(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 cost 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?

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?

In our opinion, the following criteria are most important when evaluating the three approaches:
- the resulting presentation should be clear and understandable to users;
- it should maximise the predictive value of the information;
- it should not undermine the relevance of profit or loss as a measure.

The advantage of Approach 1 is its simplicity. Its disadvantage is that it combines together within profit or loss information with high predictive value, such as current service costs and interest costs, and information with low predictive value, such as actual return on plan assets and period actuarial gains and losses on measuring the benefit obligation. This makes it difficult to preserve the predictive value of the information without a high level of disaggregation of benefit costs. The disaggregated information would therefore probably appear in the notes to the financial statements. As one of the criticisms of existing IAS 19 is its relegation of key information to the notes, Approach 1 may well not achieve the desired improvement, and we would not support it.

Approach 2 would devalue profit or loss by moving into other comprehensive income components of benefit cost, such as interest cost and expected return on assets, which IAS 19 rightly includes in profit or loss. Therefore, this approach would not enjoy our support, either

Approach 3 comes closest to satisfying all the criteria which we have listed above. Many of the reservations about Approach 3 relate to the difficulty of separating interest income from other returns on plan assets and concerns that this would be similar to the expected/actual asset return split, which many users consider too subjective. “Interest income” is best, and most objectively defined as the return which market participants would expect the portfolio of assets in the benefit plan to earn in the current period, with the balance of actual asset return presented in other comprehensive income. Approach 3 has the disadvantage of being the most complex of the three, but in our opinion its level of complexity would be acceptable. It separates the predictive and nonpredictive changes in benefit liability and assets clearly. By including operating and financing components of benefit cost in profit or loss, it is consistent with cohesiveness. If an acceptable, meaningful method of recycling amounts from other comprehensive income can be identified, it will also preserve the importance of profit or loss – a measure on which many financial statement users apparently rely heavily.

The Board should also consider the existing IAS 19 option for immediate recognition of actuarial gains and losses outside profit or loss as a fourth possible presentation approach. None of the three approaches is identical to this existing IAS 19 option; for example, actuarial gains and losses arising from changes in and experience adjustments to non-financial assumptions are recorded in profit and loss under all three approaches in the DP, but are recorded outside profit and loss under the existing option. The existing option has the advantage of treating all types of actuarial gains and losses in the same way.

Question 5 - *The Board's intention in defining contribution-based promises is to capture those promises for which the measurement requirements of IAS 19 are difficult to apply. However, in trying to find an appropriate and conceptual way to distinguish these promises, the Board has included in the scope of the project some promises for which the measurement requirements of IAS 19 are not particularly difficult to apply…. 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?*

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?*

We would highlight the difficulty caused by the proposed criteria for selecting the discount rate for CBP. We urge the Board to require the discount rate for both DB and CBP to be selected based on high quality corporate bond yields, at least at this stage of its post-employment benefit project. Presentation approaches should also be consistent for the two types of plan.

Question 7 - *Contribution-based promises, as defined in this paper, include promises that IAS 19 classifies as defined contribution plans. The Board does not intend this proposal to lead to significant changes in the accounting for most promises that meet the definition of defined contribution plans in IAS 19. Do the proposals achieve that goal? If not, why not?*

The proposals achieve that goal.

Question 8 - C*hapter 6 discusses recognition issues related to contribution-based promises. The Board's preliminary views are:*

- *An entity should recognise both vested and unvested contribution-based promises as a liability.*
- *An entity should allocate the benefits earned under a contribution-based promise to periods of service in accordance with the benefit formula.*

- *There should be no requirement to recognise an additional amount determined by the benefit that an employer would have to pay when an employee leaves employment immediately after the reporting date.*

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

We agree with the Board's preliminary views on these issues.

Question 9 - *The Board's preliminary view is that entities should measure the liability for a contribution-based promise at fair value assuming the terms of the benefit promise do not change. The Board reasons that fair value assuming the terms of the benefit promise do not change meets the measurement objectives described in this paper, ie it is based on:*
(a) explicit, unbiased, market-consistent, probability-weighted and current estimates of the cash flows;
(b) current market discount rates that adjust the estimated future cash flows for the time value of money; and
(c) the effect of risk, other than the risk that the terms of the benefit change.

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. 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?

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?

Again, we would urge discount rates based on high quality corporate bonds to be used to measure both DB promises and CBP, at least at this stage of the project.

The IASB would need to provide further guidance on applying fair value measurement to the benefit obligation in order to make it possible to 'operationalise' the standard. Markets for transferring pension liabilities are still too thin to provide a sound basis for valuing most large plans, especially since details of benefit formulae and membership profiles are unique to each plan, and it is also not clear how a fair value measurement should incorporate estimated future longevity trends because there is no market consensus on what those trends will be: only past mortality is known.

Question 11 - T*he Board's preliminary view is that:*

- *an entity should disaggregate changes in the value of the liability for a contribution-based promise into only a service cost and other value changes. The Board thinks that further disaggregation of changes in the fair value of the liability for a contribution-based promise would be difficult to achieve in an objective way.*

- *all changes in the value of the liability for a contribution-based promise and all changes in any plan assets should be presented in profit or loss.*

(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?

Benefit costs for plans which are DC as defined by IAS 19 normally consist entirely of service cost and should be reported accordingly.

We do not agree that it will be difficult to calculate an interest cost for CBP because a sufficiently accurate figure can be derived from the recognised liability amount at the beginning of the period and the discount rate used to measure it, both of which will be known. We do agree, however, that if fair value is the measurement basis for CBP, it will be difficult to achieve any further disaggregation. Other changes in the liability should be described simply as actuarial gains and losses.

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?

In order to achieve comparability in the presentation of different types of promise, it is necessary for changes in CBP liabilities to be presented in a way consistent with DB liabilities.

Question 13 - *The Board's preliminary views on benefit promises in which the benefit is the higher of a defined benefit promise and a contribution-based promise are summarised in paragraphs PV16–PV18:*

- *When a post-employment benefit promise is the higher of a defined benefit promise and a contribution-based promise, an entity should recognise and account for the 'host' defined benefit promise in the same way as a defined benefit promise. The entity should recognise separately the 'higher of' option.*
- *An entity should measure the 'higher of' option that is recognised separately from a host defined benefit promise at fair value assuming the terms of the benefit promise do not change.*
- *An entity should disaggregate changes in the liability for a 'higher of' option that is recognised separately from a host defined benefit promise into a service cost and other changes in value, with both components recognised in profit or loss*

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

We believe that it is a reasonable idea to separate the "higher of" option and measure it at fair value. However, its implementation depends on whether a reliable measurement method can be identified.

To us that seems to be very difficult as such options (or options with very similar features) are not traded and therefore any valuation would depend on parameters which may not all be observable on the market.

Question 14 - *The Board intends to review the disclosures required about post-employment benefit promises in a later stage of this project. What disclosures should the Board consider as part of that review?*

During discussions with them, financial statement users have highlighted the following disclosure needs not met by existing IAS 19 requirements:

- Information on the timing of benefit payment cash flows;
- Average maturity of the benefit obligation;
- Sensitivity analysis.

These needs seem to us reasonable. Users also highlighted the need to retain a disaggregation of changes in plan asset values into expected return and actual return, provided that the expected return can be made more visible and not buried within operating profit as it is today.

Nevertheless, we do wish to draw the Board's attention to the fact that the employee benefit notes in financial statements have, with the various amendments of recent years, become comparatively lengthy, and we have some doubts on the usefulness to users of this amount of detail. This is particularly burdensome where a large group like ours has many varied plans for which summaries become less and less helpful. There is a clear risk of information overload –or data overload – on employee benefits. We would appreciate it if the Board could review with active users such as CRUF the information which they would find most useful for their needs and bring more focus into the disclosures.

Question 15 - *Do you have any other comments on this paper? If so, what are they?*

We have no other comments.

Sincerely,

F. Hoffmann-La Roche AG

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