In my opinion, the following current and proposed features of IAS 19 are undesirable –

- immediate recognition of gains and losses,
- no ability to smooth out asset returns and values, and
- no information on the amount of assets needed now to cover the pension payouts reflected in the stated liability but using a rate of return reflecting any equity investments in the trust (an "ongoing enterprise liability").

Enterprises in the United States can calculate a "Market-Related Value" of a pension plan's investments that might take up to five years to fully reflect deviations from expected returns. That smoothed asset value is then used to calculate the year's expected investment return reflected in the enterprise's profitability thus smoothing out one component of net pension expense by avoiding a lot of the extremes (upside and down) inherent in snapshot market values. This was not by accident. Otherwise, according to paragraphs 120 and 121 of FAS 87 short-term changes in asset values "would produce unacceptable volatility and would be inconsistent with the present accounting model." The English standard and IAS 19 lack a similar mechanism. In short, the United States' standard allows enterprises to smooth secondary expenses (e.g. for pensions) so attention is better focused on fluctuations in performance due to the core enterprise, just the sort of better practice that should be embraced when standards are made more uniform.

Here in the United States the change to disallow 1) smoothed asset values for calculating expected returns and 2) amortization of gains and losses in the enterprise's profit and loss measurement would -

- increase the apparent volatility of the business. The proposed standard for gains and losses relating to pensions would recognize them immediately, probably in a special category. The balance sheet and part of the bottom line at General Motors would irrationally swing between incredibly good and incredibly bad.
- probably be disruptive. Similar changes in Great Britain have been partially responsible for roughly 65% of their traditional pension plans now being closed (not covering new employees).
- obscure the focus on the current and future profitability of the core business.
- do a better job of alerting the reader to the potential plan termination liabilities ***for failing companies*** (but do so in a manner that will probably overstate the underfunding risk for most companies by not assigning a reasonable *likelihood* to an immediate plan termination and settlement).
- affect macro-level stock prices since declining stock values (due to extra volatility) would significantly reduce the expected investment income from pension plan assets and reduce reported earnings. This in turn reduces stock values further. The world's accounting rules should not be designed to destabilize capital markets.
- make it more difficult to continue providing a traditional pension plan.

It might actually be best to ***expand*** the smoothing techniques available around the world to allow the market-related (smoothed) value of assets to follow the liability's changes due to interest rate fluctuations too. We use such a technique to smooth out funding requirements for pension plans facing severe volatility in contribution levels due to fluctuations in liabilities and it can dramatically smooth such results. The IRS has approved it in the United Sates so the IASB might want to consider allowing it too.

A pension plan's investments in the stock market can significantly affect the stability of the sponsor's earnings which in turn affects its P-E Ratio and some people want to make sure volatility is not masked. Rather than trying to recognize every last Dollar/Euro/Yen of the annual fluctuations in the market value of a pension plan's assets it would probably be more worthwhile to investors to know how pension investments affect an appropriate "risk reserve" that would factor in the likelihood that the plan will be terminated and settled in the future - which would require an outflow of cash at such time. Stochastic actuarial models are available that could probably set suitable reserves. Such a concept is similar to carrying a reserve for warranty claims. The proposed instant recognition of all gains and losses in pension plans seems more like assuming all possible warranty claims will be made now (a similarly gloomy assumption).

Alternatively, smoothing could be allowed internationally and a measurement of pension costs calculated without smoothing could be reported in a footnote (or vice versa). Since there are probably people stridently on each side of the smoothing issue that sounds like the sort of well-balanced compromise that is going to be needed.

FAS 158 has already changed American accounting to make the information outlined in the IASB's proposal available but only on the balance sheet and not on the bottom line. The liabilities used are future pension payouts discounted using bond yields whereas these plans will typically operate for many more years using investments in equities and bonds – making the proposed liabilities, including those under FAS 158, close to "liquidation" liabilities. Such "liquidation" liabilities are roughly 50% higher than they would be from an "ongoing plan" perspective using the trust's expected rate of return. Reporting liquidation values seems potentially worthwhile – especially for enterprises nearing bankruptcy. However, the reporting needs to be comprehensive and reflect changes in liquidation values for factories, equipment, real estate, stock options, patents, insuring warranty claims, etc. Still, such values are poor guides to how well a reasonably healthy enterprise is doing so they either should not be used in that context - or an alternative should also be presented.

If a pension plan is reasonably expected to return 8% then at least one liability for pension benefits should be based on a discount rate of 8%. Where is that liability called for in the proposed rules with a stated objective of making these statements "transparent and easy to understand"?

Whenever liquidation values are presented, the reader should be made aware of the perspective being used – and if we have trouble understanding what the numbers really mean readers of our financial statements probably will too. In any event, the proposed values have almost no relevance for a healthy plan sponsor. So, how would reporting them in a major way for all enterprises (without a more rational measurement at least in a footnote) clarify pension obligations for the readers of financial statements?

Instead of focusing on liquidation values the reader of the typical Financial Statement would probably be ***much better*** served by seeing an estimate of the price-per-share value of the sponsor as if it were offered for sale as a continuing enterprise. This seems much closer to the objectives espoused by the mark-to-market advocates.

Ideally, effective accounting standards should have us present the important financial aspects of the enterprise to the public in a way that keeps each part of the financial picture in perspective.

An enterprise can (I believe) comment on alternative measurements of performance so the concepts above might be adaptable to other situations. For example, if the price of a major raw commodity is erratic but its long-term trend is reasonably well understood a hypothetical "smoothed" bottom line calculated ***assuming*** that a mainstream price had been paid might help the Board and / or the broader public better understand how the enterprise's future is shaping up – by eliminating the "noise" due to price fluctuations.

The liability for a contribution-based promise should be valued by projecting current balances to settlement points using assumptions that reflect the same underlying rate of inflation. For example, if the balances accrue "interest" at the rate for long-term government bonds and historically such bonds have yielded 1% less than comparable Aa corporate bonds the projection rate should be 1% less than the discount rate.

Past service costs arising from an amendment should be amortized. Consider installation of a new plan (which most amendments are indirectly) that recognizes all past service. The liability is real enough and should be on the balance sheet but a major point would be missing if it is also charged against the bottom line: almost certainly there has at least been a tacit exchange of some percentage of future pay for such pension benefits. The reduced future payrolls, a significant part of the enterprise's future economic reality, would be improperly ignored using the proposed rules.

The period of amortization for past service costs has apparently been misstated for years. The average future vesting period for the nonvested **benefits** (the term used in paragraph 96) is roughly 14 years in a final-pay plan; the increases in benefits due to pay increases 20 years from now are not vested and will not vest until then. Paragraph 97 uses 3 years and the informal guidance I have received says IAS 19 intended to use the average time until ***people*** vest. Please clarify this existing issue in these deliberations. Also, some pension plans are based on uniform "benefit units" like $40 per month per year of service. These benefit units are usually expected to keep up with inflation. Some anticipation of such inflation should be made and the deviations from that could generate past service costs. There is a glaring disconnect between how pay-based plans and unit-based plans are treated with regard to "expected" future increases in pension levels.

In short, I think a bit **more** information could be better than presenting **different** information. The idea of reducing optional approaches so basic accounting results are more comparable and less "customized" strikes me as a good objective.

I am an actuary from the United States who has worked on retirement plans for 35 years. These were my personal views. Thank you for this opportunity for practitioners to share some of their insights into how this area of accounting might be improved.

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