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CAISSE NATIONALE

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Transmitted by email to: commentletters@iasb.org

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Comments in response to the International Accounting Standards Board's Discussion Paper « Preliminary Views on Amendments to IAS 19 *Employee Benefits* »

Dear Sir,

On behalf of Groupe Caisse d'Epargne, we welcome the opportunity to comment on the IASB Discussion Paper « Preliminary View on Amendments to IAS 19 Employee Benefits » and we are pleased to provide you with our observations below.

Groupe Caisse d'Epargne provides retirement benefit to its employees mainly through the "Caisse Générale de Retraite des Caisses d'Epargne" (CGRCE), which is one of the largest "Institution de Retraite Supplementaire" (IRS - company supplementary pension fund) in France. The CGRCE pension is a defined benefit plan. It was closed as of 31st of December 1999, and fully funded. It covers around 40 000 employees of Groupe Caisse d'Epargne and 10 000 retirees. Groupe Caisse d'Epargne has also set up a defined contribution plan for employees as of 1st of January 2000.

Our main concern relates to the very significant changes introduced by the Discussion Paper to pension accounting despite of the limited scope of the project. We agree that actions need to be taken as far as liabilities for guaranteed return promises are concerned. However, we do not believe that there are other urgent issues which should be included in the scope of this Discussion Paper.

1. First of all, we are concerned that the proposed changes in this Discussion Paper do not reduce inconsistencies with US GAAP. Entities under IFRS will not enjoy a level playing field with their US Counterparts.

2. This paper addresses possible approaches of recognition, in profit or loss and in other comprehensive incomes, of change in fair value of pension liabilities and related plan assets. In our view, recognising changes in fair value immediately in profit and loss would provide misleading information to the users of financial statements as

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pension plans are managed on a long term basis. Indeed, expected return on asset information is more useful to users than period to period fluctuations which do not prejudge of future pension costs. Future payments schedule needs to be taken into account when reviewing the accounting rules.

Before achieving the recognition through profit and loss of all changes in fair value, the IAS Board can not avoid a debate on the definition of fair value for pension liabilities. For instance, transfer concept / exit value seems inappropriate to the measurement of pension liabilities since that pension plans are not undertaken with the intent of being transferred or sold back to the market. Therefore, changes in own credit spread should not be considered in measuring pension liabilities. Questions of fair value measurement of a pension plan should be addressed through the IAS 19 re-foundation project alongside with the discussion paper regarding insurance contracts.

Ultimately, we agree that IAS 19 needs to be simplified, but the approaches proposed by the IAS Board will not clarify financial statements and could force pension plans to be managed on a short term basis instead of securing long term pensions.

We would suggest keeping the current IAS 19 framework as the scope of this Discussion Paper is too limited to propose so many significant changes. However, regarding the whole IAS 19 re-foundation, we would encourage the Board to keep the current IAS 19 option that allows actuarial gains or losses to be differed in Other Comprehensive Income and to consider a recycling approach.

3. Current distinction between "defined contribution" and "defined benefit" plans is well understood by preparers and users of financial statements. In our view, creating a new type of pension ("contribution-based promises"), which will cover all "defined contribution" plans and some "defined benefit" plans, will introduce confusion and inordinately change the presentation of financial statements. We would instead suggest dealing with the issue of guaranteed return promises by measuring the related embedded derivatives.

Our opinion is more detailed in appendix, where you will find the answers to the Board's questions.

If you wish to discuss our comments further, you may contact Thomas Rivron (+ 33 1 58 40 60 57).

Yours Sincerely,

Eric Filliat

Directeur Réglementation et Comptabilités Groupe

Appendix:

Questions raised in the Discussion Paper "**Preliminary Views on Amendments to IAS 19 Employee Benefits**"

Scope of the project

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 do not think that there are urgent issues to be addressed other than accounting for valuation of employee benefit plan with a promised return, as we believed that the whole IAS 19 re-foundation should be treated as a unique project.

The first part of this Discussion Paper is about recognising the fair value of pension plans in companies account.

In our view, the fair value of a pension plan is a subject that needs to be considered alongside with the Discussion Paper regarding insurance contracts.

The Discussion Paper presents the long term objective of "fair valuing" all pension liabilities and assets without convincing explanation on why current fair value models should be superior to the other measurement model. This point should be debated further before drafting an accounting standard based on a postulate which can be wrong. In particular, pension liabilities are not undertaken with the intent of being transferred or sold back to the market.

The objective of "full fair value" has never been debated and is far from reaching a consensus among constituents. It is time that a proper debate takes place about the scope of fair value accounting and to define a practical solution away from theoretical conceptual approaches.

Recognition and presentation of defined benefit promises

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?

We do not support to Board's Preliminary view PV2 to PV4.

PV 2 states "PV2" Entities should recognise all changes in the value of plan assets and in the post-employment benefit obligation in the financial statements in the period in which they occur"

In our views, the definition of fair value needs to be clarified, especially when this exposure draft introduces a new category of promises (Contribution-based promises) whose valuation method has not been agreed yet (see below question 6).

The IAS Board expresses the view that "*difficulty in measuring the liability or potential imprecision does not provide sufficient measurement reason not to measure it*". This is certainly true. But in our view it provides enough reasons to question the immediate recognition of all changes.

Moreover, pension liabilities could be as volatile on a quarterly basis as they are on an annual one. As a consequence, companies will have to revalue pension on the same basis in order to present faithful statements. Ultimately, that will lead to an unexpected situation where companies will have to recognise in a short term basis artificial costs of pension, instead of optimizing their assets and liabilities management on a long term basis.

The board states in paragraph 2.8 that " *future offset does not justify non-recognition of actuarial gain or loss*". This could be true. However, in our view, the expected remaining life of the plan does justify a smoothed recognition, as company have time to support the costs of changes in value.

PV3 states that "Entities should not divide the return on assets into an expected return and an actuarial gain or loss."

On the contrary, we consider that expected return is a major figure in the financial statements.

First, expected return is compulsory to allow the measurement of actuarial gain or loss on assets. As expressed in the first part of that question, we believe the deferred recognition is part of the actual valuation model, as it spreads the cost of change in value over the commitment.

Secondly, an artificial volatility would be recognised in the profit and loss account without the expected return on asset approach. Currently, Group Caisse d'Epargne has a policy of asset and liability matching as perfect as possible. However, even if the risk is hedged with the longest term bonds that may be found, it is not a perfect hedge and changes in value may occur from time to time, especially in the current circumstances. Those changes in value are taken into account to improve the asset and liability matching model in order to secure future employees benefit level. Having in addition the constraint to minimize change in fair value impact through profit and loss will increase long term pension cost or reduce pension benefit, as asset and liability matching will never be perfect.

It could also lead to massive transfers from defined benefit plans to defined contribution plans, transferring the risk from companies to employees.

Considering approach 3, the Board states in §3.30 that using an interest income on plan asset "*could create an incentive for some entities to invest in particular asset to achieve an accounting result rather than for economic reason*". It is exactly what the Board will achieve by not considering the expected return on asset. Every investment will tend to be biased by accounting restriction.

Once again, we do not whish to exclude the risk inherent to pension plans from companies balance sheet, we only think that timeframe of payments should be taken into account.

<u>PV4 requires that "Entities should recognise unvested past service cost in the period of a plan amendment."</u>

The same argument as those used against PV2 will apply: although a liability is generated in the case of a plan amendment, it is necessary to take into account the time frame of future payments.

On this 3 PV, we would suggest the Board to re-examine the SoRIE option together with a recycling approach, which present both interest to recognise in the balance sheet the fair value of the plan and to spread over the expected life of the plan the cost arising from each period.

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?
(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?

It is difficult to answer that question given the currently uncertainty regarding the outcome of the "Financial Statement Presentation" project. We agree that pension reporting statements need simplifications. We however disagree with the three approaches you suggest as they will increase volatility in the profit and loss account without clarifying the information provided to users. We believe that other approaches should have been suggested, based on other actuarial valuations models.

We understand that such proposal is going to take place in the whole IAS 19 re-foundation.

As a result, to avoid multiple major changes in IAS 19, many system developments and hours of training, we suggest postponing the application of the three approaches.

We are in favour of the current disaggregation of change in fair value in objective reliable indicators. Serving cost, interest cost, expected return on asset, re-measurement relating to financial assumptions, and other re-measurement, are useful to understand pension liabilities behaviour. Showing only the change in fair value does not provide however with any information to users because of the long term management perspectives of pension plans.

We are in favour of the current IAS 19 mainframe, but agree that some simplifications need to be achieved.

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?

We do not believe that the 3 approaches will help users of financial statements, as we do not think that changes in fair value of a pension plan represent relevant information given the characteristics or the risk inherent to a pension plan.

Valuing pension is a lot about predicting expected cash flows and events. In our view, it is necessary to show the company anticipations, and then the differences between the anticipations and the actual figures in order to provide faithful information on pension plans.

Providing information and scenarios regarding future expected cash flow could also help users of financial statements.

NB: Regarding the following question, please note that we do not have pension plans which could be classified as contribution-based promises. However, we believe that this new classification will impact us, as it will confuse the financial reporting of pension.

Definition of contribution-based promises

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 do agree that the type of promise highlighted by the Board needs a proper valuation.

However, we do not believe that promises that are correctly valued under IAS 19 need a change of valuation method.

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 believe that the distinction between "contribution-based promises" and "defined benefit promise" is not as well defined as the current distinction between "defined benefit" plan and "defined contribution" plan.

For instance, a final salary promise based on the average of the five last years of salary will be classified as a "contribution-based promises" for employees who have been hired during the last five years of their career, and classified as a "defined benefit promise" for employees who have been hired before.

We think it is preferable to keep the current distinction between "defined benefit" plans and "defined contribution" plans. Pension plans need to be classified, not based on a mathematical reflexion, as shown in the appendix of the discussion paper, but based on the legal question of "Is the employer committed in any way to pay a currently unknown level of pension when an employee will retire, regarding the service he has already rendered"

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?

We agree that the current accounting for defined contribution plans does not need to be changed.

Question 8:
Chapter 6 discusses recognition issues related to contribution-based promises. The Board's preliminary views are summarised in PV9-PV11.
Do you have any comments on those preliminary views? If so, what are they?

PV9 states that "*An entity should recognise both vested and unvested contribution-based promises as a liability*". We agree with the Board that the PV9 needs to be debated further, however outside of the scope of this project, as we require additional investigation to eventually agree the recognition of an unvested promise.

According to PV 10 "*An entity should allocate the benefits earned under a contribution-based promise to periods of service in accordance with the benefit formula*". This will impact benefits which are currently valued on a straight line basis according to IAS 19 defined benefit valuation method, as mention in question 5. Impact studies should be monitored before agreeing such valuation principle.

PV 11 stipulates that "*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*". We currently agree with that statement.

Measurement of contribution-based promises

Question 9
(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.
(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?

(a) We believe that the main issue is the valuation of promise return, and we do not think that any other measurement approaches linked to the creation of the new type "contribution-based promises", will lead to a better reporting standards

(b) The effect of risk should be taken into account valuing the financial guarantee, as the financial market as always done. However, we seriously doubt that own company credit risk should be taken into account measuring those guarantees. In our view, taking into account company change in own credit risk to measure liabilities will not provide a faithful presentation of the financial position of the company, as pension liabilities are not undertaken with the intent of being transferred or sold back to the market

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?

We agree with the Board preliminary view that a benefit should be measured in the same way in the deferment and the pay out phase.

We do not however understand why measuring a liability during the payment phase should be more complicated than during the accumulation phase. Such liabilities are commonly valued by insurance companies.

Disaggregation, presentation and disclosure of contribution-based promises

Question 11
(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?

We think that it is necessary to provide the users of financial statement with information regarding operating and financial results distinctively.

We agree that it is difficult to split changes in contribution bases promises in the same way as it is actually done for defined benefit plan. But using a different presentation will make financial reporting difficult to understand instead of clarifying it. As a consequence, we do not think that creating this new category is appropriate.

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?

According to the discussion paper, the new category "contribution-based promises" should be valued at fair value through profit and loss (§9.16).

We refer to our answer in question 3, we do think that change in fair value of the plan should be recognized over the average remaining life of the plan, and not during the period they occur. Moreover, we believe that all pension liabilities should be presented in a consistent way in the financial statements.

Question 13
(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 agree in the Board preliminary view of the separate recognition of the "higher of" option in two promised: The first should be measured as a typical defined benefit plan, and the second promise should be valuated as an embedded option.

Other matters
The Board intends to review the disclosures required about post-employment benefit promises in a later stage of this project

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

Information should be provided on the valuation of embedded derivative on a consolidated basis, i.e. it would be too difficult to provide users of financial statements with information regarding each embedded derivatives of each plans.

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

We do not have any other comments on this paper.