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ASBJ FASF

September 26, 2008

International Accounting Standards Boards
30 Cannon Street
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Dear Sir or Madame,

Comments on the DISCUSSION PAPER "Preliminary Views on Amendments to IAS 19 Employee Benefits"

We appreciate the IASB's efforts on the Post-employment Benefits project for many years and welcome the opportunity to provide comments on the Discussion Paper (the DP) "Preliminary Views on Amendments to IAS 19 Employee Benefits". The following comments are those of the Retirement Benefits Accounting Technical Committee of the Accounting Standards Board of Japan.

General Comments

> 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?

Scope of the project

1. Our comment below refer to the scope and so on of the project in relation to this question because it describes whether there are any additional issues that might be considered as a part of this project.
2. If a final standard resulted from the Post-employment Benefits project is to be issued by June 2011, the scope of this project should be limited to areas that are reasonably achievable. And accounting treatment should be consistent, at least internally within the standard for post-employment benefits. We understand that the IASB is working toward elimination of inconsistencies between the accounting requirements for post-employment benefits and other areas. However, we are of the view that there would be no choice but to retain some of the

accounting treatments under the existing IAS 19, unless fundamental issues about measurement requirements are comprehensively reconsidered. We are concerned that a partial amendment on the quick-fix basis would create greater inconsistencies within accounting for post-employment benefits.

Therefore, we believe that in this project the IASB should address only the improvements that can be consistently applied within the standard for post-employment benefit and that would not make more inconsistencies with other areas.

(Classification of benefit promises)

3. The DP proposes that post-employment benefit promises, which are currently classified as defined contribution plans or defined benefit plans, should be classified as contribution-based promises or defined benefit promises, and that cash balance plans, which are currently categorized as defined benefit plans, should be categorized as contribution-based promises. The DP also proposes that an entity should measure its liability for a contribution-based promise at fair value assuming the terms of the benefit promise do not change.

   Although the DP notes that there are problems in applying the measurement required by IAS 19 to both contribution-based promises and defined benefit promises (paragraphs 1.11 and 4.9), it proposes that only the measurement method for contribution-based promises is changed and the measurement method for defined benefit promises is not addressed in this project. We are of the view that this proposed approach is problematic from the viewpoint of faithful representation, because it would create new inconsistencies within accounting for post-employment benefits, as mentioned in the comment on Question 10.

4. The proposed classification between contribution-based promise and defined benefit promise is far more complex and ambiguous than that between defined contribution plan and defined benefit plan in the existing IAS 19 which depends on whether an entity has no obligation to pay further contributions if a fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

5. Considering these points, we are of the view that this phase of the project should not encompass such issues and the IASB should withhold the deliberations based on the classification of benefit promises proposed in the DP.

(Measuring contribution based promises at fair value)

6. We understand that application of the measurement requirements of IAS 19 is not appropriate to some contribution-based promises (eg a cash balance plan which includes a return that depends on the performance of an equity index). However, we are of the view that the measurement method for contribution-based promises proposed in the DP (i.e. fair value measurement) would

involve far more problems, including the issue of the treatment of credit risk as described later, and that it would be difficult to resolve them by June 2011. Therefore, we consider that the IASB should withhold the deliberations about the proposal of fair value measurement for contribution-based promises.

(Promises to be excluded from the scope of contribution-based promises)

7. As described above, we are of the view that the IASB should withhold its deliberations about accounting for contribution-based promises. However, if the IASB continues to deliberate issues related to contribution-based promises, the scope of contribution-based promises should be reconsidered. This is because the proposed scope of contribution-based promises in the DP includes promises such as a fixed return promise and a variable return promise linked to a yield of government bonds, for which applying the measurement requirement of IAS 19 would be less problematic than applying the measurement approach proposed by the DP (see paragraph 33). Those promises should be excluded from the scope of contribution-based promises, and the measured in accordance with measurement requirements of IAS 19.
8. However, we provide some comments on the questions after question 5 below (paragraph 30 and after), on the assumption that the IASB may continue to deliberate the treatment of contribution-based promises.

Recognition and presentation of defined benefit promises (Chapter 2 & 3)

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?

Elimination of the deferred recognition and smoothing features of IAS 19

9. Chapter 2 of the DP proposes that entities should recognise the funded status of a defined benefit promise (that is, the value of plan assets less the value of defined benefit obligation) as an asset or a liability in the statement of financial position and concurrently recognise changes in that funded status in its statement of comprehensive income immediately, without deferred recognition.
10. We understand the necessity of the improvements to defuse criticisms against the anomalies in the deferred recognition model (such as the possibility that an entity may recognise an asset when the plan is in deficit or vice versa). However, as described in paragraph 2, we are of the view that the scope of this project should be limited to areas that can be achieved by June 2011

and thus controversial issues should be addressed not in this phase but in next phase of the project.

11. We understand the merit of the immediate recognition of the funded status of a defined benefit promise in the statement of financial position, because it would resolve the anomalies as mentioned in the previous paragraph and may be able to gain a consensus of constituents easily. However, for reasons described in paragraphs 12 to 17, we are of the view that the change of the basic approach in measurement of net defined benefit cost (including actuarial gain and loss and past service cost) under the existing IAS 19 would lead to a heated and prolonged controversy and thus it should not be dealt with in this phase of the project (further explanation is described later in paragraphs 21 to 29).

（It is only necessary to recognise the funded status as a liability）

12. Paragraph 2.7 of the DP notes the main criticism of the deferred recognition model in the existing IAS 19, including the problem that an employer with a defined benefit plan is not required to recognise economic changes in the cost of providing post-employment benefit promises (the changes in plan assets and benefit obligations) as those changes take place and the problem that an entity may recognise an asset when a plan is in deficit or vice versa. However, for the purpose of resolving those problems, recognition of the funded status of a defined benefit promise in the statement of financial position would be sufficient and there is no need to fundamentally change the basic approach in measurement of net defined benefit cost under the existing IAS 19.

13. Paragraph 2.10 of the DP also points out that immediate recognition, rather than deferred recognition, would be consistent with the *Framework*, which states “the effects of transactions and other events are recognised when they occur … and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.” However, we are of the view that the deferred recognition in profit or loss can be consistent with the *Framework*, as far as the funded status is immediately recognised in the statement of financial position. Under such method, an entity would recognise the changes in the funded status as a component of other comprehensive income in the statement of comprehensive income of the periods in which economic changes in the cost of providing defined benefit promises occur (see paragraphs 26 to 27).

(Necessity of deliberation from the viewpoint of decision usefulness)

14. Although there are various concerns about the volatility in profit or loss that could result from immediate recognition of actuarial gains and losses as described in paragraph 2.5 of the DP, the DP proposes that all entities should adopt immediate recognition on the ground that a measure

should be volatile if it represents faithfully transactions and other events that are themselves volatile. On the other hand, findings from some empirical studies suggest that financial information based on deferred recognition is more useful in investors' decision making than that based on immediate recognition. Appropriateness of immediate recognition should be considered from the viewpoint of decision usefulness that is superordinate to faithful representation. We are concerned that IASB's deliberation on this point is insufficient.

(Consistency with the Financial Instruments Project)

15. The volatility resulting from changes in plan assets and defined benefit obligations, especially those in plan assets, is very similar to the volatility resulting from changes in the value of financial instruments. The issue of when the changes in the value of financial instruments should be recognised in profit or loss or other comprehensive income is being considered in the Financial Instruments project. In the Discussion Paper "Reducing Complexity in Reporting Financial Instruments" of the project, although the IASB and the Financial Accounting Standards Board (FASB) believe that the long-term solution is to measure all types of financial instruments at fair value, some intermediate approaches are proposed because such a solution needs to resolve too many problems. We are of the view that accounting for the changes in plan assets and accounting for changes in financial instruments should be deliberated consistently.

(Unvested past service cost)

16. The DP acknowledges that attributing changes in unvested past service cost arising from plan amendments to future service from employees would be consistent with what the IASB thought were the best conceptual answers in IFRS 2 "*Share-based Payment*" (paragraphs 2.19 and 2.20). However, that approach would result in deferred recognition of an amount that is regarded as a liability in IAS 19. The DP proposes that entities should recognise unvested past service cost in the period of a plan amendment (PV4), even though the DP acknowledges that its proposal is inconsistent with IFRS 2 (paragraph 2.20). This preliminary view is based on the IASB's recognition that the inconsistency between the accounting model in IAS 19 and IFRS 2 is not an issue to be addressed in this project (paragraph 2.21).
17. We are of the view, as described in paragraphs 12 and 13 above, that immediate recognition of unvested past service cost as a liability in the statement of financial position would not necessarily lead to its immediate recognition in profit or loss. We also consider that attributing the unvested past service cost to employee's future service until vesting date by using recycling would maintain consistency with the accounting treatment in IFRS 2.

Expected return on assets

18. According to our view described in paragraph 11 that the basic approach in measurement of net defined benefit cost under the existing IAS 19 should not be changed, the requirement about expected return on assets would be also retained.
19. The DP proposes that entities should not divide the return on assets into an expected return and an actuarial gain or loss (PV3). The reason for this preliminary view is that the IASB is concerned that the subjectivity inherent in determining the expected rate of return provides entities with an opportunity to choose a rate with a view to manipulating profit or loss (paragraph 2.15). However, an issue related to the subjectivity is inevitable for any accounting estimates, not limited to those about expected return on assets.
20. The abovementioned view of the DP (paragraph 2.15) appears to place great emphasis on the objectivity, against the view noted in paragraph 2.14 that an expected return provides more relevant information. However, such way of thinking is different from the views shown in Discussion Paper "Reducing Complexity in Reporting Financial Instruments", which places more emphasis on relevance than on the objectivity (for example, paragraphs 3.62 and 3.63 of that DP).[1]

    We also consider that another objective measure (such as market yields on high quality corporate bonds, as noted in paragraph 3.29) could be used in place of the expected return on assets, even if importance is attached to the objectivity.

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?

[1] In considering decision usefulness for users, a trade-off between relevance and reliability, which are qualitative characteristics, is often necessary, as described in paragraph 45 of the "*Framework for the Preparation and Presentation of Financial Statements*". Even though the determination of the expected rate of return may be too subjective, it would not necessarily lead to the abolishment of division of the return on assets into an expected return and an actuarial gain or loss (that is, recognition of the all changes in value of the assets).

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?

Basic approach in measurement of net defined benefit cost under the existing IAS 19 with recycling

21. We support none of the alternative approaches proposed by the DP.
As described in paragraph 11, we are of the view that the basic approach in measurement of net defined benefit cost under the existing IAS 19 should remain unchanged in this phase of the project. In this view, the actuarial gains and losses and past service costs that arise during the period but are not recognised as components of net defined benefit cost pursuant to IAS 19 should be recognised as a component of other comprehensive income and included, in the statement of financial position, in accumulated other comprehensive income. Amounts recognised in accumulated other comprehensive income should be adjusted (recycled) as they are subsequently recognised as components of net defined benefit costs pursuant to IAS 19.

22. The treatment set out in paragraph 93D of IAS 19 (no recycling), which is an exception to such basic approach, should not be retained.

23. We do not agree with the preliminary view that entities should recognise gains or losses on curtailments or settlements in accordance with each of the alternative approaches proposed by the DP (paragraph 3.33), because, as described in paragraph 21, we support none of the proposed alternative approaches.

24. The reasons for our view are explained in detail in paragraphs 25 to 29 below.

(FASB has adopted the approach to resolve similar problems)

25. The FASB has developed Statement No.158 (SFAS 158) *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"* in 2006 in the process of the improvements to accounting for postretirement benefits, which is phased similarly to IASB's project of Post-employee Benefits. The problems that SFAS 158 aimed to resolve was almost the same as those in applying the existing IAS 19, which the IASB aims to resolve in this project (see paragraph B8 of SFAS 158 and paragraph 2.7 of the DP). The approach to the presentation of defined benefit cost described in paragraph 21 is a similar approach adopted in SFAS 158 and therefore it would be a sufficient solution to a large part of the problems.

(Changes in the value are reported in total comprehensive income only when they occur)

26. Under the accounting treatment with recycling as described in paragraph 21, the changes in value of plan assets and in defined benefit obligation are recognised as a component of other comprehensive income in the statement of comprehensive income of the periods in which they occur. And they are deducted from other comprehensive income in the period in which they are reclassified to profit or loss subsequently as components of net defined benefit costs pursuant to IAS 19, to avoid including them in total comprehensive income twice. Therefore, this approach would ensure transparency by reporting the changes in value of plan assets and in defined benefit obligation in total comprehensive income only in the period when they occur.

27. In addition, such manner of reporting gains and losses is also adopted in IAS 39 *"Financial Instruments: Recognition and Measurement"* and IAS 21 *"The Effects of Changes in Foreign Exchange Rates"*. We are of the view that this approach gives a faithful representation of changes in the values of assets and liabilities and thus there is no reason to reject it in accounting for post-employee benefits.

(Need for recycling in accounting for post-employee benefit)

28. In the Financial Statement Presentation project, deliberation has been made over seven years about whether the presentation of net income based on the recycling mechanism should be retained. The DP states that the IASB is reluctant to introduce recycling into IAS 19 that currently does not require it, pending its work in the Financial Statement Presentation project (paragraph 1.15). However, in our understanding, the IASB and the FASB recently made a tentative decision that the presentation of net income should be retained and whether recycling is to be required (or not) should be determined by the respective IFRSs. Therefore, we are of the view that recycling can be introduced into IAS 19 if necessary. In our view, it is necessary to do so in order to retain the basic approach in measurement of net defined benefit cost under the existing IAS 19.

29. We are aware that the IASB considered whether the actuarial gains and losses should be recognised in profit or loss in a later periods (ie recycled) when it amended IAS 19 in 2004 and the IASB rejected the recycling for several reasons (paragraph BC48P of IAS 19). However, we believe that to recognise actuarial gains and losses outside profit or loss without recycling, as set out in paragraph 93D of IAS 19 cannot be justified because it would cause serious problems as mentioned below.

    (1) The treatments such as paragraph 93D of IAS 19, which makes some part of changes in plan assets and in defined benefit obligations permanently omitted from profit or loss, would produce the items of income and expenses which are never recognised in profit or loss (and earnings per share), which is considered as total performance indicator, in any

period. We believe that those treatments would provide entities with room for accounting manipulation and such a consequence would not be widely acceptable to constituents including users of financial statements.

(2) We acknowledge that some IFRSs (namely, paragraph 93D of IAS 19 and the revaluation model in IAS 16 "*Property, Plant and Equipment*" and IAS 38 "*Intangible Assets*") permit an entity to recognise some items in retained earnings without recognition in profit or loss in any period. However, those IFRSs have just introduced as one of optional treatments (not as a requirement) the treatments that are adopted in some jurisdictions but not commonly used in other countries. We are of the view that items recognised in other comprehensive income should be recycled, in order to maintain the relationship between profit or loss and owners' equity (clean surplus relationship), as prescribed in the standards in major countries such as United States and Japan. Elimination of the exceptional treatment such as paragraph 93D of IAS 19 would be more consistent with the IASB's overall stance that it is desirable to reduce alternatives.

Definition of contribution-based promises (Chapter 5)

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?

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?

Ambiguous definition of contribution-based promises

30. There are large differences in accounting (especially measurement) between contribution-based promises and defined benefit promises. The definition of contribution-based promises is important because contribution-based promises are defined first and defined benefit promises are defined as promises other than contribution-based promises. However, the definition proposed in the DP is not strict and therefore may not fully provide a clear distinction between defined benefit promises and contribution-based promises. For example, with regard to the proposal of the DP to exclude promises with salary risk from the definition of contribution-based promises, what "salary" means depends on systems or practices in each jurisdiction, as mentioned below. Therefore, as mentioned in paragraphs 3 to 5, it is appropriate to withhold the deliberations based on such ambiguous and unstable definitions.

- In Japan, there are plans which provide post-employee benefit based on a part of salary (eg base salary) that represents his or her meritorious service. These plans have the same function as cash balance plans, but would be classified as defined benefit promises according to the DP's proposal.
- In Japan, an employer may choose a pension point plan, under which the employer grants points to employees according to their grade or ability for each year of employee service and pays benefits at retirement determined as the product of the accumulated points and the unit price. In some plans, the unit price is determined through the similar process as wage levels between the employer and employees. Given that some take the view that such plans are similar to the plans that includes salary risk, it is not clear whether those plans are categorized to defined benefit promises or contribution-based promises under the proposed definition.

31. As mentioned above, we are of the view that the deliberations based on the definitions proposed by the DP should be withheld. However, in the comments below (including paragraphs 32 to 34), we offer comments to contribute to the further considerations about contribution-based promises in case the IASB would continue those deliberations.

Scope of contribution-based promises

32. As noted in ITC 8 of the DP, some promises for which the measurement requirements of IAS 19 are not particularly difficult to apply, such as fixed return promises, are included in the scope of contribution-based promises.
33. In Japan, by regulations, a promised return in cash balance plans is limited to a return linked to a yield of government bonds or a fixed return, in principle. Those plans would be also included in the scope of contribution-based promises, although for those plans there is not the problem pointed out in the second bullet in paragraph 4.9 of the DP and the measurement requirements of IAS 19 is not difficult to apply.
34. As mentioned in paragraph 7, the scope of contribution-based promises should be reconsidered so as to exclude the promises for which applying the measurement requirements of IAS 19 would be less problematic than applying the measurement approach proposed by the DP.

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

Implications for plans that IAS 19 classifies as defined contribution plans (measurement)

35. In Japan, defined contribution plans require entities to pay contributions every month and thus

the period of discount would be short, even when some contribution payable remains outstanding at the end of reporting period. Accordingly, the proposals of the DP would not lead to significant changes in the accounting for plans that are defined contribution plans under IAS 19 (Issues about the changes in disclosures are described in paragraphs 37 to 39).

36. However, we consider that question 7 again raises the question about the appropriateness of the scope of contribution-based promises. According to ITC 9 of the DP, the IASB does not intend significant changes in the accounting for most of defined contribution plans under IAS 19, while the DP proposes that those plans should be classified as contribution-based promises that shall be measured at fair value. We are of the view that exclusion of defined contribution plans from the scope of contribution-based promises would be better to ensure the goal described in ITC 9 of the DP to be achieved.

Implications for plans that IAS 19 classifies as defined contribution plans (disclosure)

37. The DP states that promises that IAS 19 classifies as defined contribution plans do not expose the entity to risk, once the required contributions have been paid and thus would not result in additional disclosures beyond those in IAS 19 (paragraph 9.15).

38. However, even in the case of a defined contribution plan which requires an entity to pay contributions every month as in Japanese plans described in paragraph 35, some contribution payable could remain outstanding at the end of the period in which the employees render service because the entity do not necessarily pay contribution within that period. In such cases, the entity should measure its liability for the contribution at fair value and would disclose, as contribution-based promises, items including the assumptions applied in determining fair value. It might be undue burden for preparers whereas the information to be disclosed would not be so useful to users.

39. Therefore, also from this point of view, we consider that defined contribution plans should be excluded from the scope of contribution-based promises.

Measurement of contribution-based promises (Chapter 7)

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?

Difficulty of measuring contribution-based promises at fair value

40. The DP proposes that an entity should measure its liability for a contribution-based promise at fair value assuming the terms of the benefit promise do not change (PV 12). However, we are of the view that such measurement would involve various problems as described below and thus it would be very difficult to apply in practice. Also from this viewpoint, we are of the view that the deliberations based on the proposed approach to contribution-based promises should be withheld.
    - The DP proposes that it is necessary to reflect credit risk in measuring contribution-based promise at fair value because fair value of liability is determined by the assumption that it is the same level in terms of credit risk before and after the transfer. However, it is not feasible in practice to obtain necessary information for reflecting credit risk (e.g. a yield of 20-year corporate bond with a low credit rating).
    - In Japan, in the case of bankruptcy, employees' claims on retirement benefits are given higher priority than other creditors' claims, when the entity introduces an unfunded plan under which it is obliged to pay the benefits to employee directly. In such situations, the credit risk to be reflected in the measurement of the benefit obligation would be different from the overall credit risk of the entity and the information about the former would be very difficult to obtain.
    - The DP proposes that the credit risk should be reflected in the measurement of a contribution-based promise and, on the other hand, proposes the measurement assuming that the terms of the benefit promise do not change. The latter proposal would imply that there is no possibility of reduction of benefits in future. However, in the Japanese corporate pension plans, an entity is allowed to reduce benefits attributed to not only current and future services but also past service when the entity's financial condition worsened and specific conditions are satisfied[2] (this might be less common in Europe and the U.S.). Under such plans, it is inconsequent to reflect only the risk of default of payments in measuring contribution-based promises and disregard the risk of reducing benefits, considering that it is very likely for the entity to reduce the benefits before it goes into default.

      Although this problem could be resolved if the effect of risk of reducing benefits were properly reflected in the measurement of the contribution-based promises, it is impracticable to do so.

[2] The specific conditions here include consent by more than two-thirds of all the plan participants who are entitled to those benefits.

Measurement of benefits after the accumulation phase (Chapter 8)

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?

41. The measurement approach proposed in PV13 of the DP would give rise to a serious problem that the liability for contribution based promise at retirement is measured differently from the liability for defined benefit promise, even though these promises are economically identical. Therefore, we consider that the proposed approach is obviously problematic from the viewpoint of faithful representation and creates an internal inconsistency within post-employee benefit accounting.

Disaggregation, presentation and disclosure of contribution-based promises (Chapter 9)

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?

Identifying interest cost

42. The DP proposes that the change in the liability for contribution-based promise should be disaggregated only into service cost and other fair value changes (ITC 13) because the IASB considers identifying interest cost from them would add complexity that outweighs the benefit of the additional information (paragraph 9.8). However, as for certain promises, such as with a fixed return or a return linked to a yield of government bonds (as described in paragraph 33 above), the measurement requirements of IAS 19 are not particularly difficult to apply, because it is not difficult to indentify interest cost. From this point of view, in addition to description of paragraph 34, the scope of contribution-based promises should be reconsidered.

Measurement of service cost at fair value

43. In connection with the DP's proposal to disaggregate the changes in the liability for contribution-based promise only into service cost and other fair value changes, the proposed measurement of service cost also needs further consideration. The DP states that the service cost for the period should be measured at fair value that is the amount initially recognised for the liability for the contribution-based promise (paragraph 9.4). This would result in recognising different amounts of service cost, depending upon the credit risk of the entity. As mentioned in response to Question 9, measurement method reflecting credit risk would involve various problems. Accordingly, it is necessary to resolve such a problem first if credit risk is to be reflected in the measurement of service cost.

> Question 12
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> 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?

Presentation of the changes in a liability for contribution-based promises

44. With regard to measurement of liabilities at fair value, we are seriously concerned about issues noted in the Discussion Paper "Reducing Complexity in Reporting Financial Instruments" (Part B of Section 3) of the Financial Instruments project, in particular, the issue about decrease of a liability and thus recognition of gains resulted from an increase of credit risk of the reporting entity. Accordingly, we are of the view that changes in the liabilities for contribution-based promises should not be presented in profit or loss immediately when those changes occur.

Benefit promises with a 'higher of' option (Chapter 10)

> 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?

45. The preliminary view of the DP proposes that entities should measure the 'higher of' option that is recognised separately from host defined benefit promise at fair value assuming the terms of the benefit promise do not change (PV 16 and PV 17), consistently with the measurement

proposed in Chapter 7 of the DP for contribution-based promises. We are of the view that the comments in paragraphs 40 and 44, and so on, should be considered in IASB's deliberation about accounting for the 'higher of' option.

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We hope that our comments will contribute to the IASB's future deliberation in this project.

Sincerely yours,

S. Sakase

Shigeo Sakase

Chairman, Retirement Benefits Accounting Technical Committee
Vice Chairman, Accounting Standards Board of Japan