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Discussion Paper (issued on March 27, 2008)
Preliminary Views on Amendments to IAS 19 Employee Benefits

Dear Project Managers of the post-employment benefit project,

We appreciate the opportunity to comment on your Discussion Paper. Our comments to the questions raised by the Discussion Paper can be summarized as follows:

- BASF has a long-term commitment to provide postretirement benefits to its employees and retirees. This requires reliability and transparency of accounting for postretirement benefits. Thus, **in general** we support the aims addressed by the BOARD, no longer to allow the deferred recognition in the **balance sheet** and to eliminate the current situation of the existing three options for recognising actuarial gains and losses.

  The aim of the IASB to present the current funded status in the **balance sheet** is realized by the current option to recognise actuarial gains and losses immediately in equity (IAS 19.93A). In addition, as the so-called "SORIE-approach" avoids extreme volatility in earnings, BASF like many other reporting entities as well as analysts are in favor of this accounting policy.

- **Q5-Q13:** We strongly disagree with the new concept of "contribution-based promises":

  Under the current IAS 19 standard, the criterion for distinguishing the different benefit categories (defined benefit versus defined contribution) is the existence of any risk for the plan sponsor once an agreed contribution has been paid. This distinction is clear and useful for the users of financial statements. Applying the proposed definitions, this risk-based distinction is abandoned:

  - The category "contribution-based promises" would include both promises with and without risks.
  - Both defined benefit and contribution-based promises are exposed to salary risks, asset-based risks, demographic risks and vesting uncertainties. Thus,

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there is no convincing reason to have a different treatment in measurement and presentation of actuarial gains or losses arising from these promises.

The measurement of contribution-based promises in the payout phase is not consistent with the treatment of economically identical defined benefit promises. The measurement of a fixed annuity benefit of a certain amount provided by a contribution-based promise would differ from the value of the same benefit amount provided under a defined benefit promise.

We disagree with the BOARD's preliminary view to consider the credit risk for the measurement of the post-employment benefit obligation. The main argument against the BOARD's preliminary view is that a decrease in the entity's credit standing does not actually change the outflow of resources required under the going concern assumption (paragraph 23 of the IASB Framework).

Only final salary promises and other post-retirement benefit promises remain in the defined benefit section, thus approximately 95 % of BASF's post-employment benefit obligation related to the active members would be reallocated to contribution-based promises.

- **Q2-Q4: Approach 3-3** (remeasurement approach using the discount rate applied to the post-employment benefit obligation as standardised plan asset return) is our preferred approach for the treatment of actuarial gains or losses.

  However, following the proposed approach of "contribution-based promises" this limitation of volatility effected by approach 3-3 is only applicable for final salary promises. In Germany, career average promises are very common. For this category of promises only the all through profit or loss approach would be applicable.

  We disagree with the BOARD's **preliminary view 2,** which proposes the immediate recognition of all changes in the value of plan assets and in the post-employment benefit obligation in the income statement in the period they occur. We also disagree with the BOARD's **preliminary view 3.** Actuarial gains or losses should be differentiated from the actual return on plan assets. Thus, due to the long-term character of post-employment benefits we do not support approach 1 (immediately "all through profit or loss approach") proposed by the BOARD.

Please find attached our detailed answers to the questions provided by the Discussion Paper.

Best regards
BASF SE

Hasselmeyer Scheurer

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Attachment:

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?

According to current IAS 19.119, there is no guidance related to the allocation of components of the defined benefit cost to specific items of the income statement. Due to the aim of the financial statement presentation project to provide a clear distinction between operating and financing activities, it could be appropriate to put the de facto option provided by IAS 19.119 on the agenda. The mandatory presentation of interest cost and (expected) return on plan assets in the financial result would improve the comparability of reporting entities. The operating result could be presented analogously between funded and unfunded plans. The improvement of the comparability of financial statements by eliminating options currently existing in IAS 19 is one of the aims of the post-retirement benefit project (see IN 2 of the Discussion Paper).

On the topic of defined benefit promises, the BOARD is considering three different approaches to recognise changes in the post-employment benefit obligation and the value of plan assets (item 3.10 up to 3.16 of the Discussion Paper). Many preparers and users of financial statements have concerns about the volatility in earnings created by approach 1 (all through profit or loss approach). For many companies, a significant part of this volatility is effected by the application of the market yields prevailing as of the balance sheet date (IAS 19.78) for discounting the pension obligation (see also below our answer to question 3(b)(i)). As the settlement of pension liabilities before their maturity is rather the exception in practice, there are suggestions to give up the application of market yields prevailing at the balance sheet date as discount rate for the defined benefit obligation (IAS 19.78). The discount rate using current market yields on high quality corporate bonds is the only market related parameter, meanwhile all other parameters stated by IAS 19.73 are based on long-term assumptions. Applying a discount rate based on future estimations would lead to a more consistent approach for deriving all actuarial parameters.

As such a revision would also help to reduce the volatility problem created by the all through profit or loss approach, this issue should be discussed as a part of the coming exposure draft.

The question of recognition of unvested benefits is outside the scope of the post-retirement benefit project (item 1.11 and 6.5 of the Discussion Paper). Still, the vesting criterion is the basis for a few important conclusions of the BOARD (see preliminary view 4, 7(a) and 9 of the Discussion Paper). From our point of view this issue could be introduced within this part of the project without any risk of time delay for the comprehensive project, because the arguments in favour of recognizing unvested benefits are clear and convincing (see e.g. chapter 2, item 3.13 up to 3.23 of the PAAinE Discussion Paper THE FINANCIAL REPORTING OF PENSIONS).

Question 9(b) of the Discussion Paper asks for the consideration of the credit risk in the measurement of contribution-based promises. The scope of the project should be extended to find a decision on the consideration of the credit risk for defined benefit promises as well. There is the opinion that pension liabilities should be discounted using the risk-free interest rate (see e.g. chapter 5, item 6.37 up to 6.53 of the PAAinE Discussion Paper THE FINANCIAL REPORTING OF PENSIONS). This proposal should also be included in the scope of the project both for defined benefit promises and contribution-based promises, as the issue of risk-free interest rate is very similar to the issue addressed by the BOARD. From our point of view, using the risk-free interest rate is not an adequate accounting treatment.

In December 2004, the IASB issued an amendment to IAS 19, which introduced the option to recognise actuarial gains or losses immediately. However, no guidance has been provided for the treatment of actuarial gains and losses in the case of curtailments and settlements (IAS 19.109-115). Therefore we ask the BOARD to provide such guidance, e.g. in the upcoming exposure draft. Many preparers of financial statements would appreciate the clarification of this open issue before this project is finished.

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?

We do not agree with the BOARD's **preliminary view 2** (immediate recognition of all changes in the value of plan assets and in the post-employment benefit obligation both in **the income statement** and the balance sheet in the period they occur).[1)] We support the arguments against this treatment (see item 2.5 of the Discussion Paper).

It has been argued that the created short-term volatility might not be useful for users of financial statements and therefore decrease the quality of financial reporting by overwhelming the results of the operating business. The BOARD rejected these arguments (see item 2.8 of the Discussion Paper). We propose to perform field tests before deciding on such a fundamental change in accounting principles. JPMorgan provided an analysis for British Telecom's 2006/2007 results to illustrate an extreme case of volatility (research report from Sarah Deans (JPMorgan), dated 04.04.2008). According to this analysis, applying the all through profit or loss approach (approach 1 proposed by the BOARD) would increase the reported net income by 52 % compared to the current

1) However, it might be helpful to adjust the wording of the BOARD's view point: Not "all changes" in the value of the plan assets and in the post-employment benefit obligation can be allocated to the income statement, e.g changes effected by benefits paid and plan settlements.

approach. Major companies listed in the German DAX 30 index would have reported fluctuations for their 2007 earnings by 30 % up to 40 % under this approach.

Focusing on quarterly financial statements, we would like to emphasize: The described distortion of the earnings situation varies in the different quarters. In the first quarter, the potential distortion of earnings could be higher than in the following reporting periods of the business year. This is because a market fluctuation by a specific amount, compared to the total amount of other components of profit or loss, decreases over the course of the business year. In the case of strong market fluctuations, there is an increased likelihood that the remeasurement of pension items overwhelms the results of the other business activities, especially in the first quarter. A further increase of the described volatility is to be expected for reporting entities operating in branches, in which the earnings of the first quarter are below the quarterly average amounts due to seasonal effects.

Focusing on comparing financial statements with the previous year, we would like to emphasize: Assuming the situation that over a two-year period actuarial gains and losses offset themselves to a zero amount, the volatility described above is doubled for comparing these reporting periods. Following the above figures of BT, for the first reporting period the net income is 52 % above the two-years-average-amount due to the recognition of actuarial gains, for the second reporting period the net income is ceteris paribus at the same rate below the two-years-average-amount due to the recognition of actuarial losses. We believe that comparing these two reporting periods will not provide the kind of useful information required by paragraph 12 of the IASB Framework. Such fluctuations in earnings **as well as earnings per share (IAS 33)** might prompt financial analysts and other decision makers to eliminate the volatility arising from applying the all through profit or loss approach by pro forma calculations in order to get and publish amounts with predictive value.

By trying to control the short-term volatility risk for earnings, which does not necessarily reflect the long-term risk situation of the benefit plans, the reporting entities could be forced to make economically inefficient decisions. Closing existing benefit plans could reduce the efficiency of the total package of remuneration. Should many plan sponsors shift their allocation of plan assets in order to reduce the accounting volatility, e.g. by the implementation of LDI (Liability-Driven-Investment) concepts, this could lead to serious distortions in different segments of the capital market. Controlling these short-term volatility risks will likely increase the long-term costs of providing the benefits already promised. Yet, the potential costs of implementing the proposed changes should be kept in mind by the BOARD (see IN 11 and item 1.24 of the Discussion Paper).

Replying to the arguments against the all through profit or loss approach, the BOARD objected as follows: "Inappropriate accounting should not be continued to disguise the '**true state**' of defined benefit plans. The role of accounting is to report transactions and events in a neutral manner ..." (item 2.8 of the Discussion Paper). The argument that the net position of a plan (post-employment benefit obligation minus plan assets) reflects the "**true state of a benefit plan**" might be convincing for the balance sheet. But for the purpose of the income statement we do not agree with the BOARD's conclusion. Accounting for the net position of a plan using fair value amounts implies an immediate settlement perspective. But the standard case for providing the promised benefits is to continue the plan, and not to settle the existing plan liabilities immediately. Thus, for the income statement, the immediate recognition of all changes following the immediate settlement perspective does not necessarily reflect the "**true state of a benefit plan**" for an individual reporting period.[2)]

In practice, divestitures are the most relevant case of immediate settlements. But for such transactions, typically the interest rate at the balance sheet date required by IAS 19.78 is not applied by the contract partners, as from the acquirer's long-term perspective, this parameter is arbitrary. Thus, from our point of view, the immediate settlement perspective derived from the interest rate prevailing at the balance sheet date is a theoretical construct, not the description of a real market situation.

Being aware of the current discussions and proposals in the financial instruments project, in our opinion the recycling approach currently applied for the fair value accounting of financial assets available for sale (IAS 39.46, 55) illustrates the appropriate treatment of effects of short-term market fluctuations. Similarly, short-term market fluctuations of pension items should be eliminated from the income statement.

There is the argument that such a treatment of effects from changes in the discount rate would create inconsistencies with the method applied for discounting other long-term obligations (IAS 37.45-47). This argument is not convincing. From our point of view the elimination of effects from changes in discount rate from profit or loss provides useful information to the users of financial statements. Thus, there is no systematic reason to give up this adequate accounting method. However, the arguments brought forward for the treatment of pension obligations might provide an indication that the method applied for discounting other long-term liabilities and provisions (IAS 37.45-47) is not adequate.

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2) In a similar argumentation, the BOARD classified actuarial gains and losses as an "economic event of the period" (IAS 19.BC 48C). At least for the components of interest and interest related effects, we disagree with this conclusion. For these components of actuarial gains and losses, the short-time fluctuation expressed by a period-to-period measurement reflecting the very unlikely short-term settlement scenario is not really an "economic event of the period". No "event" occurred, the running long-term benefit contracts are unchanged. The change in fair value of the pension liability is exclusively effected by a remeasurement of the liability reflecting the very unlikely short-term settlement alternative. For other long-term balance sheet items, different measurement approaches are applied, e.g. amortized historical costs according to IAS 16, 38. If historical measurement principles are applied for long-term balance sheet items, such an "economic event of the period" described by the BOARD in IAS 19.BC 48C does not arise due to external market fluctuations.

As already mentioned above in our answer to question 1, the discount rate using current market yields on high quality corporate bonds is the only market related parameter, meanwhile all other parameters stated by IAS 19.73 are based on long-term assumptions. Applying a discount rate based on future estimations would lead to a more consistent approach for deriving all actuarial parameters.

Our opinion on the BOARD's **preliminary view 3** (not to divide the actual return on plan assets into expected return and an actuarial gain or loss) is differentiated. We agree that the discretion of the reporting entities in determining actuarial assumptions should be reduced. The companies included in the DOW Jones Industrial Average index had to post actuarial losses of approx. 78 billion USD in the OCI, when for the first-time application of SFAS 158, the funded status had to be reported in the balance sheet (see Fuchs/Stibi, Die Wirtschaftsprüfung 2008, page 427(430)). This is a certain indication that actuarial gains and losses did not eliminate themselves over a long-term period under the past practise. However, there are more suitable approaches to counter the subjective moments in determining the plan asset return recognised in the income statements, which would also help to avoid the volatility discussed above (see e.g. approach 3-3 of the recognition of a standardised plan asset return proposed by the BOARD in item 3.29 of the Discussion Paper).

Concerning the BOARD's **preliminary view 4** (recognition of unvested past service costs in the period of a plan amendment) in principle the same arguments apply that were brought forward against **preliminary view 2** (immediate recognition of all changes in the value of plan assets and in the post-employment benefit obligation). This proposed change would also increase the volatility in earning figures not justified by the long-term character of the benefit arrangement. In addition, the arguments against the immediate recognition of unvested past service costs mentioned in item 2.18 of the Discussion Paper (economically inadequate allocation of the total remuneration to the reporting individual reporting periods) and 2.19 of the Discussion Paper (inconsistency with IFRS 2 and ED of amendments to IAS 19 (June 2005)) indicate that the immediate recognition of unvested past service costs in the income statement might not be a comprehensively founded theoretical concept. However, considering the comparably minor relevance of unvested past service costs in the accounting practice and the potential simplification of the accounting for pensions, **preliminary view 4** is acceptable. Please consider also our answer to question 4(b), which explains our preference for a comprehensive recycling approach.

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?

Approach 3-3 (remeasurement approach using the discount rate applied for the post-employment benefit obligation - market yields on high quality corporate bonds according to IAS 19.78 as standardised plan asset return -) is our preferred approach as far as the usefulness of the information is concerned.

Compared to the other alternatives, approach 3-3 provides the lowest volatility in profit or loss (see our arguments against the volatility effected by approach 1 in our answer to question 2). Due to the allocation to OCI there is no volatility in profit or loss created by changes in the discount rate. Due to the standardisation of plan asset return volatility is neither created by the return on plan assets. For plans with a funding level of 100 % in the income statement the interest cost calculated by using market yields on high quality corporate bonds (IAS 19.78, 19.82) is neutralized by the standardised plan asset return using the same (discount) rate.[3)] Thus, the financing result of the plan in the income statement is fixed at a zero amount.

For a fully funded plan the financing result reflects the situation of an artificial settlement using the existing plan assets. Under the assumption of a AA-rating, for an unfunded plan the financing result reflects the situation of an artificial loan financing replacing the defined benefit obligation, as the interest rate for compounding the DBO is identical with the artificial loan.

However, this elimination of volatility is only applicable for promises which are continued to be classified as defined benefit promises. For promises reclassified from the defined benefit to the contribution-based section, e.g. for career average promises (see our answer to question 5 below), volatility is not eliminated. For contribution-based promises, only approach 1 (all through profit or loss approach) is applicable (see item 9.16 of the Discussion Paper).

For details on our adverse opinion relating to **approach 1** (all through profit or loss approach) see our answer to question 2 above.

The information provided by **approach 2** (financing approach, i.e. allocation of interest cost, asset return and effects of changes in discount rate to the OCI) is not useful, because funded and unfunded plans are treated inconsistently relating to the attribution to

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3) Due to details in the calculation, immaterial deviations between the amount of interest cost and the standardised interest income also arise in the case of an exact 100 % funding level: "Interest cost is computed by multiplying the discount rate ... by the present value of the defined benefit obligation ..., taking account of any material changes in the obligation "(IAS 19.82). The expected return on plan assets considers the actual contributions paid into the fund and the actual benefits paid out of the fund (IAS 19.106).

profit or loss respectively OCI. Implementing this approach could encourage reporting entities to omit contributions to the pension funds, because earnings from pension funds will be recognised in OCI, while earnings from other funds will be recognised in profit or loss. In addition, this approach would create inconsistencies with the accounting for other provisions calculated on a discounted basis (IAS 37).

Approach 3-1 (remeasurement approach using the expected return on plan assets as plan asset return) provides less useful information than approach 3-3, as the discretion of the reporting entities is substantial (see also our answer to question 2 above).

Approach 3-2 (remeasurement approach using the dividends received on equity assets and interest earned on debt assets as plan asset return) provides less useful information than approach 3-3, as capital gains are not included in the income statement. This distinction in accounting for the return on plan assets of different asset categories seems arbitrary. As already mentioned by the BOARD itself, this distinction could encourage reporting entities to deviate from optimised equity portfolios replacing equities of the growth segment by equities of the value segment (item 3.30 of the Discussion Paper). Deviating from the optimised portfolio ceteris paribus increases the long-term costs of providing the benefits promised. This affects the aim of the BOARD to keep in mind the potential costs of implementing the proposed changes (IN 11 and item 1.24 of the Discussion Paper).

Question 3(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?

Answer to question 3(b)(i) relating to the presentation of some components of defined benefit cost in other comprehensive income:

Defined benefit cost recognised in the profit or loss should reflect the expected costs of the promised benefits on a long-term basis. In order to limit the recognition of pension items with reduced predictive value in the income statement, a minimum requirement for providing useful information seems to be the elimination of the impact of fluctuations in interest rates from profit or loss. Actuarial gains or losses effected by the change of market interest rates applied for discounting the post-employment benefit obligation have a different predictive value than e.g. actuarial gains or losses effected by the update of mortality tables. Judging from past experience, there is no significant likelihood that actuarial losses raised due to the update of mortality tables will be reversed in following reporting periods by the next update of the mortality assumptions. For actuarial gains or losses effected by the change of market interest rates, the situation is quite different. As market interest rates follow the cycles of economy, their development is reflected by an unsystematic fluctuation around the long-term average market rates. Due to the permanent revision of prior year valuation parameters, it is not useful to include this information in the profit or loss figures of the reporting entities.

These arguments related to actuarial gains or losses effected by the change of market interest rates on the pension obligations could also be used for experience adjustments of return on plan assets (differences between the previous actuarial assumptions and the actual return on plan assets). Eliminating the effects from interest rate changes on the post-employment benefit obligation without also adjusting the interrelated effects from interest rate changes included in the actual return of plan assets would lead to an accounting mismatch.

Answer to question 3(b)(ii) relating to the disaggregation of information about fair value:

The disaggregation in the income statement of interest income on plan assets from other fair value changes in plan assets treated in item 3.29 up to 3.30 of the Discussion Paper for **approach 3-2** is not useful (see our answer to question 3(a) above).[4)]

The disaggregation of changes in the post-employment benefit obligation in order to eliminate the impacts of fluctuations in interest rates from profit or loss is useful (see our answer to question 3(a) above).

In addition to that we would like to draw the BOARD's intention to the following details:

For **approach 2 and 3** there is no explicit guidance for the treatment of experience adjustments relating to the post-employment benefit obligation. However, we assume that in the BOARD's deliberations experience adjustments relating to the post-employment benefit obligation should be allocated to profit or loss.

A comparable uncertainty exists for **approach 3** relating to the treatment of effects from changes in future salary and benefit levels. According to item 3.15 of the Discussion Paper effects from changes in "financial assumptions" have to be allocated to OCI. Thus, following the definition of "financial assumptions" in IAS 19.73(b) changes in future salary and benefit levels should be allocated to OCI. But some think this interpretation of the wording of item 3.15 of the Discussion Paper would not be in accordance with the rational of approach 3. In their opinion changes in future salary and benefit levels should be allocated to profit or loss.

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4) If such information is required, it should be transferred to the notes to the financial statements. IAS 19.120A(j) requires the disclosures of the asset allocation as of the balance sheet date. Most reporting entities provide this information using a table format. This table could be extended by the requested information on the actual return on plan assets of the different asset categories.

Relating to these issues we ask the BOARD to provide explicit guidance in the upcoming exposure draft.

Question 3(c): What would be the difficulties in applying each of the presentation approaches?

The difficulties in applying the proposed changes in accounting will be illustrated via the example of **approach 1** (all through profit or loss approach):

Applying the different approaches in accounting for actuarial gains or losses provided by the current IAS 19 standard, many reporting entities provide their quarterly financial statements by extrapolation with the latest actuarial valuation without professional actuarial support (see IAS 34, appendix C.4). As approach 1 requires the recognition of actuarial gains or losses in profit or loss, it should be considered, whether an actuarial valuation of the pension liabilities is appropriate for the quarterly financial statements as well. Increasing actuarial costs would be unavoidable. In general there is the scenario that the reporting entities have to spend more attention and time for the process of determining the actual assumptions due to the immediate recognition in profit or loss. The same argument is applicable for the valuation of the plan assets for the purpose of the quarterly financial statements, as a more accurate valuation might be necessary.

In some jurisdictions there is the option to use IFRS reporting for local accounting requirements as well. In this situation legal requirements could be based on IFRS reporting, like profit distribution, solvency regulations et cetera. Thus, the extreme fluctuation of earnings discussed in question 2 above could create negative consequences in these areas.

Many reporting entities apply models of variable remuneration for specific groups of their headcount using different kinds of earning figures to calculate the individual benefit amounts. If approach 1 were to be introduced, many of the existing benefit arrangements would have to be adjusted. It could be a serious challenge to explain the fluctuation of salary components to all employees concerned by these kinds of benefit arrangements, because actuarial gains or losses are triggered by external factors like changes in market interest rates, which are not controlled by the management of the entities. There is a similar problem, if dividends or variable interest payments for securities issued by the companies are based on the amount of profit or loss.

For the **approaches 2 up to 3-3,** the above-mentioned considerations are applicable to a certain degree. Additionally the following issues should be considered:

The actuarial assumptions used to determine the post-employment benefit obligation are not independent – there are interrelationships between the various parameters stated by IAS 19.73. Due to this interrelationship between the various parameters, there is no objective method to disaggregate the total amount of changes in the post-employment benefit obligation, respectively the amounts of actuarial gains or losses in its components (see item 9.7 of the Discussion Paper). Thus, the changes in the post-employment benefit obligation have to be disaggregated on the basis of an approximation.

In item 3.33 up to 3.35 of the Discussion Paper the effects of the proposed three approaches relating to curtailments and settlements are discussed. Yet, there is no comparable guidance in the Discussion Paper for the three approaches relating to the treatment of the asset ceiling (IAS 19.58-60). Therefore we ask the BOARD to provide such guidance in the upcoming exposure draft.

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

The recycling of amounts attributed to the OCI is not within the scope of the post-retirement benefit project, but the financial statement presentation project (see item 1.15, 1.19 of the Discussion Paper). **Approach 2** (financing approach) and **Approach 3** (remeasurement approach) could be improved by recycling the amounts directly recognised in the OCI. The recognition of items outside profit or loss in equity is not in accordance with the principle of clean surplus accounting (recognition of all transactions except of the transactions with the owners in profit or loss). Thus, depending on the progress of the financial statement presentation project and the financial instruments project, the BOARD should consider to extend approach 2 and 3 by recycling the amounts directly recognised in the OCI in profit or loss of later business years.

Approach 3-3 (remeasurement approach using the discount rate applied for the post-employment benefit obligation (market yields on high quality corporate bonds according to IAS 19.78) as standardised plan asset return) could be reviewed considering the fact that a professional asset management could create asset returns exceeding the bond market yields. A standardised plan asset return of e.g. “high quality corporate bonds + 0.5 or 1.0 percentage point” could reflect a reasonable compromise, if such a kind of exceeding yield seems reliable considering past experience, the current plan asset allocation and other objectifying criteria. However, we are aware of the existing problem to find an adequate justification for defining the exact rate of exceeding yield.

An asset return exceeding the corporate bond market yields in the described area seems to be achievable without taking substantial asset risks. However, the rationale behind the current IAS 19 standard could be misinterpreted like: “Independent from the future actual return on plan assets, increasing asset risks effects the recognition of higher asset returns on an **expected** basis for accounting purposes”. This structure of the standard encourages reporting entities to deviate from optimised portfolios by making an increased portion of risk investments. Yet, deviating from the optimised portfolio ceteris paribus increases the long-term cash costs of providing the benefits promised.

Question 4(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?

Due to the reasons explained in our answer to question 15 we recommend suspending the post-retirement benefit project at its current scope in order to wait for the final conclusions of the financial statement presentation project and the financial instruments project. The current option to recognise actuarial gains and losses immediately outside profit or loss (IAS 19.93A) could be applied by all reporting entities for the proposed interim period.

After this interim period depending on the final conclusions of the financial statement presentation project and the financial instruments project, an approach comparable to SFAS 158 (issued in September 2006) could be feasible. This standard is based on the immediate recognition of actuarial gains or losses in the OCI and the recycling of these OCI amounts in profit or loss of later business years. Many accountants would prefer such a recycling approach to solve the existing conflict between the presentation of useful information in the income statement and the presentation of useful information in the balance sheet. For the income statement, the long-term costs of providing the benefits without short-term fluctuations might be the most useful information (**income approach**). For the balance sheet, the current status based on an immediate settlement perspective might be the most useful information (**balance sheet approach**).

A recycling approach seems to be a reasonable compromise to achieve both aims of presentation simultaneously. Recycling can be interpreted as a multifunctional accounting approach, because while in the income statement an income approach is realized, in the balance sheet a balance sheet approach is realized. Due to this methodical independency of income statement and balance sheet the conflicting aims can be better achieved than by a uniform accounting approach.

At the moment the BOARD's position on the recycling method is reluctant: "There is no consistent policy on recycling in IFRSs. ... The decision not to recycle actuarial gains and losses is made because of the pragmatic inability to identify a suitable basis. The Board remains convinced by this logic for this project" (item 3.9 of the Discussion Paper with reference to IAS 19.BC 48P). However, we would like to propose a recycling approach based on the provisions of SFAS 158 that is modified with regard to three topics:

- Following **approach 3-3** of the BOARD (remeasurement approach using the discount rate applied for the post-employment benefit obligation (market yields on high quality corporate bonds according to IAS 19.78) as standardised plan asset return), the recognition of the expected return on plan assets in the income statement should be replaced by the market yield of high quality corporate bonds as standardised plan asset return. A standardised plan asset return a few basis points higher than the yield of high quality corporate bonds could be appropriate to reflect the exceeding return of an average risk investment strategy (see the proposal in our answer to question 4(a)).

- The complex amortisation rules applied by SFAS 158 to attribute actuarial gains or losses to the individual reporting periods should not be adopted.

  There should be no corridor[5], i.e. the total amount of actuarial gains or losses at the end of the business year should be included in the basis for the calculation of the amortisation amount to be attributed to the following business year.

  Instead of the average remaining service period for active plan members respectively the average remaining life expectancy of retirees (SFAS 87.32), an accelerated term of amortisation could be applied.[6]

- The allocation of interest cost and (expected) return on plan assets to the financial result would improve the comparability of reporting entities (see also our answer to question 1 relating to the current status of IAS 19.119).

The proposed treatment can be characterised as follows:

- A major argument against the deferred recognition of actuarial gains or losses is the fact that many users of financial statements have difficulties to understand the complex rules for amortisation respectively recycling. In this respect, the proposed treatment would be a significant improvement.
- Due to the application of the 10 % corridor and the average remaining service period as amortisation period, the current corridor approach of IAS 19 has the character of **long-term** deferred recognition in profit or loss. Approach 1 proposed by the BOARD (immediate recognition in profit or loss) is exactly the opposite. The proposed recycling approach can be described as an approach of **medium-term** recognition in profit or loss, as a compromise of both extreme approaches.

We are aware of the BOARD's argument, "that it is difficult to see a rational basis on which actuarial gains and losses could be recycled" (item 3.9 of the Discussion Paper with reference to IAS 19.BC 48P). Yet, from our point of view (see our answer to ques-

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5) Many argue that the 10 % threshold is arbitrary.

6) Potential options for the reduced recycling period could be:

1. a specific rate (e.g. 50 %) of the average remaining service period for active plan members respectively the average remaining life expectancy of retirees stated by SFAS 87.32
2. a standardised amortisation period, e.g. between ten and fifteen years

Following the requirements of SFAS 132.5(s), the amortisation amount to be expected for the following business year should be disclosed in the notes.

tion 2 above) approach 1 (all through profit or loss approach) does not have the character of a comprehensively founded theoretical concept either. Thus, such a compromise approach combining the perspectives and useful information both of the income approach and the balance sheet approach could be the only pragmatic solution for the accounting of post-retirement benefit contracts. Due to their maturity periods of several decades and the scope of existing uncertainties regarding the applied measurement parameters, it might be almost impossible to develop a comprehensively founded theoretical concept allowing the attribution of all components of the ex ante unknown total benefit cost to the individual reporting periods on a sufficiently reliable basis, by using period-to-period measurements.

Thus, depending on the progress of the financial statement presentation project and the financial instruments project, the BOARD should consider introducing a recycling approach. Due to its integrated character - combining income and balance sheet approach - we believe that most users of financial statements would support such an approach.

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 strongly disagree with the proposed concept of contribution-based promises.

Under the current IAS 19 standard the criterion for distinguishing the different benefit categories (defined benefit versus defined contribution) is the existence of any risk for the plan sponsor once an agreed contribution has been paid. This distinction is clear and useful for the users of financial statements. This "risk approach" reflects the differences in economic substance between the different types of promises in appropriate manner. In order to find a "conceptual way" to distinguish the different kinds of promises (ITC 8 of the Discussion Paper), this risk-based criterion has been replaced by the artificial criterion to express the benefit formula in a specific way (by actual or notional contribution amounts known at the end of the period and - if applicable - the link of any promised return to specified reference assets). With this proposed distinction, only the final salary risk is relevant for the classification of different kinds of benefit promises (see item 5.42 f. of the Discussion Paper). Asset-based risks, demographic risk and vesting uncertainties are not relevant for the distinction of the different kinds of benefit promises anymore (see e.g. item 5.52 up to 5.59 of the Discussion Paper). Thus, career average promises for example are not classified as defined benefit promises anymore (see item 5.47 of the Discussion Paper). From our point of view, this very different treatment of comparable financial risks is not justified:[7)]

- The category "contribution-based promises" would include both promises with and without risks.
- Both defined benefit and contribution-based promises are exposed to salary risks, asset-based risks, demographic risks and vesting uncertainties. There is no convincing reason to have a different treatment in measurement and presentation for actuarial gains or losses arising from the promises, as the risk situation is comparable.

The proposed classification is not in accordance with the BOARD's intention behind defining contribution-based promises, namely to capture those promises for which the measurement according to IAS 19 is difficult to apply (ITC 8 and item 5.1 of the Discussion Paper). For example, there is absolutely no problem to apply the current IAS 19 requirements for career average promises.

From our viewpoint the BOARD should follow the original idea of this part of the project to include so-called "troublesome promises" into the IAS 19 standard by introducing new measurement principles. This is the case for benefit promises with any promised asset return. For all other kinds of promises there is no problem in applying IAS 19. The current definitions and measurement methods for defined benefit and defined contribution promises should be continued. For promises with any promised asset return a measurement principle has to be introduced. This accounting approach would follow the actual plan designing practice of the reporting entities. To improve controlling of the benefit plan risks the reporting entities introduced a new "medium category", in which the size of the risks is allocated between both existing categories of promises. To add such a "medium category" for accounting purposes as well is preferable to introducing a conceptual based definition, which leads to the application of inappropriate measurement methods for several types of promises.

In our point of view the inconsistency of the proposed concept can be illustrated by the following arguments:

- Exactly the same risk criterion that is currently applied for the distinction of the different benefit types is still used for the footnote disclosure proposed for contribution-based promises (item 9.13 of the Discussion Paper). The BOARD should follow this footnote disclosure approach required by the users of financial statements also for the recognition in the income statement and the balance sheet.

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7) The effect of the new approach for the distinction of benefit categories depends on the concerned jurisdiction. For the landscape of pension benefits in United Kingdom dominated by final salary promises the introduction of the new concept of "contribution-based promises" has not large relevance. In contrast the situation in Germany is quite different, as the usage of career average promises is much more common.

- As mentioned by the BOARD itself (see question 10(a) and item 8.5 up to 8.9 of the Discussion Paper), in order to have a comprehensively founded theoretical concept after the accumulation phase for contribution-based promises, a double consistency is required:
  - The measurement of contribution-based promises has to be consistent with economically identical defined benefit promises. The value of a fixed annuity benefit provided by a contribution-based promise has to be identical with the value of a fixed annuity benefit at equal level provided by a defined benefit promise.
  - The measurement method should be identical with the approach applied during the accumulation phase of a contribution-based promise. Otherwise a gain or a loss would be effected at the beginning of the payout phase.

  The impossibility to achieve both consistencies is effected by the inadequate definition of contribution-based promises.[8)]

- A similar situation exists relating to the departure from the benefit formula discussed in item 6.6 up to item 6.9 of the Discussion Paper. According to IAS 19.67 the amount of service costs has to be attributed to the periods of service by using the plan's benefit formula. Yet, in the situation of "backloading" (attribution of material higher level of benefits in later years than in earlier years) the benefit formula has to be replaced by a straight-line allocation basis.

  In order to achieve a consistent treatment of benefit plans formerly classified as defined contribution plans no departure from the benefit formula is allowed (see item 6.9 of the Discussion Paper). But this treatment creates the inconsistency of accounting method for plans reclassified from the defined benefit to the contribution-based section, e.g. for career average promises.

The argument relating to these inconsistencies brought forward in item 8.8 of the Discussion Paper that "the board is unable to resolve the contradiction in this project as it has limited the scope of the improvements in measurement to contribution-based promises to avoid delaying the project" is not convincing. As "accounting for pensions is a complex area of huge importance" (Sir David Tweedie, IASB press release, dated March 27, 2008), it is not adequate to hurry the project without clarifying these fundamental inconsistencies existing in the comprehensive concept.

However, the new measurement approach "fair value assuming the terms of the benefit promise do not change" applied for the new introduced benefit category of "contribution-based promises" implies a fundamental change in measurement methods. Such an

8) The BOARD illustrated the existing inconsistencies at the most obviously case, promises in the payout phase. After the completion of the service period there is absolutely no convincing reason for a different measurement of fixed annuity benefits at the same amount. Yet, also for the other phases of the benefit granting process from our point of view different measurement principles are not appropriate (see our answers to questions 8 and 12).

elementary change in accounting principles should not be decided for the first phase of the comprehensive project of post-retirement benefit accounting without achieving an agreement with the FASB beforehand. Otherwise, deviating opinions could create problems for the second phase of the post-retirement benefit project.

Finally, it should be remarked that the continuation of the current applied criterion for distinguishing the different benefit categories (defined benefit versus defined contribution) would simplify the measurement of 'higher of' options discussed in chapter 10 of the Discussion Paper.

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?

As already described in our answer to question 5, the effect of the new approach for the distinction of benefit categories depends on the concerned jurisdiction. As in the United Kingdom final salary promises are predominant, there would be no significant reclassifications from the defined benefit to the contribution-based category. In Germany the situation is quite different, as career average promises are very common.

According the BOARD's proposal, only final salary promises and other post-retirement benefit promises remain in the defined benefit section. Thus, approximately 95 % of BASF's post-employment benefit obligation related to the active members would be reallocated to contribution-based promises. For current retirees it could be very difficult and costly to determine, which part of the current benefit obligation is related to defined benefit promises respectively contribution-based promises.[9)] Thus, for retirees the reclassification from the current defined benefit category to the proposed contribution-based category seems not to be adequate.

A working group of the German Society of Actuaries provided an analysis to illustrate the consequences of the proposal for the German landscape of pension benefits. Applying the current definitions, 70 % of the post-employment benefit plans would be classified as defined benefit plans, the remaining part of 30 % as defined contribution plans. Following the proposed approach, the working group estimates that 30 % of benefit plans would be attributed to the defined benefit category, 70 % to the new introduced contribution-based category.

Due to our recommendation not to follow the proposed definition of contribution-based promises (see our answer to question 5 above) we omit further comments.

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9) In the case of plan restructurings also for active members the distinction of both benefit categories could create significant problems.

Question 7: The BOARD does not intent its 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?

Yes, we agree with the BOARD that besides the issues of unpaid contributions treated in item 7.41 up to 7.43 of the Discussion Paper, there are no significant changes for the accounting of promises currently classified as defined contribution plans. But in order to realize this consistency in measurement, an inconsistency in the accounting for plans reclassified from the defined benefit to the contribution-based section, e.g. for career average promises, has been accepted (see our answer to question 5 above referring to item 6.6. up to 6.9 of the Discussion Paper).

Due to the proposal in item 9.13 of the Discussion Paper, there are no changes to the footnote disclosure either.

Question 8: Do you have any comments on those preliminary views? If so, what are they?

Apart from the fact that we disagree with the BOARD's definition of contribution-based promises (see our answer to question 5 above), in a general understanding we agree with the BOARD's **preliminary view 9** (recognition of both vested and unvested promises as a liability).

With regard to **preliminary view 10** (allocation of the benefits earned under a contribution-based promise to periods of service in accordance with the benefit formula) we would like to refer to our answer to question 5 above. The mandatory adoption of the benefit formula allows for the consistent treatment of benefit plans formerly classified as defined contribution plans, even in the situation of a so-called "backloading" (see item 6.9 of the Discussion Paper). But this treatment creates the inconsistency of accounting method for plans reclassified from the defined benefit to the contribution-based section, e.g. for career average promises.

In general, for every kind of benefit promise it is appropriate to depart from the benefit formula in the situation of "backloading" described by IAS 19.67. The only reason to deviate from this accepted principle of measurement seems to be to achieve consistent treatment of benefit plans formerly classified as defined contribution plans (see item 6.9 of the Discussion Paper). Yet, by abolishing this inconsistency of the concept of contribution-based promises, the described inconsistency for career average promises is created.

We agree with **preliminary view 11** (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 (see item 6.10 up to 6.12 of the

Discussion Paper)). As this approach is applied for both plan categories currently defined in IAS 19 (for details see IAS 19.BC 63-65) as well as both categories defined by the Discussion Paper, there would be a comprehensive and consistent treatment.

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.

As explained in our answers to question 5, we propose to follow the original idea of this part of the project to include so-called "troublesome promises" in the current IAS 19 standard by introducing new measurement principles. The BOARD should try to keep the complexity of the newly to be developed measurement approach at the lowest level. The philosophy applied for the measurement of qualifying insurance policies by IAS 19.104 (identical values for interrelated assets and liabilities) could be a reasonable basis for such a "keep it simple approach" for many sub-categories of so-called "troublesome promises".

Question 9(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?

Although we disagree with the proposed definition of contribution-based promises (see our answer to question 5 above), we would like to provide a brief comment of our opinion on considering risks in general and the complexity created by the proposed approach. We agree with the BOARD's preliminary views relating to the consideration of asset-based risks, demographic risks and risks of changes in terms of the benefit contract.

But we do not agree with the BOARD's preliminary view relating to the credit risk (see e.g. item 7.26 up to 7.29 of the Discussion Paper). PAAinE provided a comprehensive analysis of this issue (see chapter 5, section 7 of the PAAinE Discussion Paper THE FINANCIAL REPORTING OF PENSIONS). We support the counter-arguments brought forward in chapter 5, item 7.10 of the PAAinE Discussion Paper. The main argument against the BOARD's preliminary view is that a decrease in the entity's credit standing does not actually change the outflow of resources requested under the going concern assumption (paragraph 23 of the IASB Framework) to redeem the existing liability. Thus, no actual gain is effected by the decrease in the entity's credit standing (see e.g. the discussion in item 3.73 up to 3.77 of the IASB Discussion Paper Reducing Complexity in Reporting Financial Instruments).

Applying the proposed risk-based approach would complicate the measurement of benefit liabilities significantly. The size of the credit risk depends on different criteria like the funding of plan assets and the coverage by external insurance contracts or guarantees.[10] The accumulated amount of the post-employment benefit obligation would have to be differentiated according to these criteria in order to consider the credit risk in the measurement. Such an increase of complexity in measurement is opposed to the BOARD's intention to consider the potential costs of implementing the proposed changes (see IN 11 and item 1.24 of the Discussion Paper). In the case that the BOARD does not change its mind to introduce the new classification, we recommend field tests to estimate the potential costs effected for the reporting entities.

As mentioned in our answer to question 5, due to the comparability of the risk situation there is no convincing reason to have a different accounting treatment for defined benefit and contribution-based promises. This argument is also applicable for the credit risk.

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?

Of course a consistent measurement during all phases of the lifetime of the benefit obligation process is desirable (see item 8.5 up to 8.9 of the Discussion Paper). But this kind of consistency is not compatible with the requirement of consistent measurement with economically identical defined benefit promises. The impossibility to achieve both consistencies simultaneously demonstrates the inconsistency of the entire concept of defining contribution-based promises (see our answer to question 5 above).

Using different approaches for measurement and presentation depending on the definition (defined benefit versus contribution-based promises) of economically identical promises provides misleading information. Such a unique accounting treatment is not in accordance with the principal of comparability (paragraph 39 of the IASB Framework). Due to these reasons we do not agree with the BOARD and recommend revising the proposed definition of contribution-based promises.

Question 10(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?

Besides the arguments mentioned by the BOARD in item 8.10 of the Discussion Paper and the arguments in our answer to question 9(b), we would like to highlight that it might be difficult and costly to determine whether existing benefit contracts currently

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10) Comparable to other details, there is no guidance in the Discussion Paper to consider these parameters in the new measurement approach "fair value assuming the terms of the benefit promise do not change". To avoid additional discretion for the reporting entities and decreasing of comparability, in the case of introduction of the new category "contribution-based promises" the upcoming exposure draft should provide detailed guidance.

classified as defined benefit promises should be reclassified as contribution-based promises.

Due to our recommendation not to follow the proposed definition of contribution-based promises (see above our answer to question 5) we omit further comments.

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?

Apart from disagreeing with the BOARD's definition of contribution-based promises (see our answer to question 5 above), we would like to refer to our answer to question 3(b)(i): "In order to limit the recognition of pension items with reduced predictive value in the income statement, a minimum requirement for providing useful information seems to be the elimination of the impact of fluctuations in interest rates from profit or loss." This consideration is applicable for any kind of promise.

Question 11(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?

Yes, due to the interrelationships between the various parameters of actuarial assumptions stated by IAS 19.73, there is no objective method to disaggregate the total amount of changes in the post-employment benefit obligation, respectively the amounts of actuarial gains or losses in its components (see item 9.7 of the Discussion Paper). Thus, the changes in the post-employment benefit obligation have to be disaggregated on the basis of an approximation. However, from our point of view the degree of difficulty stays the same for the accounting for defined benefit promises and contribution-based promises, as both benefit categories are exposed to the same risk factors (salary risks, asset-based risks, demographic risk and vesting uncertainties, see also item 5.44 up to 5.59 of the Discussion Paper).

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?

Under the current IAS 19 standard the criterion for distinguishing the different benefit categories (defined benefit versus defined contribution) is the existence of any risk (see also our answer to question 5 above). As this distinction is clear and useful for users of financial statements, such a different treatment of the existing benefit categories in presentation is appropriate.

However, due to the definition in item 5.3 of the Discussion Paper, contribution-based promises contain also salary risks, asset-based risks, demographic risks and vesting uncertainties (see also item 5.44 up to 5.59 of the Discussion Paper). As these kinds of substantial risks are subject to both categories of promises defined by the Discussion Paper, there is no convincing reason to have a different accounting for actuarial gains or losses arising from this comparable risk situation. Thus, from our point of view the presentation of changes in assets and liabilities should reflect the situation of the three approaches for defined benefit promises discussed in item 3.10 up to 3.16 of the Discussion Paper. Otherwise there would be a conflict with the principal of comparability (paragraph 39 of the IASB Framework).

To summarize, the answer to question 12 is determined by the inconsistencies in the definition of contribution-based promises described in our answer to question 5.

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?

BASF will not provide detailed proposals relating to questions in areas where other authors of comment letters, like actuaries and their associations, have much more practical experience. Although, we would like to provide a few brief comments relating to basic deliberations.

From a theoretical point of view, there are no objections against the proposed approach of a separate measurement of "host promise" and "higher of" option applying the methods adopted for embedded options or guarantees according to the requirements of IAS 39. But from a practical point of view, the created complexity is immense. The alternative approach of recognising the higher amount calculated according to both benefit formulas seems to be closer to the "keep it simple approach" proposed in our answer to question 9(a) and the aim of the BOARD to keep in mind the potential costs of implementing the proposed changes (see IN 11 and item 1.24 of the Discussion Paper).

As explained in our answer to question 5, the continuation of the currently applied criterion for distinguishing the different benefit categories (defined benefit versus defined contribution) instead of introducing the new concept of "contribution-based promises" would simplify the measurement of 'higher of' options.

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

We agree with the BOARD's standpoint that the disclosure information on mortality tables should be improved. The life expectancy applied in the measurement should be disclosed on a reasonably detailed basis. The disclosure requirements should be restricted to the major plans in order to make sure that the costs of providing the required information do not exceed its benefits (paragraph 44 of the IASB Framework).

In addition, potential improvements are worth considering in the following areas:

- Amending the current requirements for plan assets in IAS 19.120A(j) to disclose the expected return on plan assets on a weighted-average basis for the latest reporting period for each major category of plan assets [11)]

  This disclosure would help to reduce the discretion of the reporting entities in determining the expected return on plan assets and give users of financial statements the opportunity to check the consistent derivation of the aggregated expected return on plan assets from the individual asset classes.
- Simplified disclosure information relating to financial instruments (IAS 39) included in the plan assets

PAAinE provided a comprehensive analysis of potential disclosure improvements (see chapter 9 of the PAAinE Discussion Paper THE FINANCIAL REPORTING OF PENSIONS). Appendix A of the PAAinE Discussion Paper includes a voluminous schedule of proposals for new disclosure requirements. We do not support such a significant extension of the existing disclosures requirements. As the potential costs of providing additional information will be kept in mind (see IN 11 and item 1.24 of the IASB Discussion Paper), the BOARD should limit the introduction of additional disclosure requirements to those that are absolutely necessary.

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

We agree with the BOARD's intention

- no longer to allow the deferred recognition in the **balance sheet** and
- to eliminate the current situation of the existing three options for recognising actuarial gains and losses.

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11) The same disclosure has already been proposed by ED SFAS 132.5d(c), issued on September 12, 2003.

However, introducing this Discussion Paper, Sir David Tweedie said: "Accounting for pensions is a complex area of huge importance. The total liability for 80 of the top companies around the world alone is estimated to be around £700 billion. .... The financial statement of a company must provide investors, analysts and companies with clear, reliable and comparable information on a company's pension obligations. It is in the interest of all of us to find ways to improve this area of financial reporting" (see IASB press release, dated March 27, 2008).

We agree with this viewpoint. Thus, we recommend that the BOARD should give up the aim to complete the first phase of the post-employment benefit project in a relatively short time (see IN 8 of the Discussion Paper). From other members of the financial community we know that many reporting entities and users of financial statements strongly disagree with basic proposals provided by the BOARD, e.g. with the proposed concept of contribution-based promises.[12)] The intensive and mainly critical discussion about the Discussion Paper demonstrates Sir David Tweedie's statement that "accounting for pensions is a complex area of huge importance." In order to have a clear and reliable basis for the future development of pension accounting standards we recommend suspending the post-retirement benefit project at its current scope and to wait for the final conclusions of the financial statement presentation project and the financial instruments project.

Such a decision would not necessarily mean a standstill of any potential improvements in the current IAS 19 standard. The main aims addressed by the BOARD, to abolish the deferred recognition in the balance sheet and to eliminate the current situation of the existing three options for recognising actuarial gains and losses (see IN 2 of the Discussion Paper), could be achieved for an interim period by doing a minor revision of the current IAS 19 standard. Due to pragmatic reasons and the current practice of the majority of the reporting entities, the option to recognise actuarial gains and losses immediately (IAS 19.93A) that was introduced in December 2004 could be declared mandatory for the proposed interim period. Such an interim period could be used to discuss and implement other open issues and improvements of the current IAS 19 standard (see e.g. the proposals in our answer to question 1 or the proposals of the PAAinE Discussion Paper THE FINANCIAL REPORTING OF PENSIONS).

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12) Due to the potential impacts on the retirement situation of many citizens also policy makers argued against the proposals of the BOARD (see Pressman: Dutch parliament rallies against IASB proposal, IPE News, dated 8.5.2008)