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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
LONDON 4C4M 6XH
United Kingdom

Via: commentletters@iasb.org

Dear Sir David

Discussion Paper Preliminary Views on Amendments to IAS 19 Employee Benefits

Thank you for the opportunity to comment on the Discussion Paper Preliminary Views on Amendments to IAS 19 Employee Benefits. CPA Australia's comments have been prepared in consultation with members through our Asia Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia, China and Oceania, and our Financial Reporting and Governance Centre of Excellence.

CPA Australia understands that defined benefit plans are not common in Australia or the other countries of the Asia-Pacific. Nevertheless, it is our preference that the International Accounting Standards Board not proceed with this project given its application is to a limited number of jurisdictions that use International Financial Reporting Standards.

CPA Australia's comments are confined to some general comments and comments on the new category of post-employment benefit promises – 'contribution-based' promises introduced in Chapter 5 of the Discussion Paper. We do not offer comments to the fifteen questions asked.

General comments

CPA Australia does not support the approach proposed in the Discussion Paper. We do not think it appropriate for the IASB to change IAS 19 outside of a joint comprehensive review project.

We understand the introduction of the proposed approach would result in the accounting required by IAS 19 of cash balance plans to be different from that required by US GAAP.[1] We understand there is no difference at present. We think the introduction of differences at this time is not consistent with the proposal to undertake a joint project with the Financial Accounting Standards Board (FASB) to comprehensively review pension accounting. We understand that the Discussion Paper is in response to the views articulated by some commentators that the marketplace needs better information about pension obligations sooner rather than later. Recently, the FASB issued FAS 158 Employers' Accounting for Defined Benefit Pension and Other Retirement Plans as its response to calls for better information about pension obligations. FAS 158 does not change the accounting required of cash-balance plans – they continue to be accounted for as defined benefit plans. In contrast, the proposal in the Discussion Paper is that cash-balance plans be accounted for as defined contribution plans. We understand that cash-balance plans are quite common in the United States and Europe (and to the best of our knowledge they are not used in Australia).

CPA Australia understands that asset-based benefits in the form of cash-balance plans incorporating a fixed return existed at the time of writing IAS 19 and the International Accounting Standards Committee determined that this plan was a defined contribution plan. We note that the employer carried the investment risk. That the employer funds the pension plan by investing in assets that yield a fixed return equivalent to that specified in the cash-balance plan does not change the fact that the employer bears the investment risk – only that the employer's risk is alleviated.

[1] We understand cash-balance plans are pension plans in which the pension benefit is determined by reference to amounts credited to an employee's account. Those amounts typically comprise in each year a principal amount based on current salary and a specified interest credit. On retirement or leaving service (subject to any vesting conditions that have to be met) the employee is entitled to a lump sum equal to the total amount credited to his account. The employer bears investment risk.

Accordingly, we do not think it appropriate that the IASB change the accounting methodology for this type of plan outside of a comprehensive joint review of pension accounting.

Comments on the proposed new category of post-employment benefit promises

CPA Australia makes the following comments:

- CPA Australia does not support the (proposed) definition of a contribution-based promise (paragraph 5.3). Instead, we suggest the definition of contribution-based promises should be "A contribution-based promise is a post-employment benefit promise in which during the accumulation phase, the benefit is the accumulation of actual or notional contributions that, for any reporting period, would be known at the end of that period, except for the effect of any vesting or demographic risk.".

- CPA Australia believes the conceptually correct approach is to dichotomise post-employment benefits on the basis of with whom the investment risk is borne. We reason that it is the entity's obligation to underwrite the investment risk that is the liability (see IAS 19.27).

- CPA Australia is not convinced by the arguments made that "employers' exposure to salary risk" should be the variable used to dichotomise post-employment benefit promises (see paragraph 5.43).

- CPA Australia considers the (proposed) change is pragmatic. We understand that it is common in some jurisdictions for the employer to make contribution-based promises and to guarantee a minimum level of return on contributions. Further, we understand that incorporating the salary risk mechanism into a (proposed) standard would make the accounting for these post-employment benefit promises quite straight-forward. We understand that a contributions-based promise accompanied by the guarantee of a minimum level of return on the assets is not common in Australia or the other countries of the Asia-Pacific.

- CPA Australia agrees with the Discussion Paper's proposals that:

    - the unit of account should be the promise made to the employee (paragraph 5.5);
    - defined benefit promises should remain the default category of post-employment benefit promises (paragraph 5.8);
    - the definition of a contribution-based promise should rely on the way in which the benefit is accumulated (paragraph 5.13);
    - payment under a contribution-based promise may be delayed or the plan to which the promise related may be unfunded (paragraph 5.21); and
    - the contribution for any period of service is known at the end of that period except for the effect of any vesting risk [in the case of unvested contributions-based promises] or demographic risk (see paragraphs 5.27, 5.52 and 5.53).

- CPA Australia considers that the contribution-based promise should be measured at the amount of the actual or notional contributions for that period. We consider this approach is consistent with that currently required for plans that IAS 19 classifies as defined contribution plans.

- CPA Australia considers the contribution payable to be equal to the cost of service in the period and there is no remeasurement in subsequent periods. No actuarial assumptions are required to measure the obligation or the expense and the obligations are measured on an undiscounted basis (except when they do not fall due wholly within 12 months after the end of the period in which the employees render the related service).

If you have any queries on our comments please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser via email at mark.shying@cpaaustralia.com.au.

Yours sincerely

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Chief Executive Officer

cc: D Boymal
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