September 26, 2008

Sir David Tweedie
Chairman, International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Discussion Paper: Preliminary Views on Amendments to IAS 19 *Employee Benefits*

Dear Sir David:

The Committees on Corporate Reporting ("CCR") and Benefits Finance ("CBF") of Financial Executives International ("FEI") appreciate the opportunity to share their views on the International Accounting Standards Board's (the "IASB") Discussion Paper: Preliminary Views on Amendments to IAS 19 *Employee Benefits* (the "Discussion Paper").

FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CBF develops recommendations on existing and proposed legislation and regulations affecting pension and profit-sharing plans, health and disability insurance, unemployment compensation and regulation, and other benefit-related areas. When deemed appropriate, CBF may communicate positions to government agencies, legislators and professional and business organizations. At the end of Fiscal Year 2007, CCR and CBF member companies have invested over $US 650 billion to pay benefits to their current and future retirees.

The committees' review of the Discussion Paper focused on the impact the proposed alternatives would have on companies' financial processes and financial results. This document represents the views of CCR and CBF and not necessarily those of FEI or its members individually.

Presentation Approaches for Defined Benefit Promises and Changes in Defined Benefit Promises

We support the objective of the Discussion Paper to encourage a fair reflection of the impact post-employment benefits have on a company's financial position and operations. We agree that meeting this objective requires the plan benefit promises be measured at the present value of the obligation and plan assets be measured at their fair value. However, we do not believe a liquidation value for the liability provides useful information to investors as it is not a proper reflection of the expected cash outflows and the economics of these long-term obligations. We also have concerns as to how changes in these amounts are presented in the financial statements. We note that all proposed approaches to presentation require unvested past service costs be recognized in income in the period of a plan amendment. We disagree with the presentation of unvested past service costs immediately in profit or loss for the reasons noted in IAS 19.BC50 and BC 53. In addition, we note:

- Presenting changes in plan benefit promises resulting from plan amendments differently from changes in plan benefit promises that result for other reasons creates complexity and different "classes" of plan benefits;
- Presenting plan amendments directly in profit or loss would discourage entities from increasing plan benefits to employees and would encourage companies to decrease benefits;
- Presenting changes in unvested plan benefit promises immediately is inconsistent with the attribution approaches in other standards – notably, the allocation of share-based payment expenses over the future requisite service period in accordance with IFRS 2, *Share-based Payment*; and
- Presenting changes in plan benefit promises directly in profit or loss would not be reflective of the underlying economics of the plans due to their long-term nature and would therefore likely promote the use of "non-GAAP" financial measures.

The Discussion Paper proposes three alternative approaches to present information about the components of post-employment benefit costs in the financial statements. We believe Approach 3 most faithfully represents the economics of post-employment benefit costs and their presentation in the financial statements within the current limits of the income statement presentation requirements. We agree with the Board that an entity should recognize in profit or loss, service cost, interest cost and interest income.

Under Approach 3, the Discussion Paper introduces three possible methods of identifying interest income on plan assets. We believe the current requirement in IAS 19 to estimate interest income using the expected return on plan assets most faithfully reflects the economics of the plan assets in post-employment benefit plans. The impacts of this judgment are clearly presented and disclosed, which mitigates the concern raised in paragraph 2.15 of the Discussion Paper. Judgment is inherent in nearly all measurements of long-term assets and liabilities and limiting this judgment would require the legislation of bright-lines that run contrary to the Framework and are inconsistent with other measurement requirements in IFRS (e.g., IAS 37 and 39).

We do not believe using dividends received on equity plan assets and interest earned on debt plan assets provides proper estimation of interest income. Return on plan assets is not limited to dividends received and also includes unrecognized items and other changes in fair value. This alternative could promote certain behavior by investment managers, to invest post-employment benefit plan assets in dividend-yielding equity plan assets and debt plan assets instead of assets that are invested to meet the returns needed to pay benefit obligations accrued to the plan participants at any time.

We also do not believe using market yields on a hypothetical portfolio of high quality corporate bonds to impute interest income faithfully represents interest income on plan assets. Such alternative does not take into account where actual plan assets are invested and introduces more estimation into a process where the objective is a measurement closer to fair market value. This alternative could also potentially impact the fiduciary responsibilities of investment managers and could encourage managers to avoid higher yielding investments. In addition, changes in asset allocations resulting from this methodology could also have a significant effect on pricing of assets in financial markets.

Under Approach 3, components of post-employment benefit cost related to remeasurements arising from changes in financial assumptions are presented in other comprehensive income. We agree with the Board that such components should not be recycled from other comprehensive income to be consistent with the views of recycling in other IFRS's. However, in the final amendment to IAS 19, we would appreciate further specificity on the treatment of these components upon the curtailment or cancellation of entities' post-employment benefit plans.

In the Discussion Paper, paragraph 3.12, the Board also presented an Approach that would present only the cost of service in profit or loss; all other costs would be presented in other comprehensive income. We do not object to this Approach, however, we prefer Approach 3 because we believe that interest cost and interest income should also be included in profit or loss as such inclusion promotes consistency in the financial statements.

Finally, the Board presented a view in paragraph 3.11 that entities present all changes in the defined benefit promises and in the value of plan assets in profit or loss in the period in which they occur. We strongly disagree with this view for the following reasons:

- The recognition of unrealized gains and losses on plan assets is inconsistent with the current treatment of unrealized gains and losses on similar long-term assets outside of a post-employment benefit plan (e.g., available-for-sale securities);
- The current income statement presentation requirements do not support effective communication of changes in plan assets and benefit promises directly in profit or loss. Therefore, financial statement users would have difficulty in understanding earnings from the pension plan versus earnings from the company's operations;

- Including changes in plan assets or benefit promises is not consistent with the long-term economics and settlement activities of the plans and, therefore, may promote the exchange of non-GAAP financial information between companies and investors to communicate a clear understanding of the results from operations and expected future cash flows;
- The volatility introduced into the income statement may promote behavior between management and the plan management that could threaten the independence of the plan from the company; and
- The volatility introduced may strongly encourage companies to reduce their post-employment benefit plans, which has been evidenced in the US retirement plans (see General Accounting Office ("GAO") Report – 08-817 www.gao.gov published 17 July 2008). While we recognize that the IASB's objective is to enhance transparency in financial reporting, the economic consequences of requiring a mark-to-market approach in profit or loss should be considered as plan participants' retirement security will likely be impacted.

Contribution-Based Promises

We support the conclusion in Chapter 4 of the Discussion Paper that contribution-based promises should not be valued using the projected unit credit method projecting earnings at a higher asset return rate and discounted back at a corporate bond rate since this approach does not reflect the risk of the assets. We would appreciate further clarification, however, in an exposure draft on the treatment of benefit promises in plans that have multiple benefit structures.

We have concerns that the revised definition of a contribution-based promise in Chapter 5 may be too broad. We also note that the proposed definition would account for career average plans differently from final-pay plans. We view these plans as economically similar and would recommend the definition of contribution-based promise be limited to plans with a defined contribution or credit for service in the current year.

We further support the conclusion reached in Chapter 6 that there should not be a requirement to recognize an additional liability to reflect the amount that an employer would have to pay an employee who leaves service immediately. We agree that the plan should be considered an ongoing entity and that the measurement of the liability should be based on the expected cash outflow from the plan as opposed to a liquidation value.

The Discussion Paper proposes in Chapter 10 that a 'higher of option' should be measured separately from the base benefit promise. We do not support this measurement approach as it will likely not represent the probable cash outflow from the plan—which will hinder the usefulness of the information to investors. Furthermore, requiring companies to keep two valuations of what the value is at the balance sheet date and what the 'higher of' value could be if the market factors changed is unnecessarily burdensome. Disclosures that adequately describe the nature of the benefit plan formulas should be sufficient.

Other Comments

We believe clarification of the phrase “in the period in which they occur” relating to the remeasurement of post-employment benefit assets and obligations in the Discussion Paper would be beneficial. We support remeasurement of post-employment benefit assets and obligations on an annual basis since a remeasurement at each interim period (quarterly for most of our members) would be both cost prohibitive and impractical.

We repeat our appreciation for the opportunity to present our views on this Discussion Paper. Members of CCR and CBF would be pleased to offer their assistance to the IASB on this very important issue.

Sincerely,

Arnold C. Hanish
Chair, Committee on Corporate Reporting
Financial Executives International

Andrea Edmonds
Chair, Committee on Benefits Finance
Financial Executives International