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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:

This letter is in response to the request for comments on the International Accounting Standards Board (the "IASB") Discussion Paper: Preliminary Views on Amendments to IAS 19 Employee Benefits ("Discussion Paper"). We support the IASB's decision to limit the project scope, given the objective of addressing specific issues in a limited time frame. Our comments primarily address the financial statement presentation alternatives discussed for defined benefit plans.

The Discussion Paper proposes three alternative approaches to presenting information about the components of post-employment benefit costs in the financial statements. These are described below, along with our respective comments.

Approach 1: Entities present all changes in the defined benefit obligation and in the value of plan assets in net income.

We strongly disagree with Approach 1, since the mark-to-market recognition of fair value gains and losses on plan assets in the income statement is inconsistent with the current treatment of unrecognized gains and losses on similar long-term assets (e.g., available-for-sale securities). We also believe the resulting income statement volatility from such fair value adjustments and the potential magnitude of the adjustments would detract from effective communication of net income from operations.

Approach 2: Entities present only service cost in net income and all other costs in other comprehensive income (OCI).

We do not object to Approach 2, because it avoids the volatility in Approach 1 and the complexity associated with the interest income issues in Approach 3. However, we believe Approach 3 would be preferable if the "interest income" component were to be replaced by an "expected return on plan assets" component (see below).

Approach 3: Entities present service cost, interest cost and "interest income" on plan assets in net income and all other gains and losses in OCI.

We strongly recommend adoption of Approach 3. We believe that service cost, interest cost and asset returns should be included in net income, as this best represents the real economic outcomes of pension plan activities and best distinguishes the financial impacts of funded versus unfunded plans.

Our primary concern with Approach 3 is the definition of "interest income". The Discussion Paper introduces three possible methods of determining interest income on plan assets:

a) Apply the expected rate of return (The Discussion Paper has expressed concerns about this approach due to potential manipulation by preparers)
b) Apply dividends received on equity plan assets and interest earned on debt plan assets
c) Apply market yields on a hypothetical portfolio of corporate bonds

We believe the current IAS 19 requirement to use the expected return on plan assets best reflects plan performance. We also believe that existing requirements to disclose management's assumptions of future asset returns mitigates the potential for manipulation that was raised in the Discussion Paper. In our view, anti-abuse measures should not drive the development of accounting standards, as they almost always lead to unnecessary complexity and limit management's ability to apply reasoned judgments to difficult accounting issues. If the Board does not agree with the use of the expected return on plan assets, then we recommend use of a weighted average historical return on plan assets as the next best alternative.

We do not believe using dividends received on equity plan assets and interest earned on debt plan assets provide a proper reflection of asset returns. Dividends received on equity assets are normally much less than actual total returns over time. This alternative would significantly misrepresent the performance of plans investing in diversified equities and real estate.

We also do not believe using market yields on a hypothetical portfolio of corporate bonds to impute interest income faithfully represents returns on plan assets. Such an alternative does not take into account where plan assets are actually invested and would likely result in measurements that vary widely versus actual asset returns over time.

We appreciate the Board's consideration of these matters and welcome the opportunity to discuss the above issues.

Patrick J. Molna