The World Bank

September 26, 2008

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Sir/Madam,

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

We appreciate the opportunity to comment on the above discussion paper (DP). We have several comments about the scope of this proposed "limited" short term project, and in particular note that certain of the proposals made would result in a further divergence from U.S. GAAP. We believe that the IASB and FASB's energies may be better spent on joint efforts to comprehensively reconsider the fundamental issues surrounding accounting for post employment benefits, rather than "short term fixes" that divert the energy of the Board, preparers, and users because they represent fundamental reconsideration on a disjointed, piecemeal basis. Nevertheless, we have provided some comments on the proposals under the assumption that the Board would go forward with some of the changes, despite the increased divergence.

We also note that the topics in this paper touch a number of other initiatives going on, such as the financial statement presentation project and the financial instruments and fair value work. We support the elimination of the corridor and the recognition of changes in plan assets and plan obligations in the period in which they occur. However, that change highlights the issues related to the presentation of the changes and emphasizes the importance of the financial statement presentation project. To date it appears that the financial statement presentation project has subordinated the important issues surrounding the presentation of "remeasurement" changes vs. realized changes in the statement of profit and lost to a reconciliation in the notes in favor of focusing on replicating the cash flows statement categories to the other primary financial statements. We believe that such an approach does not make evident on the face of the statement the various types of income measurements and will not serve to enhance the quality and usability of the statement of profit and loss in the fundamental way that is needed as more instruments are reported at fair value and additional projects, such as this one, grapple with the presentation of the various types of changes which affect comprehensive income. We believe that the existence in this discussion paper of an extensive section on the presentation approaches reinforces this point.

In the context of a short term project's proposals we:

- support elimination of the corridor and the recognition of changes in the plan assets and plan obligations in the period in which they occur. We believe that elimination of this smoothing mechanism could be accomplished relatively quickly.
- prefer that all changes in the defined benefit obligation and in the value of plan assets be reported in profit and loss, provided that the display issues we referred to above in the statement of profit and loss are dealt with in a substantive manner. We agree it is the least complex to implement, avoids the need for rules about allocation between other comprehensive income and profit and loss, and avoids the discussion of recycling, is generally consistent with other elements of IFRS, and results in a balance sheet that is representative of the estimated position at period-end reporting dates.
- are concerned about the proposals related to "contribution-based promises", which we believe go beyond addressing what the Board identified as the more immediate problem, namely, faithful representation of the liability for some benefit promises that are based on contributions and a promised return. We would prefer that the Board deal more narrowly with the application of IAS 19 to those types of arrangements only, rather than introducing a new classification principle, unit of account, and a new application of fair value (without comprehensive reconsideration of the measurement principles associated with all post employment benefits, or without better taking into account the impact on disclosures), which may inadvertently give rise to additional complexity or scope in or out unintended arrangements.

We look forward to continued developments and a more comprehensive solution on this matter and continue to urge the IASB and the FASB to work together towards a common standard.

Sincerely,

Chuck McDonough,
Acting Vice President and Controller

Responses to Questions Posed:

Scope
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?

As we discussed in our letter, we believe that the implications of the financial statement presentation project – and in particular the issues around the presentation of income – are a priority. The acceptability of guidance proposed in this paper is interdependent on decisions about the presentation of remeasurement (or unrealized) gains/losses; definitions of measures of an entity's performance (i.e., definitions of operating income, net income, realized income vs. remeasurements etc…); and a determination about whether an entity will be required to present a single statement of comprehensive income, which are an antecedent to developing a clear view of the possible appropriate "splitting" of the various components of post-employment benefit costs and their presentation which the DP discusses.

Beyond that, we do not think that additional issues should be addressed if the limited time frame is to be maintained.

Recognition of defined benefit promises
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 support the proposal to recognize all changes in the value of plan assets and post-employment benefit obligations in the financial statements in the period in which they occur, i.e. to remove the corridor method for the deferral of actuarial gains/losses. However we note that this approach may produce concerns among reporting entities as the Boards have not yet fully illustrated in the Financial Statement Presentation Project how realized and unrealized gains and losses will be segregated and highlighted in order to make the statement of profit and loss more meaningful and understandable to users. Put another way, adequate distinctions on the face of the statement are necessary in order to provide users with a clear understanding of how such fluctuations in measurement affect key measures such as "net income" and earnings per share.

Presentation of defined benefit promises
Question 3
(a) Which approach to the presentation of changes in defined benefit costs provides the most useful information to users of financial statements? Why?
(b) In assessing the usefulness of information to users, what importance do you attach to each of the following factors, and why:
  (i) presentation of some components of defined benefit cost in other comprehensive income; and
  (ii) disaggregation of information about fair value?
(c) What would be the difficulties in applying each of the presentation approaches?

Approach 1 is clearly the simplest as it avoids arbitrary distinctions about amounts to be included in comprehensive income vs. profit and loss and avoids issues of recycling and promotes comparability among plan sponsors. We also note that if the Board were to conclude in its Financial Statements Presentation Project that a single statement of comprehensive income were required, then it is possible such separations between profit and loss and other comprehensive income would be irrelevant and therefore would eliminate discussion about the presentation of some components in other comprehensive income. [See also our response to question 2] The difficulty to obtaining acceptance of Approach 1, of course, lies in the resulting volatility. We attach a great deal of significance to disaggregation of information about fair value and believe that it is important to provide a clear understanding for the reasons for changes in the post-retirement assets and obligations during the period.

Approaches 2 and 3
If full recognition in profit and loss is too controversial, we note that Approach 3 is the closest approach to the current option to recognize all actuarial gains and losses in other comprehensive income. We also note that Approach 3, which creates a need to define and isolate interest income from other changes in plan assets, and then report them in different places may mean that a plan that is invested more heavily in equities vs. fixed income instruments, even if the change in the value of plan assets is identical, would end up reporting different amounts in the statement of profit and loss.

Overall what is most important is that the method of presentation assists, or does not impair, the identification of the position, earnings and cash flows of the plan.

Question 4
(a) How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?
(b) Please explain any alternative approach to presentation that provides more useful information to users of financial statements. In what way does your approach provide more useful information to users of financial statements?

We believe that Approach 1, which has in its favor elements of simplicity and transparency, would likely need to be enhanced as the nature of the income items (for example service costs vs. unrealized gains on plan assets) needs to be made clear. So there must continue to be information about the disaggregation of the total benefit costs reported. Again, the Financial Statement Presentation Project becomes key to the understandability of this approach.

We do not have specific recommendations for improvements at this time.

Definition of contribution-based promises
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 note that the definition of "contribution-based promises" creates a new unit of account. We would therefore appreciate clarification about how to apply the disclosure requirements to such promises in the case of a hybrid plan. We are uncertain of how to interpret paragraph 9.13 where it states that plan assets related to those liabilities [the contribution-based promises] should be disclosed. For plans where there are both contribution-based promises and defined benefit promises residing in a single plan which is supported by a common pool of assets, we are not sure if, in practice, the Board is suggesting that the assets would have to be allocated separately to each type of promise, and if so, on what basis that allocation would be performed. Or, if disclosures are made that the pool of assets supports a range of promises (and the corresponding liability amounts) if this would accomplish the intended objective.

We note that the allocation of the assets could have implications for the funded status of the promise, and how the gains and losses associated with the overall plan assets are attributed to the two types of promises. Would this also have implications for how changes in plan assets are attributed to the various promises contained in the plan and the consequent measures of costs and presentation associated with the changes in the obligation and assets? It may be that consistency of presentation among the various cost components, for both defined benefit and defined contribution promises, needs to be achieved. We believe clarity is necessitated or otherwise this will increase complexity and reduce understandability.

If the creation of the new definition and unit of account for such benefits has been put forward to assist the Board in dealing with "cash balance" plans with a promised return, then we believe a more narrow approach to those plans is best in the absence of a comprehensive reconsideration of the distinctions between and measurement units of post employment benefit plans.

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?

No comments

Question 7
Contribution-based promises, as defined in this paper, include promise that IAS 19 classifies as defined contribution plans. The Board does not intend this 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?

It does not appear that most defined contribution plans, already being accounted for that way, should not be sufficiently changed. However, rather than redefining such arrangements, we believe it will be more expedient (in the absence of a wholesale reconsideration of the fundamentals) to create a third category for those promises for which the application of IAS 19 has been problematic (e.g., those with an explicit guaranteed minimum return) and deal with those distinctly.

Recognition issues related to contribution-based promises
Question 8
Do you have any comments on those preliminary views? If so, what are they?

We agree with the Board's decision not to modify, at this time, the recognition of any additional liability as described in paragraphs 6.10-6.12. We believe however that it may be useful to create a disclosure requirement for that amount that an employer would have to pay if an employee leaves employment immediately after the reporting date. Such a disclosure would be similar to disclosing the maximum potential exposure of a financial guarantee.

Measurement of contribution-based promises
Question 9
(a) Are there alternative measurement approaches that better meet the measurement objectives described in this paper? Please describe the approaches and explain how they better meet the measurement objectives.

(b) To what extent should the effect of risk be included as a component of the measurement approach at this stage of the Board's post-employment benefit promises project? How should this be done?

We believe that measuring such promises at fair value will be a significant change for most constituents who are impacted and is also again a fundamental reconsideration of IAS 19, which is inappropriate for a limited scope project.

Further, justification is lacking for prescribing that defined benefit promises be discounted at a high quality corporate bond rate, while defined contribution promises be discounted at a different rate (incorporating the entity's own credit risk). Such an inconsistency should not be introduced and does not make sense at this stage of the limited project.

Question 10
(a) Do you agree that the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase? If not, why?
(b) What are the practical difficulties, if any, of measuring the liability for a contribution-based promise during the payout phase at fair value assuming the terms of the benefit promise do not change?

Markets for pension obligations are very thin and often the benefit formulas and demographic profiles of participants are unique to a given plan. Guidance would be necessary to operationalize fair value for the measure of such promises.

Disaggregation, presentation and disclosure of contribution-based promises
Question 11
(a) What level of disaggregation of information about changes in the liability for contribution-based promises is useful to users of financial statements? Why?
(b) Do you agree that it is difficult to disaggregate changes in the contribution-based promise liability into components similar to those required for defined benefit promises? If not, why not?

No comments

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?

We believe that it would be a desirable objective to have changes in the liability for contribution-based promises be presented in a similar fashion to those for the liabilities of defined benefit promises.

Benefit promises with "higher of" option
Question 13
(a) What are the practical difficulties, if any, in identifying and measuring the 'higher of' option that an entity recognizes 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?

No comments

Other Matters
Question 14
What disclosures should the Board consider as part of that review [of disclosures required about post employment benefit promises in a later stage of this project]?

At present the requirements for post employment benefit disclosures are lengthy, complex, and often comprise a significant proportion of a reporting entity's notes. As the issue of disclosures is reconsidered the value and extent of the disclosures should be looked at with a critical eye, and take into account issues of convergence with U.S. GAAP.

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

We note that there is only limited guidance provided on the methodologies for measuring contribution-based promises at fair value. We are concerned that in markets where there is a limited supply or depth of actuarial and audit knowledge the introduction of a potentially complex methodology for measuring contribution-based promises may lead to wide variability in the methodology and reliability of those measures.

In addition, we remain concerned that this project could enlarge the differences between US GAAP and IFRS in this area and are therefore somewhat reluctant to endorse any significant changes, which are not being considered as part of a joint approach. However, our comments have been provided in the context of an expectation that the IASB intends to move forward unilaterally with some form of amendment to the existing IAS 19.