Treasury Board of Canada Secretariat
Secrétariat du Conseil du Trésor du Canada

Ottawa, Canada
K1A 0R5

26 September 2008

Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam:

**Subject: 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** that was issued in March 2008.

For periods commencing on or after January 1, 2011, Publicly Accountable Enterprises in Canada, including government's Crown corporations, will be required to follow International Financial Reporting Standards (IFRS). The Government of Canada will then become directly affected by any changes proposed to IFRS. We will also be indirectly affected as IFRS is an important secondary source of generally accepted accounting principles (GAAP) for the public sector in Canada.

We therefore reviewed the Discussion Paper and are pleased to submit comments related to issues that are of high importance for us.

**Recognition of changes in benefit promises**

We understand the context in which the Board reached its preliminary views of eliminating deferral to record and present the value of the defined benefit obligation and related plan assets. We see value in this approach, but acknowledge that there are challenges in deciding upon the best presentation of the variance components between operations (profit and losses) or in other comprehensive income (OCI).

The nature of employee benefits necessitates a recognition approach which is consistent with the *Framework* and ensures that the financial statements provide predictive information for users by disclosing separately information that has different predictive value. Accordingly, of the three options presented, we are of the view that Approach 3, with small modifications would best achieve this goal.

We understand Approach 3 to suggest that all changes resulting from changes in financial assumptions (prompted by changes in the discount rate and the value of plan assets) would go to OCI, and that changes on cost of service, interest cost and interest income would go to operations.

Components of this proposal remain unclear at this time, which makes it difficult to comment fully. However, we consider it more appropriate than Approach 1 that records all changes to operations, without any consideration for the volatility resulting from the long-term nature of the change in assumptions, which we believe would misrepresent operating results. We also do not support Approach 2 that would view all financing costs and investment revenues recorded to OCI. We believe that both financing costs and offsetting investment income result from management's decisions that are too significant to be ignored from operating results and that their recording directly to OCI is not appropriate.

Nonetheless, Approach 3 should consider some further improvement and clarification and we recommend that it should clearly address the following, which highlights our suggested approach.

- Operations (profit and losses) would include the:
  - cost of service
  - cost of financing, as well as the offsetting investment income ( presented separately in the notes)
  - cost of past service due to plan amendments
  - cost of curtailments, and
  - cost of plan settlement for the portion that may be due to a negotiated settlement.
- OCI would include the
  - variation due to changes in assumptions (economic and demographic)
  - variation due to actuarial gains or losses on the defined benefit obligation due to experience, and
  - variation due to the current period changes in fair value and currency measurement of plan assets.

Under this proposal, it is our view that interest income on plan assets should include not only dividends and interest, but also realized gains and losses on transactions, leaving only the unrealized portion of the current period changes in fair value and currency measurement to be reported in OIC. Otherwise, the expected return on plan assets could remain a suitable alternative for recognising interest income despite the inherent subjectivity regarding the determination of this estimate.

Furthermore, variations in the defined benefit obligation due to actuarial gains and losses could be broken down into those that are due to experience and those that are due to changes in assumptions, whether economic or demographic assumptions. All changes due to assumptions should be excluded from operations. We also favour a presentation where actuarial gains and losses due to experience would be recorded to OCI, although we realize that this aspect may be more difficult to justify conceptually, as it results from re-measurement due to known data. On the other hand, recording these to income could perhaps be viewed as a valid recycling mechanism.

The Discussion Paper suggests that under Approach 3, the impact of settlement could be regarded as measurement, in which case it would be presented to OCI. The value of a plan settlement may at times be established through negotiations, in which case it is questionable whether all of the amount should be recorded in OCI instead of operations.

Finally, the Discussion Paper mentions the increased complexity of Approach 3 versus the other options. However, it is our experience that all of the information contemplated under the approach is generally available in actuarial valuations done for accounting purposes or in financial statements of Investments Corporations or Pension Funds in Canada.

**Contribution-based promises and Measurement and Disclosure of "higher of" options**

We acknowledge the intent of the Board to address the very important issue of contribution-based promises. However, while the intent is to tackle those plans that may have had hybrid characteristic, the proposed approach seems to significantly increase the complexity of the concepts surrounding the accounting of classic defined contribution plans. We are of the view that a one-fits-all solution and definition are not always the best way to address such situations. This might perhaps have been addressed by simply adding a section dealing with hybrid plans and highlighting the principles that would need to be looked at in determining what measurement and presentation is best suited in each situation.

Similarly, in cases where a plan includes a "higher of option", we agree with the view that the higher of option must be considered in determining the value of an employee benefit promise. However, there are cases where the option is not really significant in comparison with the main plan. And although it may be significant enough to be measured, it should not always warrant separate recording as suggested in the Discussion Paper. This is an example of an area where we would favour a principles-based approach as opposed to a rule that automatically requires separating the two parts of a same plan.

We recommend instead an approach where the value of an embedded "higher of option" would be required to be considered when determining the valuation of the overall promise, but it would only be recognized separately when is it significant enough relative to the whole plan so as to be considered to change its nature.

Thank you again for providing the opportunity to comment on this Discussion Paper. If you have any further questions related to these comments, please do not hesitate to contact Ms. Louise Breton at Louise.Breton@tbs-sct.gc.ca (+1 (613) 957-9675) or me at Bill.Matthews@tbs-sct.gc.ca (+1 (613) 952-0931).

Yours sincerely,

Bill Matthews

Bill Matthews, CA
A/Assistant Comptroller General,
Financial Management and
Analysis Sector

cc.: Rod Monette, Comptroller General of Canada
Louise Breton, Director Accounting Policy Research
Tim Beauchamp, Director PSAB, Canadian Institute of Chartered Accountants
Peter Martin, Director AcSB, Canadian Institute of Chartered Accountants