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Sir David Tweedie
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September 26th, 2008

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

Dear Sir David,

We appreciate the opportunity to comment on the above mentioned discussion paper.

RWE is one of the leading utilities in Europe, focussing on the electricity and gas sector. Our activities cover all of the major elements of the energy value chain. Headquartered in Germany and with external revenues amounting to 43 bn. EUR we are providing work for more than 60.000 full-time employees (figures as of 31 December 2007).

In the following, we comment on selected questions posed in the discussion paper.

Chapter 1- Introduction -

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?**

The recent erratic movements of corporate bonds' yields and the currently significant spread between corporate yields and government yields raise the question whether a new approach should be taken to determine the discount rate for post retirement benefits. A more consistent approach would be to even out short-term movements by applying a long-term average rate (as newly stipulated by the amended German Commercial Code).

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Chapter 2 - Deferred recognition of changes in the liability for defined benefit promises -

2. Are there factors that the Board has not considered in arriving at its preliminary view? If so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

We do not consent that any change in the fair value of plan assets and the present value of benefit obligations should be reflected in the income statement of the period in which the change occurs. An immediate recognition would incur random fluctuations in the reported income that do not adequately reflect the economic reality. The Board takes the "immediate settlement" view here, which is not consistent with the general approach to the assessment of long-term financial assets (such as securities "held to maturity") and financial liabilities. Instead, the duration of benefit obligations and the designation of plan assets should be considered appropriately, which is currently the case under the deferred recognition approach (IAS 19.93).

We disagree with the Board's view that the "expected return" approach for determining the portion of the changes in the fair value of plan assets that is recognized in reported income of the period should be abandoned. The Board's proposal to divide it, instead, into (actual) interest yield (which should be recognized in income statement) and other yield (not to be recognized in income statement) would result in a reported income highly sensitive to the mixture of a plan asset portfolio and thus would severely affect the comparability of reported financial figures. The Board's main argument to support its view is that a high degree of arbitrariness was involved in forecasting the expected returns; we object that IAS 19.106 stipulates explicitly that the forecast is based on "market expectations", which should not leave any space for intentional bias. There is, in general terms, no more arbitrariness involved in the expected returns forecast than is in any other assessment procedure that includes prognostic elements.

Chapter 3 - Presentation approaches for defined benefit promises -

3. (a) Which approach to the presentation of changes in defined benefit costs provides the most useful information to the 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?

We strongly disagree with approach # 1 (immediate recognition of any changes in net obligation in reported income) for the reasons given in our answer to question

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2). We generally prefer to separate the sustainable effects on income (service cost, interest, and expected return on plan assets) from day-to-day fluctuations that are generally expected to reverse in the long term and thus should be presented in other comprehensive income rather than in the income statement.

We also strongly disagree with approach # 2 (only service cost and biometric effects through profit or loss) because by excluding interest cost from the presentation in the income statement, the reported income would become highly sensitive to management's financing decisions (the interest on a loan raised for settling an existing benefit liability would have an effect on income, whereas the interest on the benefit liability itself had not). Again, we recommend carrying all components of defined benefit cost (at their respective sustainable amount) through Profit or Loss because this provides useful information with predictive value, whereas the effects of short-term fluctuations (i.e. actuarial gains/losses) may be presented in other comprehensive income.

Thus, we would prefer approach # 3 (interest, service cost, biometric effects, and interest yield through profit or loss) with the provision that, as stated already in our answer to question 2), to us it makes no sense to replace the current "expected return" approach by a separation of interest yield (carried through profit or loss) and other yield (carried through other comprehensive income).

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?

As to question (a), please refer to our answer to question 3).

As to question (b), we would prefer the presentation of any actuarial gain or loss (including biometric effects) as other comprehensive income (currently allowed pursuant to IAS 19.93A). In comparison to the Board's proposed approach # 3, it lacks no substantial information, but is more consistent in that there is no arbitrary distinction between different types of asset returns (interest vs. other). We concede that the effects of changes in assumptions related to service cost typically will not reverse in future so that they could be arguably recognized in reported income but in our opinion the advancement in terms of accuracy is outweighed by a loss in terms of understandability and practicability if we start to differentiate between different categories of actuarial gains and losses.

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Chapter 5 - Definitions

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 this project, and why?

It is our understanding that originally the Board intended to address the mismatch of the plan assets' fair value and the liabilities' present value in cases where substantially the promised benefits are closely linked to the assets' returns and thus, from an economic point of view, such a mismatch could not be justified. Given that purpose, the scope has been overstretched by far. It covers now quite common types of promises (e.g. career average plans) that would fall into the new category of "Contribution-based promises" (CBP) for which the discussion paper stipulates an entirely new measurement approach quite different from the methodology (PUC) that is - and would still be - applied for defined benefit schemes. There is, however, no economic rationale that would justify this segregation; at least one can not argue that the risk exposure from benefit promises does systematically depend on the concrete shape of the benefit formula (for example, benefit defined as a percentage of exit salary - which would fall into the defined benefit category - as opposed to benefit defined as a percentage of career average salary, which would fall into the new CBP category). Because of that inconsistency in the proposed measurement of benefit obligations, together with the many practical difficulties inherent to the "fair value" measurement concept (nota bene only for the CBP category), including a high degree of judgement e.g. in considering the enterprise's credit risk, we strongly recommend to strictly reduce the scope of the project to the "troublesome" plans that were initially under review. For the vast majority of benefit plans, there is no urge to revisit the measurement principles, which are understandable and widely accepted in public (yet see our answer to question 1)).

6. Would many promises be reclassified from defined benefit to contribution-based under the Board's proposal? What are the practical difficulties, if any, facing entities affected by these proposals?

Many RWE benefit schemes would have to be reclassified. Others would remain in the defined benefit category. Moreover, on retirement a single beneficiary would have to be moved into the new CBP category because his exit salary is not any longer a variable. These distinctions alone would cause manifold administrative difficulties. Plus, within the new CBP category further distinctions would have to be made for assessment purposes because for determining the risk-adjusted interest rate, funding and/or third party warranties would have to be considered.

7. Do the proposals achieve that goal? If no, why not?

The goal to leave the measurement and presentation basically unchanged for schemes that fall in the defined contribution category so far would be achieved by your proposals.

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Chapter 6 - Recognition issues relating to contribution-based promises -

8. Do you have any comments on those preliminary views? If so, what are they?

We generally disagree on the introduction of the new CBP category so please refer to our answer to question 5).

Chapter 7 - Measurement of contribution-based promises - core issues

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?

Please refer to our answer to question 5). As to the consideration of specific credit risks in general, given the practical difficulties, we propose not to implement such a methodology in phase 1 of the project.

Chapter 8 - Measurement of benefits after the accumulation phase -

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?

The problem arises as a consequence of the introduction of the new CBP category; thus, please refer to our answer to question 5).

Other matters

11. What disclosures should the Board consider as part of the review?

We see no urge to add even more disclosures.

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We hope that our comments will be useful to the IASB in its further deliberations on pension accounting. If you have any questions, please do not hesitate to contact Fred Riedel, Head of Group Accounting (fred.riedel@rwe.com) or Dr. Britta Leippe, Head of IFRS Competence Center (britta.leippe@rwe.com).

Sincerely yours,

RWE Aktiengesellschaft

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