September 24, 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 Financial Reporting Committee of the Institute of Management Accountants ("IMA") appreciates the opportunity to share its views on the International Accounting Standards Board (the "IASB") Discussion Paper: Preliminary Views on Amendments to IAS 19 Employee Benefits ("Discussion Paper").

IMA is a leading international organization, including accounting and valuation partners, controllers, professors and other senior financial executives. The FRC is the financial reporting technical committee of IMA. The FRC is comprised of representatives from preparers of financial statements from some of the largest companies in the world, the largest accounting firms in the world, valuation experts, accounting consultants as well as academics. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of the Committee and not necessarily those of IMA or its members individually.

Scope of Document

We believe the preliminary views document should address not only pension plans, but also other post-employment benefit plans within the scope of Statement of Financial Accounting Standards No. 106, *Employer' Accounting for Postretirement Benefits Other Than Pensions (FAS 106)*. The benefits promises within the scope of FAS 106 have substantively the same characteristics as pensions, and should have similar accounting treatment.

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

We support the elimination of the delayed recognition provisions of IAS 19 and support the Discussion Papers approach of reflecting the full fair value impact of defined benefit plans in a company's financial statements. In addition to providing a more transparent view of a company's defined benefit obligations, this approach would harmonize the balance sheet presentation of pensions between US GAAP and IAS. We agree that obligations for plan benefit promises should be measured at the present value of the obligation and plan assets should be measured at their fair value.

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 believe defined benefit promises represent long-term obligations of a company and as such, the costs to provide those benefits are most appropriately reflected over the period the related services are provided. Approaches 1 and 2 both result in current period income statement recognition for the impacts of certain decisions that are of a much longer term nature. We believe Approach 3 most consistently reflects the long-term nature of the obligation and therefore, that approach provides the most decision useful information to financial statement users.

Consistent with this view, we believe changes in plan benefit promises resulting from plan amendments should not be recognized immediately in earnings, other than for employees who have fully vested benefits or retirees. We believe the impact of changes in benefit promises for unvested benefits should be reflected over some future service period. This would be similar to changes in plan benefit promises that result from other reasons, avoiding possible confusion from treating similar items differently in operating results.

With respect to the application of Approach 3, we offer the following observations related to certain views expressed in the Preliminary Views Document:

- We believe an entity's defined benefit expense should include service cost, interest cost and expected return on invested plan assets. We believe that the expected return on plan assets should consider both the current interest/dividend component as well as expected realized/unrealized gains, as this most faithfully reflects the economics of the underlying plan assets. We do not believe the expected return should be limited to the interest and dividend rate. An approach that does not include the entire expected return could have the impact of influencing investment behavior towards low-risk fixed income investments rather than assets that would best meet the returns needed to satisfy the underlying benefit obligations.
- We agree, consistent with Approach 3, that the impacts on post-employment benefit cost related to re-measurements arising from changes in financial assumptions should be presented in other comprehensive income.
- We disagree with the suggestion of including credit risk in the valuation of pension liabilities. While the concept is understandable, the practical implementation and result of the inclusion of credit risk would lead to a counterintuitive result (increased earnings when a company's financial condition deteriorates). Therefore, we recommend excluding credit risk as a component of the liability valuation.

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Contribution-Based Promises

We agree in general with how the document defines contribution-based plans in Chapter 5. We also agree with the general premise that the document should not lead to significant changes in the accounting for contribution-based plans.

We also support the view in Chapters 6 and 9 that service cost should continue to be charged to the profit and loss statement for contribution-based benefit promises. For contribution-based plans that do not include any promised return, we agree that the service cost element should be recognized as a liability and allocated to earnings in accordance with the underlying benefit formula, including both vested and unvested amounts. Thus, in its simplest form, if a company has a defined contribution plan that it fully funds each period based on the specified benefit formula, that company would recognize a liability and expense each period equal to the benefit to be funded. It should not be required to project its benefit funding requirements and discount those cash flows back to the present time.

For contribution-based plans that also contain additional promises (i.e., a promised return), we believe companies should measure separately the contribution amount (accounted for consistent with the preceding paragraph) and the promised return. We believe a liability for the promised return element should be recognized at its intrinsic value, to the extent there is any current deficiency between the amount funded and the amount calculated by reference to the formulas underlying the promised return. We believe this approach most accurately reflects the actual underlying liability, and is most operational and least complex from a company perspective. However, we also believe strongly that to the extent this intrinsic approach results in a liability being recognized in the statement of financial position for a deficiency in the funded status, any such deficiency should be reflected in earnings on a deferred basis, consistent with our views on defined benefit plans. We believe that in substance any such deficiency that exists in a combination-type plan is the same as a defined benefit. We believe the accounting for that component, to the extent it exists, should be afforded similar accounting treatment.

Sincerely,

Mick Homan
Chair, Financial Reporting Committee,
Institute of Management Accountants

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