Discussion Paper

Preliminary Views on Amendments to IAS 19 Employee Benefits

Comments by
German Institute of Pension Actuaries (IVS)

The German Institute of Pension Actuaries (IVS), a subsection of the German Actuarial Association (DAV), thanks the IASB for giving it the opportunity to respond as follows to the Discussion Paper (DP) of March, 2008 on proposed amendments to IAS 19.

Although we generally share the view of the board that there are types of pension promises which are not covered properly by the existing rules, we would like to raise some concerns with respect to the methodology developed in the discussion paper.

In the Introduction to the DP the Board states that the project is limited in scope to the following four issues:

(a) the deferred recognition of some gains and losses arising from defined benefit plans

(b) presentation of defined benefit liabilities

(c) accounting for benefits that are based on contributions and a promised return

(d) accounting for benefit promises with a ‘higher of’ option

In respect of (a) and (b) above, we understand the Board’s desire to eliminate currently available recognition options. However, we strongly oppose immediate recognition in the profit and loss account unless immediate recognition and Fair Value measurement is prescribed without optionality in all other areas of accounting. We would still like to see the corridor as an applicable option.

In respect of (c) and (d) above we acknowledge and respect the significant work and thinking that has gone into developing a conceptually pure treatment of a subset of existing benefit promises, Contribution Based (CB) promises. However, we feel that the solution being proposed for all benefit promises is also somehow inconsistent and introduces complexities that will be significantly more costly for preparers to follow without corresponding improvement for users.

We therefore recommend the Board to seriously consider withdrawing its proposals under (c) and (d) above.

Since the IVS believes there is significant merit in IAS 19 being workable, we suggest a practical alternative to the proposals made in the Discussion Paper for the issues under (c) and (d). We propose that the current classification of Defined Benefit (DB) and Defined Contribution (DC) promises remains unchanged. For contribution based and “higher of” promises (that cross the demarcation between DB and DC promises), the existing Defined Benefit methodology could be retained by allowing alternative measurement approaches whenever the Projected Unit Credit Method leads to economically unreasonable results (analogue to the situation with plan assets where an alternative measurement approach has been introduced for qualifying insurance contracts or reimbursement rights according to IAS 19.104 and IAS 19.104A). We doubt that it will be possible during Phase I to find one fully consistent measurement approach which fits to all pension plans.

Our answers to the relevant questions are:

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?*

Answer:

Our understanding is that it is planned to merge the IFRS and US GAAP approaches to accounting for pension obligations in a two-tier process into a single worldwide standard. The first step in this process is a short term rectification of the existing IAS 19 before, in a second and final step, unifying these different approaches in order to establish a common standard. The Discussion Paper (DP) is the IASB's first input towards the rectification of IAS 19 as aspired to in this first step.

The procedure is related to two further IASB projects, namely that of compiling a uniform Fair Value concept within the framework, as well as the "Financial Statement Presentation" project. We suggest waiting for the results of the Fair Value Project, as opposed to making considerable changes to IAS 19 straight away.

We particularly welcome the intended two-tier approach towards changing the accounting methods for pension obligations and the due consideration given to other IASB projects.

On the whole, we do regard some of the proposed amendments as inappropriate. In our opinion, the existing IAS 19 principles on the measurement of defined benefit obligations could be amended in such a way that the existing valuation problems regarding hybrid promises would be solved satisfactorily for the first phase of the two-tier project. This would allow most of the weaknesses in IAS 19 to be corrected without further effort. Introducing an artificial concept of Contribution Based Promises instead, does not correct these flaws and causes preparers considerable practical difficulties in the wake of unnecessary reclassifications. We estimate that, in Germany as a whole, approx. 70% of all promises will be categorised as Contribution Based Promises whereas in the past 70% of all promises were categorised as Defined Benefit Plans.

We do not regard a development of further aspects as necessary in the first phase.

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?*

Answer:

We think that the Board has considered most relevant factors. However, some of them have not been given due consideration so that some of the Board's preliminary views may indeed be reconsidered.

According to the general accounting principle of congruence, all differences between estimated und actual assumptions should be part of the pension expenses at any periods during the duration of the pension obligations. According to this principle the corridor approach provides consistent results over the lifetime of a pension plan what all other recognition methods proposed by the IASB do not. We therefore believe that the corridor approach should not be eliminated but maintained as an option.

Furthermore, the impact of any immediate recognition approach on the employer's willingness to provide occupational pension benefits should not be underestimated. Pensions business substantially is long-term business and supposed not to be volatile but dominated by long-term trends. If accounting principles do not reflect the economic substance of specific structures and transaction properly these structures and transactions will either transform accordingly or completely disappear. We strongly believe, however, that accounting principles should always follow the economic facts and circumstances, but not vice versa.

As a matter of fact, we see the danger that the accounting approach proposed by the IASB will definitely limit the employer's freedom of action and its inclination to provide non-mandatory benefits to its employees.

With regard to the recognition of past service cost the IVS takes the view that the actual recognition approach is adequate and should not be changed. Past service cost effects should further be presented separately in the reporting entity's financial statements.

We request that the Board reconsiders its preliminary views around CB promises, in particular the following factors:

Some preliminary views reached on CB promises are in our view extremely difficult to achieve in an objective way without being extremely prescriptive in detail. For example, there is no justification to treat the same promises during payment differently according to their classification during the accumulation phase.

An issue that may be peculiar to Germany is attribution of benefits to years of service (cf. PV10 and PV11) which is expected to cause some problems. Some promises in Germany are what we call "flat currency unit promises" (promise 14 in Appendix A). Although the written document itself will not specify any attribution of such benefits to specific years of service, German pensions law attributes the total fixed amount to years of service uniformly from date of entry to normal retirement age. This is the legal minimum requirement and is almost universally applied in practice. If such plans are amended, the courts deem the same attribution to apply when determining the amount of accrued benefit during active service, before a new formula applies. Thus, for example, if the benefit is an annual retirement pension of 900 CU commencing at age 65, the benefit upon leaving service will be deemed to have been accrued on a straight-line basis from entry to age 65 – for a person entering at age 20, the vested benefit (deferred to age 65) upon leaving at age 50 will thus be 600 CU (= 900 CU x 30/45). In measuring accrued benefit liabilities for IAS 19 purposes this attribution has been established practice in Germany ever since FAS 87 came into force, i.e. from the mid 1980s and has been adopted by all preparers with pension arrangements in Germany. Attribution in accordance with the "plan formula" was thus not followed blindly, but instead took regard of the vesting rules applicable in the particular circumstances. An employer may, of course, grant vesting in line with the benefit formula or another more advantageous vesting schedule to the beneficiary in which case one would take this into account and attribution would indeed be in accordance with the plan formula. The same applies to defined benefit promises.

We therefore believe that both PV10 and PV11 do not take proper account of attribution in our jurisdiction.

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?

Answer:

We strongly believe that Approach 1, i.e. immediate recognition of any changes in the Defined Benefit Obligation and in Plan Assets in Profit and Loss (P&L), is not acceptable. This is because we take the view that only sustainable income and expense items should go through P&L immediately and therefore actuarial gains and losses resulting from changes in assumptions and from deviating experience should not be recognised in the reporting entity's P&L directly. We can only conceive immediate recognition to be acceptable for IAS 19 if this is also compulsorily required in all other areas of accounting.

From an actuarial point of view the measurement of both the defined benefit liability and the associated cost are based on best estimate assumptions which are meaningful only if the principle of large numbers and the principle of risk balancing over a long period of time are considered. For example, the assumption that 2 out of 1,000 employees are expected to become disabled in a given year implies that for a staff of 100 employees one person is expected to become disabled with a probability of 20% or, put differently, roughly one over five years. Therefore, whilst the long-term assumption might be reasonable a consistent application would require that corresponding experience gains and losses do not directly impact the pension cost in P&L when they occur. We believe that only an approach which considers the risk balancing effect of long-term processes and which attributes defined benefit cost adequately to the respective accounting periods leads to reasonable P&L-results.

The same should also apply for assumption gains and losses arising from changes in assumptions. Economic assumptions such as the discount rate, future expected inflation and salary increases are determined by and therefore closely related to market expectations and thus to economic cycles. To the extent that such assumptions are expected to vary in future the resulting actuarial gains or losses should be regarded as unrealised gains and losses. We therefore take the view that effects from changes in assumptions should have no direct impact on the entity's P&L as they cannot be regarded as actual income or expense to the reporting entity.

We believe that Approach 2 is inconsistent with the recognition of asset returns for assets other than Plan Assets. We therefore also disagree with Approach 2.

We take the view that financing items associated with the reporting entity's defined benefit pension obligation, in particular interest cost and return on Plan Assets are corresponding items and should therefore be recognised consistently. We therefore see no reason for recognising current financing cost for an unfunded defined benefit plan outside of P&L whilst actual return on other company assets (not qualifying as Plan Assets under IAS 19 but nevertheless backing the entity's obligations) should be recognised in P&L. We believe that the true and fair view principle is adversely affected if the use of assets for funding purposes has a negative impact on the entity's financial results just because the return on qualifying Plan Assets has to be recognised outside P&L.

Of the three alternatives put forward by the Board, we favour Approach 3 although we share the Board’s concerns on the determination of interest income on Plan Assets.

The IVS takes the view that the concept of the expected return on Plan Assets as currently required by IAS 19 is principally reasonable and adequate. We believe that the interest income recognised in P&L should be based on the type, amount and quality of underlying Plan Assets measured consistently with rules applicable to the measurement of the defined benefit obligation. We would appreciate, however, if the guidance on the method to derive the expected long-term rate of return was more clearly defined and if the corresponding disclosures were extended to include the average expected long-term rate of return for each category of Plan Assets.

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?

Answer:

We believe that recognition should be consistent and not pre-empt the results of the IASB's parallel project on "Financial Statement Presentation". Nevertheless, we are also convinced that the Board should consider recycling of components from other comprehensive income to profit and loss in close conjunction with immediate recognition in the balance sheet and not possibly re-introduce this at a later stage into pension accounting. The Board itself is aware that such recycling is on the agenda for various reasons (cf. e.g. 1.15 of the DP). Moreover this would be of greater conceptual purity with respect to the accounting principle of congruence as mentioned above.

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?*

Answer:

We consider that the Board has appropriately identified the promises that IAS 19 currently does not deal with explicitly. However, we regard the introduction of a new classification as unnecessary. In order to solve the valuation problems it is sufficient to make an adjustment to the Projected Unit Credit Method, and extend the concept underlying IAS 19.104.

The definition of the new Contribution Based Promises class is too wide ranging since it also contains promises which were previously classified as DB Plans that were already being accounted for appropriately. The demarcation between the two new classes of promises is somehow inconsistent, as can be shown by examples of Career Average or fixed-currency promises (Contribution Based Promises according to the new classification) und Final Pay promises both during accumulation and payment (Defined Benefit Plan).

Also, the definition of a new class of promises results in new measurement issues. For example, the fact that identical payment streams must be measured differently depending on their origin is inconsistent and certainly not understandable to a user. Apart from being somehow inconsistent, practical difficulties will arise during measurement in the payment phase, since information from the accumulation phase may not be readily available, in particular for most existing benefits currently in payment.

In the following we sketch out an alternative approach to dealing with “troublesome plans” that to our opinion the Board might consider:

Our proposal does not require a reclassification of pension plans into DB and CB plans, because we hold that “troublesome plans” can be dealt with within the current DB and DC setting. Only the measurement of such plans must be amended. The Board’s fundamental review in Phase II may then bring IAS 19 in line with other IFRS standards.

In principle, the concept of classifying pension plans either as DC or as DB has worked well in practice.

The typical DB plans (plans granting amounts fixed in nominal terms, final pay plans, career average plans) do not constitute troublesome plans. The same is true for contribution based plans under which the employer promises a predetermined and fixed return (e.g. 4 % p.a.) on contributions, because a plan with a promised contribution of 1,000 CU plus a promised return of 4 % p.a. is a (precisely) defined benefit obligation.

Neither are plans that pay benefits out as lump sums or annuities troublesome. Longevity is only a problem of setting a best estimate assumption. Actuaries and auditors should pay careful attention to such assumptions and disclose them.

We define Troublesome Plans as those under which the employer promises

- notional contributions and a return in line with some index (e.g. equity or bond index) or a reference asset and under which the employer is not obliged to fully fund the plan accordingly – Type A promises

  or

- promises based on real assets that would be defined contribution plans if they did not contain a minimum return guarantee by the employer – Type B promises

  or

- promises based on a (notional) account or a (reference) asset that additionally contain minimum guarantees and maximum limits with possible integration of DB promises – Type C promises.

All these types of promises clearly do not qualify as DC.

Type A promises: We recommend setting the Defined Benefit Obligation (DBO) of such a promise equal to the current value of the notional account or the fair value of the reference asset. This is similar to the current requirement for qualifying insurance policies in IAS 19.104 with the difference that the DBO is set equal to the fair value of the asset and not vice versa. We believe that such approach is reasonable and appropriate in all cases where benefits follow and are therefore predominantly defined by (real or notional) underlying accounts or reference assets.

This approach would also mean that any actuarial gains and losses are immediately recognised in P&L; current service cost would equal the (notional) contribution, interest cost would equal the expected return on the (notional) account or reference asset and could be calculated in accordance with usual rules, and the balancing item to the notional fair value would represent the actuarial gains and losses.

Type B promises: For promises of this type the fair value of the underlying assets will in many cases be an appropriate best estimate for the employer's obligation ("intrinsic value" approach). This fair value should be compared with the DBO of the guaranteed benefit obligation, the higher amount is used as DBO of the promise. However, we recommend that, conceptually, the measurement of the DBO must contain the fair value of the embedded option in "the higher of" plan. The measurement can take place either "exactly" (e.g. by using option pricing techniques) or by using acceptable approximations. In many cases the guarantee is expected to be low, so the value of the option might be immaterial.

Type C promises: Promises of this type are typically a combination of DB promises and the above mentioned types A and B. Combining the techniques for these promises (including an assessment of the value of any embedded options) leads to a qualified valuation of the obligation.

Example (type B promise): A lump sum at age 65 is promised as the higher of the fair value of the underlying assets and the sum of notional contributions plus a guaranteed minimum return of 2 %. The DBO of the promise would equal the higher of the fair value of the underlying assets and the DBO of the guarantee <u>plus</u> an adequate addition for the value of the embedded option.

In technical terms of option pricing theory, such situation can be viewed in either of the two following approaches (the "put call parity"):

1st approach: A lump sum at age 65 is promised based on the sum of notional contributions and the return in line with a reference asset (measured at fair value). Additionally, the employer grants a put option to sell the reference asset at age 65 at a strike price equal to the outcome of the DB benefit at age 65 (measured using option pricing techniques).

2nd approach: A lump sum at age 65 is promised equal to the guaranteed benefit (measured with its DBO according to IAS 19). Additionally, the employer grants a call option to buy the reference asset at age 65 at a strike price equal to the outcome of the guaranteed benefit at age 65 (measured using option pricing techniques).

Interestingly, the IASB prefers only the 2nd approach in its Discussion Paper.

Clearly both approaches should result in the same liability. This is only possible, however, if the discount rate used for purposes of measuring the DB benefit is the same as that used in the option pricing formula (i.e. a risk free rate in both cases or a high quality corporate bond rate in both cases). The 2nd approach (i.e. on the one hand using a high quality corporate bond rate to correctly measure the DB benefit and, on the other hand, using a risk free discount rate to correctly measure the fair value of the option) is inconsistent.

It is, however, stated in the Discussion Paper that the Board prefers the 2nd approach for "fundamental reasons", because it is easier to apply. That may indeed be correct (neglecting the above stated inconsistency). However, at least in Germany, the 1st approach would fit better, because the economic value of the put option in the first alternative is normally very small, whereas the value of the call option in the second alternative would normally be very significant.

Another type of promise (cf. Promise 12) would be one similar to the promise discussed above. However, at retirement the (notional) lump sum is converted into an annuity by using a fixed (guaranteed) conversion rate based on actuarial assumptions (e.g. discount rate and mortality) different from those actuarial assumptions required to be used under IAS 19.

We recommend measuring the DBO of such an obligation analogously to the methodology described above, but allowing additionally for the anticipated gain or loss at retirement age (making a best estimate of the ratio of the value of the guaranteed conversion rate and the IAS 19 discount rate applied as at the relevant valuation date).

Our reasoning can be explained by comparison with a similar situation: A lump sum is promised at age 65 based on the sum of notional contributions and a promised return in line with an index. The relevant currency is EUR. However, the promise contains a fixed exchange rate to, say, British pounds (GBP) of e.g. 1.50 EUR per GBP. Of course, we do not know what the conversion rate at age 65 will be in order to reflect the ultimate true costs to the employer. But we know the conversion rates at each balance sheet date.

It is clear that the correct valuation of this obligation at each balance sheet date would entail firstly looking at the fair value of the notional account in EUR. Then the current conversion rate of EUR into GBP would be considered. If (by chance) this conversion rate equalled 1.50, then no "adjustment" to the fair value of the notional account would be necessary. If, however, the conversion rate were, say, 10% higher, then the liability would have to be correspondingly increased by 10%.

This concept also applies directly to conversions into annuities: The lump sum depending on an equity index is converted at age 65 into a lifetime annuity with a fixed (guaranteed) conversion rate of, say, 15. Now we do not know what the annuity conversion rate will be at age 65 (in line with the correct actuarial assumption under IAS 19 at age 65) in order to reflect the ultimate expected cost to the employer. But we know the actuarial conversion rates at each balance sheet date.

If at such a date the annuity factor under the IAS 19 assumptions is also 15, then the liability equals the fair value of the notional account and no adjustment is necessary. But if the annuity factor under the IAS 19 assumptions is, say, 18 instead of 15, then the liability must be increased by 20% (= 18/15 – 1).

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?*

Answer:

In Germany, the current distribution (by number of beneficiaries) between DC and DB promises is roughly 30% DC and 70% DB. In these statistics, the label "DC" includes qualifying insurance policies that are strictly DB in character but that may be treated as DC under IAS 19.42. Because of the high prevalence of cash-balance type plans with fixed or variable interest rate grants as well as fixed currency unit promises in Germany, the expected distribution between CB and DB promises under the proposed definitions would lie between 70% CB and 30% DB.

So, more than half of Germany's promises would be significantly affected by the Board's proposals. What is more, the vast bulk of pensions in payment would have to be reclassified since they would probably have been classified as CB during the accumulation phase. We see no justification in changing measurement and presentation for such promises.

The particular difficulties lie in the following:

- *readily and objectively determining the credit risk of promises*– as the credit crisis has shown, even officially rated entities can be assessed very differently by the markets. Does the Board not assume a level of available market information that in practice may not exist or may not be readily and objectively available? Guidance in this area will have to be very prescriptive to avoid confusion amongst preparers and users.

- *explaining the new classification* – we consider the new classifications of pension promises to be arbitrary and artificial. They will be difficult to communicate, not least because the results of the widely implemented de-risking exercises undertaken during the last three decades in Germany and elsewhere will now appear as being much more volatile and riskier than final salary promises.

- *logical discontinuities within the scope of CB promises* – the Board itself acknowledges in section 7.40 that the proposal for measuring CB promises may not be regarded as representing fair value because the performance risk is excluded. For example, the argument in section 7.25, that “demographic risks would be less significant than asset-based risks” does not convince.

Furthermore, we disagree with the statement made in section 5.32 that “there is no conceptual basis to separate promises of a fixed return from promises of a variable return”, since the former can also be expressed in a fixed nominal amount at the outset while the latter cannot. The latter will thus be less determinable in nominal terms than the former, will bear more risk and will be closer conceptually to a contribution based promise.

- *logical discontinuities between CB and DB promises* – differentiating between situations of equal economic substance, such as equal pension amounts during payment, are very difficult to justify, if at all. It is stated in section 8.9 that because the Board does not "intend to change the accounting for defined benefit plans in this project" (i.e. in Phase I) the principle that an obligation should be accounted for consistently throughout its life overrules the principle that the same obligation should be accounted for in the same way. The IVS disapproves this line of reasoning, as we strongly believe that time constraints cannot be cited as a justification for pressing ahead regardless of the obvious contradictions in the proposal.

  This alone should make the Board reconsider the route it is proposing.

- *practical difficulties* – taking account of the risk of a promise may be difficult and clumsy in practice. The following example would not be atypical in Germany: only part of a pension may be legally insolvency insured (there are maximum amounts and indexation is not insured), part of the promise may be CB another DB and, finally, part of the benefit may be funded the other not. Thus, for example, an annual pension of 1,000 CU that hitherto has been valued with one particular actuarial present value, may have to be split into 8 (!) different elements. The new classification, in addition to the different methodologies applicable for the measurement of CB promises is in our view of little value to the user and of high cost to the preparer.

Question 7 / Question 8: *Do the proposals achieve that goal? If not, why not?/ Do you have any comments on those preliminary views? If so, what are they?*

Answer:

The IVS believes that the proposals do not achieve the goal because they

- require reclassification and significantly different accounting for a great number of promises that fitted very well into the old definition of DB plans under the existing IAS 19
- are somehow inconsistent (e. g. discontinuities between CB and DB promises) and
- open a greater number of other unresolved issues that – as explained above – will be difficult and costly to address in practice.

We therefore strongly suggest that the Board abandons the reclassification into CB and DB 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?

Answer:

(a) Please refer to our answer to Question 5.

(b) We believe that the effect of an individual promise's risk is difficult to include as proposed and as such should not be implemented in this limited scope project without a fundamental review of IAS 19. We believe that the current approach of allowing for a measure of risk implicitly by requiring high (and not highest) quality corporate bond rates to measure DB liabilities recognises that such risk is only imperfectly but at least consistently measured in practice.

Also, the Board should not require full fair value measurement for pension promises without requiring such an approach for all other areas of accounting too.

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?

Answer:

Please refer to our answer to Question 6. With regard to practical difficulties it should be noted that historic information on the original terms and plan formula of the underlying pension promise of a current pension payment might not be available any more (e.g. after several M&A-transactions took place). It could therefore be a practical problem to adequately classify pension promises in the pay-out phase.

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?

Answer:

As explained above, we believe that the reclassification into CB and DB plans should be abandoned.

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?

Answer:

As explained above, we believe that the reclassification into CB and DB plans should be abandoned.

Question 13:

(a) What are the practical difficulties, if any, in identifying and measuring the 'higher of' option that an entity recognises 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?

Answer:

As explained above, we believe that the reclassification into CB and DB plans should be abandoned. The existing principles developed by the Board can be applied pragmatically to higher of promises crossing the demarcation of DB and DC promises.

Question 14: *What disclosures should the Board consider as part of that review?*

Answer:

A slight improvement of disclosures (to better explain the determination of the expected return on Plan Assets) as well as clear explanations of the methodology applied for "troublesome plans" can be useful for users.

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

Answer:

We strongly urge the Board to reconsider its preliminary views around the issue of CB and "higher of" promises. We believe that the reclassification into CB and DB plans should be abandoned.

Respectfully submitted

The German Institute of Pension Actuaries (IVS)
September, 2008