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Comment letter by Allianz SE on IASB "Discussion Paper Preliminary Views on Amendments to IAS 19 Employee Benefits"

Ladies and Gentlemen

We welcome the opportunity to comment on the Discussion Paper "Preliminary views on Amendments to IAS 19 Employee Benefits".

Allianz supports the IASB's longer term aim of improving the accounting for employee benefits in conjunction with the FASB as part of the on-going global convergence of accounting standards. We recognise that this is an important area that requires both boards to devote appropriate resources to developing effective solutions. However, from conceptual and practical points of view, we would question whether it is most effective to implement an interim solution with such fundamental implications at this stage.

As we will explain in more detail below, implementing the proposals from the discussion paper would change the accounting for post-employment benefits in the Allianz Group in a significant way. In addition, the IASB is currently working on a number of important fundamental projects which will require detailed consideration of many of the issues underlying the proposals in this Discussion Paper (e.g. Fair Value Measurement, Insurance Contracts, Conceptual Framework and Financial Statement Presentation). Therefore, we strongly believe that there is a high risk that after finalizing the long term project on employment benefits, which will reflect the outcome of the fundamental projects addressed above as well, an additional significant change in accounting policy will be necessary. Taking these considerations into account, we believe that any interim changes to the accounting policy for employment benefits should be restricted to areas where the current standard leads to non-economic results. We do not believe that this is true for most of the issues touched in the discussion paper.

We do acknowledge, however, that the current rules-based classification of pension arrangements between defined benefit and defined contribution in IAS 19 is counterproductive with regard to certain plans because it produces non-economic outcomes. The introduction of a more principles based treatment within the short term project might be a solution. IFRIC Draft Interpretation D9 from July 2004 already provided some reasonable proposals for the accounting of certain post employment plans, which should be reconsidered before a fundamental new classification scheme is introduced.

With regard to plan assets, we highly recommend to keep the current definition and to require that they are directly linked to the pension obligation. We do not see any need to change the current accounting treatment.

Recognition and presentation of defined benefit promises

The Discussion Paper proposes to remove the options to account for changes in the DBO and actuarial gains/losses under the corridor method for defined benefit promises. Instead three different approaches are proposed for the presentation of gains and losses in the income statement and in other comprehensive income. In terms of the liability for a contribution-based promise, the Discussion Paper goes even further and sets out a preliminary view, namely that all changes in the value of the liability and all changes in the fair value of any associated plan assets should be presented in the income statement.

As already discussed above, Allianz believes that before any decision on presentation can be taken in the context of the Employee Benefits project, the IASB should develop a general principle for the recognition of gains and losses in all aspects of financial reporting. Therefore, we recommend keeping the current treatment with regard to the recognition and presentation of Defined Benefit Promises unchanged, including the corridor approach. Accordingly, we will not discuss details of the proposals of chapters two and three of the Discussion Paper.

If the IASB would introduce one of the proposals for the presentation of Defined Benefit Promises, it should be noted that this might have a significant impact on the nature and structure of future earnings: For the Allianz Group unrecognized actuarial losses developed from EUR 0.8bn in the year 2003, to EUR 3.3bn in 2005 and EUR 1.4bn in 2007, predominantly driven by changes in the discount rate (2003: 5.5%; 2005: 4.1%; 2007: 5.5%). These market driven changes lead to a short term volatility which is not under control of the management and there is a high probability that these changes will reverse over a longer period of time. Therefore we are not convinced that recognizing these fluctuations all through profit and loss would lead to a more useful presentation for the users of our financial statements. If a change from the current accounting treatment cannot be avoided, we would prefer approach 3 (DP 3.15) and stress that clear guidance should be given on how to split the different components to be recognized in net income or in other comprehensive income.

Definition of contribution based promises

The Discussion Paper defines a new category for employee benefit plans, which replaces the current defined contribution plan category. However, most of the pension plans that Allianz offers to its employees are currently classified as defined benefit plans and would be in the scope of this new category. Allianz expects a fundamental reclassification of about 60 to 70% of the existing plans within the Group. Measuring these plans according to the projected unit credit-method is widely accepted and leads to a meaningful outcome for these long term liabilities from our perspective. Given the fundamental change we do not believe that the introduction of the proposed new category and accordingly the new fair value measurement model is appropriate for a short term project.

We recommend to keep the current classification and measurement in the short term project. However, clarification should be reached for plans where the employee benefits depend primarily on the development of a specified group of assets. In this case the liability for the defined benefit plans might be measured at the fair value of the assets. As already mentioned, the discussions reflected in IFRIC Draft Interpretation D9 might be a good starting point for such an amendment to IAS 19.

Measurement of contribution-based promises

We already outlined that Allianz does not support the introduction of the new category for contributions based promises. In addition we do not believe that a new measurement model based on fair value should be implemented within this short term project. We note that the model proposed in this Discussion Paper for contribution-based pension promises is very similar to the one set out in the Discussion Paper, Preliminary Views on Insurance Contracts, issued in May 2007. You should be aware that we have significant concerns with several aspects of the measurement model proposed in the Insurance Contracts Discussion Paper and a number of the issues raised in that respect are relevant in relation to the proposals in the Discussion Paper for contribution-based promises. Especially we are concerned about

- the use of market consistent assumptions for the measurement model also for input factors which are entity specific and for which no market exists (e.g. costs),
- the reflection of the credit standing of the employer in the valuation of the liabilities and,
- the transfer based concept in measuring liabilities instead of a favourable ultimate settlement (or fulfilment cost) model.

As we are not supportive to the overall concept of the Discussion Paper, we think that it is not adequate to answer the detailed questions you raised. Our position is represented by the discussion we provided above and we would kindly ask you to take these arguments into consideration.

We would be pleased to discuss our comments with you.

Yours sincerely,

Louise Jordan
Head of Group Accounting Policy Department