

International Accounting
Standards Board
30 Cannon Street
GB-London EC4M 6XH

March 26, 2002

Comment letter on amendment to IAS 19 Employee Benefits-The asset ceiling

Dear Sirs,

We thank you for the opportunity of commenting to the proposed changes to IAS 19, however, before we address the specific points on which you request comment, we wish to make a comment about the due process concerning this change.

We consider that giving respondents barely one month to provide their comments is an insufficient time to digest the proposals, study the conceptual implications of such changes and prepare a considered response. The IASB should not consider that respondents can change all their priorities to respond to its proposals, especially when the exposure draft is issued when many preparers are producing their Annual Reports. We consider that a comment period of two months is the minimum comment period that should be given.

We further disagree that these changes are limited. They substantially change the accounting for actuarial gains and losses and therefore introduce a potential volatility into the income statement in relation to pension accounting which was avoided in the existing standard.

We also see from the February 2002 edition of the "News from the SIC" newsletter that increased guidance is proposed for determining the actual amount of the asset limitation.

Whilst we agree that clarification of both the way to determine the pension asset limitation and the interaction with the paragraph 58 conditions is necessary, we consider that both areas should be handled at the same time, as in our view both touch fundamental

issues concerning how to appropriately account for defined benefit plan surpluses.

As the wording of these proposed changes show , it is not easy to write in plain English the ideas behind the asset ceiling capping concept and the interaction with the accounting for unrecognised actuarial gains and losses and other deferred items especially where the "corridor" concept is utilised.

A major issue that we have as a preparer with the proposals in paragraph 58A is the lack of predictability of the calculation. It should be remembered that the actual funded status has considerable volatility and is only known on the last day of the financial year when the market values of the assets are known.

It is exactly for this reason, in order to reduce income statement volatility that the existing standard permits the "corridor" concept of paras 92 and 93 and allows all actuarial gains and losses to be included in this calculation . The proposed asset ceiling concept of paragraph 58A gives us concerns as this requires, for any sudden year-end reduction in the market value of the pension plan assets, an immediate and unpredictable income statement charge as indicated in the Example 2.

The capping concept of the proposed paragraph 58A therefore introduces more volatility into the income statement accounting for pensions than the existing IAS 39 on financial instruments. As a preparer this is undesirable and we would suggest that any excess identified by the amended rules is amortized in following years using "corridor" type rules.

Taking the above into account our comments to your specific questions on which you seek comments are the following:

Question 1

Whilst we agree that clarification is needed in a number of areas concerning the asset limitation, we disagree with the way that these proposed changes have been packaged as "limited" as they have far reaching implications on the calculation of the income statement impact of pension accounting. We suggest that any change in this area is not restricted to this point but should cover all related issues including those relating to the measurement of "available benefits" and be properly exposed for comments.

We also consider that your Example 1 under the existing rules where 30 is recorded as income is a rare situation. This example completely ignores the fact that what gets recorded in the income statement normally is the amount calculated using actuarial assumptions as indicated in paragraph 61. This does not automatically result in the fall in the value of the surplus leading to amounts that should be immediately recorded in income. We therefore disagree that this rare case warrants such substantial changes in the existing standard.

Question 2

We are not convinced that these "quick-fix" changes produce an easily understood standard. It would appear that other paragraphs (eg 54 and 61) should also be amended. We would therefore suggest that the lack of predictability should be taken out of the calculation and that the deferral concept of paragraphs 92 and 93 are retained in calculating the income statement impact of applying the asset ceiling.

Question 3

The proposed changes could have potential significant consequences for a number of preparers therefore a longer introduction date is necessary.

Question 4

Should the changes in their current form be introduced any initial reduction in the asset recognized on a company's balance sheet through the adoption of this amendment should be allowed to be recorded against retained earnings of the current period and should not require restatements of prior years.

We thank you for the opportunity of commenting on this proposed change.

Yours truly,

Novartis International AG

M.B. Cheetham

M. Kaeser