The Actuarial Profession
making financial sense of the future

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Via www.iasb.org, 'Open to Comment'

11 January 2007

Dear Sirs,

Exposure Draft of Proposed Improvements to International Financial Reporting Standards

Thank you for providing The Actuarial Profession with the opportunity to comment on this consultation. Please note that our comments are restricted to the proposed amendments to IAS 19 (Employee Benefits).

Question 14(a)

We agree that it would be helpful to clarify the distinction between (negative) past service costs and curtailments.

We assume that the intention is that when employees cease active membership as a result of a corporate change (for example the sale of a business), both the past and future service costs resulting from this are accounted for as a curtailment. We assume that the amendment to IAS 19 is intended to relate to changes to the plan made by an amendment to the plan documentation rather than by a corporate change.

We believe that there are 3 (rather than just 2) categories of cost changes that can be made by amendments to plan rules:

1. Changes to the value of the past service defined benefits obligation arising from changes to the plan benefit formula
2. Changes to the value of the past service defined benefits obligation arising from a plan amendment that removes employees from active membership status (for example by amending eligibility criteria)

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3. Changes to future service accrual (which can arise in connection with either 1. or 2., but the distinction is irrelevant).

We guess that IASB had changes in category 1. in mind when it drafted the proposed amendment, and we agree with the clarification for this category of changes. However, it is difficult to see why changes made by amendments to the plan documentation but which fall in category 2 should be treated differently from the effect of a group of employees ceasing active membership due to the sale of a business. We wonder if IASB intended this amendment to IAS 19 to require the impact of such plan amendments to be treated as negative past service costs.

Similarly, IASB should clarify whether changes to the value of the past service defined benefits obligation arising from a plan amendment that removes or restricts the linkage of past service benefits to future increases in pay should be treated as a negative past service cost or curtailment.

Question 14(b)

We have no comment on this amendment, which we see as primarily an accounting issue.

Question 15

We agree with the intention of this change. However, we believe that the drafting could be improved (as could the existing wording of paragraph 107).

Suppose a plan measures the defined benefit obligation by assuming (inter alia) that all administration expenses will be met from future employer contributions. Then all plan expenses will have been included in the assumptions used to measure the defined benefit obligation, but the amount included in the DBO as a reserve for expenses will be zero. The expenses should therefore still be deducted from the expected return on assets.

We think a better way of phrasing the intended requirement would be as follows:

"... less any costs of administering the plan (other than those for which the expected amount had been previously expensed and included in the defined benefit obligation)"

As it stands before this proposed change, it is unclear whether IAS 19 permits administration costs to be expensed during the relevant service and reserved for as part of the defined benefit obligation, rather than when they are incurred. The reference in paragraph 107 suggests that they can be, but paragraph BC75 of the basis for conclusions and, as you note, the existing definition of "return on plan assets" suggest they cannot be. It is therefore unclear whether the proposed change is merely to remove an implied double counting, or whether it is introducing for the first time an option to expense administration costs during employee service. (We are aware of a number of entities that assume that it is already permissible to expense administration costs over employee service and prepare their accounts on this basis.)

Either way, once the change is made, and both approaches to expensing administration costs are permitted, it is unclear what is expected for an entity that switches from expensing administration costs as incurred to expensing (part or all of) such costs during employee service. Is the entity expected to restate past accounts so as to include the reserve for future administration expenses in the defined benefit obligation at the beginning of the first prior year shown with the financial statements for the year in which the change is made? Or is this just a change in assumptions that is reflected in gains and losses?

Question 16

We sympathise with the IASB's intentions in suggesting the replacement of the term "fall due". However, an employee who has satisfied the plan's vesting requirements will have at the end of the service period a legal entitlement (ie will have "become entitled") to the post-employment benefits accrued during that service period. We therefore believe that the proposed change would mean that all vested post-employment benefits would fall within the definition of short-term employment benefits (as well as remaining within the definition of post-employment benefits), and become subject to two irreconcilable sets of accounting requirements. Similarly, if the distinction between short-term and other long-term employee benefits is to be decided on the basis of entitlement, this would appear to switch many benefits that are currently accounted for as other long-term benefits to being accounted for as short-term benefits, with completely inappropriate consequences.

Question 17

We have no comment on this amendment, which we see as primarily an accounting issue.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to get in touch. Should you wish to do so, please contact Margaret Marchetti, Secretary to the Profession's Pensions Accounting Committee, on 020 7632 2184 or margaret.marchetti@actuaries.org.uk.

Yours faithfully

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