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Deloitte Touche Tohmatsu

26 July 2004

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David,

Exposure Draft of Proposed Amendments to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures

Deloitte Touche Tohmatsu is pleased to comment on the International Accounting Standards Board's (the Board's or IASB's) Exposure Draft of proposed amendments to IAS 19 *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures* (the Exposure Draft). Our responses to the questions in the Exposure Draft and comments on specific matters of concern are set out in the Appendix to this letter.

We have serious concerns about the Board's approach to the proposed changes to IAS 19. We do not believe that proposed amendments to IAS 19 should be introduced on a piece-meal basis, rather any changes should be considered as part of a comprehensive review of accounting for employee benefits.

We also do not believe that the Board has made a persuasive case that the proposed changes for the recognition of actuarial gains and losses represent an improvement to current reporting under IFRS and, therefore, question why such a change is necessary. We also question why the IASB is introducing an additional option in accounting for actuarial gains and losses in light of the Board's continuing discussions on the project dealing with "Reporting Comprehensive Income". The introduction of this alternative treatment is contrary to the Board's objectives to increase the comparability of financial statements and reduce options in standards. Furthermore, we note that the proposed changes also create a further divergence from U.S. GAAP without any valid reason and, as a result, do not serve to facilitate the global convergence of accounting standards.

In addition, the objective that the IASB is trying to achieve with the proposed modification of the accounting for group defined benefit plans in the separate or individual financial statements of entities within a group appears inconsistent with IFRIC Draft Interpretation D6

Multi-employer Plans. We refer you to our comment letter on IFRIC Draft Interpretation D6 and the reservations we express about the Draft Interpretation as a whole, particularly on the proposed guidance in order to determine whether there is a reliable and consistent basis of allocating an obligation, plan assets and cost to individual entities participating in a multi-employer plan.

Finally, we believe that the benefits of certain of the proposed disclosures to be limited, particularly the sensitivity analysis, which is focused on one specific assumption (medical costs) and does not provide disclosure of the potential consequential effects of the interaction between assumptions if an assumption changes.

We appreciate the opportunity to provide our comments. If you have any questions concerning our comments, please contact Ken Wild in London at (020) 7007 0907.

Sincerely,

Deloitte Touche Tohmatsu

Appendix
Comments of Deloitte Touche Tohmatsu on
Amendments to IAS 19 Employee Benefits
Actuarial Gains and Losses, Group Plans and Disclosures

Question 1 - Initial recognition of actuarial gains and losses

IAS 19 requires actuarial gains and losses to be recognised in profit or loss, either in the period in which they occur or on a deferred basis. The Exposure Draft proposes that entities should also be allowed to recognise actuarial gains and losses as they occur, outside profit or loss, in a statement of recognized income and expense.
Do you agree with the addition of this option? If not, why not?

We disagree with the introduction of a new option for the recognition of actuarial gains and losses at this time. More specifically, we believe that the Exposure Draft will have the following effects:

(a) Reduce, not increase the comparability of financial statements around the world; the IASB has stated clearly an objective of reduction of options in IFRS literature and the proposal is in contradiction of this objective;

(b) Pre-empt an open and full debate on certain aspects of the project of "Reporting Comprehensive Income" such as what items shall be reported as elements of performance (is it appropriate that all experience adjustments and changes in actuarial assumptions be recognised in equity and never affect profit or loss?) and whether recycling is appropriate; and

(c) Create a significant difference of treatment with U.S. GAAP, which benefits we cannot see at present. IAS 19 already requires a large amount of disclosures that enable users of financial statements to adjust the financial statements for the effect of any unrecognised actuarial gains and losses, should they wish to.

Should the Board go ahead with adding the option to IAS 19, we suggest the Board provide guidance on whether changing to or from this option would provide more relevant information than the other options in IAS 19 as required by paragraph 14(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*:

Question 2 - Initial recognition of the effect of the limit on the amount of a surplus that can be recognised as an asset

Paragraph 58(b) of IAS 19 limits the amount of a surplus that can be recognized as an asset to the present value of any economic benefits available to an entity in the form of refunds from the plan or reductions in future contributions to the plan (the asset ceiling). The Exposure Draft proposes that entities that choose to recognise actuarial gains and losses as they occur, outside profit or loss in a statement of recognised income and expense, should also recognise the effect of the asset ceiling outside profit or loss in the same way, i.e. in a statement of recognised income and expense.

Do you agree with the proposal? If not, why not?

We disagree with the proposal and believe that it pre-empts an open and full debate on certain aspects of the project of "Reporting Comprehensive Income", in particular those related to the presentation of the effect of the limit on the amount of a surplus that can be recognised as an asset. In addition, we question why the effect of the asset ceiling resulting from the other distinctive elements (increasing cumulative unrecognised past service costs and/or a decrease in the present value of any economic benefits available to an entity in the form of refunds from the plan or reductions in future contributions to the plan) would be accounted for differently.

Question 3 - Subsequent recognition of actuarial gains and losses

The Exposure Draft proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should not be recognised in profit or loss in a later period (i.e. they should not be recycled).
Do you agree with this proposal? If not, why not?

We do not agree with the proposal and believe that this issue should be further explored and debated as part of the Board's project on "Reporting Comprehensive Income", rather than being addressed on a piece-meal basis as an amendment to IAS 19.

Question 4 - Recognition within retained earnings

The Exposure Draft also proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should be recognised immediately in retained earnings, rather than recognised in a separate component of equity and transferred to retained earnings in a later period.
Do you agree with this proposal? If not, why not?

We do not agree with the proposal and do not believe the Board should address this issue on a piece-meal basis as an amendment to IAS 19. Any further information on the appropriateness of recognising items directly in retained earnings, which may impact the ability of an entity to distribute dividends, should be addressed as part of the Board's project on "Reporting Comprehensive Income".

We also believe that until the Board's project on "Reporting Comprehensive Income" is complete, any change to permit the recognition of actuarial gains and losses in equity should be consistent with the accounting for other items that are recognised directly in equity.

Question 5 - Treatment of defined benefit plans for a group in the separate or individual financial statements of the entities in the group

(a) The Exposure Draft proposes an extension of the provisions in IAS 19 relating to multi-employer plans for use in the separate or individual financial statements of entities within a consolidated group that meet specified criteria.

Do you agree with this proposal? If not, why not?

Whilst we support the reference to the accounting treatment of multi-employer plans under the proposed conditions in IAS 19.34 for the treatment of defined benefit plans that pool the assets contributed by various entities under common control, we question the interaction of this proposal with IFRIC Draft Interpretation D6, particularly in the light of the conflicting comments in BC 22 and BC 24 of the Exposure Draft. In BC22 the Board concludes that entities within a group should always be able to make at least a consistent and *reasonable* allocation. In BC24(a) however, the Board concludes that if there is no *consistent and reliable* basis for allocating the assets and liabilities of the plan, the entity should use defined contribution accounting and provide additional disclosures. We question whether the same comments would apply under IFRIC D6.

We note that IFRIC D6.1(a) proposes to scope out pools of assets contributed by various entities that are under common control. We have expressed serious reservations about the objectives and application of IFRIC D6 and, as a result, question the apparent inconsistency of the proposals in the Exposure Draft with that in IFRIC D6.

(b) The Exposure Draft sets out the criteria to be used to determine which entities within a consolidated group are entitled to use those provisions.

Do you agree with the criteria? If not, why not?

We note that the criteria included in the Exposure Draft are different from the criteria for which a parent does not need to present consolidated financial statements under IAS 27 *Consolidated and Separate Financial Statements*. For example, why is there now a reference to a wholly-owned subsidiary? Why not allow the exemption if the subsidiary is a partially-owned subsidiary of another entity?

Question 6 - Disclosures

The Exposure Draft proposes additional disclosures that

(a) provide information about trends in the assets and liabilities in the defined benefit plan and the assumptions underlying the components of the defined benefit cost and

(b) bring the disclosures in IAS 19 closer to those required by the US standard SFAS 132 Employers' Disclosures about Pensions and Other Postretirement Benefits.

Do you agree with the additional disclosures? If not, why not?

<u>Disclosures about trends in the plan</u>

We note the discussion in BC 25, which explains that the potential risk of misinterpretation of future cash flow implications of a plan by users of financial statements was the basis for the Board's decision to require disclosure of five-year histories of the plan liabilities, plan assets, the surplus or deficit and experience adjustments. We do not believe that this risk exists with users who have reasonable knowledge of business and economic activities and accounting. We note that under paragraph 25 of the Framework, it is assumed that users have reasonable knowledge. In addition, users normally would be able to obtain prior years information, if needed, by going back to earlier financial statements.

We believe a disclosure of the overall funding policy of a defined benefit plan would provide more useful information.

<u>Sensitivity analysis in relation to medical cost trend rates</u>

Although we acknowledge that in some cases changes in medical cost trends may have a major impact on the defined benefit obligation, we believe it is not the only key assumption that may have a significant effect on the defined benefit obligation if it changes. In addition, the effect of a change in one percentage point may be significant in some environments but not material in others. We believe a more principle-based disclosure requirement, which is not limited to medical costs and the effect of one percentage point change only, would be more appropriate and useful for investors.

However, we believe that disclosures of hypothetical changes do not provide useful information, because economic conditions and changes often affect multiple elements. An analysis that varies only one assumption at a time, holding the others constant, could me misleading or misinterpreted. As a result, we do not support the new proposed disclosure in IAS 19.120(n).

Question 7 – Further Disclosures

Do you believe that any other disclosures should be required, for example the following disclosures required by SFAS 132? If so, why?

(a) a narrative description of investment policies and strategies;

(b) the benefits expected to be paid in each of the next five fiscal years and in aggregate for the following five fiscal years; and

(c) an explanation of any significant change in plan liabilities or plan assets not otherwise apparent from other disclosures.

SFAS 132 also encourages disclosure of additional asset categories if that information is expected to be useful in understanding the risks associated with each asset category.

<u>Information on plan assets</u>

The objective of the Board to require additional specific disclosures about plan assets is to provide information on the level of risk inherent in such assets. Although we support information on the level of risk inherent in the plan assets, we believe that proposed additional disclosures will not meet the Board's objective. The inherent risk in plan assets depends on many elements other than just the overall category of assets in the plan. We believe that this information should be available from the financial statements of the plan itself. Therefore, if any modification is to be made, we suggest the IASB reconsider the disclosure requirements in IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.