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Mrs Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Mrs McGeachin

<u>Exposure Draft of proposed amendments to IAS 19 Employee Benefits</u>

RAC plc welcomes the opportunity to comment on the above Exposure Draft.

Before addressing the specific questions raised in the Exposure Draft, we should state that RAC supports the underlying philosophy that an entity that participates in a Group-wide defined benefits (DB) pension scheme should make every practicable effort to apply DB accounting. However, it is a reality that the Trustees of a group pension scheme will manage the scheme on a group basis, not by the individual participating entities. For example:

- scheme assets are not separately identifiable to the participants. Any allocation would be highly subjective, e.g. a payroll based allocation would reflect the current headcount and salary structure, whereas the assets have been purchased from contributions stretching back many years during which time it is likely that both headcount and salary structures have changed dramatically

- scheme liabilities will arise from current employees and both deferred and current pensioners. An allocation of liabilities for current employees could be calculated from the current payroll. However, a significant share of the liabilities is likely to relate to deferred and current pensioners. The allocation of their share of the deficit will not be possible if their previous employing company is no longer within the group, e.g. the company has been sold or closed.

  A further issue is that scheme liabilities are calculated using group-wide assumptions. These assumptions may not be relevant for particular scheme participants, depending on the profile of their scheme membership e.g. the mix of membership in different sections of the scheme, their proportion of pensioners, etc.

As a consequence there will be insufficient information available to allow a reliable and consistent allocation of scheme assets and liabilities to individual scheme participants. Any allocation that is made will be subject to a number of broad and highly subjective judgements and as a result this will not produce either consistent or reliable information.

Subject to the above significant limitations, addressing the specific questions for which comments are invited, in general we agree with the position set out in the Invitation to comment, in relation to questions:

1. Initial recognition of actuarial gains and losses.

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

3. Subsequent recognition of actuarial gains and losses.

4. Recognition within retained earnings.

5. Disclosure.

6. Further disclosure.

We do not, however, agree with the position in relation to Question 5:

5. Treatment of defined benefit plans for a group in the separate or individuals financial statements of the entities in the group

(a) Yes, we agree with the Exposure Draft proposal for an extension of the multi-employer exemption for use in the separate or individual financial statements of entities within a consolidated group.

(b) No, we do not agree with the criteria set out in the Exposure Draft to be used to determine which entities within a consolidated group are entitled to use those provisions. If an entity is a member of a group scheme we see no reason why there should be a distinction between any of those entities which are wholly owned and other scheme participants e.g. joint ventures or the holding company. All the scheme members will share the same risks and rewards of scheme participation.

Furthermore, while we accept that the IASB position on defined benefit accounting has an overall logic, it comes into conflict with the less logical structure of the Companies Acts as they deal with distributable reserves and unrealised losses. The results will create real difficulties in many cases, where companies' abilities to pay dividends will be affected.

We appreciate this opportunity to provide our comments, and would welcome any feedback.

Yours sincerely

Richard J Pennycook
Group Finance Director