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THE INSTITUTE OF
Chartered Accountants
IN IRELAND

CL 27

26th July 2004

Anne McGeachin,
Project Manager,
International Accounting Standards Board,
30, Cannon Street,
London EC4M 6XH
United Kingdom

cc. ASB

Dear Ms McGeachin,

IASB Proposed Amendments to IAS 19 Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures

The Accounting Committee (AC) of the Institute of Chartered Accountants in Ireland has considered the proposed amendments to IAS 19 on:

- an alternative treatment for actuarial gains and losses that are recognised in full as they arise
- the treatment of defined benefit plans that pool the assets contributed by entities under common control
- additional disclosures.

AC welcomes these proposals, particularly as it will enable entities that have adopted, or planned to adopt, the UK Accounting Standards Board's FRS 17 'Retirement Benefits' to account, under IFRS, in a similar manner to that required by FRS 17.

AC comments on the specific questions posed by IASB as follows:

Question 1

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 recognised income and expense.

AC agrees with the addition of this option, as noted above.

Question 2

Paragraph 58(b) of IAS 19 limits the amount of a surplus that can be recognised 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.

AC agrees with this proposal, on the ground that it is consistent with the proposed alternative accounting treatment of actuarial gains and losses.

Question 3

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).

AC agrees with this proposal, as AC does not consider recycling should be a feature of accounting.

Question 4

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.

AC agrees with the proposal as it is consistent with the role of the statement of recognised income and expense as a statement of performance.

Question 5

(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.**

(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.**

AC agrees with extending the criteria for multi-employer plans, and with the proposed criteria, as it properly recognises those circumstances in which there is no consistent and reliable basis for allocating the assets and liabilities of plans among reporting entities under common control. AC suggests that additional disclosures should be required where group companies avail of this exemption, as follows:

(i) Information regarding the group plan's deficit or surplus and

(ii) Information on the relative share of the plan represented by the entity taking the exemption. It is important to give some indication of the entity's significance in the group plan. This could be done by showing the contributions of the entity to the plan as a percentage of total contributions to the plan or showing the total members in the plan as a percentage of total members of the plan. On the basis that the allocation of pension costs (and contributions) between group companies will usually be carried out on a systematic and reasonable basis, an appropriate disclosure would be the percentage that the entity's contributions represent of the group's contributions to the plan.

(iii) If the above disclosures are not given because they are not material to the company, the financial statements should state this.

If these additional disclosures are not adopted, AC believes that, as a minimum, separate financial statements should contain a reference as to where the consolidated financial statements giving full information in relation to the pension deficit or surplus can be obtained. A condition of the exemption is that the consolidated financial statements are publicly available. There should also be some way of assessing the relevance of the deficit / surplus to the reporting entity.

Question 6

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*.

AC agrees that the proposed additional disclosures will enhance users' understanding of the reported performance relating to the assets and liabilities of entities' pension plans.

Question 7

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

AC considers that paragraph 120(m)(ii)) should require disclosure of (i) the expected rates of return on plan assets for the periods presented in the financial statements by main category of plan asset, and (ii) the assumption regarding pensions in payment which can be quite critical to the valuation.

AC considers that it would be appropriate for paragraph 120(i) to permit the amount that each category of asset constitutes of the fair value of the total plan assets instead of the percentage. The sentence could be re-worded as follows: "… property, and all other assts, the percentage or amount that each constitutes of the fair value of total plan assets …"

In paragraph 120(c) there is a reference to "contributions by plan participants". Should not the words "if any" be added to this?

The same paragraph (120 (c)) refers to the impact on the reconciliation of business combinations but it does not make any reference to disposals of businesses. Disposals can also have a significant impact. This is equally relevant to the reconciliation required in paragraph 120(e).

Other Matters

Both paragraphs 61 and 93A use language such as "shall recognise the net total of the following amounts in **profit or loss** …" and " … it may recognise them outside **profit or loss** …". IAS 1 calls the statement the 'income statement' and, while profit or loss for the period is an element of the income statement, should the references here not be to 'the income statement' rather than to 'profit or loss'.

AC would be happy to discuss or expand on any of the above issues with you.

Yours sincerely,

Simon Magennis
Secretary
Accounting Committee
Institute of Chartered Accountants in Ireland