Contact: Douglas Clow
Phone: +61 3 6233 3696
Our Ref: D/01261 DC/CJ

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

Dear Ms McGeachin

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS: ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the IASB on the Exposure Draft of Proposed Amendments to IAS 19. HoTARAC is an intergovernmental Committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representative from all Australian States, Territories and the Australian Government.

A detailed response to the Exposure Draft is attached to this letter. In particular, HoTARAC has specific concerns in the following main areas:

- Initial recognition of actuarial gains and losses – HoTARAC does not support the recognition of actuarial gains and losses outside of profit or loss. As actuarial gains and losses meet the definition of income and expense, it is potentially misleading to recognise these items directly in retained earnings. In addition, the proposed option will reduce comparability between Australian financial reports; and

- Additional disclosures – HoTARAC does not support the inclusion of additional disclosures, particularly in regard to plan assets. These types of disclosures may imply that defined benefit plans are controlled by the employer. HoTARAC is of the view that the existing IAS 19 disclosure requirements are already extensive and provide an adequate explanation of the factors impacting the net movement in an entity's superannuation liability.

While HoTARAC supports attempts to converge with United States (US) standards, it is of the view that the IASB should not adopt US requirements solely to facilitate convergence. As a matter of principle, HoTARAC believes that any proposed amendments to IAS requirements should be independently evaluated in the context of the IASB's Framework and the objectives of general purpose financial reporting.

If you have any queries regarding this submission, please contact Robert Williams, at New South Wales Treasury, on +61 2 9228 3019.

Yours sincerely

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

July 2004

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PROPOSED 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 recognised income and expense. Do you agree with the addition of this option? If not, why not?

HoTARAC does not agree with the addition of this option as the IASB has indicated that it is likely to prohibit the "corridor approach", once the Performance Reporting Project is finalised. HoTARAC therefore, does not favour the introduction of an additional "interim" option to recognise actuarial gains and losses outside of profit and loss. This is because actuarial gains and losses meet the definition of income and expense and it is potentially misleading to recognise these items directly in retained earnings.

Further, the inclusion of an additional option is less than "ideal" and will further reduce the comparability of financial reports. If approved, entities will have three options for the recognition of actuarial gains and losses:

- corridor approach;
- full recognition through the income statement; and
- full recognition directly in retained earnings.

HoTARAC, however, supports the development of a comprehensive income or performance reporting presentation, where actuarial gains and losses would be disclosed separately in a "re-measurement" column. It is also noted that the adoption of this type of approach will facilitate harmonisation with the Government Finance Statistics framework.

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 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, ie in a statement of recognised income and expense. Do you agree with the proposal? If not, why not?

HoTARAC does not support this proposal – refer to response to Question 1 above.

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 (ie they should not be recycled). Do you agree with this proposal? If not, why not?

As discussed in the response to Question 1 above, HoTARAC does not support the recognition of actuarial gains and losses outside of profit or loss. However, if this proposal does proceed, the majority of HoTARAC members consider that recycling should not be permitted.

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?

As discussed in the response to Question 1 above, HoTARAC does not support the recognition of actuarial gains and losses outside of profit or loss. However, if this proposal does proceed, HoTARAC is of the view that immediate recognition in retained earnings is the more preferable of the two alternative approaches. HoTARAC agrees that there appears to be no rational basis for a transfer to retained earnings in later periods.

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?**

(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?

HoTARAC supports this proposal. HoTARAC believes that the Consolidated Financial Statements of governments provide sufficient information to users on the superannuation liabilities of governments. The cost of obtaining the information and making allocations of defined benefit accounting obligations between group entities is expected to exceed the benefits, assuming adequate disclosure is made of the accounting policy adopted by the entities within the group and the consolidated 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 Post retirement Benefits.* Do you agree with the additional disclosures? If not, why not?

HoTARAC does not support the increased disclosures. HoTARAC is of the view that the disclosure requirements are already extensive and provide an adequate explanation of factors impacting the net movement in an entity's superannuation liability. Further, additional disclosures are not supported, particularly in regard to plan assets, as this may imply that the defined benefit plans are controlled by the employer.

IAS 19 does not explicitly address the issue of whether defined benefit superannuation plans are controlled by the employer. However, the recognition of the net unfunded superannuation liability and net superannuation expense, together with the definition of "assets held by a long term employee benefit fund", imply that these plans are not controlled. For this reason, HoTARAC does not support additional disclosures regarding plan assets, as the composition, investment and performance of plan assets are outside of the control of the employer. Detailed disclosures regarding plan assets are best addressed as part of the financial report of the superannuation plan (in Australia addressed in AAS 25 *Financial Reporting by Superannuation Plans).*

Further, the proposed disclosures in the following areas are not supported for other reasons, including:

- Reconciliations showing movements in plan assets and defined benefit obligations - The major components of the total expense are already required to be disclosed and the cost of making additional disclosures separately for plan assets and liabilities seems to exceed any related benefit; and

- Information about trends in the plan (i.e. five year histories) - Comparative information for one year is already required. It is unclear why five year historical summaries are required for this specific liability, where there are other similarly volatile assets and liabilities that do not require similar disclosures.

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) 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.

HoTARAC does not support any other disclosures - refer response to Question 6 above. Inclusion of disclosure requirements, solely to facilitate convergence with the US standard SFAS 132, is not supported. Proposed amendments to IAS requirements should be independently evaluated in the context of the IASB's Framework and the objectives of general purpose financial reporting.