QBE

Insurance Group

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25 June 2004

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

Dear Ms McGeachin,

Request for comment on IASB ED Proposed Amendments to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures

We provide responses to the invitation for comments in relation to the above exposure draft released April 2004. These are attached as an appendix to this letter.

We support the IASB in encouraging full recognition of pension scheme surpluses and deficits on an entity's balance sheet. Our view is that pension scheme assets and the associated liabilities are held for long-term purposes, and therefore that short-term changes in their valuation should not introduce additional volatility into the profit and loss account. We therefore concur with the proposal of the IASB to introduce an additional option that permits the recognition of all actuarial gains and losses associated with defined benefit plans directly in retained earnings, rather than through the income statement.

We appreciate that a full review of the IAS 19 Employee Benefits is dependent on the outcome of the IASB's comprehensive income project which is not scheduled for completion until after 2005. Therefore, pending the conclusion of the IASB's comprehensive income project, we believe that the option introduced by this exposure draft is an acceptable interim measure.

If you wish to discuss any of these matters further, please do not hesitate to contact me.

Yours sincerely

N.G. Drabsch
Chief Financial Officer

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?

We **agree** with the addition of this option.

Actuarial gains and losses arise from changes in the value of assets and liabilities which are outside the control of the employer company (they are under the control of the trustee of the pension plans). The employer company does not hold these assets and liabilities with the view to benefiting directly from such changes as part of its business. The actuarial gains and losses are subject to significant volatility resulting from factors outside the control of management of the employer company and therefore we believe it is inappropriate to record such movements in the profit and loss account. In addition, the pension scheme assets and the associated liabilities are held for long-term purposes, and therefore that short-term changes in their valuation should not induce additional volatility into the profit and loss account

We believe that the availability of this option will encourage more companies to recognise the full impact of the pension deficits or surpluses on their balance sheet, without recognising short term fluctuations through the profit and loss account. This will lead to an improvement in conceptual accounting practice and consistency between companies.

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?

* The limit also includes unrecognised actuarial gains and losses and past service costs.

We **agree** with this proposal.

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?

We **agree** with this proposal.

We believe that income and expense items should only be recognised once. We do not believe there is a conceptual case supporting recognition of such items for a second time in the profit and loss account.

We note that International Accounting Standards are not currently consistent in applying this accounting treatment, for example, in respect of the sale of 'Available for Sale' investments under IAS 39 Financial Instruments: Recognition and measurement. However we recognise that consistency is one of the key objectives of the separate "comprehensive income" project (and therefore will not be achieved via this exposure draft).

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 **agree** with this proposal.

We do not believe there is any conceptual reason to support a different basis of recognising retained earnings between those companies (and jurisdictions) that choose to account for the full surplus and deficit via the profit and loss account, and those companies (and jurisdictions) that choose to account for the actuarial portion through the Statement of Recognised Income and Expense. In both cases the balance sheet assets and liabilities will be the same, and we believe this should be the same for 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?

(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?

This proposal is not relevant to the pension arrangements within the QBE Insurance Group therefore we do not provide any comment.

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?

We appreciate that the rationale behind these additional disclosures is to provide further transparency to the users of the financial statements over the level of risk to the employer company inherent in the plan over time (as well as at balance sheet date), however we make the following comments:

General comments

The volume of note disclosures in relation to post employee benefits is disproportionately higher than the disclosures required for most of the other accounting balances. This may led to:

(a) *Information overload* – Information overload is self-defeating and we believe that the volume of increased disclosure crosses over into this area. In practical terms there is concern that the physical size of the published financial information will become excessive. The readers will be faced with a large volume of data rather than clear information useful in their understanding of the financial statements.

(b) *Information inappropriate for the financial statements* - Not all of the proposed disclosures are required to understand the financial statements. Some of the information may be appropriate for inclusion in an actuarial valuation (for example, sensitivities in valuation assumptions in paragraph 120(n)) or an investment manager report for the pension fund but is not appropriate for disclosure in the general purpose financial statements.

Specific comments

Paragraph 120(e)
We note that the disclosures proposed in respect of the plan assets are more detailed than those required for investments owned by the employer company under IAS 32 Financial Investments: Recognition and Measurement. The proposed disclosures reconcile the movement in opening and closing balances to the amounts taken to the profit and loss and statement of recognised income and expenses.

We believe that this disclosure will not enhance the understandability of the financial statements if the "full recognition with movements through the P&L only" option is taken.

Paragraph 120(n)
This paragraph requires the sensitivity of changes in medical cost trend rates. The Board's explanation in the basis of conclusions BC25(c) is that this assumption is difficult to reasonably assess due to the way in which healthcare cost assumptions intereact with caps, cost-sharing provisions, and other factors.

We note that typical defined benefit plans in Australia and the UK do not provide cover for post employment medical costs. We would not expect this disclosure to be relevant to many reporting entities adopting IFRS in these regions. In the less common cases where such post retirement medical benefits are provided to certain employees, they are not expected to have a significant impact on the valuation.

As a matter of principle we believe that disclosure of detailed assumptions such as medical costs would reflect a disproportionate level of detail compared to the required disclosures associated with other more significant balance sheet items and would therefore be more appropriate for inclusion in an actuarial report.

Paragraph 120(o)
This paragraph requires five years of data disclosing the defined pension plan deficits/surpluses and the experience adjustments arising on the plan liabilities and plan assets.

In addition to the practical issues associated with collating such data, we are also unclear as to the benefit such information would provide to the users of the accounts in respect of ongoing pension schemes across large international groups. The membership profile of such ongoing schemes would be expected to vary from year to year, prompting changes in investment strategies. The funds are also subject to short term volatility in asset values and variations in contribution rates. Therefore a comparison of the position of the fund across a five year period would not reflect a meaningful trend of the management of the plan's deficits/surplus position. Such disclosures may instead raise confusion or mislead the users of the accounts if not properly explained/caveated.

We recognise however that this disclosure is also required by the UK standard for employee benefits, FRS 17, but note that FRS 17 allows the transitional arrangment of building up to five years disclosure. If the IASB decides to retain this proposed disclosure we recommend that equivalent transitional arrangements are allowed under IAS 19.

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.

As we outlined in our response to question 6, we believe that the current disclosures are more than adequate for general purposes financial statements and do not believe these further proposed disclosures are required.

Other Comments

(a) Draft paragraph 93B of this exposure draft refers to a columnar format in paragraph 100 of IAS 1. The revised IAS 1 (2003) refers to a columnar format in paragraph 101.

(b) As with a number of other recent exposure drafts, the IASB has given this draft a long title and no sequential number. For convenience in referring to these new exposure drafts, we request that sequential numbers are allocated by the IASB.

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25 June 2004

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West VIC 8007
AUSTRALIA

Dear Chairman

Request for comment on AASB ED 131 Proposed Amendments to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures

General principles of convergence

As a general principle, QBE believes that the AASB should not amend any IAS or IFRS. There are a number of instances where the AASB has made or is proposing amendments to IFRS as they are adopted in Australia under the convergence project.

QBE reiterates its support for the continued alignment of Australian standards with those issued by the IASB through a comprehensive process of consultation. The adoption of a single set of high quality accounting standards is a major step forward for international capital markets and QBE acknowledges the sizeable benefits to be gained from improved cross-border comparisons by investors, improved access to overseas capital, and the reduced cost of capital.

With this in mind, the AASB should not amend IFRS on application in Australia and the due process for changes to IAS should be allowed to flow, including appropriate consultation with the IASB as changes are made to IFRS.

QBE's support of IFRS is qualified to the extent that the AASB should adopt IFRS only if the European Union and other countries adopt them at the same time. Australia must not adopt IFRS before other countries or consistency and comparability will not be met.

Amendments to IAS 19 Employee Benefits

We provide responses to the invitation for comments in relation to the above exposure draft released April 2004. These are attached as Appendix 1. We also include our responses to the IASB in Appendix 2.

QBE supports the AASB in requiring full recognition of pension scheme surpluses and deficits on an entity's balance sheet. However QBE does not support the AASB's proposed removal of the additional proposed IASB option that permits the recognition of all actuarial gains and losses associated with defined benefit plans directly in retained earnings, rather than through the income statement.

Our view is that pension scheme assets and the associated liabilities are held for long-term purposes, and therefore that short-term changes in their valuation should not introduce additional volatility into the profit and loss account. We therefore concur with the proposal of the IASB to introduce the additional option to allow such gains and losses to be taken directly to retained earnings, rather than through the income statement.

We appreciate that a full review of the IAS 19 Employee Benefits is dependent on the outcome of the IASB's comprehensive income project that is not scheduled for completion until after 2005. Therefore, pending the conclusion of the IASB's comprehensive income project, we believe that the option introduced by this exposure draft is an acceptable interim measure.

We recognise that the proposal of the AASB to restrict this option is aimed at promoting consistency in accounting practice between Australian reporting entities. We would however highlight that this will lead to inconsistencies in group reporting for Australian companies with overseas parents or subsidiaries hence disadvantaging Australian reporting entities in comparison with our international peers.

If you wish to discuss any of these matters further, please do not hesitate to contact me.

Yours faithfully

N.G. Drabsch
Chief Financial Officer

Appendix 2 Responses to the IASB

Question 1 - Initial recognition of actuarial gains and losses

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We **agree** with the addition of this option.

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Question 7 – Further disclosures

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(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.

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