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Dear Anne

## IASB Exposure Draft
## Amendments to IAS 19
## Actuarial Gains and Losses, Group Plans and Disclosures

Submission by Mercer Human Resource Consulting (July 2004).

## 1. Introduction and Overview

Mercer Human Resource Consulting ("Mercer") thanks the IASB for the opportunity to comment on its Exposure Draft of Proposed Amendments to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures.

Mercer is the world's largest consulting firm that advises international organisations and multinational companies on all aspects of the employer/employee relationship. We employ more actuaries than any other employer. Mercer has extensive experience and expertise in the application and interpretation of standards for employers' accounting for employee benefits around the world. For many years, we have been assisting clients in:

- The preparation of accounting information for employee benefits in many countries;
- The worldwide co-ordination of this information for clients with multi-country operations; and
- The use of such published accounting information in determining the implications for mergers and acquisitions.

Our analysis of the issues and our answers to the seven questions posed in the exposure draft are set out in Section 2. In summary, we support the decision to allow both the spreading method of FAS 87 and the immediate recognition method of FRS 17 for actuarial gains and losses pending a further review as part of the more comprehensive convergence project. We also welcome the easement for entities within a consolidated group. We support the proposed new disclosures on the basis that this provides some convergence to FAS 87, but would prefer not to include the other disclosures discussed until they have been reviewed as part of the convergence project.

We comment on two further significant points at the end of Section 2.

## 2. Our Analysis and Answers to the Seven Specific Questions

### 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.*

*Do you agree with the addition of this option? If not, why not?*

We support the long-term objective of convergence with US GAAP to offer a single set of accounting standards that can be used around the world. Until a decision is reached on the treatment of pensions as part of this convergence project, we agree that the IASB should offer the flexibility to use either of the principal approaches used by other modern pension expense accounting standards to recognise actuarial gains and losses.

In particular, the change is helpful in avoiding further disruption for UK companies that have recently elected early compliance with FRS 17 (in that the revised standard will provide essentially the same option).

### 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.*

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

We agree that the treatment should be consistent.

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).*

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

We have no comment on this proposal.

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.*

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

We have no comment on this proposal.

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.*

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

We agree with this proposal. The allocation of liabilities in situations that meet the specified criteria is difficult and may be arbitrary. This is a helpful easement.

*(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?*

The criteria are too restrictive. Some of our clients have commented that they will not benefit from the easement because the parent company participates in the group plan and is listed itself. The easement appears to be of more benefit where there is a holding company that does not participate in the group plan.

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.*

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

We agree with all the additional disclosures except for those set out in paragraph 120 (o). We support the objective of convergence with the related FASB standards, and most of the disclosures proposed achieve some convergence.

In our view, it is questionable whether the five year history of actuarial gains and losses adds sufficient value to make this a mandatory disclosure. Many companies will have changed significantly over a period of five years, and the figures for earlier years will no longer be relevant. Also, the information would usually be available from earlier financial reports. If the IASB decides to proceed with these disclosures, it would be helpful if they could be built up over a period of years so that figures for a full five years would not be required (for European companies adopting in 2005) until the financial year beginning on or after 1 January 2008.

Question 7

*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.*

We would prefer not to see further disclosures at this time but recognize that the disclosures mentioned in (a), (b), and (c) above are included as part of the broader convergence project with FAS 87. We believe that the disclosures mentioned do not add value to the financial statements, but would support their use if this is required to achieve convergence.

Further comments

We are concerned about the addition of the sentence to paragraph 121 requiring a description of "all the terms of the plan that are used in the determination of the defined benefit obligation." Larger companies may have literally hundreds of plans. Further, the plans included at the end of the current year may be different from those as of the end of the previous year. In many cases, describing all of the terms of ONE plan will take at least a page. As such, this requirement is potentially very burdensome and we recommend that it be reconsidered.

We understand that the principal auditing firms are now requiring assets for IAS 19 purposes to be taken at bid value. Obtaining bid values can be very difficult where custodians and investment managers generally report asset values on another market value basis. In developed markets, the change in the present value of the defined benefit obligation owing to an increase in the discount rate of two basis points is likely to exceed the change in the market value of the assets caused by the use of bid value. It would be helpful if IAS 19 could be amended to allow a more pragmatic approach.

Finally, we note that further proposed amendments to IAS 19 were included in IFRIC draft interpretation D6. It seems unsatisfactory that some of the proposed changes to IAS 19 are being developed in a separate process.

Yours sincerely

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