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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, 1st floor
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United Kingdom

Zurich, 30 July 2004
Reference: Philipp Hallauer

Comments on Exposure Draft of proposed Amendments to IAS 19 Employee Benefits:

Actuarial Gains and Losses, Group Plans and Disclosures

Dear Sir David,

We welcome the opportunity to comment on the above Exposure Draft.

We understand and generally support the Board's intent to ensure a true and fair view of the balance sheet position of employee benefits. We agree that deferred recognition of actuarial gains and losses is inconsistent with the IAS Framework. ***However, we recommend the Board to address this issue in a full scope revision of IAS 19 rather than introducing an additional option that will further reduce comparability.*** Accordingly, we do not believe that the Board should proceed with the proposed limited revision of IAS 19.

We are also concerned about the level of detailed disclosures proposed in the Exposure Draft. We urge the Board to consider the cost and benefit of each disclosure and the risk of information overload, rather than introducing significant additional requirements just for the sake of convergence with US GAAP. Therefore, we believe that a full scope revision of IAS 19 should be carried out in a joint project with the US FASB.

We also believe that the outcome of the project on Performance Reporting should be considered before conclusions are drawn on how to present actuarial gains and losses. Even if we support immediate recognition of actuarial gains and losses, we do not agree with the Board's proposal that actuarial gains and losses that are recognised as incurred be recognised in a separate "statement of recognised income and expense" (which we understand would be the same statement as referred to in IAS 1.69 revised and illustrated in IAS 1 revised Implementation Guidance). In our opinion, the current statement of changes in equity is of sufficient prominence to ensure that actuarial gains and losses are fairly presented.

Although we recommend the Board to address all issues proposed in the ED in a full scope revision of IAS 19, we have responded to the questions asked in case the Board will go ahead with its proposals.

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 support immediate recognition of actuarial gains and losses directly in equity, but do not agree that entities should be required to present such actuarial gains and losses in a separate "statement of recognised income and expense" (in accordance with IAS 1.96 revised). Instead, we believe that immediate recognition of actuarial gains and losses could also be presented in the comprehensive statement of changes in equity (where all information required in IAS 1.96 and 1.97 revised is presented). The actuarial gains and losses of the reporting period should be included as a separate line item like other items presented as "net income recognised directly in equity". Cumulative amounts of actuarial gains and losses could be included in retained earnings or in a separate column (see also our comments on question 4).

We do not see any merit in requiring entities to present an additional "statement of recognised income and expense" if they show a comprehensive statement of changes in equity. The vast majority of Swiss companies present a comprehensive statement of changes in equity, and we are of the opinion that such a statement provides sufficient information of performance items recognised directly in equity. Also, considering the current status of the Board's project on Performance Reporting, it seems inappropriate to introduce an additional performance statement without any conceptual basis at this time.

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?

We agree that, if immediate recognition of actuarial gains and losses is permitted, any consequential impact on the asset ceiling should be reported consistently (but not necessarily in a statement of recognised income and expense as explained above).

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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 that actuarial gains and losses should not be recycled. We are concerned, however, about the fact that the proposed option will result in significant costs never flowing through the income statement. As noted above, we urge the IASB to quickly proceed with its separate project on Performance Reporting and to resolve the issue of recycling as well as the presentation of income and expenses in that project.

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 that actuarial gains and losses should be included in retained earnings. However, we would not object if an entity wishes to present the cumulative actuarial gains and losses in a separate component of retained earnings as part of the (comprehensive) statement of changes in 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?

Overall, we agree with both the proposed treatment and the criteria.

However, we notice that the Board in paragraph 34A of the ED states that an entity that does not meet the criteria should in its separate or individual financial statements make "a *reasonable* and consistent" allocation of defined benefit plans that pool the assets. In other standards (including IFRIC's D6 *Multi-employer Plans*) reference is made to "*reliable*". We believe that also in this case, the allocation should be made on "a *reliable* and consistent" basis.

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 are concerned about the significant number of proposed additional disclosures, some proposed merely for the sake of convergence. We understand that the Board has not incorporated all disclosures currently required by SFAS 132. Nevertheless, our opinion is that some of the proposed disclosures should not be implemented for reasons stated below. We encourage the Board to reduce the proposed disclosures to a reasonable level by putting greater weight on cost benefit considerations. Our comments on the proposed new disclosure requirements are as follows:

Para. 120 c and e: We support a separate roll-forward of pension obligations and plan assets since such information is usually provided in IAS 19 reports prepared by professional actuaries and therefore readily available, and it provides a better insight of the development of the funded status.

Para. 120 g and h: We agree that the effect of the limit in paragraph 58b (the asset ceiling) should be disclosed. We also agree that the total amount of actuarial gains and losses recognised in equity should be disclosed.

We recommend the Board to clarify para. 120 h by adding "*If the option in paragraph 93A is applied*, the total amount…"

Para. 120 i: We disagree to the proposed disclosures in respect of major categories of plan assets, including their expected rates of return. It appears that the Board is moving into the direction of consolidating pension funds, which we believe is inappropriate. In comparison, investments in associates are also shown as a one-line time on the balance sheet, and no details on the composition and performance of the underlying assets and liabilities by category need to be disclosed. As pension funds are not under the control of the reporting entity and are therefore not consolidated, and underlying investments are often governed and significantly restricted by law, disclosures implying that underlying assets and liabilities are in effect controlled or at least significantly influenced by the entity should be avoided. ***We therefore propose to delete this requirement.***

Para. 120 k: We doubt whether a narrative description of the basis used to determine the overall expected return on plan assets will lead to relevant information being provided by entities. We fear that standardised statements will be given of no use to the readers of the financial statements. ***We therefore propose to delete this requirement.***

Para. 120 n: ***We do not support the proposed requirement to provide a partial sensitivity analysis.*** The proposed disclosure relates to an isolated item (medical trends), which in some countries is of no or little relevance. It appears like this requirement has been taken out from its context under US GAAP.

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Para. 120 o: This is the first time the IASB requires comparative figures on a 5-year basis. While we understand that pension accounting is of a long-term nature, ***we do not support introducing disclosures that have been included in previous annual reports and may display a status of the past that may not be relevant for understanding the current year's position***. Restructuring plans, curtailments, major changes in the composition of the entity etc. may have taken place in the meantime that make such amounts incomparable.

In respect of (i), we support the proposed disclosure, but only on a 2-year basis.

In respect of (ii), ***we do not support the proposed disclosures on experience adjustments***. We do not see the merit of this additional information. We would support separate disclosures of actuarial gains and losses arising on both plan assets and plan liabilities in order to provide a reader with information on the volatility of plan assets and liabilities.

Para. 120 p: ***We do not see the merit of disclosing the next financial period's expected contributions*** considering the long-term nature of pension accounting.

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.

We would like to recommend the Board to carefully consider the additional cost versus the benefit of increased disclosure requirements. We believe that the SFAS 132 disclosures referred to in question 7 should not be required under IFRS, certainly not any forward looking statements. The cost of providing them would exceed the benefits.

Our opinion is that, already as of this date, a large number of disclosures are provided on pension benefits under IFRS that give in-depth insight of plan assets and obligations and related performance of an entity's pension schemes. In practice, users of financial statements often do not understand such information or consider all of such information relevant and useful.

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Other comments

Amendment to IAS 1: Based on our comments above, we consider this amendment unnecessary.

Yours sincerely,

Swiss Institute of Certified Accountants and Tax Consultants
Accounting and Auditing Practices Committee

Thomas Stenz Philipp Hallauer