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Ms A McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
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28th July 2004

CL 37

Dear Ms McGeachin,

Comments on Exposure Draft of Proposed Amendments to IAS 19

We welcome this opportunity to comment on the IASB's Exposure Draft on the proposed amendments to IAS 19.

We support the overall approach of the exposure draft and the vast majority of the proposed amendments. The appendix attached to this letter provides responses to the detailed questions set out by the IASB in its invitation to comment.

We do have some concerns in relation to the extension of the multi-employer plan exemption to include certain entities under common control which are participating in a group scheme. While the IASB appears to have recognised that any split of these group plans between the participating entities is likely to be entirely arbitrary and therefore unlikely to give worthwhile information, the IFRIC draft interpretation D6 on multi-employer plans, seems to be taking a contrary view by trying to severely limit the use of the multi-employer exemption to only the very rare cases. We strongly support the IASB's approach in this area and ask the IASB to ensure that IFRIC, intentionally or otherwise, does not change the intentions of the IASB.

Yours sincerely

Mr PF Blackburn
Corporate Financial Controller
GlaxoSmithKline plc

cc: Mr A Lennard
Technical Director
Accounting Standards Board

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?

Response

The approach taken in IAS 19 in respect of defined benefit schemes is essentially a balance sheet approach, requiring plan assets and liabilities to be valued at the balance sheet date, but modified to permit an option not to recognise the movements in the actuarial gains and losses in certain circumstances. This modification can lead to the recognition in the balance sheet of assets or liabilities that are difficult to relate to the actual surplus or deficit in the plan. The standard specifies the minimum amount of actuarial gains and losses that must be recognised in the income statement, and permits but does not require all of the actuarial gains and losses to be recognised. Although the standard permits the full actuarial gains and losses to be recognised it does so only if they are recognised in the income statement. We agree with the IASB that it is appropriate at this time, pending a full review of accounting for post-employment benefits and the outcome of the current project on “Reporting comprehensive income” to extend the IAS 19 options to permit entities to recognise actuarial gains and losses in full outside profit or loss. This would permit an entity to reflect the true pension scheme position in its balance sheet without exposing the income statement to potentially large and unexpected charges or credits unrelated to the underlying trading operations of the entity.

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, i.e. in a statement of recognised income and expense.

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

Response

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 (i.e. they should not be recycled).

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

Response

We agree with this proposal.

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?

Response

We agree with this proposal.

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 also 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 this proposal? If not, why not?

Response

We agree fully with the IASB that individual entities within a group might not be able to identify a consistent and reliable basis for allocating the surplus or deficit to the individual entities within the group. Accordingly we support the proposal to extend the provisions on multi-employer plans in IAS 19 to companies within a group. However, we have reservations about the specific way in which the proposals have been drafted.

Under the proposals, a wholly-owned subsidiary that has no debt or equity traded in a public market will have to account using defined benefit accounting if the plan surplus or deficit can be allocated across group entities on a consistent and reliable basis, but will account using defined contribution accounting, supplemented by additional disclosures, if the plan surplus or deficit cannot be allocated across group entities on a consistent and reliable basis. We agree with this element of the proposal, although would suggest that the Standard itself could be made clearer by the incorporation of the conclusions in paragraph BC24 in the main body of the Standard.

The position regarding a subsidiary in which there is a minority interest or a subsidiary with debt or equity publicly traded is unclear. Proposed paragraph 34A, supported by BC 24, appears to say that such subsidiaries must make a consistent and *reasonable* allocation of the surplus or deficit, for example, on the basis of a percentage of pensionable pay. First, as drafted, there appears to be no requirement to see whether the surplus or deficit could be allocated on a consistent and *reliable* basis and only if there is no reliable basis should the reasonable basis be adopted. We assume that this omission was unintended.

Second, and more fundamentally, we do not agree with the allocation of a surplus or deficit to individual entities if there is no reliable basis of allocation. Reliability is one of the four principal qualitative characteristics identified in the IASB Framework for the Preparation and Presentation of Financial Statements that make information in financial statements useful to users. Employees frequently transfer from one entity to another within a group and, as the IASB has acknowledged, there is often no consistent and reliable basis for allocating the surplus or deficit to individual entities. Simply listing debt or having a small minority shareholding does not alter this. We can see no conceptual merit in requiring such companies to recognise part of a larger surplus or deficit when there is no reliable evidence to support its recognition. In fact, we believe that to require such an arbitrary allocation could, in some cases, undermine the integrity of the entity's accounts.

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 this proposal? If not, why not?

Response

The disclosures relating to defined benefit plans are extensive and we question the real value of them to the vast majority of users of the accounts. However, with the exception of the points below, we accept the necessity to give this level of detail.

Proposed paragraph 120(i) requires the plan assets to be analysed into the major categories and the percentage of the total value of assets given. We believe that it would be more meaningful for this analysis to be given in terms of the monetary value of the assets rather than the percentage of the total. Perhaps the requirement could be amended to require the analysis of assets to be given in either monetary value or percentage terms.

Proposed paragraph 120(o) requires five years of data. We would request that transitional provisions are inserted to permit an entity applying IFRS for the first time to build up to five years of data from its transition date.

We question the value of the disclosure required by proposed paragraph 120(p) in isolation. There is no requirement to disclose future estimated cash payments in any other area of the accounts.

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.

Response

Given the extent of the existing and proposed disclosures, we do not believe that any further disclosures should be required.