acteo Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

Mouvement des Entreprises de France
MEDEF

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JK/SJ/07.2004/36
RE : IAS 19 : Actuarial Gains and Losses, Group Plans and Disclosures

Paris, Monday, July 26, 2004

Dear Ms McGeachin,

ACTEO & MEDEF welcome the opportunity to comment the IASB exposure draft on IAS 19: Actuarial Gains and Losses, Group Plans and Disclosures.

ACTEO & MEDEF strongly object to the addition of a third option for the recognition of actuarial gains and losses identified upon revaluation of the entity's net post-employment benefit liability.

The third option is highly undesirable for the following reasons:

The proposed amendment is for the worse:

- amendments to the existing standards should aim at improving the quality of financial reporting; similar transactions should be accounted for in a similar fashion to ensure comparability; IASB's decisions should lead to reducing options; none should be added;
- the IASB itself acknowledges that posting actuarial gains and losses directly to retained earnings is not a high-quality solution;

The need for the option is not conceptually justified

- IAS 19 already provides for immediate recognition of actuarial gains and losses; all arguments put forward in favour of immediate recognition are therefore not relevant to the debate; the IASB does not provide for any other justification;

The proposed amendment would bring confusion and inconsistency and pre-empts conclusions to be reached in wider projects; furthermore issues are not presented fairly;

- the introduction of the proposed option would create great confusion as the third option duplicates an already existing accounting treatment in order to adjust it to a performance reporting model different from the IFRS model;
- the main thrust of performance reporting in the existing IFRS is recycling; the decision would build up internal inconsistency;
- the basis for conclusions (BC3 to BC 10) argues immediate recognition against the corridor, which is not the debate at stake, the Board having decided that the corridor had to be maintained until comprehensive projects of both performance reporting and employee benefits are developed;
- the corridor approach is assimilated to the deferred recognition approach which is no longer available in the existing IAS 19; the corridor approach proposed in E54 and finally agreed has corrected the drawbacks identified in the previous deferred recognition approach that should no longer be referred to (paragraph BC 6 is identical to paragraph 39 of the existing IAS 19 basis for conclusions); the arguments in favour of the corridor approach are developed in paragraph 42 of the basis for conclusions of the existing IAS 19 and show that the corridor has strong relevance and fully complies with the framework.

The proposed amendment creates divergence with US Gaap and most other Gaap

- the additional option brings additional divergence with US Gaap or any other Gaap, except for UK Gaap which are not yet implemented;
- FRS 17 in the UK is not yet mandatory and its application so far is very limited; therefore the change in the UK is not overwhelming, in the contrary; the ASB has the opportunity to suspend its application;
- Conversion to IFRS involves changes of accounting standards in all countries; that is the cost of harmonisation, and the cost is worth the benefit. There is no way the IASB can eliminate the need for changes, and quite reasonably such an objective has never been the driver of amendments to IFRS.

Further detailed comments are provided in the Appendix to this letter.

We remain at your disposal should you need further clarification or background information.

Yours sincerely,

ACTEO
Philippe CROUZET
Le Président

P/O ***Jean KELLER***

Le Délégué Permanent

MEDEF
Agnès LEPINAY

La Directrice des Affaires Economiques, Financières et Fiscales

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?

Acteo & Medef strongly object to such an addition for the reasons detailed on the face of our letter.

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 expenses, 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?

The only merit of this proposal is consistency with the proposal for the third option… that we recommend should be dropped. We therefore disagree 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?

We fully disagree that recycling which remains the basic accounting model applied throughout IFRS (the only exceptions thereto being the changes in value of fixed and intangible assets accounted for on the basis of the optional treatment included in IAS 16 and 38) be further infringed.
As no quick fix of the issue is likely to be defined, the third option should be dropped. The IASB should not allow for a growing inconsistency in the bases of its standards.

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?

No we do not. No item of income and expense should ever be posted directly to retained earnings.

Question 5- Treatment of defined benefit plans for a group in the separate of 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?

The proposal has the merit of helping groups to reduce costs if there is no benefit to users.

(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?

We agree with the proposed criteria, since they are consistent with the cost/benefit issue referred to above.

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
(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 understand the rationale for most of the changes in disclosures proposed by the Board and therefore support them, although they represent an additional burden to an already quite comprehensive package of information provided on employee benefits. However we disagree with:

- par 120 (n): the need for this disclosure is adequately covered by IAS 1 par 116;
- par 120 (p): the employers' best estimate of the contributions to be paid in the next fiscal year may not be available in a context of timely financial reporting. We believe the additional benefit is not worth causing delays in the release of external financial reporting.

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 for investment policies and strategies;
(b) the benefits expected to be paid in each for the next five fiscal years and in aggregate for the following five fiscal years;
(c) an explanation of any significant change in plan liabilities or plan assets not otherwise apparent form 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 stated above in answer to question 6, disclosures on employee benefits are both quite comprehensive and burdensome. Moreover:
(a) is somewhat a duplication of par 120 (k) the expected return on assets being likely to be linked to the investment policies and strategies
(b) raises an even greater difficulty than par 120 (p) that we have not supported
(c) is redundant with IAS 1 par 116

As a side comment, we wish to stress the contrast between the effort lead by the Board in trying to reach convergence with US Gaap on disclosures and the proposal by the Board, within the same exposure draft, of a third option that brings a heavy divergence of accounting treatment.