PROPOSED AMENDMENTS TO IAS 39 EMPLOYEE BENEFITS

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 recognize actuarial gains and losses as they occur, outside profit or loss, in a statement of recognized income and expense.

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

NO, we don't.

We agree with the first paragraph of the Alternative View of the Board member which states that: *"All items of income and expenses should be recognised in profit or loss in some period. Until they have been so recognised, they should be included in a component of equity separate from retained earnings. They should be transferred from that separate component of equity into retained earnings when they are recognised in profit or loss"*.

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 recognized 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 recognize actuarial gains and losses as they occur, outside profit or loss in a statement of recognised income and expense, should also recognize 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?

No, we don't. See response to question 1.

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?

No. See response to question 1.

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. See response to question 1, above

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?

NO, we don't. This is because entities under common control do not have the same limitations as unrelated entities. Actually, if they are entities under common control sufficient information should always be available and accessible to use defined-benefit accounting.

(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?

No. See response to Question 5(a).

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?

YES, we do.

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.

YES.

In general, they add transparency to the information provided.

In particular:

(a) a “narrative description of investment policies and strategies” gives the user of the financial statements information about how an entity manages risk and the nature of the assets that are funding the plans. This information should be similar to the information required for derivatives.

(b) the usually significant amount and long-term nature of pension liabilities makes it necessary to provide information about when the benefits are expected to be paid; by analogy, it would be same kind of information as that required for long-term debt. By having access to this kind of information, the user of the financial statements knows whether the non-current benefit payments will occur in a relatively short-term (2 to 5 years) or they will be made in longer terms.

(c) because of the special accounting for defined benefit plans it is not always possible to understand a significant change in the plan’s assets or liabilities by reading the remaining footnotes or the financial statements; there could be significant changes in a plan’s assets and liabilities that are not reflected in any footnote or financial statement (not the same as, for example, the impairment of a significant fixed asset that is immediately reflected in the entity’s income statement).