Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München

Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

United Kingdom

Letters: D-80791 München
Fax: (089) 399056
Phone: (089) 3891-0
Telex: 5215233-0 mr d
http://www.munichre.com
E-mail: info@munichre.com
Parcels: D-80802 München

Königinstr. 107

Date
29 July 2004

Central Division: Accounting
Queries to Ms. Pfaller

Phone: (089) 3891-4200
Fax: (089) 3891-74200

E-mail:
ipfaller@munichre.com

Dear Ms. McGeachin,

Exposure Draft of Proposed Amendments to IAS 19 Employee Benefits, Actuarial Gains and Losses, Group Plans and Disclosures

We are pleased to have the opportunity to comment on the planned change to IAS 19. As the changes with regard to group plan and asset ceiling do not affect us, we will restrict our comments to the topics relevant for us: actuarial gains and losses, and disclosures.

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?

Answer:

We welcome the option to recognise actuarial gains and losses directly in equity in future. This option enables companies to recognise the present value of the defined benefit obligation in full, whilst avoiding the fluctuations in net profit often related to this.

However, we are not of the opinion that the actuarial gains and losses outside of profit or loss should have to be shown in a separate “statement of recognised income and expense”.

Int. Ref. 41791285

IAS 1.96 und 97 (revised 2003) expressly allow all changes relevant to equity capital to be shown in a "statement of changes in equity" on the "face of the statement". These include “transactions with equity holders acting in their capacity as equity holders”.

Under the proposed changes (IAS 19.93B), such disclosure would no longer be possible in future: the statement of recognised income and expense would be expressly barred from including transactions with equity holders.

The consequence of this rule is that if the option is exercised, both a statement of recognised income and expense and a statement of changes in equity would have to be prepared in future. The alternative would be to just present a statement of recognised income and expense with the remaining transactions “hidden in the notes”. This approach would in our opinion definitely not suite the purpose of transparency to the shareholders – showing all relevant changes in equity "at a glance" on the face of a single statement.

The publication of two separate equity-related reconciliations would not be expedient in our view. The two statements would contain the same information on the actuarial gains and losses under discussion, and no extra benefit would be gained by this. As we see it, the "proximity to net profit" of the actuarial gains and losses will be clear enough if these changes are shown separately in the statement of changes in equity, e.g. in a separate line marked "actuarial gains and losses", directly following "foreign exchange differences".

Such a procedure, together with general references to the treatment of actuarial gains and losses, would be sufficiently transparent and would be in accord with the rules of IAS 1.8 (revised 2003).

With a view to an appropriate exercising of the new option, it would also be helpful to know at an early stage what position the IASB will be adopting with regard to the general revision of ED 19. An early publication of Discussion Papers / Exposure Drafts would therefore be welcome.

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). The limit also includes unrecognised actuarial gains and losses and past service costs. Do you agree with this proposal? If not, why not?

Answer:

We agree.

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?

Answer:

We agree.

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?

Answer:

We agree in principle to the new disclosures in the notes.

We currently understand the Exposure Draft as meaning that previous-year figures have to be disclosed accordingly when the standard is applied for the first time. If, however, the amendments are not adopted in time, this could make the provision of such information very difficult. For this event, we propose that companies be exempted from the obligation to disclose previous-year figures where this is "not practicable".

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.

Int. Ref. 41791285

29 July 2004

Answer:

We consider the currently envisaged disclosures in the notes to be sufficient and do not believe that further disclosures would provide any additional benefit.

We will be glad to participate in further discussion.

Yours sincerely,

Münchener Rückversicherungs-Gesellschaft

gez. Pfaller gez. Hörmann

Int. Ref. 41791285