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Ms Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street,
London
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Dear Ms McGeachin

Comments on the Exposure Draft of Proposed Amendments to IAS 19, *Employee Benefits*

Abbey National plc welcomes the opportunity to respond to the Exposure Draft of Proposed Amendments to IAS 19, *Employee Benefits*, published by the International Accounting Standards Board in April 2004. We have reviewed the Exposure Draft and set out below our comments. Our responses to the specific questions raised in the Exposure Draft are stated in the Appendix.

Initial recognition of actuarial gains and losses
Paragraphs 93A-93D, propose 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, and that such amounts should not be subsequently recycled into profit and loss. In our opinion, these paragraphs are an important improvement on the existing provisions of IAS 19 and we fully endorse their inclusion.

Multi-employer plans – extension of provisions
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. In our view, the specified criteria, as set out in the amendments to paragraph 34, are too narrow. For instance, as currently drafted, any entity with publicly traded debt or equity must follow the provisions of paragraph 34A.

Requiring subsidiaries with listed debt to use defined benefit accounting in their own financial statements will typically require notional estimates of pension scheme assets and liabilities to be made if they are part of a multi-employer scheme. We are not convinced the resulting financial position will accurately reflect the financial obligations of the entity, and may render the financial statements less reliable. In our view, it would be preferable to exempt all wholly owned subsidiaries from using defined benefit accounting in their own financial statements provided:

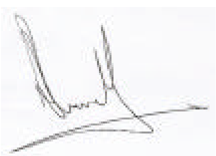
- The ultimate parent company prepares consolidated financial statements in accordance with International Accounting Standards;
- The parent company's consolidated financial statements are publicly available;
- Full defined benefit accounting disclosures are provided in the parent company accounts; and
- The subsidiary discloses that it has taken advantage of the exemption and provides details of the ultimate parent company

The proposal above would create a wide-ranging exemption and is in our view the most appropriate approach. However, as a minimum, we believe Special Purpose Entities (SPEs) whose purpose is to provide a source of long-term capital to the group, and thus may have listed debt instruments, should be exempted from using defined benefit accounting in their own financial statements. Such SPEs typically have no, or very few, employees, and perform no other activities. It is an unnecessary burden to require such entities to use defined benefit accounting in their own financial statements, unless the defined benefit pension scheme relates solely to the special purpose entity. As a minimum, we propose paragraph 34A is revised as follows (changes in *italics*):

> If the entity does not meet the criteria in paragraph 34, it shall in any separate or individual financial statements make a reasonable and consistent allocation of defined benefit plans that pool the assets contributed by entities under common control. *Wholly-owned special purpose entities with publicly traded debt, whose sole purpose is to provide a source of long-term capital to the parent company, are exempt from the criteria in paragraphs 34(b) and (c) provided such special purpose entities do not have a stand-alone defined benefit scheme.*

If you have any queries in connection with our proposed amendments please do not hesitate to contact us.

Yours sincerely,



Andrew Newell
Head of Finance

Appendix
Invitation To Comment

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?
Yes

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 from 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 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?
Yes

Question 3 – Subsequent recognition of actuarial gains and losses
The Exposure Draft proposes that, when actuarial gains and losses are recognised outside profits or loss in a statement of recognised income and expense, they should not be recognised in the profit or loss in a latter period (i.e. they should not be recycled).
Do you agree with the proposal? If not, why not?
Yes

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 the proposal? If not, why not?
Yes

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 the proposal? If not, why not?
Yes
b) The Exposure Draft sets out the criteria to be used to determine which entities within a consolidated group that meet specified criteria
Do you agree with the proposal? If not, why not?
The proposals, though welcome, are overly restrictive. See our comments 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 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 proposal? If not, why not?
Yes

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 believe additional disclosures, such as those required or encouraged by SFAS 132, should be promoted but not mandated. In this way entities will have the flexibility to provide additional useful information, having regard to their own circumstances and the attendant costs and benefits