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International Accounting Standards Board
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Dear Mrs McGeachin

Comment from Watson Wyatt LLP
Exposure Draft of Proposed Amendments to IAS19

We refer to the invitation to comment from page 6 of the exposure draft of the proposal amendments to IAS19 and have set out our comments below. These comments reflect our experience at Watson Wyatt in our capacity as actuaries and advisers to employers operating pension and post-retirement benefits plans around the world. These comments should be read together with our separate comment letter on IFRIC Draft Interpretation D6.

Question 1

We agree with the proposal to allow companies to recognise gains and losses immediately through a statement of recognised income and expense.

We believe this option should be extended to other long-term employee benefits, and indeed see no merit in the "simplified" method of accounting in Paragraph 127. We believe it would be simpler to treat other long-term employee benefits in the same way as post-employment benefits throughout, (including the possibility to defer recognition of gains and losses and use of the "corridor").

Question 2, 3 and 4

We agree with the proposed approaches. We believe that these approaches follow logically from the decision to allow recognition of actuarial gains and losses via the statement of recognised income and expense.

Question 5(a) and 5(b)

We believe that in principle it is appropriate to extend the provisions in paragraph 34 to allow participants in pension plans for a group to have the possibility of using multi-employer plan accounting. However we believe that the proposed requirements for both multi-employer plans and hence for plans covering multiple related entities (which we call below “group plans”) are not easy to follow and unnecessarily complex. We have two main concerns:

Firstly, we agree that the proposed criteria for treatment of a group plan as a multi-employer plan are appropriate, but suggest that such companies should simply be allowed to account on a defined contribution basis, rather than the multi-employer basis which may in some cases require defined benefit accounting on a "consistent and reliable" basis (per IFRIC draft interpretation D6).

Secondly, the proposals, taken together with IFRIC draft interpretation D6, rely on interpretation of the phrases "consistent and reasonable" and "consistent and reliable". There is scope for different interpretation, which is illustrated by apparently contrasting interpretations of the word "reasonable" by the IASB and the UK ASB:

- BC22 included with the exposure draft says the IASB "concluded that entities within a group would always be able to make at least a consistent and *reasonable* allocation….."
- The UK ASB's consultation paper on the proposed changes to IAS19, in preface paragraph 2 says in relation to entities within a group "… some of those may then be able to claim that there is insufficient information to make a reasonable and consistent allocation…"

Our impression is that many companies preparing accounts under FRS17 have not considered that a "consistent and reasonable" allocation is possible and so have used defined contribution accounting. The IASB appears to be saying that this will not be the case under IAS19. Therefore, if the proposals are carried through, we think the IASB and ASB should clarify if any difference in the use of the word "reasonable" is intentional – if so, it would be preferable to use different terminology.

We believe a better and simpler structure for both group and multi-employer plans would be:

1. If the entity meets the criteria for exemption, account on a defined contribution basis
2. If the entity does not meet the criteria for exemption, then:

- if possible make a consistent and reliable allocation of aggregate IAS19 costs following the guidance in draft interpretation D6.
- if such an allocation is not possible, but IAS19 information on the aggregate plan is available, make an allocation of cost based on a simple, consistent approach (eg in proportion to contributions, payroll, or headcount), and disclose how the allocation has been made.
- if IAS19 costs for the aggregate plan cannot be obtained, account on a defined contribution basis with the disclosures of paragraphs 30(b) and (c).

We also believe it would be helpful to extend to unfunded (book reserved) plans the possibility of accounting for liabilities in aggregate across a group of entities under common control and then allocating the resulting costs on a simple, consistent, approach. Often in such plans there are cross-subsidies when individuals move between the entities under common control – for example, the final employing entity might take responsibility for all benefit payments arising from group service with no consideration passing between the entities. Requiring each individual entity to apply full IAS19 accounting based strictly on service with that entity and not group service not only adds much complexity, it can also create paradoxes, whereby moving individuals between entities can create accounting gains, even thought the aggregate benefits to be paid by the group have not changed.

Question 6

On balance we agree that these disclosures will be helpful. In relation to disclosure (o), we suggest it is made clear that the historical information need not be provided for the period prior to adoption of IAS19.

We believe that disclosure (k) is necessary to supplement disclosure (i), as allowances made for diversification may mean that the overall expected return is not simply the weighted average of the returns for each asset class.

Question 7

(a) There is a risk that the information provided will be bland and generic and on balance think it is right not to include this requirement. We suggest reconsidering this point once experience is available from the US of what is disclosed in practice, and how useful it is to users of accounts.

(b) We do not consider that the provision of this information will normally be of significant benefit to users of company accounts, and so agree that it should not be necessary to disclose this.

(c) We believe this information would be useful to users of accounts, provided that the 'significant changes' are those which have a material effect on the entity's accounts.

Yours sincerely

Robert Hails
on behalf of Watson Wyatt LLP

Eric Steedman

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