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International Accounting Standards Board
30 Cannon Street
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Attention: Anne McGeachin, Project Manager

27/07/2004

ED of Proposed Amendments to IAS 19 – ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES

Dear Ms. McGeachin

As a preparer of financial statements under International Financial Reporting Standards, we are pleased to attach our comments on the above-mentioned exposure draft.

Yours Sincerely,

James Halliwell
Planning, Reporting and Control Manager
Syngenta International AG

General comments

We recognise that some users of financial statements believe that the funded status of defined benefit pension schemes should be reported in the sponsoring entity's balance sheet, and make adjustments for this in their analysis. In our view, the interests of preparers and users are not well served if users consider that the amounts reported in the balance sheet lack credibility and must be adjusted routinely before using the information presented. We therefore support the decision by the IASB to address this issue and to investigate whether IAS 19 can be improved. However, we believe this should be part of the comprehensive project which the IASB states it is already considering. That project should also address other issues raised by users, such as the problem of reported pension "income" – and review other alternative approaches to actuarial gain and loss recognition, such as the additional minimum liability requirements in FAS 87, paragraphs 36-38.

We do not feel able to support introducing the new option for recognizing actuarial gains and losses at this time or in the form proposed. We do not believe that widening the permitted options would improve financial reporting, and are concerned by the implications this change may have for the IFRS US GAAP convergence project. We believe that the proposal outlined in the ED has important disadvantages, and that it could be substantially improved by further consideration of recycling actuarial gains and losses into profit or loss, and of their presentation within shareholders' equity.

We are also extremely concerned about the way the change has been presented in the ED. The introduction to the exposure draft states that "The IASB has reservations about IAS 19, including concerns about deferred recognition of actuarial gains and losses". This is the method most widely used today. These comments are unhelpful to preparers and users and do not enhance the credibility of IFRS. It would be preferable to refer in the introduction to reservations about or criticisms of IAS 19 expressed by third parties, and/or to the IASB's view that the existing IAS 19 is capable of being improved. In our view, permitted options should be presented in a neutral manner, as in revised IAS 16, 38 and 40. The introduction and basis for conclusions to the exposure draft are hardly neutral in the way they discuss the permitted options - they contain very strong criticisms of the deferred recognition method. In our view, given the statement that the Board is considering a more comprehensive pension project, this pre-empts future discussion and raises due process issues. A number of additional points would need to be addressed in the basis for conclusions if the discussion about the merits of this change is to be full and fair.

<u>Specific questions in invitation to comment</u>

Q1. 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?

The proposed new option would lead to greater recognition of the funded status of defined benefit pension schemes on the face of the employer's balance sheet. This is the strongest argument in its favour, as certain users would regard the information presented as more relevant than it is today. However, we do not believe that the new option will be adopted universally. Offering an additional option will lead to greater diversity in accounting treatment, and reduce comparability between different IFRS preparers, unless the other permitted options are eliminated in the future. It will also reduce comparability between IFRS and US GAAP preparers, unless the FASB introduce a similar option – and as far as we are aware, there are no indications that the FASB will do this. The IASB should explain clearly why the it believes these important disadvantages of the proposal would be outweighed by its benefits. For example, if the IASB considers that reduced comparability is acceptable for a temporary period because it expects further changes soon to IAS 19 and US GAAP which will standardise the accounting treatment of actuarial gains and losses, it should state that clearly.

In our view, given the long term nature of the pension liability, the change from period to period in the balance sheet amounts reported under the new option will not necessarily be more relevant in assessing the entity's past performance than the amounts reported today. They may even be less relevant. Employers with funded defined benefit plans can record pension "income".in times of significant funded surplus under existing rules. Some users consider that this should not be permitted, because it is difficult to demonstrate that any provisions previously recorded will not eventually be required to settle liabilities for employee service up to the current reporting date. This problem is exacerbated if actuarial gains and losses are recognized as they occur. It would be mitigated, but not removed, by recognizing gains and losses outside profit or loss, because its effect on the amounts in the balance sheet would remain.

With IFRS 2 the IASB's main argument was to ensure that the costs of services received were properly reflected in the income and other financial statements. An approach which, by prohibiting recycling, ensures that certain costs and revenues are never reflected in income clearly contradicts this concept. The absence of a requirement to recycle provides an incentive for entities to use as aggressive actuarial assumptions as possible. Under the proposals, such behaviour would increase reported earnings permanently, rather than merely deferring recognition of pension expense as under today's IAS 19.

We note the arguments on reliability in paragraph BC7. There is an argument that, where unrecognised actuarial losses would be material under the corridor method, immediate recognition gives a more reliable estimate of the pension liability than deferred recognition. This is only valid assuming the use of constant actuarial assumptions under both recognition methods. A range of acceptable values exists for each actuarial assumption, and movements within this range can materially change the reported plan funded status. Reported balance sheet amounts might therefore be less reliable after the change.
For the above reasons, we believe that the change in its current form might well result in less relevant and reliable information. We also believe that the extremely strong criticisms of the corridor deferred recognition method in the basis for conclusions have not been substantiated.

The new option will also lead to greater divergence between IFRS and US GAAP. We strongly wish the convergence agenda adopted by the two Boards to succeed. In our view, it is important that any change made in an area as fundamental as recognition of actuarial gains and losses should be a joint change by both Boards, and we would urge the IASB not to act unilaterally if there is any risk that this may make convergence generally less likely.

Q2. Initial recognition of the effect of a 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 expense, 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

We agree that this should be recognised in the same way as actuarial gains and losses.

Q3. Subsequent recognition of actuarial gains and losses - Recycling

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 believe that recycling in general is vital to having a meaningful picture of an entity's profit generation over time, with all costs and revenues considered. Our response to Q1 above explains why we believe that a recycling requirement would be particularly important in this case. We do not agree with the statement in paragraph BC13 that it is difficult to see a rational basis for recycling. The ED would continue to allow the existing corridor method as the basis for recognising gains and losses in profit or loss, just as in the past. Therefore, it could be also used for recycling actuarial gains and losses.

Q4. 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?

We do not agree with the statement in paragraph BC10 that the proposals, as worded, will provide more transparent information than deferred recognition. The cumulative amount of actuarial gains and losses recognized outside profit or loss will be invisible, as it will be included within retained earnings. This is less transparent than existing disclosure, where this amount is visible in the notes to the financial statements, although not in the balance sheet. Showing these amounts within a separate component of shareholders' equity, in a similar way to unrealized gains and losses on cash flow hedges and available for sale financial instruments, would, beyond question, provide more transparent information.

Q5. 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?

(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 in general with the proposals, but would suggest widening the exemption in the proposed paragraph 34 (a) (ii) to include the situation where a group defined benefit plan covers two or more intermediate parents and their sub-groups. Each of these will encounter exactly the same difficulties in identifying their share of the assets and liabilities in their consolidated financial statements as they will do in their individual financial statements. We suggest the following wording:

> "consolidated financial statements prepared by an entity which is a wholly owned intermediate holding company, and where the consolidated financial statements of an ultimate parent or fellow intermediate parent are prepared under IFRS, are publicly available and present the required information in total for the group plan in question."

Q6. 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?

In our view, the proposed five year trend disclosures are unnecessary if actuarial gains and losses not yet recognised in profit or loss are presented in the notes to the financial statements, as today, or in a separate component of shareholders' equity (see our response to Q4).

In general, we believe that the full benefits of IFRS US GAAP convergence will be obtained only if disclosure requirements are also converged. However, we believe that the ED has included all the significant disclosures introduced in SFAS 132. Adding the remaining SFAS 132 disclosures would not, in our view, add any significant value to the disclosures already proposed in the ED.