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CL 49

Dear Ms McGeachin,

Re: Amendments to IAS 19

We support the Board's overall solution for a more comprehensive standard for employee benefits, however, we have a number of specific concerns which are below. Responses to the specific questions raised in the Exposure Draft are included in the attached appendix.

Treatment of defined benefit plans for a group in the separate or individual financial statements of the entities in the group

We agree with the proposed extension of the exemption for legal entities from accounting for group multi employer plans using defined benefit accounting. However we believe that there should be no restrictions on this exemption, as long as the entities are under common control. This is because of the many practical constraints for group entities in obtaining a reliable allocation of assets and obligations. There is little historical data to support where members rendered their services with various group entities throughout the scheme's life, hence, any amounts derived will at best be estimates and costly to produce. The use of current data such as headcount or payroll is highly subjective and not representative of the historical facts that have given rise to the surplus or deficit.

Disclosures

We believe the requirement in paragraph 120(o), covering a five year period should be amended to allow entities to 'build up' the disclosures, rather than to disclose all five years in the first year of adoption. Under current proposals any entity early adopting this Exposure Draft would be required to disclose experience information going back to 2001. However this type of information would not have been calculated in the earlier part of this five year period.

It is important that the proposals are finalised as soon as possible to avoid companies having to implement changes in quick succession.

We would like to thank you for the opportunity to raise our concerns on the proposals and trust that they will be taken into account in the finalisation of the revised standard. If you would like to discuss any of the issues raised please do not hesitate to contact me.

Yours sincerely

ANDREW PALMER
Group Director (Finance)

APPENDIX 1

L&G Response to specific questions raised in Exposure Draft

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?

We agree with the addition of this option. We understand that this is only a temporary measure, and that income recognition will be further addressed in a performance reporting project at a later date.

Q2. 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 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 expenses, should also recognise 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?

We agree.

Q3. 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?

We agree.

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 expenses, 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 agree.

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?

We agree with this proposal.

We believe that in a consolidated group situation, there will be many practical constraints on making a 'reasonable and consistent' allocation of plan assets and liabilities. This is illustrated, for example, in the case of an employee who, over the course of his career, worked for various subsidiaries of the same group. It will not be possible to move the surplus/deficit, assets and obligations relating to his pension fund from one subsidiary to another, following his movements throughout the Group. As a result, the 'reasonable and consistent' allocation can only be estimated, perhaps by using average headcount, etc, which may not be very meaningful.

(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 do not agree with the criteria as set out in paragraph 34. Using these criteria, a subsidiary that has issued listed debt securities will be forced to make an allocation of plan assets and liabilities. This is despite the fact that it is a wholly owned subsidiary of a parent that produces IFRS consolidated financial statements, and that the accounts of this subsidiary will not be of much public interest.

We therefore propose that the criteria for the extension relating to multi-employer plans for use in the individual financial statements of entities within a consolidated group be removed as long as the entities are under common control.

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 SFA 132 Employers' Disclosures about Pensions and Other Postretirement Benefits.

Do you agree with the additional disclosures? If not, why not?

We believe the requirements paragraph 120(o) which requires disclosures covering the current period and the previous four periods be amended to allow entities to build up the disclosures rather than to disclose all five years in the first year of adoption. Should companies choose to early adopt, the proposed requirements of experience information would not have been available in the earlier part of this 5 year period.

Q7. 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 fical 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.

Excessive disclosures may lead to confusion for users of the financial statements. In particular, for disclosure (a) above, users may mistakenly assume the narrative description of investment policies and strategies of the fund relate to assets and investments of the reporting entity.

The proposed amendments as suggested in this Exposure Draft are already quite extensive. Therefore, we do not believe that further disclosures are required.