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Ms. Anne McGeachin
Project Manager
International Accounting Standards
Board (IASB)
30 Cannon Street
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July 22, 2004

RE: Exposure Draft of proposed amendments to IAS 19 Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures

Dear Ms. McGeachin

UBS AG is pleased to have the opportunity to comment on the Exposure Draft of the proposed amendments to IAS 19 *Employee Benefits*. UBS AG utilises IFRS as its primary reporting framework and is one of the largest companies to have adopted IFRS. As such, we have a keen interest in the further development of IAS standards. UBS AG sponsors a number of pension plans and other post-employment benefit plans for its employees worldwide, with the major plans located in Switzerland, the UK, the US and Germany.

We do not support the proposal to include an additional option of recognising actuarial gains and losses directly in retained earnings. Although we acknowledge that the accounting of defined benefit plans is complex and controversial, we believe that the current accounting solution of deferral of actuarial gains and losses has been well established and is a good solution in light of the long term nature of pension plans.

Further, we are generally not in favour of adding additional accounting options under IFRS and we believe the intention of the IASB to eliminate allowed alternative treatments should not be altered by adding this additional option for the recognition of actuarial gains and losses. Such an option would make the comparability of financial statements prepared under IFRS more difficult, would add additional complexity of understanding for users of financial statements and would add an additional difference to US GAAP.

We also draw your attention to the fact that allowing certain profit and loss elements to be excluded from any period profit and loss would be a new and controversial concept to IFRS.

We generally agree with the proposed changes to the treatment of defined benefit plans for a group in the individual financial statements of entities in the group.

Further, we agree that the proposed disclosures will provide additional value to users of financial statements and support the proposed disclosure requirements which bring the pension disclosures closer to SFAS 132.

We have included answers to the specific questions raised in the Exposure Draft in Appendix A.

Thank you again for the opportunity to comment. If you would like to discuss any comments that we have made, please contact Ralph Odermatt, Managing Director (+41-1-236-8410) or Paul Frey, Executive Director (+41-1-236-3816) at your convenience.

Yours sincerely,

UBS AG

Ralph Odermatt
Managing Director

Paul Frey
Executive Director

Appendix A - Specific Questions Asked in ED of proposed amendments to IAS 19

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 are not in favour of adding additional accounting options under IFRS. We believe the general intention of the IASB is to eliminate allowed alternative treatments. This intention should not be altered by adding this additional option for the recognition of actuarial gains and losses. Such an option would make the comparability of financial statements prepared under IFRS more difficult, would add additional complexity of understanding for users of financial statements and would add an additional difference to US GAAP. At present, IFRS requires recognition of all profits and losses either directly in profit and loss or indirectly in equity. The proposed option represents a new concept within IFRS which is controversial as certain profit and loss elements would be excluded from period profit and loss.

We believe that deferring actuarial gains and losses which do not exceed the "corridor" is a good solution since the measurement and recognition of pension plans should be seen on a long term basis and short term valuation differences of plan assets and liabilities do not accurately reflect the long term character of the plan. In addition there is enough information presented in the financial statements to understand the financial position of the plan as well as the unrecognised actuarial gains and losses. We do not believe that immediate recognition provides more transparent information. The volatility in equity which would result from the immediate recognition of actuarial gains and losses might be totally diverse to the entity's operating performance and would even be misleading to investors since these fluctuations might offset each other over time. In addition it has to be noticed that pension plans in certain countries like Switzerland are funded by the employer and the employees and therefore any underfunding would be borne by both parties.

We therefore propose not to allow a third option for accounting for actuarial gains and losses.

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 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?

* The limit also includes unrecognised actuarial gains and losses and past service costs.

Answer: As stated in our answer to question 1 we do not support an additional option of recognising actuarial gains and losses. Should the additional option become effective under IAS 19, we do not agree with the proposal that, if this option is applied, the effect of the asset limitation should also be recognised outside the profit or loss. The asset limitation is not necessarily linked to actuarial gains and losses. Additionally, comparability between entities would be further distorted if the effect of the asset limitation could be recognised directly in equity.

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). Do you agree with this proposal? If not, why not?

Answer: As stated in our answers to question 1 we do not support an additional option of recognising actuarial gains and losses directly within retained earnings. Should, however, the additional option with direct recognition of actuarial gains and losses in retained earnings become effective under IAS 19, we do agree with the proposal that they should not be recognised in profit or loss in a later period. Long term benefit plans cover large numbers of employees over a significant period of time. Settlements of individual participant's benefits are co-mingled with new participants and developments impacting contributions and benefits of ongoing participants. The consistent timing of the recycling would therefore be rather cumbersome.

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: As stated in our answer to question 1 we do not support an additional option of recognising actuarial gains and losses. Should, however, the additional option become effective under IAS 19, we do not agree with the proposal that actuarial gains and losses, if this option is applied, are recognised immediately in retained earnings. We rather support the alternative view that actuarial gains and losses should be recognised first in a component of equity separate from retained earnings. A direct recognition into retained earnings would be against the IFRS accounting approach otherwise applied.

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 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?

Answer:

(a) We fully support this proposal. We agree that individual entities under common control are not always able to identify a consistent and reliable basis for allocating the assets, obligation and cost of a plan to the individual entity participating in the plan. We also agree that an entity under common control which does not meet the criteria in the proposed paragraph 34 should make a reasonable and consistent allocation of the defined benefit plan's asset, obligation and cost. We propose that you include the following statement "for example on the basis of a percentage of pensionable pay" in the proposed paragraph 34A.

(b) We generally agree with the proposed criteria which are in line with the criteria in IAS 27 *Consolidated and Separate Financial Statements* for the exemption from preparing consolidated financial statements. We however suggest in par. 34(a)(ii) not only to include wholly-owned subsidiaries but to include all subsidiaries which are consolidated under IAS 27. This would lead to a consistent approach regarding consolidated subsidiaries within IAS 19.

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 generally agree with the proposal for additional disclosures if those fulfil the purpose of providing additional value to the users of financial statements and bring the pension disclosures closer to SFAS 132. However we would like to highlight the following points:

par.120 (c);(e) We fully support the proposed disclosure for the reconciliation showing the movements in plan assets and defined benefit obligations. We noticed however small differences to SFAS 132, mainly that SFAS 132 requires to show the actual return where as the proposed disclosure requires to show the expected return and the actuarial gains and losses. We propose to be in line with SFAS 132 since the expected return is already disclosed as a component of the total expense and the actuarial gains and losses on plan assets can be easily calculated.

par. 120 (i) We propose to eliminate the proposed disclosure of the expected rate of return as at the balance sheet date for each major category of plan assets. Such a disclosure was also in the Exposure Draft of SFAS 132, however was not included in the final standard after the FAS Board's consideration of the respondents' comments. We believe that this disclosure doesn't add much value to users of financial statements and might lead to misinterpretations.

The expected long-term rate of return can vary significantly for different financial statement preparers for a number of reasons. For example, the life of the related benefit obligation might be different and therefore the expected long-term rate of return might change. Also in the case of a financial statement preparer with multiple plans in different countries, such a disclosure does not add much value to users of financial statements since the expected returns might vary significantly, depending in which countries the plans are located.

Should this proposed disclosure be retained, the final Statement should provide guidance on how other factors included in the total expected long-term rate of return calculation (like certain administration costs) should be handled.

par. 120 (o) We disagree with the request to disclose five-year history. Such a disclosure is not in line with the general requirement under IFRS to disclose only comparative information of the previous period. No information in financial statements is currently presented on a five year history. As this information is disclosed in prior years' financial statements, the reader has easy access to this information anyway.

We also strongly disagree with the proposed disclosure of the experience adjustments arising on plan liabilities and plan assets. The proposed disclosure would effectively require to disclose the split of the actuarial gains and losses into experience adjustments and the effects of changes in actuarial assumptions which might not always be easily calculated and which again would create a disclosure difference to US GAAP. The disclosure of the total actuarial gains and losses and proposed disclosures of the changes in the year should give enough information to a user of financial statements and this proposed disclosure does not add additional value but might be rather confusing to users of financial statements.

par. 121 We believe that the current requirement for the general description of the type of plan is sufficient. The inclusion of all the terms of the plan might become very technical, complex and lengthy and would not be helpful to a user of financial statements. The proposed disclosure of all the terms of the plan might also include certain confidential information which are not meant for general public use. In addition in case of several plans such a disclosure would become overly burdensome and would need even a possible weighting since otherwise such an information of different plans could be misleading.

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.

Answer: We support the IASB's goal to converge where possible with SFAS 132.