



DCP/CRG/IASB-IAS19

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International Accounting Standards Board
30 Cannon Street
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29 July 2004

Dear Ms McGeahin

**Actuarial Gains and Losses, Group Plans and Disclosures
(proposed amendments to IAS19 Employee Benefits)**

We have reviewed the exposure draft, issued in April 2004, setting out the proposed amendments to IAS19 and would make the following comments.

Responses to specific questions

Question 1 – Initial recognition of actuarial gains and losses

We do not agree with the addition of the suggested option. IAS19 already effectively has two options regarding the recognition of actuarial gains and losses and we do not support the addition of a third option. We were under the impression that the Board is committed to removing existing optional accounting treatments and are therefore surprised with this apparent retrograde step. This is particularly relevant given, as stated in paragraph BC10, the Board does not believe that immediate recognition of actuarial gains and losses outside profit or loss is necessarily ideal.

Also we do not agree that the proposed option provides more transparent information than deferred recognition, especially given the extensive disclosures proposed in this revision to IAS19. We would suggest that IAS19 would provide sufficient transparency with respect to the treatment of actuarial gains and losses, while introducing a third option only creates confusion and inconsistency.

The accounting for post retirement benefits is a controversial issue and there will be many who would not currently agree with the Board's views in paragraphs BC3 to BC8. We believe that the Board should be looking to a single accounting treatment for the recognition of actuarial gains and losses as part of its intended projects on post retirement benefits and reporting financial performance/comprehensive income. The Board should not be attempting to prejudice these issues by the introduction of this third option and the amendments to IAS1.

Question 2 – Initial recognition of the effect of the limit on the amount of a surplus that can be recognised as an asset

We agree that the recognition of the effect of such a limit should be consistent with the recognition of the related actuarial gains and losses.

Question 3 – Subsequent recognition of actuarial gains and losses

We agree, as noted in paragraph BC13, that it is difficult to see a rational basis on which actuarial gains and losses could be recycled. Given that the Board recognises that recycling in general is an issue to be resolved as part of its project on reporting comprehensive income, we see this as further justification for not introducing the proposed option in advance of this project's completion.

Question 4 – Recognition within retained earnings

We find it somewhat odd that initial recognition outside retained earnings appears to have been rejected simply because the Board concluded that there is no rational basis for a transfer to retained earnings in later periods (see paragraph BC14). We have some sympathy with the dissenting Board member in this respect and note the comparison with the treatment of exchange differences that are accumulated in the currency translation reserve, as required by IAS21 The Effects of Changes in Foreign Exchange Rates.

Question 5 – 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 provisions in IAS19 relating to multi-employer plans as well as the criteria to be used to determine which entities are entitled to use the provisions.

However we have some concerns over the details in the draft:

- The wording in paragraphs 34 and 35 is not clear as it draws an implicit distinction between “consistent and reliable” and “consistent and reasonable” but these terms are not clearly explained, even with IFRIC draft interpretation D6. The paragraphs BC18 to 24 are helpful in understanding the intention but are still open to question.
- Paragraph BC23 seems to be a clear statement (subject to the distinction between “reliable” and “reasonable”) with which we agree. The benefit to users is very difficult to understand and we would also say this applies to situations where there are minorities (as allowed for in IAS27 paragraph 10(a)).
- Despite paragraph BC23, we are concerned that the current wording in IFRIC draft D6, especially in the basis for conclusions, would largely destroy the benefit of paragraph BC23 with resultant cost to preparers and no benefit to users.

Question 6 – Disclosures

We are concerned with the extent of the additional disclosures being proposed by the Board. Whilst we appreciate the need for convergence with national standard setters, this should not simply mean an extension of IAS19's disclosures to cover any requirements used nationally. These developments are not without a cost, especially for large multi-national groups.

We also note that the proposed inclusion of a narrative description of the basis used to determine the overall expected rate of return on assets conforms to US requirements but would question the need for such a disclosure. We believe that the existing requirement to disclose the principal actuarial assumptions used should be sufficient without the need to provide details of the basis used for one particular set of assumptions.

We assume, although it is not clearly stated, that all information is at an aggregated Group level. This point is also relevant to the specific inclusion of the US requirement about the sensitivity to changes in medical cost trend rates would seem questionable to us. In our experience the use of healthcare schemes is limited outside of North America and thus internationally the importance (and materiality) of these costs is much reduced.

As regards information about trends in plans, it would seem that the Board expects disclosure of five-year histories on adoption of the revised standard. Thus preparers will have to provide information for the last four years as comparatives in the year of change. We would suggest that the Board should consider providing relief on initial adoption to allow the necessary five-year histories to be built up over time and not require full retrospective creation immediately.

Question 7 – Further disclosures

As you will have gathered from our comments on the previous question, we are already concerned with the extent of the additional disclosures being proposed. We therefore would not be supportive of the inclusion of any of the disclosures suggested in this question.

We hope that you find our comments useful and thank you for the opportunity of being able to comment on the Board's proposals.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D C POTTER', with a large, sweeping loop at the end.

D C POTTER'
Chairman C.I.A.S.