ACCOUNTING
STANDARDS
BOARD

Holborn Hall
100 Gray's Inn Road
London WC1X 8AL

Telephone +44 (0) 20 7611 9700
Fax +44 (0) 20 7404 4497

http://www.frc.org.uk/asb

Ms Anne McGeachin
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

15 July 2004

Dear Anne

Amendments to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures

I write to give the views of the UK Accounting Standards Board on the above exposure draft.

Actuarial gains and losses

The ASB warmly welcomes the proposal to introduce to IAS 19 an option to recognise outside the income statement the full amount of actuarial gains and losses when they arise. It particularly approves the proposed requirement that such gains and losses should not be mixed with transactions with equity owners but be presented in a statement of recognised income and expense.

This treatment parallels that of the equivalent UK standard, FRS 17, which, since its issuance in November 2000, has had a remarkable effect in identifying the exposures inherent in the pensions strategies of many UK companies and in bringing into focus in the ensuing national debate the issues that need to be addressed. While the scale of the movements in stock prices and interest rates was undoubtedly the cause of the pensions crisis arising when it did, it is unlikely that the implications would have been recognised and acted on so quickly had it not been for the picture painted in each company's financial statements by the application of FRS 17.

Partly for cost/benefit reasons and partly to allow the new ideas time to sink in, FRS 17 was implemented gradually. The disclosures built up in stages to 2003, which was also intended to be the date for full implementation in the primary statements. Full implementation was subsequently deferred to 2005 to align with the switch to IFRS for the consolidated accounts of listed companies but early adoption was encouraged.

The reason why the standard has been so influential, despite deferrals of the mandatory full implementation date, is probably that full implementation was always in prospect. The required note disclosures did more than give ancillary information on a different basis; they presented balance sheet and profit and loss amounts as they would have to be shown when the full standard was applied. People began to adjust their attitudes to pension costs and liabilities by using these numbers as the starting point for discussion of various possible future scenarios. Previously, many had been content with the false sense of security conveyed by the deferral and amortisation techniques, which not only postponed recognition of bad news but so massaged it that the surpluses and deficits could hardly be extricated from the reported numbers. The best that the more astute users could do was to focus on the trend of cash contributions for the next five years or so. This would have been a manifestly inadequate basis for analysing the effects of recent market movements and the new FRS 17 information was immediately seized on in preference to that provided under the old 'defer and amortise' standard.

Some have criticised the proposed amendment to IAS 19 on the grounds that it introduces a third option in addition to the existing possibilities for

- deferral and amortisation and
- immediate recognition in the income statement.

In fact, the existing standard provides not just two but a sliding scale of possibilities, from immediate recognition to full use of 'the corridor' followed by deferral and amortisation over average remaining service lives. In practice, virtually no entities reporting under IFRS opt for immediate recognition in the income statement because of the potential of actuarial gains and losses to swamp the information on current trading, which is the primary focus for that statement. If the IASB wishes to see companies providing clear and informative presentations of the financial effects of their pension plans as discussed above, it will have to allow a place for recognition outside the income statement. The IASB has already indicated in its Basis for Conclusions that its decision on the matter at this stage in no way precludes later changes in the light of 'further developments in the presentation of profit or loss and other items of recognised income and expense.'

There is a particularly cogent reason for the IASB to facilitate now immediate recognition of actuarial gains and losses. Under IFRS 1, a first-time adopter that does not wish to apply IAS 19 retrospectively to the start of its pension plans may elect to recognise all cumulative actuarial gains and losses at the date of transition to IFRSs. Having begun their IFRS reporting with no overhang of unrecognised actuarial gains or losses, such companies should be encouraged to continue that way rather than to progressively obscure the presentation of the financial effects of their pension plans.

Group plans

The ASB welcomes the extension of multi-employer plan treatment to entities under common control that meet the criteria in amended paragraph 34. The criteria seem reasonable and would allow most wholly owned subsidiaries to avail themselves of this treatment. Unfortunately, the proposed improvement has to be read in the context of IFRIC's D6 proposal, which could be interpreted as essentially nullifying the effect of the Board's improvement. The ASB's Urgent Issues Task Force has written separately to IFRIC on this matter explaining its concerns and regretting that IFRIC is addressing the issue independently of the Board's proposal in this exposure draft; a copy of this letter is attached. We urge that the two proposals be reviewed together.

Disclosures

The ASB supports the proposals for additional disclosures, most of which have their parallels in FRS 17 disclosure requirements, which were much welcomed by users.

Yours sincerely

Mary Keegan

Mary Keegan
Chairman