Date

Le Président

Fédération
des Experts
Comptables
Européens
AISBL

Rue de la Loi 83
1040 Bruxelles
Tél 32 (0) 2 285 40 85
Fax 32 (0) 2 231 11 12
E-mail Secretariat@FEE.be

7 September 2004

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, 1st floor
GB – LONDON EC4M 6XH

Email: commentletters@iasb.org.uk

Dear Sir David,

Re: IASB ED Proposed amendments to IAS 19: Actuarial Gains and Losses, Group Plans and Disclosures

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased to submit its comments on the IASB Exposure Draft of Proposed Amendments to IAS 19 on Actuarial Gains and Losses, Group Plans and Disclosures.

FEE as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting our views on their preliminary comments. This response should be read in conjunction with the response submitted by EFRAG. Where we are in agreement with the EFRAG comments we refer to their comments, where we are in disagreement our own views are put forward.

Like EFRAG, we support the objective of this Exposure Draft to propose an additional recognition option for actuarial gains and losses, as it will improve relevance and transparency of the financial statements and the accounting for benefit plans. We encourage IASB to adopt this proposal as a temporary alternative before a complete revision of accounting for pension benefits is undertaken. In our opinion the Board should complete the project on performance reporting prior to carry out significant revisions link to this project.

However there is a lack of conceptual basis for the additional option. The introduction of an additional option will impair comparability of financial information. We would have preferred if IASB had eliminated options instead of introducing an alternative to deferred recognition or immediate recognition in profit or loss. A comprehensive reconsideration of the accounting for post-employment benefits is to be considered by the IASB, considering the fact that the Board has reservations about the current requirements in IAS 19 and does not regard this proposal to recognize all actuarial gains and losses outside profit and loss in a statement of recognised gains and losses as an ideal solution.

We have the following comments on the questions raised in the draft standard.

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 recognized income and expense.

Do you agree with the addition of this option? If not, why not?

We agree with EFRAG's majority and support the proposed option, as it will improve relevance and transparency of the financial statements and the accounting for benefit plans. The presentation of actuarial gains and losses outside profit and loss will encourage entities to recognize actuarial gains and losses in full as they occur. We encourage IASB to adopt the proposals, despite the lack of conceptual basis for the proposal.

However, we generally disagree with the introduction of another option. If this new approach produces better information than existing approaches in IAS 19, the IASB should have removed them while introducing the approach of a separate statement outside profit or loss. We feel the Board could have explained better the rationale behind this proposal. The Board has reservations about deferred recognition of actuarial gains and losses and recognize that the UK solution is not ideal, but does not accept to change the options available in IAS 19. We would have preferred a more substantial amendment to IAS 19.

We also note that IAS 19 does not provide indications on circumstances where an entity can change from one approach to the other, how to treat such change and which approach is more appropriate for certain cases. It would be helpful to have guidance from IASB.

We regard the proposal to present changes in equity arising from transactions other than with shareholders in a statement called "Statement of Recognised Income and Expense" as an improvement to IAS 1. Having two different names for the two different versions of the statement (one being the SORIE) improves the presentation by clearly indicating the nature of the changes. We do not share EFRAG's concerns regarding the amendment to IAS 1 and the new title of the statement. We support this proposed amendment to IAS 1 over and above the proposed amendments to IAS 19.

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 recognized 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 support EFRAG's comments. These proposals are a logical consequence of the proposal to recognise actuarial gains and losses as they occur in the SORIE.

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?

We support the IASB proposal for the reasons given in BC 13. There is no consistent policy on recycling in IFRS and it is difficult to see a rational basis on which actuarial gains and losses could be recycled. We agree that recycling is an issue to be studied in depth during the project on reporting comprehensive income.

<u>Question 4 - Recognition within retained earnings</u>

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 support EFRAG's comments. These proposals are a logical consequence of the proposal to recognise actuarial gains and losses as they occur in the SORIE without any subsequent recycling in the profit or loss statement. We refer to the response to Question 6 on disclosures.

<u>Question 5 - Treatment of defined benefit plans for a group in the separate or individual financial statements of the entities in the group</u>

(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 support EFRAG's comments in (a). We have difficulties to understand the impact of the amendments to paragraph 34. We do not feel this extension of the provisions for multi-employer plans properly addresses the difficulties to allocate a plan of consolidated group in the separate entities. We recommend the Board to reconsider this amendment.

<u>Question 6 - Disclosures</u>

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?

We agree with the additional disclosures proposed by the IASB. We would suggest adding to paragraph 120 the disclosure of the total amount of actuarial gains and losses recognised for the year directly in retained earnings, and the cumulative amount recognised in retained earnings.

IAS 19 requires the disclosures on employee benefit to be structured based on the funding status of the plan (funded, non-funded). US GAAP, on the other hand, proposes a distinction by nature of benefits (pension plan, and other benefits). We would propose to IASB to harmonize the disclosures requirements with US GAAP not only on the content but also on the structure of the disclosures.

We would also like the IASB to make clear whether plans can be grouped together in the disclosures to ensure readability of the information when entities have several pensions plans. Furthermore the Board should state clearly that paragraph 121, stipulating to provide "all the terms of the plan used in the determination of the defined benefit obligation", does not prescribe giving users all the information to enable them to calculate the obligation themselves.

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.

We agree with EFRAG's comments. We do not believe that any others disclosures should be required beyond those proposed in the Exposure Draft and suggested in the answer to Question 6.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

David Devlin
President