



30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>

**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 18 July 2006, London

Project: Post-employment Benefits

Subject: Agenda decision analysis (Agenda Paper 7)

INTRODUCTION

1. At the May meeting, the staff introduced a preliminary discussion of an agenda decision on accounting for post-employment benefits, including pensions (hereinafter *pensions*). The Board discussed the UK's progress on its pensions project at the June meeting. This paper builds on all of those discussions and proposes that the IASB add a two-phase pension accounting project to its active agenda. The first phase of that project would be a targeted improvement of IAS 19. We expect that this phase will take about 4 years to complete. The second phase would be a comprehensive review of pension accounting. We do not propose that the IASB do any work on the second phase until the first phase is complete. Instead, we propose that the staff monitor the FASB's work on its comprehensive review and that the IASB join that work on completion of the first phase.
2. Much of this paper repeats material from the May paper. Consistent with our policy on preliminary agenda discussions, that paper was not distributed to national standard setters or substantially reproduced as an observer note. Accordingly, we have included most of the previous material in this paper.

3. The FASB has already decided on a two-phase pensions project, and in the second phase they contemplate a joint project with the IASB. They envision a long-term project in phase two, but IASB members have asked the staff to outline a limited project that would deliver improved pension accounting to the marketplace ahead of a comprehensive reconsideration of pension accounting. Specifically, they asked that we outline a project that could be completed in four years. Part one of this paper is largely devoted to what that project might look like. Part two discusses the particular issues related to cash balance plans and part three assesses the complete project (ie phase one and the comprehensive review together) against the criteria for agenda decisions in the Due Process Handbook.
4. Our objective is not to move apart from the FASB on a major project. However, , IASB members indicated that they favour an approach that differs from the FASB's first phase. This paper describes that approach to an IASB short-term project, with the IASB joining the FASB comprehensive project at the completion of its first standard.
5. Put differently, the IASB is facing the same problem that confronted the FASB – a need for both a short-term improvement and a comprehensive consideration of pension accounting. In May, IASB members generally favoured a somewhat different approach to the short-term improvement from the one adopted by the FASB.
6. ***The staff supports the idea of a targeted first phase to a pension project.*** In our view, the marketplace needs better information about pension obligations sooner rather than later. However, we do not recommend and cannot deliver such a project unless the Board is willing to commit to a limited scope. The worst outcome for the Board and its constituents would be to spend a year or two on a targeted project and then find that we must abandon it.
7. The May Board materials included several documents as background reading:
 - a. The website summary of the FASB project;
 - b. The Board papers that formed the basis for the FASB's agenda decision;
and

- c. A reading list of recent papers and articles on pension accounting. The papers are on the Board's internal website.

We do not plan to redistribute items b and c, but they are important to the Board's consideration of the agenda proposal. Please contact Katherine or Fiona if you need copies.

- 8. A copy of the FASB staff's comment letter analysis on the FASB phase one Exposure Draft is given as Agenda Paper 7A.
- 9. A note about the reading list. There is a large body of academic writing that emerged after publication of FASB Statement No 87, *Employers' Accounting for Pensions*, and FASB Statement No 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. With a few exceptions, we have not included that material. Instead, we have focused on more recent articles. We have tried to capture a rich selection of material, both academic and other, but the selection is probably incomplete – Google can do only so much. We have not tried to screen the material, and we do not have the skills to comment on the quality of the academic research.
- 10. We have highlighted a few of the recent articles that seem especially relevant. We also recommend John C. (Sandy) Burton's article from 1975 to provide a sense of déjà vu. At the time, Sandy Burton was Chief Accountant of the U.S. Securities and Exchange Commission.

PART ONE – PROJECT PHASE ONE

- 11. The FASB staff's agenda papers are quite good and need no amplification. *We recommend that Board members study those papers before continuing with this paper.* The FASB agenda papers describe the comprehensive project on postretirement benefits, and we see no reason to repeat that analysis. This section discusses the issues that we propose the Board include in the IASB phase one project.

Targeted Approach

- 12. A targeted approach would be designed to create improved pension accounting, but would not be a comprehensive reconsideration. With that in mind, we have evaluated issues based on three criteria:

- a. Is the issue causing current problems in pension accounting, either in application (preparers) or understandability (users)?
- b. Can the Board address the problem quickly? That is, is the problem one for which alternative solutions are evident without changing the basics of current pension accounting?
- c. Would a change improve the decision-usefulness of financial reporting?
- d. Is the issue one that must be considered as a consequence of other decisions?

13. Based on those criteria many elements of existing pension accounting would remain in phase one without any consideration by the Board. In particular, this approach envisions no change to:

- a. Measurement of plan assets at fair value;
- b. Accounting based primarily on the plan's terms and benefit formula;
- c. Presentation of a net pension obligation, rather than consolidation of pension assets and liabilities in the sponsor's financial statements;
- d. Measurement of the pension obligation incorporating future salary increases (the *Projected Benefit Obligation* or *PBO* in FASB parlance);
- e. The discount rate currently required in IAS 19;
- f. The use of the projected unit credit method.

14. [Paragraph omitted from observer notes.]

15. [Paragraph omitted from observer notes.]

16. [Paragraph omitted from observer notes.]

17. [Paragraph omitted from observer notes.]

18. [Paragraph omitted from observer notes.]

19. [Paragraph omitted from observer notes.].

20. [Paragraph omitted from observer notes.]

21. In May, the Board members expressed a preference for a project that would include the following issues:

- a. Definitions of defined-benefit and defined contribution plans, with special attention to the accounting for cash-balance plans. Cash-balance plans challenge the IAS 19/FAS 87 accounting model. In many ways, these plans are more similar to financial instruments or insurance contracts with embedded guarantees than to old style defined benefit plans. Part Two of this paper describes cash-balance plans and analyses them as if they were a stand-alone project.
- b. Should the various smoothing and deferral mechanisms in IAS 19 be reconsidered? In particular:
 - i. Should the corridor be eliminated or modified?
 - ii. Should the assumed rate of return on plan assets be eliminated?
 - iii. Should the revised standard require current recognition in income of all gains and losses, including actuarial gains and losses and those resulting from plan amendments, settlements, curtailments, and past service costs (but see discussion of presentation below)?
- c. Should a revised standard provide additional guidance on pension settlements and curtailments, in particular is additional guidance necessary after giving effect to the possible elimination of smoothing mechanisms?
- d. Revisions to disclosures occasioned by changes in recognition and measurement; and,
- e. Presentation in the statement of recognised income and expense, in particular:
 - i. Whether some components of annual pension expense should be reported as other recognised income and expense, and;
 - ii. Whether those amounts should be recycled to profit or loss.

Comments on Individual Topics

22. [Paragraph omitted from observer notes.]

23. [Paragraph omitted from observer notes.]

24. [Paragraph omitted from observer notes.]

25. [Paragraph omitted from observer notes.]

26. [Paragraph omitted from observer notes.]

27. [Paragraph omitted from observer notes.]

How Would We Run the Project?

28. [Paragraph omitted from observer notes.]

29. [Paragraph omitted from observer notes.]

30. Given the importance of pension accounting, we recommend that the project begin with a discussion paper and that the Board appoint a project working group.

[Sentences omitted from observer notes.] We also recommend that the Board plan public roundtables following the initial discussion paper or, perhaps, earlier in the project.

31. A general project timeline, based on the above, is attached to this paper. The critical part of that timeline, as with all projects, is the time required for Board deliberations. The timeline projects 12 months, 9 months, and 9 months of deliberations before the discussion paper, exposure draft, and standard, respectively. In our view, the Board could not deliberate the issues described in less time, and might take more.

32. [Paragraph omitted from observer notes.]

33. [Paragraph omitted from observer notes.].

34. We recommend that a limited-scope approach not include any redrafting of IAS 19, beyond that needed for amendments. [Sentences omitted from observer notes.]

The FASB Alternative

35. The FASB faced a very similar challenge when it considered pension accounting.

That is, there was a need for a short-term improvement in pension accounting.

They chose an approach that would, in a simplified description:

- a. Place the full pension obligation on the balance sheet;
- b. Continue to report the existing – Statement 87, 88, and 106 – amount in the income statement with all the smoothing mechanisms in place; and
- c. Force the difference through other comprehensive income. This effectively recycles the effects of smoothing as they unwind in the income statement.

36. The IASB could take a similar approach, but in May, Board members generally did not favour doing so. Some suggested, however, that we might consider the FASB approach as a fall back if completing the targeted approach proves too difficult.

COMMENTS AND CONSIDERATIONS

37. [Paragraph omitted from observer notes.]

38. [Paragraph omitted from observer notes.]

39. [Paragraph omitted from observer notes.]

40. [Paragraph omitted from observer notes.]

41. [Paragraph omitted from observer notes.]

42. [Paragraph omitted from observer notes.]

After considering the range of comments on *Preliminary Views* and the Exposure Draft, the Board concluded that the changes required by this Statement represent a worthwhile improvement in financial reporting. Opinion 8 noted in 1966 that "accounting for pension cost is in a transitional stage" (paragraph 17). The Board believes that is still true in 1985. FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, paragraph 2, indicates that "the Board intends future change [in practice] to occur in the gradual, evolutionary way that has characterized past change." The Board realizes that the evolutionary change in some areas may have to be slower than in others. The Board believes that it would be conceptually appropriate and preferable to recognize a net pension

liability or asset measured as the difference between the projected benefit obligation and plan assets, either with no delay in recognition of gains and losses, or perhaps with gains and losses reported currently in comprehensive income but not in earnings. However, it concluded that those approaches would be too great a change from past practice to be adopted at the present time. In light of the differences in respondents' views and the practical considerations noted, the Board concluded that the provisions of this Statement as a whole represent an improvement in financial reporting.

43. [Paragraph omitted from observer notes.]

44. [Paragraph omitted from observer notes.]

45. [Paragraph omitted from observer notes.]

46. [Paragraph omitted from observer notes.]

47. [Paragraph omitted from observer notes.]

PART TWO – CASH BALANCE PLANS

48. Note to IASB members. Part Two of this paper is unchanged from the preliminary paper discussed in May.

Background

49. Cash balance plans are pension plans in which the pension benefit is determined by reference to amounts credited to an employee's account. Those amounts typically comprise in each year a principal amount based on current salary and a specified interest credit. The plan may be funded or not funded. If the plan is funded, it may be invested in assets that differ from those that determine the interest credit. On retirement or leaving service¹, the employee is entitled to a lump sum equal to the total amount credited to his account.

50. Cash balance plans first emerged in the US in the 1980s and are now widespread there. They are also increasingly common in Europe. They are often used as a replacement for traditional final salary pension plans. Reasons given for this trend are that, compared to a traditional final salary plan:

- a. cash balance plans are more appropriate for a mobile workforce (see discussion below)
- b. cash balance plans are better understood and therefore more highly valued by employees
- c. cash balance plans reduce the risks for the employer and, depending on the contributions and interest credits chosen, can reduce the costs.

51. Under a traditional final salary plan, employees that change jobs often get significantly less benefit than if they stayed with one employer. This is because the benefit accrued from each employer is frozen at the employee's final salary with that employer, and does not increase with salary increases from future employers.² Under a cash balance plan, the benefits vest more evenly over the working life of an employee and changes in employment usually have less impact on the total benefit received.³

¹ There may be vesting conditions that have to be met.

² In some jurisdictions there is statutory revaluation of benefits for deferred members, but usually at a rate lower than the average earnings increase.

³ The impact will depend on any specific vesting conditions attached to the cash balance benefit.

52. This paper discusses the problems in applying IAS 19 to cash balance plans, the work done to date on cash balance plans by the EITF, the FASB and the IFRIC, and assesses cash balance plans against the criteria for project selection in the due process handbook.

Problems in applying IAS 19 to cash balance plans

53. Cash balance plans are usually defined benefit plans under IAS 19 because the employer bears investment risk.⁴ The following problems arise in applying the IAS 19 requirements for defined benefit plans to cash balance plans:⁵

- a. the attribution of benefit to periods of service
- b. the measurement of any benefit that depends on future returns on assets
- c. the measurement of a benefit that includes a comparison of two amounts.

The attribution of benefit to periods of service

54. The benefit under cash balance plans is determined by reference to a principal amount credited to the employee's account each year (a contribution or notional contribution) and an interest credit. The contribution is usually determined by reference to the employee's current salary. The question arises as to whether the total benefit expected to accrue to the employee over his service life should be attributed to periods of service:

- a. based on the benefit formula, ie recognise the cost of the contribution and interest based on current salary each year or
- b. under paragraph 67 of IAS 19, potentially on a straight line basis, ie recognising a cost based on expected average salary each year.

55. The question is illustrated in the following example. Consider a plan under which a contribution of 10 per cent of current salary is paid and the employees receive the contributions and an annual return on the contribution of 4 per cent per year over the period to when the benefits are paid. Assume also that expected salary increases are 7 per cent per year and the contributions are due and are made at the

⁴ The definition of defined benefit plans is different under US GAAP to that in IAS 19. Nonetheless, cash balance plans are also usually defined benefit plans under US GAAP. See discussion of EITF 03-04 below.

⁵ The same problems broadly arise in applying SFAS 87.

beginning of the year. The benefits projected over an expected service life of five years are as follows.

	Year 1	Year 2	Year 3	Year 4	Year 5	Total per the benefit formula	Benefit allocated on a straight-line basis ⁶
Year 1 benefit	100.0 (contribution) 4.0 (return)	4.2 ⁷ (return)	4.3 (return)	4.5 (return)	4.7 (return)	121.7	128.9
Year 2 benefit		107.0 ⁸ 4.3	4.5	4.6	4.8	125.2	128.9
Year 3 benefit			114.5 4.6	4.8	5.0	128.9	128.9
Year 4 benefit				122.5 4.9	5.1	132.5	128.9
Year 5 benefit					131.1 5.2	136.3	129.0
Total benefit						644.6	644.6

56. The question is whether the service cost in each year should be the present value of the total per the benefit formula or the benefit allocated on a straight-line basis. Both the IFRIC and the FASB did some work on this issue, as discussed below.

The measurement of benefits that depend on future asset returns

57. Under IAS 19, the defined benefit obligation is measured by projecting forward the benefit promised to settlement date using best estimate assumptions. The portion of the total benefit attributed to service up to the balance sheet date is then discounted to a present value using the yield on high quality corporate bonds. So, in the example above, the amounts in one of the last two columns (depending on the attribution method chosen) would be discounted using a high quality corporate bond rate.

58. The justification in IAS 19 for the use of such a rate is that it is a proxy for a risk-free rate. Given this justification, for a cash balance plan in which the interest credit is a fixed rate (as in the example above), the use of a high quality corporate

⁶ Paragraph 67 of IAS 19 requires benefits to be allocated on a straight-line basis if the benefit formula attributes materially higher benefits to later periods of service. For the purposes of this example, it is assumed that the benefits attributed to later years of service are materially higher.

⁷ 4.2 is the return of 4% on the asset balance of 104 (100 plus 4) at the end of year 1.

⁸ The contribution has increased by 7% since year 1 because of salary increases.

bond rate is as appropriate for cash balance plans as it is for any traditional final salary plans.

59. However, often the interest credit in a cash balance plan depends on future returns on assets, rather than being a specified fixed rate. For example, a plan may offer a benefit of contributions of 5% of current salary with an interest credit rate equal to the rate of return on a specified group of equities. For such plans, the methodology in IAS 19 for measuring the defined benefit obligation requires projecting forward the benefit at the best estimate of the rate of return on the specified group of equities and then discounting back that amount using a high quality corporate bond rate.
60. Many feel uncomfortable about such a calculation. They would argue that it is equivalent to valuing CU100 of equities by projecting CU100 forward at the expected rate of return on equities and discounting that amount to a present value at the rate of return on high quality corporate bonds. That present value will not equal CU 100.
61. The IFRIC has explored this issue and the FASB staff made some comment on it, as discussed below.

The measurement of a benefit that includes a comparison of two amounts

62. The benefit in a cash balance plan is sometimes the higher of two amounts, for example the higher of:
- a. contributions of 3% of current salary plus interest credits of 4% and
 - b. contributions of 3% of current salary plus the actual return on the assets in which the contributions are invested.
63. Under IAS 19, the defined benefit obligation is measured using best estimate assumptions at the balance sheet date. That would lead to a measure of the higher of the two alternatives. It would not attribute any value to the existence of the alternative measure, even though its existence always adds value to the benefit.
64. The IFRIC has done some work on this issue as discussed below.

EITF, FASB and IFRIC work on cash balance plans

EITF

65. The EITF issued EITF 03-4 *Determining the Classification and Benefit Attribution Method for a 'Cash Balance' Pension Plan* in 2003. It states that

- a. a cash balance plan with a benefit of contributions of a percentage of current salary and a fixed interest credit should be regarded as a defined benefit plan under SFAS 87 and
- b. the projected unit credit method should not be applied to attribute the benefits of such a plan. Instead the traditional unit credit method should be used. In IAS 19 terms, this is equivalent to using the benefit formula to attribute benefit and not a straight-line method (see example in paragraph 56 above.)

66. In developing this EITF Abstract, the FASB staff made a comment in a public meeting about the appropriate discount rate for cash balance plans. [Sentence omitted from observer notes] This observation prompted many enquiries from the actuarial profession because it differed from their existing practice. As a result of these enquiries, the scope of the EITF Abstract was limited to cash balance plans with a fixed interest credit and the FASB started a general project on cash balance plans.

FASB

67. The original objective of the FASB project was to provide measurement guidance on cash balance plans. In October 2004, the FASB expanded the scope of the project to cover all defined benefit plans that provide plan participants with a lump sum benefit at the date of separation from employment. After that decision, no further work was done on the project and in 2005 the FASB decided to address issues relating to cash balance plans as part of their broader pensions project.

IFRIC

68. In 2003, the IFRIC was asked for guidance on how IAS 19 *Employee Benefits* should be applied to employee benefit plans with a promised return on actual or

notional contributions. Such plans are cash balance plans. Examples given in D9 are:

- a. a plan in which a contribution is made each year based on the employee's current salary and the employee receives a benefit (a lump sum or an annuity) equal to the contributions plus the higher of (i) the actual return generated on the contributions and (ii) a minimum fixed return on the contributions over the period to when the benefit is paid; and
- b. a plan in which the promised benefit is a notional contribution each year plus a return on the notional contribution that is the higher of (i) the return based on specified assets, for example the return on quoted bonds, and (ii) a fixed return, for example 4 per cent. The plan may or may not hold assets.

69. D9 argues that such plans are defined benefit plans and proposes guidance on the treatment of the following benefits:

- a. a guarantee of a fixed return,
- b. a benefit that depends on future asset returns, and
- c. a combination of (a) and (b).

70. D9 proposes that the liability for a benefit of a guarantee of a fixed return should be determined by projecting forward the contributions at the guaranteed fixed return to estimate the amount that will ultimately be paid. In deciding whether the benefit formula attributes materially higher benefits to later years of service, expected future salary increases should be taken into account. The amount attributed to service to the balance sheet date should be discounted back to a present value using the high-quality corporate bond rate required by IAS 19. [Sentence omitted from observer notes.]

71. In contrast, for benefits that depend on future asset returns, D9 proposes that an estimate of the amount that will ultimately be paid should not be made. Instead, the liability should be determined by the value of the assets upon which the benefit is specified at the balance sheet date (ie usually the balance in the employee's account). [Sentence omitted in observer notes.]

72. Lastly, D9 proposes that the liability for a benefit that combines a guaranteed fixed return and the returns on future assets should be the higher of the liabilities for each separate element.

73. The responses to D9 raised the following concerns:

- a. the attribution method for benefits of a fixed return
- b. difficulties in separating some benefits into a fixed element and a benefit that depends on future asset returns
- c. a view that the proposed methodology requires an amendment to rather than interpretation of IAS 19
- d. the proposed methodology does not properly measure the total benefits when the benefits include a comparison of two amounts.

74. The IFRIC started to consider the responses to D9 in 2005 but no work has been done recently because of a lack of staff resources.

Observation

75. As noted above, both the FASB and IASB staff have already been involved in work on cash balance plans. Nonetheless, there are still substantial issues to resolve. The staff tentatively notes the following possible very high level project outline:

- a. how can cash balance plans be distinguished from other pension plans? What about plans that provide a mixture of cash balance benefits and grandfathered traditional final salary benefits?
- b. how should benefits be attributed to periods of service in a cash balance plan?
- c. what is an appropriate measurement attribute for the defined benefit obligation in a cash balance plan? Depending on the answer to b, the defined benefit obligation may include only vested benefits, or also some unvested benefits. From the work done so far at the FASB and the IFRIC, options to explore for the vested benefits include (i) the amount that an employee can transfer out of the plan if he leaves service on the balance

sheet date (ii) the amount in the employee's account at the balance sheet date and (iii) the amounts representing the deconstruction of the benefit into a traditional defined benefit element and/or a defined contribution element and an embedded guarantee .

d. can the preferred measurement attribute be measured reliably?

e. if the answer to d is sometimes no, what measurement attribute or methodology is then appropriate?

76. The staff notes that an advisory group and field visits or tests are likely to be necessary to gain broad acceptance of any proposals. The staff also notes that any staff resources and Board time spent on cash balance plans will likely reduce the staff resources and Board time spent on other aspects of a general pensions project.

Staff conclusion

77. [Paragraph omitted from observer notes.]

78. [Paragraph omitted from observer notes.]

PART THREE – AGENDA CRITERIA

79. This section of the paper assesses a post-employment benefits project against the criteria in the Due Process Handbook. The assessment is done for a complete project. The question of dividing the project into phases is discussed in part one of the paper.

80. The due process hand book sets out five factors to be considered in deciding whether to add an item to the agenda:

- a. the relevance to users of the information involved and the reliability of information that could be provided;
- b. the existing guidance available;
- c. the possibility of increasing convergence;
- d. the quality of standards to be developed and
- e. resource constraints.

The relevance to users of the information involved and the reliability of information that could be provided

81. Employee benefits are one of the most pervasive issues across entities in accounting – most entities have employees. In particular, pensions and other post-employment benefits are a major (and increasing) cost for many entities across many jurisdictions. For example, the overall deficit in defined benefit plans for the S&P 500 was \$469 billion at 31 December 2005,⁹ for the European companies in the Dow Jones STOXX 50 was Euro 116 billion at 31 December 2004 and for the UK FTSE 100 was £37 billion at July 2005.¹⁰

82. IAS 19 is based on the same model as SFAS 87 which has attracted criticism from users. For example:

John Plender, The Financial Times, 19 December 2003

Pensions accounting is encouraging companies to delude themselves about their profitability and financial health. If this ends in tears, as well it may, the standard-setters have much to answer for.

⁹ Source: The Analyst's Accounting Observer June 2006

¹⁰ Source: Lane, Clark and Peacock 'Accounting for Pensions Survey' 2005

The SEC June 2005 Report under the Sarbanes Oxley Act into off-balance-sheet arrangements

The Staff agrees that, under current standards, the balance sheet is often not transparent as to the true funded status of pension plans and that additional clarity is needed.

Jack T. Ciesielski, The Analyst's Accounting Observer, November 2002

“..the accounting for defined benefit plans is needlessly difficult to grasp intuitively, due to the fact that the accounting methods provide ways of minimizing any volatility in earnings that the pension plan might produce in the sponsor's income statement.

That homage to the god of smooth earnings is what injects a level of complexity into pension accounting that makes it largely incomprehensible to many financial statement users.”

83. The IASB has received many requests to address the perceived short-comings of IAS 19. In responses to the IASB proposals for limited amendments to the standard in 2002 and 2004, there was a widespread call for a fundamental review of the standard. For example:

CBI response to 2004 amendments to IAS 19

We agree a fundamental review needs to take place in order to determine the appropriate accounting treatment covering the range of circumstances and situations that need to be addressed in connection with final salary schemes.

Standard and Poors response to 2004 amendments to IAS 19

We strongly encourage the IASB to add a project to its near-term agenda that would comprehensively look at the accounting for costs and obligations arising from defined benefit plans. We recommend that the aim of the project be to require a single model of accounting that would mandate the full recognition of assets, liabilities and costs and reduce the potential for abuse. In our view it is desirable that the project be conducted in parallel with other accounting standard setters such as the FASB to further improve international conformity of financial reporting.

PriceWaterhouseCoopers response to 2004 amendments to IAS 19

We encourage the Board to progress to a more wide ranging update of IAS 19, in conjunction with the development of the single performance statement, as soon as possible.

84. The need for such a review has been reinforced by the steady stream of problems with IAS 19 being raised with the IFRIC on matters such as: cash balance plans, multi-employer plans, the asset ceiling and minimum funding requirements, the non-consolidation model and definition of plan assets, death-in-service benefits,

benefits that depend on performance conditions, and the treatment of employee contributions.

85. At their respective June meetings, members of the SAC and IASCF generally expressed support for a project along the lines outlined in this paper.

Existing guidance

86. The existing requirements on pension accounting were first established in 1988 by SFAS 87. Even then, they were regarded as less than ideal, as discussed in the extract from the Basis for Conclusions to SFAS 87 reproduced in paragraph 43 above.

87. In addition, there are now different forms of pension plans emerging, such as cash balance plans, which were not envisaged at the time that SFAS 87 was developed and with which the SFAS 87/IAS 19 model does not cope well.

Possibility of increasing convergence

88. SFAS 87 and IAS 19 share the same basic model. However, IAS 19 includes an option for immediate recognition of gains and losses outside profit or loss which is not currently in SFAS 87. Further, there are differences in the detailed application of the model that can result in substantial differences in the amounts recognised under the two standards.

89. Both the IASB and the FASB wish a comprehensive review of pension accounting to be conducted jointly, with the objective of a fully converged standard.

Quality of standards to be developed

90. [Paragraph omitted from observer notes.]

Resource constraints

91. The FASB is already committed to a post-employment benefits project and providing the necessary resources. The UK ASB is also working on post-employment benefits.

92. To make good progress on the project, we would expect three IASB staff to work full-time on the project. Our plans for staffing and assignments are discussed in paragraph 29.

Overall assessment

93. [Paragraph omitted from observer notes.]