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Dear Sir David

**Proposed Amendments to IAS 19 Actuarial Gains and Losses,  
Group Plans and Disclosures – April 2004**

I am writing to provide the views of the German Accounting Standards Board on the International Accounting Standards Board's (IASB) proposed amendments to IAS 19. We share the IASB's view that pension accounting is a major issue that needs to be discussed. However, the members of the German Accounting Standards Board hold differing views, particularly with respect to deferred recognition of actuarial gains and losses on the one hand and complete recognition of assets and liabilities in the balance sheet on the other hand. The differing views are predominantly due to the fact that the amendment has been proposed although major issues in conjunction with pension accounting yet need to be finalised (eg. the performance reporting project including the "recycling" issue and a new definition of the income statement's "bottom line").

In this respect, we see harmonising with the UK's FRS 17 as the only merit of the current proposal. It can only be an interim solution that will potentially need to be revised when broader projects on pension accounting and performance reporting respectively are being developed.

**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?*

In general, we support the IASB's efforts to amend the requirements for pension accounting as set out in the current IAS 19. However, the proposed requirements reach beyond an IAS 19 amendment at this point in time. The question if actuarial gains and losses should be recognised directly in equity as well as whether they

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should be recycling subsequently into the income statement needs to be resolved in the light of the performance reporting project.

We are concerned that entities may not understand the rationale for the approach being introduced. Thus, some entities may adopt the new approach and others may rather retain the deferred recognition method (corridor-approach). The variety of options bears the risk that comparability of information included in financial statements deteriorates significantly. We therefore recommend setting out in the Basis for Conclusion the potential route the IASB is likely to go in the future concerning the recognition of actuarial gains and losses enabling entities to make decisions on pension accounting that last for a longer period.

**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, ie in a statement of recognised income and expense.*

*Do you agree with the proposal? If not, why not?*

We agree with the proposal.

**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 (ie they should not be recycled). Do you agree with this proposal? If not, why not?*

The GASB is of the opinion that Question 3 and 4 are interrelated. The GASB does not favour the proposal to recognise actuarial gains and losses within retained earnings and rather recommends the recognition separately within equity. Assuming that the IASB acknowledges the separate recognition, the GASB is generally in favour of prohibiting recycling. However, in cases of plan settlement, plan curtailments and the disposal of a clearly identifiable business recycling should be required if the amount to be recycled can be determined reliably.

**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?*



The GASB disagrees with the current proposal in ED-IAS 19 to recognise actuarial gains and losses within retained earnings. The GASB therefore recommends presenting actuarial gains and losses separately within equity. In the light of the volatility the recognition of actuarial gains and losses causes within equity, we are of the opinion that decision usefulness improves if this effect is represented separately.

**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?*

We agree with this proposal.

*(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 agree with this proposal.

**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?*

We generally agree with the additional disclosure. However, we recommend, that the IASB exempt IFRS first-time adopters from the requirement set out in par. 120(o) concerning the information for preceding years

**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.*

No other disclosure should be required.

**Other issues**

If the IASB concludes to finalise the current proposal we recommend that the incorporating the outcome of the current draft interpretations D6 and D9 into the final IAS 19 rather than publishing three different papers on pension accounting at the same time.

Furthermore we understand that paragraph 118 of IAS 19 (revised 1998) should be amended to reflect the improvements in IAS 1 with respect to the current/non current distinction for assets and liabilities in the balance sheet.

If you would like any clarification of these comments please contact me.

Yours sincerely,

*Prof. Dr. Klaus Pohle*  
President