

**IASB DISCUSSION PAPER – PRELIMINARY VIEWS ON AMENDMENTS
TO IAS 19 EMPLOYEE BENEFITS**

Comment letter

Dear Sir/ Madam,

The IAS 19 working group of the “Académie des Sciences et Techniques Comptables et Financières” would like to bring to your attention the comments summarized below on the Discussion paper on amendments to IAS 19.

A presentation of the “Académie des Sciences et Techniques Comptables et Financières” and its IAS 19 working group is provided for your information in Appendix 3.

The comments below have been prepared based on majority consensus within working group members, and selected for their relevance, but might not reflect the views of each individual working group member, and do not commit nor represent the views of the organisations they represent.

If you would like further clarification of the issues raised in this document, please do not hesitate to contact Selma Naciri or myself.

Yours Sincerely

Jean-François Gavanou
IAS 19 working group, Chairman

Scope of the project

Question 1 - Given the objective of the IASB project to address specific issues in a limited time frame, are there additional issues which you think should be addressed by the Board as part of this project? If so, why do you regard these issues as a matter of priority?

No comment.

Recognition and presentation of defined benefit promises

Question 2 - Are there factors that the Board has not considered in arriving at its preliminary views? If so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

Immediate recognition

We agree that there are valid arguments for preferring immediate recognition of all changes in the value of plan assets and in the employee benefit obligation in the period in which they occur:

- Immediate recognition permits transparent information that reflects faithfully the entity's liability in the balance sheet.
- Deferral mechanisms induce a complexity for users which is due to the fact that the information in the notes of financial statements is quite difficult to follow up.

Nevertheless, we do not share the Board's view as expressed in the § 2.6 of the discussion paper and we think that the benefits of immediate recognition do not justify that such a change should be implemented before knowing the outcome of the project on financial statement presentation. The objective of faithful representation of pension liabilities should not be detrimental to the relevance of information that is a fundamental qualitative characteristic for the usefulness of financial reporting information. Regarding the employee benefit issue, there may be a conflict between these two characteristic since the relevance for users of recognising short term fluctuations is not evident. Users generally still rely on the bottom line result as a figure representing the entity's performance. As the impact of changes in plan assets and employee benefit obligations may be of importance, it is crucial that such changes be presented adequately in the financial statements.

Therefore, we support the idea of recognising items generating volatility in the other comprehensive income.

We remember that IASB has some sympathy for not recognising in P&L the effect of volatility when the entity has no control on this volatility. We refer to IFRIC 1 which provides that the effect of a change in the rate used to discount a decommissioning liability should be added to, or deducted from, the cost of the asset. There are many similarities between a decommissioning liability and a post-employment obligation.

Expected return of plan assets

Regarding the second proposal of the discussion paper ie that an entity should reflect actual return on assets rather than expected return, we note that this proposal is coherent with the objective of removing deferred recognition but it seems rather linked to a concern that an expected return rate may be biased. We have the view that such a concern should not be given such pre-eminence because it may be better addressed by specific disclosure requirements and/ or by refining the definition of an acceptable expected rate of return. Lastly, we think that using an expected return on assets is more consistent with the fact that assets are held with a view of securing a long term

liability, and somehow mirrors the use of long term discount rates to calculate the interest cost on liabilities.

Unvested pas service cost

The proposed modification of the accounting treatment for plan amendments seems inappropriate:

- They are not consistent with other IFRSs and do not represent an appropriate conceptual answer
- We find the analogy with actuarial gains and losses unconvincing.
- There are no implementation issues currently.

Question 3a. Which approach to the presentation of changes in defined benefit costs provides the most useful information to users of financial statements? Why?

We do not support approach 1 because the volatility triggered by the immediate recognition of actuarial gains and losses will give irrelevant information for users who focus on the profit and loss of the period.

Furthermore, actuarial valuations are very sensitive to the range of assumptions used. The possibility for a firm to change its annual profit and loss by choosing its assumptions in the bottom or in the top of the acceptable range wouldn't improve the reliability and faithfulness of the Profit and Loss Account. Indeed, such a range may represent up to 10% of the liability which is larger than a possible impact of a biased expected rate.

Gains and losses of different nature or origin may offset each other during the period in which they occur. Therefore, we are concerned that approaches 2 and 3 would not limit volatility in the profit and loss since these approaches require disaggregating the global fluctuation in different components that will not offset each other anymore. In some respects, approaches 2 and 3 may be less relevant than approach 1. See appendix 1.

Furthermore, all three approaches would create a significant divergence with US Gaap in terms of recognition principles.

We don't understand why the IASB is not considering allowing the continuation of existing options under IAS 19 (such as the SORIE) which have been recently introduced into the standard. Changing recognition principles again in the short term not be relevant as a fundamental revision of IAS 19 is planned. We therefore suggest that IASB keep SoRIE option and consider recycling items recognised in the SoRIE.

As an additional comment, volatility in measuring assets and liabilities do not have, in most cases, an immediate effect on the wealth of the sponsoring companies, as funding obligations might not require deficits to be met immediately, nor would surpluses result in immediate reductions in contributions.

Question 3 b. In assessing the usefulness of information to users, what importance do you attach to each of the following factors, and why:

- (i) presentation of some components of defined benefit cost in other comprehensive income;***
- (ii) and disaggregation of information about fair value?***

We think that in assessing the usefulness of information to users, the discussion paper should have re-examined more extensively the existing option in IAS 19 which allows all actuarial gains and losses to be recognised in other comprehensive income.

Some other detailed comments:

- We agree that the determination of expected return on plan assets may be biased but suggest addressing this instead by new disclosure requirements or by refining the definition of the expected return.
- We do not consider that recognising the effect of changes in assumptions on the service cost in other comprehensive income is a less valuable approach than the three approaches considered by the board.
- Approach 2 and 3 are rather difficult to understand for the reader of financial statements.

Question 3 c. What would be the difficulties in applying each of the presentation approaches?

We do not see any fundamental practical difficulty in applying any of these three approaches even if some circumscribed practical questions may arise. For example, actuarial gains/losses are more difficult to split as assumptions are usually related (cf. discount rate, salary increases, social security increases, pension indexation may all likely to be related to inflation).

Question 4

a. How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?

b. Please explain any alternative approach to presentation that provides more useful information to users of financial statements. In what way does your approach provide more useful information to users of financial statements?

As stated above we prefer to keep SoRIE option and suggest that recycling should be considered.

Among CAC 40 listed companies, 21 groups used the corridor method for 2007 financial statements and 18 groups used SoRIE option. This last option was used by 12 groups in 2006 and 7 groups in 2005. This larger use of SoRIE option seems to be an implicit support for recognizing full actuarial debt on balance sheet, net of plan assets.

Definition of contribution-based promises

Question 5

Do you agree that the Board has identified the appropriate promises to be addressed in the scope of this project? If not, which promises should be included or excluded from the scope of the project, and why?

We have noted that the board is aware that while trying to find an appropriate and conceptual way to distinguish these promises, the scope of the project has been inevitably widened. Several types of arrangements that were previously qualified as defined benefit would indeed be qualified as contribution based promises and therefore would be measured at fair value. Therefore, we do not agree with this scope extension because it implies fair value measurement for promises for which the measurement requirement of IAS 19 does not raise concerns.

An extension of fair value measurement to such schemes should be subject to an analysis confirming the relevance of this measurement attribute and to extensive application guidance. We think that it is not reasonable to target this objective in the short term.

Actually, the impact of the discussion paper proposal may be significant for European entities. Career average plans are very common in the Netherlands and in the UK. Fixed amount plans (under which former employees receive a fixed monetary amount every month like 10 euros per year of seniority) are very common in Germany in particular. If these very common plans were to be measured at fair value starting from 2010/2011, this would create important valuation discrepancies between final salary plans, post employment medical benefits (which will still be valued based on the projected unit credit method) and career average plans or fixed amount plans, and add to the confusion on pension financial information. Furthermore, these plans do not cause any particular practical measurement issues that would need to be fixed through short term amendments.

Therefore, we suggest that for the short term the Board re- focus on plans that raise concerns. We agree with IASB's decision to address issues related to hybrid plans, i.e. plans which provide for contributions to be paid (or notional contribution to be accrued) together with granting particular return guarantees to beneficiaries. These plans are becoming very common and some of them are indeed difficult to deal with under current IAS 19.

Promises based on contributions may be of different kinds:

- including an actual return (1) ,
- including an actual return with a minimum guarantee (2),
- including fixed (or defined) return (3).

We think that there is no issue for measuring promises (1) and promises (3) as the PUC method may be applied. Promises (2) raise a difficulty since the projected unit credit (PUC) method is not suited to their measurement.

Therefore, one possible solution would be maintaining the current employee benefit categories (contribution plans and defined benefit plans) and to develop specific measurement requirement for defined benefit plans with derivatives or embedded derivative features such as promise (2).

Question 6

Would many promises be reclassified from defined benefit to contribution-based under the Board's proposals? What are the practical difficulties, if any, facing entities affected by these proposals?

Appendix A of the discussion paper set out 14 examples of promises. 10 promises (n°1, 2, 3, 4, 5, 7, 10, 12, 12, 14) which are defined benefit under IAS 19 would be reclassified as contribution- based under the Board's proposals.

Relevance of the new category "contribution-based promises"

Under current IAS19, the difference between defined contribution and defined benefit is based on risk criteria and is quite easy to understand. Defined contribution plans are plans where the employer retains no further risk once the agreed contributions have been paid into the plan; defined benefit plans being all other plans.

The difference between the categories of promises suggested by the discussion paper is less clear: it is based on the fact that contributions may be determined at the end of the period.

It may be also confusing to split the contribution based benefit into former defined contribution promises and other promises. Defined contribution plans are not equivalent to defined return plans with a 0% promised return because a 0% return guarantee implies that the contributions paid to the

plan will be available at the settlement date without any decrease in value and hence incorporate a kind of guarantee.

Different measurement attributes for similar benefits

A re-valued career average plan based on inflation that would be measured at fair value under the discussion paper proposals is very close to a final salary plan which measurement would remain based on the projected unit credit method. Therefore a “minor” difference would imply a totally different accounting treatment.

We believe that there is no fundamental difference between certain cash balance plans and final pay plans. Indeed, the underlying formula look alike:

- Final pay plan : $x\% \times \text{salary} \times (1 + \text{assumed salary increase})^{**n} \times \text{discount factor}$
- Cash balance plan : $x\% \times \text{salary} \times (1 + \text{assumed or defined rate of return})^{**n} \times \text{discount factor}$

Divergence with US Gaap

Current proposed definitions would cause significant accounting differences with US Gaap.

As an example, under US GAAP, no difference is made between a final-pay benefit plans and a career average benefit plan. Cf. following extract from Q&A regarding SFAS 87:

50. Question--If a pension plan's formula provides an annual pension benefit equal to 1 percent of each year's salary (that is, it does not base pension benefits for the current year on any future salary level), should the projected unit credit method be used to attribute the service cost component of net periodic pension cost over employees' service periods? [39, 40, 143]

Answer--Yes. Statement 87 requires use of the projected unit credit method for pay-related pension plans. A pension plan that describes the pension benefits earned as 1 percent of current pay for each year of service is the same as a pension plan that describes the pension benefits earned as 1 percent of total career pay. Both are, in effect, a career-average-pay pension plan. Because similar pension benefits could be provided by a final-pay pension plan that includes almost the entire service period (for example, service period minus the first year) in determining the average final pay on which pension benefits are based, the line between career-average-pay and final-pay pension plans would need to be an arbitrary one if the two types of formulas were to be treated differently. The Board decided to treat all pay-related pension plans the same; therefore, the projected unit credit method should be used for both final-pay and career-average-pay pension plans.

Liability measurement in the payment period depending on the accumulation period

Employees may be under different kind of schemes during their career. Therefore, it may be difficult to implement the discussion paper requirement regarding the promises measurement. For example:

- Entities would be required to distinguish for a retired employee part of the corresponding liability that is linked to benefits accrued under a contribution based plan and other part linked to benefits accrued under a defined benefit plan.
- Plans which have been converted from defined benefit / final salary to contribution based plans at some stage would also be difficult to qualify as the accumulation phase would combine defined benefit and defined return characteristics.

Question 7

Do the proposals achieve that goal? If not, why not?

As stated in ITC9 the Board does not intend its proposals to lead to significant changes in the accounting for most promises that meet the definition of defined contribution plans in IAS 19. We do not think either that significant changes would occur except for defined contributions plans for which payment are deferred since the discounting effect would be calculated using the liability

specific risk whereas a discounting effect under IAS 19 would be calculated using high quality corporate bonds.

Our comments regarding the effect of credit risk are set out in the answer to question 9.

Recognition issues related to contribution-based promises

Question 8

Do you have any comments on those preliminary views? If so, what are they?

No comment.

Measurement of contribution-based promises

Question 9

a. Are there alternative measurement approaches that better meet the measurement objectives described in this paper? Please describe the approaches and explain how they better meet the measurement objectives.

b. To what extent should the effect of risk be included as a component of the measurement approach at this stage of the Board's post-employment benefit promises project? How should this be done?

1. General comment on the discussion paper approach

For the objective of selecting a measurement attribute that gives users of financial statements useful information about the amount, timing and uncertainty of future cash flows, the Board selected a measurement approach that is based on the following characteristics:

- Future cash flows should be based on explicit assumptions, current estimates, inputs related to/ consistent with observable market variables, and all possible outcomes ;
- the effect of the time value of the money ;
- the effect of risk.

We find the discussion about the measurement of contribution-based very theoretical. Without mentioning the relevance of fair value measurement in the context of employee benefit, one can not ignore the practical issues related to such measurement. These issues are not analysed in the discussion paper and we are not convinced that the discussion paper would constitute a practical help to measure contribution based promises at fair value. Some examples would have been useful to illustrate chapter 7 requirements. We are confident that IASB will provide detailed guidance on measurement in the next step of the project (exposure –draft). Bearing this in mind, we would like to comment on the characteristics set out above.

Consistency with observed market price

We would like to stress some practical issues that may arise when it comes to assessing the fair value measurement of employee benefit promises. In practice:

- Unvested benefits are never taken over by insurance companies and some components of vested benefits such as future salary increases and discretionary benefits are not taken over either.

- Transfer value may also depend on the third party taking over the liability: transfer value defined by pension regulations is different from the price at which the same IAS 19 liability is transferred by an entity to an insurance company.
- Inputs to be used for an employee benefit measurement may not be observed market elements: mortality assumptions, etc. but could be introduced in fair value measurement as probabilities applied to fair value results of minimal return guarantees obtained through option valuation techniques

The effect of the time value of the money

Alternative views have been expressed on using a risk free rate and no real consensus among our working group could be reached.

The effect of risk

We do not agree with including a credit risk based on the credit risk of the liability. Such an approach sounds more “entity specific”. It might lead to distortions in financial information and accounting arbitrage. It might lead to a liability that is less important when the credit risk is higher which is not relevant and is contra-intuitive; and would not be consistent with measurement requirements under IAS 39.

Further, the credit risk of the liability depends also on the funding of the plan. It was nevertheless pointed out that this somehow interacts with the value of the guarantee as contributions invested in less risky classes of assets should reduce the value of capital protection guarantees, whilst investments in more risky (and return seeking) classes of assets might help satisfy (and thus reduce the value of) more ambitious guarantees (such as guarantees which would be above the expected return of risk free assets). We therefore suggest that the Board explicitly indicates if the way contributions are invested should influence valuation results.

Lastly, it might be difficult to determine such risk (it is at least more difficult than determining a credit risk for a financial liability of a listed company whose leverage is usually rated).

2. Overview

We understand that the measurement of contribution-based and final salary plans can be compared as follows:

	Contribution-based	Final salary
Estimate future cash flows	Stochastic approach (expected value taken into account)	Deterministic approach
Attribution formula	Plan's benefit formula	Plan's benefit formula or straight line (back loaded)
Parameters	Market information Reflect risk <ul style="list-style-type: none"> a) Assets b) Credit risk employer c) Demographic 	Best estimates
Discount rate	Risk free bond yields? But elsewhere credit risk of employer is included	AA corporate bon yield

If the IASB's objective in phase I is just to resolve problems with the treatment of certain specific plans (awaiting a more fundamental review of the pension accounting standard), we feel that some of the above differences create new unnecessary inconsistencies which should in our view be avoided at this stage.

Some newly introduced concepts will in our view require further investigation in order to verify if they can indeed be (easily?) applied in practice.

3. Our support for some of the DP proposals and further suggestions

We consider that the Board proposes a correct answer to the initial technical issue ie the accounting treatment of cash balance plan with guaranteed return.

We believe that most minimal return guarantees could be relatively easily fair valued based on the active and deep markets of put options, or using option valuation techniques which have become very common; this would ensure consistency with IFRS 2 measurement approach.

Consistent with our view that the short term project should address only promises with a financial guarantee (ie promised return), we advocate an amendment of IAS 19 that would split a promise between a host promise and the guarantee, the latter being measured at fair value under IAS 39 requirements (please refer to answer to question 5 and appendix 2)

Question 10

a. Do you agree that the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase? If not, why?

b. What are the practical difficulties, if any, of measuring the liability for a contribution-based promise during the payout phase at fair value assuming the terms of the benefit promise do not change?

It seems quite logical that benefits in the payout phase and in the deferment phase should be measured in the same way but as two different measurement attributes are required by the discussion paper, inconsistencies may arise.

The discussion paper proposal raises the issue of two different promises, the first one being a contribution based promise where the promise is converted to an annuity at a guarantee rate, the second one being a defined benefit promise (annual payment after retirement of 50% of the final salary). At retirement, even if the employees are entitled to the same annual payment (say 100 CU), the liability would be measured differently.

This contradiction is clearly perceived by the Board as stated in § 8.8 and seems to be considered by the Board as an inevitable side effect of the limited scope of the IAS amendment project. We do not agree with this conclusion as we do not find any reason to measure differently the same economic phenomena.

One possible way to resolve such contradiction may be to consider that at retirement the promise is not the same. The new qualification of the promise would imply a change in the measurement (in the above example: from FV to PUC at the date of retirement) but this is not satisfactory either since a profit or loss may be recognised only due to the transition from the accumulation phase to the deferment/ pay out phase.

At the end, it would be better at this stage of the pension project to introduce new valuation requirements only for those plans raising particular issues ie promises linked to a minimum return, and to avoid significant differences between measurement of contribution based promises and defined benefit promises such as:

- use of a discount rate with the employer credit risk adjustment,
- liability measurement in the payment period depending on the accumulation phase (fair value or PUC method)

Disaggregation, presentation and disclosure of contribution-based promises

Question 11

a. What level of disaggregation of information about changes in the liability for contribution-based promises is useful to users of financial statements? Why?

b. Do you agree that it is difficult to disaggregate changes in the contribution-based promise liability into components similar to those required for defined benefit promises? If not, why not?

- a) The §9.16 of the discussion paper makes it clear that the presentation would be different for contribution based promises and for defined benefit promises. We would prefer a consistent treatment.
- b) The question of disaggregation of the liability measured at fair value is irrelevant from our point of view since we are not convinced at this stage of the pension project that fair value measurement should be extended.

Question 12

Should changes in the liability for contribution-based promises:

a. be presented in profit or loss, along with all changes in the value of any plan assets; or

b. mirror the presentation of changes in the liability for defined benefit promises (see Chapter 3)?

Why?

We advocate a similar approach for contribution based promise and defined benefit promise (see above).

Question 13

a. What are the practical difficulties, if any, in identifying and measuring the ‘higher of’ option that an entity recognises separately from a host defined benefit promise?

b. Do you have any other comments on the proposals for benefit promises with a ‘higher of’ option? If so, what are they?

No comment.

Other matters

Question 14

What disclosures should the Board consider as part of that review?

We understand that the Board does not consider providing more guidance on the selection of the discount rate. We would then suggest including sensitivity disclosure as a short term amendment. Consistent with the objective of the Board to pay particular attention to the need of users of financial statements to receive relevant and reliable information for assessing the amount, timing and uncertainty of an entity's future cash flow, we think that additional disclosures requirements should be set up. For example:

- Relevant information should allow an assessment of the impact of pension liabilities and assets on future cash flows. Current IAS 19 does not address this need. IAS 19 provides for the disclosure of the next year contribution only; where FAS 187 for example, provides for the disclosure of 10 year future benefit payments.

- A narrative assessment of how the liabilities will be met through the investment policies – return on assets) and the future contributions by the entity may be also be required.
- Detail of « regular » and « special » (ie recovery plans) contributions where payable to a fund may be useful but we acknowledge that the identifying the contribution component related to the recovery of a past deficit from the contribution component related to financing future services may be difficult in practice.
- A liability breakdown between vested and unvested benefits may give useful information since the corresponding liability has not the same degree of certainty.

Question 15

Do you have any other comments on this paper? If so, what are they?

In most funded pension systems outside the USA and UK, employee contributions to total pension costs are significant (from 33% to 50% of total costs). These are ignored in current measurement techniques, based on US model where employees do not contribute except with respect to medical benefit as set out in §91 of IAS19. Employee contributions are ignored as well in the Discussion Paper.

Appendix 1

Illustration of the P&L volatility potentially generated by the 3 approaches Prospective comparison of the 3 approaches of the discussion paper over 6 years

Illustrative example:

Funded pension scheme in France

Beneficiaries: 2406

Average age: 37,4 years

Average seniority: 7,3 years

Average salary: 35 K€(annual revaluation of 2%/year)

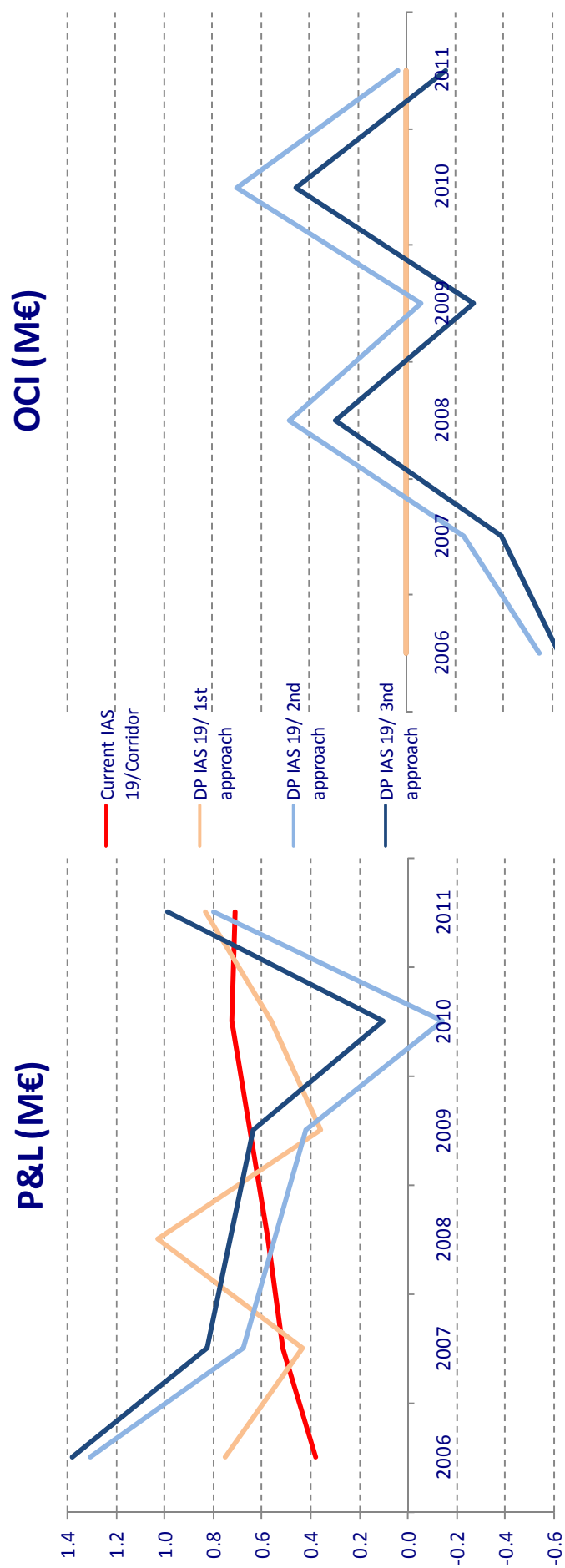
Actuarial debt as of December, 31 2007: 5 374 K€

Actual data have been used for 2006 and 2007, and projections over 5 years with random generation of actuarial gains and losses have been made.

31/12/200X-1									
	2006	2007	2008	2009	2010	2011	2012		
Present value of DBO at the beginning of period (31/12/200X-1)	4 559 451	5 374 735	5 921 832	6 824 353	7 417 757	8 181 677	9 045 396		
Service Cost	299 288	360 078	376 054	435 160	477 587	511 359	538 368		
Interest Cost	207 961	294 535	345 843	385 576	439 873	416 559	478 613		
Benefits paid	-109 483	-41 000	-279 000	0	-107 000	-198 000	0		
Expected value of DBO at the end of period (31/12/200X-1)	4 957 217	5 988 349	6 364 730	7 645 089	8 228 217	8 911 596	10 062 377		
Actuarial gains (-) and losses (+)	417 517	-66 516	459 623	-227 332	-46 540	133 800			
Present value of DBO at the end of period (31/12/200X)	5 374 735	5 921 832	6 824 353	7 417 757	8 181 677	9 045 396			

31/12/200X									
	2 006	2 007	2 008	2 009	2 010	2 011	2 012		
Number of employees	2 183	2 405	2 479	2 405	2 627	2 442	2 442		
Average age	37.4	37.4	37.7	38.1	38.4	39.4	39.9		
Average seniority	7.1	7.3	7.4	7.9	8.1	8.9	9.3		
Average salary	34 471	35 310	35 449	36 765	37 101	36 936	37 848		
Proportion of female	39.0%	40.0%	40.3%	38.5%	35.2%	34.8%	31.8%		
Expected average remaining working life	5.33	5.98	5.94	6.46	6.50	6.57	6.47		

31/12/200X									
	2 006	2 007	2 008	2 009	2 010	2 011	2 012		
Fair value of plan assets beginning of period (31/12/200X-1)	3 213 057	3 409 908	3 945 861	4 086 056	4 674 624	5 319 391	5 849 888		
Contributions	132 459	424 601	263 636	353 683	438 592	496 088	341 972		
Benefits paid	-109 483	-41 000	-279 000	0	-107 000	-198 000	0		
Expected rate of return	128 982	144 068	157 527	170 516	193 617	218 737	240 835		
Expected fair value of plan assets end of period (31/12/200X)	3 365 015	3 937 577	4 088 025	4 610 254	5 199 832	5 836 216	6 432 695		
Difference between actual and expected return on plan assets	44 893	8 284	-1 969	64 370	119 558	13 671	0		
Fair value of plan assets end of period (31/12/200X)	3 409 908	3 945 861	4 086 056	4 674 624	5 319 391	5 849 888	6 432 695		



Appendix 2

Contribution based promises measurement - Example

- *Pension plan :*
 - *Employer contribution : 10% of salary*
 - *Paid to a pension fund*
 - *Benefit on retirement : contributions + return on assets with a minimum of 3% guaranteed by the employer*
- *Employee data :*
 - *Current salary equals 1.000*
 - *20 years of future service*
- *Assumptions :*
 - *“IAS 19” discount rate : 5%*
 - *Expected return rate : 6%*
 - *Discount rate with employer credit risk adjustment : 5.5%*
 - *Expected volatility from plan assets : 20% (e.g. 30% in bonds and 70% in stocks)*
 - *Fair value of the minimum guarantee is deemed to be equal to 4% of the contributions (calculated for example with a Monte Carlo model)*

	IAS 19?		DP
	Guaranteed return	Expected return	Fair value
Discount rate	5.00%	5.00%	5.50%
Expected return	n.a.	6.00%	n.a.
Guaranteed return	3.00%	3.00%	3.00%
Volatility	n.a.	n.a.	20.00%
Actuarial liability	$100 \times (1.03/1.05)^{**20} = 68$	$100 \times (1.06/1.05)^{**20} = 121$	$100 \times (1 + 4\%) = 104$
Plan assets	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>
Deficit/(surplus)	(32)	21	4
Additional liability	<u>32</u>	<u>n.a.</u>	<u>n.a.</u>
Liability/(asset)	0	21	4

Conclusion: The proposed valuation model (DP) seems appropriate for defined contribution promises with a guaranteed minimum return

Appendix 3

L'Académie des Sciences et Techniques Comptables et Financières

The French Academy of Accounting and Financial Sciences and Techniques was formed in 2004 as an initiative of the Ordre des Experts Comptables (professional accountancy body for Chartered Accountants) with 3 objectives:

- to gather professionals involved in audit, financial control and finance on the basis of shared values, and enable them to exchange their views on common issues and define best practices
- to improve the level of theoretical and practical research about these issues and produce / publish the outcome of such works
- to create a multi-disciplinary network of professionals serving the economy and forming a basis for exporting French values and savoir faire abroad

The Academy is now a network of almost 35 000 professionals in more than 20 countries, with the support of all institutional actors in France's economic and financial markets.

IAS 19 working group

L'Académie has formed an IAS 19 / Employee Benefits working group in 2005 to follow up the development of accounting standards in the area of pension and employee benefits, and participate in research initiatives.

Working group members are representatives of:

- the accounting, financial, audit and actuarial professions in Belgium, France, and Switzerland
- multinational companies including 5 CAC 40 groups
- the academic world
- the national standard setter
- 6 different nationalities.

The working group has initially focused on the “long term” pension revision project conducted by ASB for the PAAinE. In cooperation with the French national standard setter – le Conseil National de la Comptabilité- the IAS 19 working group of l'Académie has analysed draft papers of ASB panel and EFRAG pensions working group.

The working group has also contributed to the Comment Letter of the Conseil National de la Comptabilité on IFRIC draft interpretation D19 – assets ceiling: availability of economic benefits and minimum funding requirements.

At last, the working group has focused recently on the “short term” IAS 19 revision project conducted by the IASB, based first on public information available and afterwards on the IASB discussion paper.

Contacts

Jean- François Gavanou : jean-francois.gavanou@atosorigin.com

Selma Naciri : snaciri@cs.experts-comptables.org