

September 26, 2008

Technical Director
International Accounting Standards Board
30 Cannon Street, 1st Floor
London, EC4M 6XH
United Kingdom

Dear Technical Director:

Re: Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*

The Committee on Corporate Reporting of Financial Executives International Canada (FEI Canada) is responding to the International Accounting Standards Board's (IASB) invitation to comment on the issues identified in your discussion paper "*Preliminary views on Amendments to IAS 19 Employee Benefits*."

FEI Canada is an all-industry professional association of senior financial executives, with eleven chapters across Canada and more than 2,100 members. FEI Canada provides thought leadership and advocacy services to its members.

The Committee on Corporate Reporting (CCR) is one of two national committees of FEI Canada. CCR membership is comprised of more than 20 senior financial executives representing a broad cross-section of FEI membership and the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of accounting, corporate reporting and disclosure issues.

We are supportive of the Board's efforts to simplify the accounting and financial statement presentation of post-employment benefit promises, and its efforts to make this information more transparent and understandable to users and preparers.

The body of this letter includes our general comments and observations on the discussion paper and the Preliminary Views contained in the paper. Appendix A to this letter includes our responses to certain of the specific questions raised in the discussion paper.

As a general comment, we are concerned with the piecemeal approach to implementing changes to IAS 19. We are concerned that, as an outcome of this discussion paper, changes will be made in the accounting for and disclosure of post-employment benefits that will subsequently, as a result of future planned discussion papers (such as measurement of the obligation), be modified again. This will place undue burden on the preparer and the user alike, and cause potential confusion and complexity as changes are pieced together incrementally over time. In addition, we are concerned that all of these piecemeal changes will provide an undesirable result when all the pieces are put together.

We agree that entities should recognize all changes in the value of plan assets and in the post-employment benefit obligation on the balance sheet in the period in which they occur. While we recognize that examination and discussion of the measurement of the obligation will be a separate project and may take longer than the limited timeframe available for conclusion of this project, we believe that this is a matter of great urgency. Measurement of the obligation will have

significant bearing on the understandability of the figures presented and on other aspects of presentation.

As to which of the three approaches to presentation of defined benefit costs would be most useful to users of financial statements, we are of the view that if we were to poll our members, while a consensus would be elusive, the least favoured approach would be approach 1. This is because approach 1 would not be constructive to shorter-term decisions made by users on the basis of annual financial statements. We agree that profit as represented by the income statement should be a reflection of operations and the risks and opportunities undertaken and controlled by management. Pension plans are long-term arrangements. Our committee is concerned about the impact on the income statement of transient and material volatility in measurement of the long term pension obligation and of the assets held to fund this long term obligation. Such fluctuations could significantly impact current year earnings and thus obscure the performance of the business, and obscure the income statement's account of management's performance. Accordingly, our committee is concerned that users might be seriously misled about the ongoing performance of the company by changes in value of a long term obligation that often turns out to be transitory. We see it as essential to show clearly the performance of the business in the reporting period and are concerned that Alternative 1 will not do so.

Of the presented approaches, approach 2 is preferable given the Board's preliminary view that entities should not divide the return on assets into an expected return and an actuarial gain or loss, as approach 3 may be inconsistent with this view, and because it would present the financial statements in a manner most investors recognize as useful. A variant of approach 3, using the actual return (debt and equity) as part of profit and loss might also be considered.

We would recommend that the Board not proceed with the new definition of contribution-based promises as we believe that there may be confusion with its interpretation. Some members of our committee are confused by this definition as they believe it will lead them into interpreting that their defined benefit plans are contribution-based promises and different accounting will apply. They question whether it was the intent of the IASB to change so dramatically the accounting for benefits that are today considered defined benefit. As a generality, Canadian post-employment benefit plans are the more traditional defined benefit or defined-contribution plans. We believe that the current definitions of defined benefit plans and defined contribution plans included in IAS19 are clear and not causing problems.

We appreciate the opportunity to comment on the preliminary views of the Board expressed in the Discussion Paper.

The Committee on Corporate Reporting (CCR) of FEI Canada trusts that you will find our comments constructive and we would be happy to discuss our comments with you at any time.

Yours truly,



Victor Wells
Chair, Committee on Corporate Reporting
FEI Canada

APPENDIX A – Questions from the Preliminary Views Document

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?

The basic reason for this series of projects is articulated in IN2: "...many users of financial statements do not fully understand the information that entities provide about post-employment benefit promises. Both users and preparers ... have criticized the accounting requirements for failing to provide high quality, transparent information...". We believe that a significant source of confusion becomes apparent when users ask a simple question: "What is the status of your company pension plan?" The answer depends on how it is measured. One of our members gave his company's pension plan as an example: For actuarial funding purposes the plan has a surplus. For solvency purposes (a liquidation based valuation required by regulators in Canada), it has a deficit. For accounting purposes, it has a deficit. All 3 numbers are different, and this causes confusion. Measurement of the obligation, then, is the key issue.

While we recognize that examination and discussion of the measurement of the obligation will be a separate project and may take longer than the limited timeframe available for conclusion of this project, we believe that the issue of measurement is a matter of great urgency. Measurement of the obligation will have significant bearing on the understandability of the figures presented and on other aspects of presentation.

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?

In IN10, the Board has identified that its next steps include developing an exposure draft of amendments to IAS 19 as a result of this discussion paper process. We are concerned with this piecemeal approach to implementing changes to IAS 19. We are concerned that, as an outcome of this discussion paper, changes will be made in the accounting for and disclosure of post-employment benefits that will subsequently, as a result of future planned discussion papers (such as measurement of the obligation), be modified again. This will place undue burden on the preparer and the user alike, and cause potential confusion and complexity as changes are pieced together incrementally over time. In addition, we are concerned that all of these piecemeal changes will provide an undesirable result that is not cohesive when all the pieces are put together.

With the exception of the confusion that arises with the redefinition of defined benefit promises and contribution-based promises, and the general comments contained in this response, we are not aware of other factors that need to be considered in arriving at your preliminary views.

Question 3:

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

(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; and*
- (ii) disaggregation of information about fair value?*
- (c) What would be the difficulties in applying each of the presentation approaches?*

We are of the view that if we were to poll our members, while a consensus would be elusive, the least favoured approach would be approach 1. This is because approach 1 would not be constructive to shorter-term decisions made by users on the basis of annual financial statements. We agree that profit as represented by the income statement should be a reflection of operations and the risks and opportunities undertaken and controlled by management. It is for that reason that management's choices with regard to the risks of financial instruments are reflected in profit or loss. Pension plans are long-term arrangements. Our committee is concerned about the impact on the income statement of transient and material volatility in measurement of the long term pension obligation and of the assets held to fund this long term obligation. Such fluctuations could significantly impact current year earnings and thus obscure the performance of the business, and obscure the income statement's account of management's performance. Accordingly, our committee is concerned that users might be seriously misled about the ongoing performance of the company by changes in value of a long term obligation that often turns out to be transitory. We see it as essential to show clearly the performance of the business in the reporting period and are concerned that Alternative 1 will not do so.

Of the presented approaches, approach 2 is preferable given the Board's preliminary view that entities should not divide the return on assets into an expected return and an actuarial gain or loss, as approach 3 may be inconsistent with this view, and because it would present the financial statements in a manner most investors recognize as useful. The arbitrary calculation of imputed interest income in Approach 3 defeats the goal of transparency and introduces complexity and judgment that is unnecessary. However, a variant of approach 3, using the actual return (debt and equity) as part of profit and loss might be considered. This would eliminate the complexity and judgment necessary to impute interest and remove the imputed interest earned factor such that the profit and loss would reflect the actual return in the fund in its totality, not just the imputed interest return.

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?*

We provide no response to these questions.

Questions 5 to 13 related to "contribution-based promises"

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 articulated in our general comments our concerns with the definitions of contribution-based promises and that the potential for confusion that these might bring about. For example, flat dollar benefit plans which are common in Canada would change from defined benefit to defined contribution because there is no salary risk. Accordingly, we would recommend that the

Board not proceed with the new definition of contribution-based promises. In addition, Canadian post-employment benefit plans are generally the more traditional defined benefit or defined-contribution plans and there have been no issues as to how these fit into existing definitions and accounting.

Question 14:

What disclosures should the Board consider as part of that review? (a later stage of this project).

Guidance on disclosure should reiterate a basic principle of providing clarity, and voluntarily providing information that may be useful to the user. Many provide additional disclosures related to the funded status of their plans as well as funding policies. As an example, in Canada where various measurements of the defined benefit plan prevail, certain preparers voluntarily provide information on these various measurements to provide useful explanation to the reader. As another example, whereas minimum funding requirements over the next 5 years are not currently required to be disclosed under Canadian GAAP, a number of preparers voluntarily provide this information in the notes to their financial statements. In this situation, the funding measurement of the pension plan is more relevant than the accounting measurement.

Question 15:

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

We have no further comments on this paper.