NESTLÉ S.A.

HERMANN WIRZ
SENIOR VICE PRESIDENT

INTERNATIONAL ACCOUNTING STANDARDS BOARD
Comment letters
30 Cannon Street

GB-LONDON EC4M 6XH

For the attention of Ms. Anne McGeachin, Project Manager

Vevey, 19th July 2004

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURE

Ladies and Gentlemen,

We welcome the opportunity to comment on this exposure draft. We outline our general comments below and, in the second part of this letter, we answer the specific questions of the exposure draft.

GENERAL COMMENTS

Overall we disagree with the ED for the following reasons:

- Allowing an option hampers comparability and goes against the Board's policy of reducing, if not eliminating, the options.
- We consider it is not appropriate to address just the issue of recognising actuarial gains and losses in a separate statement of recognised income and expense while another project is underway concerning employee benefit accounting.
- The option exposed for comments pre-empts the debate on comprehensive income and on recycling.

AVENUE NESTLÉ 55 CH-1800 VEVEY (SUISSE) TÉLÉPHONE 021 924 21 11 TÉLÉFAX 021 921 18 85

ANSWERS TO SPECIFIC QUESTIONS

Question 1 – Initial recognition of actuarial gains and losses

We disagree with the option of recognising actuarial gains and losses directly in equity. The IASB and IASC strategy has been to reduce options and allowed alternative treatments in conformity with paragraph 39 of the Framework which states "Users must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different enterprises in order to evaluate their relative financial position, performance and changes in financial position [...]". The introduction of a new option contradicts the aforementioned strategy. Nevertheless the Board asserts that recognising employee benefit assets and liabilities at fair value on the balance sheet results in a faithful representation of the plan in the balance sheet (BC5) and that such assets and liabilities can be measured with sufficient reliability to justify their recognition (BC7). Faithful representation and reliability are indeed qualitative characteristics that are defined in the Framework (§§ 31 to 34).

If we want to follow the Board's argument, we have to admit that fair value (which is not defined in the Framework) is reliable and results in a faithful representation of the employee benefit assets and liabilities. While we admit that fair value is reliably measurable by considering prices on active markets or developing mathematical models based on such prices, we doubt that fair value gives a faithful representation of employee benefit assets and liabilities because it is based on short term fluctuations while the time horizon of employee benefit assets and liabilities is at long term. Therefore the use of the corridor and the deferred recognition of actuarial gains and losses over the remaining useful life of the active plan participants mitigate that short-term impact of fair value. We consider that this representation, albeit imperfect, is a more faithful representation of the future economic benefit that will flow to the enterprise over the long term than a full fair value approach as far as employee benefits are concerned.

Full transparency also exists under the current IAS 19 as the fair value of the plan assets and liabilities is disclosed and reconciled to the amounts recognised in the balance sheet.

Question 2 – Asset ceiling

We do not consider that the asset ceiling is linked to the question 1. The purpose of the asset ceiling is to avoid having employee benefit assets other than those representing future economic benefits being carried to the balance sheet. Therefore we disagree with the requirement to recognise the effects of the asset ceiling in equity and we favour leaving paragraph 58 (b) unchanged.

Question 3 – Subsequent recognition of actuarial gains and losses

We disagree and favour recycling. The recognition of actuarial gains and losses in equity without recycling could lead to manipulation of the results as an entity would never be penalised for having been aggressive on its actuarial assumptions. The consequence is excessive disclosure requirements (please see the answers to question 6 below).

Though we favour recycling we consider that it should be seen in the context of the comprehensive income project because it is vital to provide a meaningful recognition of an entity's profit generation with all income, expenses, gains and losses being recognised.

Question 4 – Recognition within retained earnings

We disagree please see our answers to questions 1 to 3.

Question 5 – Treatment of defined benefit plans for a group in the separate financial statements of the entities of the group

We agree.

Question 6 – Disclosures

We disagree with the following disclosures:

- Para 120 (i) the percentage and the expected return of each asset category. This requirement would cause undue cost and effort in groups having several dozens of pension plans. We consider that the asset allocation provides a better information for the users.
- Para 120 (k) a narrative description of the basis used to determine the overall expected return rate. We disagree with this requirement which is the consequence of the absence of the corridor or of recycling and should allow the users to detect abuses in the determination of the expected return. If actuarial gains and losses are carried to the income statement on the basis of the corridor or recycled, such a requirement would not be necessary since an unrealistic determination of the expected return would sooner or later hit the income statement.

  However if the option to carry actuarial gains and losses to equity without recycling were decided, then we would agree with the disclosure but we strongly recommend that it should be limited to the enterprises having chosen to apply the option.
- Para 120 (n) simulation of medical benefit plans. While we have strong reservation about simulations in the financial statements, we nevertheless agree for the sake of convergence with US GAAP.

- Para 120 (o). We agree with the disclosures but only with one year of comparative figures. The users can get the history from the financial statements of the previous years. Moreover, the split of actuarial gains and losses into experience adjustment and effects of changes in actuarial assumptions represent undue cost and effort in entities that have numerous employee benefit schemes as these entities usually determine the previously mentioned information on a rolling basis over three years. This excessive disclosure requirement is again the consequence of the fact that actuarial gains and losses are carried to equity without recycling.
- Para 120 (p) estimate of contributions to be paid during the next year. We disagree with this requirement which is not practicable because the information is generally not available at the balance sheet date.

Question 7 – Further Disclosures

We do not consider that additional disclosures are necessary but we would not oppose the encouragement of other disclosures.

We thank you for allowing us to comment on this exposure draft and for your attention to our comments.

Yours very truly,

NESTLE S.A.

H. Wirz
Senior Vice President
Head of Group Accounting and Reporting

Encl.