TOWERS PERRIN

August 2, 2004

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Ms. Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH, United Kingdom

Dear Ms. McGeachin:

COMMENTS ON PROPOSED AMENDMENTS TO IAS 19

Towers Perrin is a global professional services firm that provides human resource consulting services, including plan design, actuarial valuation and compliance. We appreciate the opportunity to comment on the IASB's proposed Amendments to IAS 19, *Employee Benefits.* Our comments are limited to the proposed additional disclosures.

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 SFAS 132. Do you agree with the additional disclosures? If not, why not?

Our comments on the proposed additional disclosures follow:

- Describe all terms of the plan used in determining the defined benefit obligation ("DBO")

  The description "all terms of the plan" is very general, so it is not clear what the IASB is looking for. But we would observe that for a multi-national, which is likely to have hundreds of plans, a description of the defined benefit postemployment plan beyond a broad categorization such as pension, postretirement health/welfare, or other postemployment benefits, is impracticable and not useful.

- Reconcile changes in the DBO and fair value of plan assets from the beginning to the end of the reporting period

  Recognizing that most readers of the financial statements are not experts in accounting for pensions and other postretirement benefits, we believe the reconciliations provide the required disclosure information in a much more understandable and consistent manner and alleviate the need to search for information in various sections of the note to the financial statements. They also enhance the transparency of the accounting for and financial implications of these benefits.

- For each major classes of plan assets, disclose the percent of the fair value of plan assets the asset class represents, and the expected rate of return

  We support providing more asset information as we believe understanding a company's asset allocation provides useful insight into the basis for the company's expected rate of return on plan assets. But we are concerned that the proposed disclosure of the long-term expected rate of return by broad asset category over-simplifies the development of the expected long-term rate of return on plan assets, and may lead users of financial statements to erroneous conclusions.

  Development of the expected long-term rate of return on plan assets entails assessing numerous factors for a broad range of plans and assets. These factors include the level of active management; the degree to which the asset allocations operate within a range (as opposed to continual rebalancing); the extent of tactical asset allocation decisions to outperform the rate that would be expected if one were to maintain a static asset mix; whether asset management fees or other administrative costs are explicitly included or excluded from the rate of return and the asset risk within each asset category (e.g., large cap vs small cap equities; domestic vs international equities or bonds; the use of private equity, venture capital, private placements or derivative products; industry concentrations, if any, and so forth). As a result of such management decisions and others, even if two companies disclosed identical target asset allocations and had identical asset return expectations for each investment category within the broad asset categories, they could legitimately have very different expected rates of return. Yet the proposed disclosure, due to the limited information that can feasibly be provided in a note to the financial statements, would be pejorative towards the company disclosing higher expected rates of return by asset category.

  We also would observe that the aggregation of information from potentially hundreds of plans maintained by the employer dilutes the usefulness of a single measure of the expected rate of return on plan assets by asset class (even when separately identified by broad geographic area). In addition, the required information may not be available for certain [generally non-US] plans whose assets are managed by an insurance company or are invested in a balanced mutual fund.

  The usefulness of the analysis of the development of the expected rate of return on plan assets is also questionable since it presumably would have been based on the targeted asset allocation at the beginning of the year (which is not disclosed), and economic conditions and/or the company's asset strategy may have changed significantly since then. For example, expected rates of return on fixed income investments can change dramatically from year to year. But more importantly, we are concerned that the proposed disclosure is not indicative of how companies determine the expected rate of return on plan assets – there simply is no single "right" way to develop this assumption.

- Describe the basis used to determine the overall expected rate of return

  As noted in our response to the preceding disclosure alternative, development of the expected long-term rate of return on plan assets entails assessing numerous factors for a broad range of plans and assets. As a result, two companies with identical asset allocations could legitimately have very different expected rates of return. Therefore, we believe a description of the basis for developing the expected rate of return would be useful to the reader of the financial statements.

- Provide a five-year history of the (i) DBO, (ii) fair value of plan assets, (iii) funded status of the plan, (iv) liability-related experience gains/ losses by amount and as a percent of the DBO at the balance sheet date, and (v) asset-related experience gains/ losses by amount and as a percent of the fair value of plan assets at the balance sheet date

  The proposed five-year history of changes in the DBO, fair value of plan assets and funded status of the plan may provide some useful insight into how well changes in the DBO are mitigated by changes in the fair value of plan assets, although we would observe this information can easily be gathered from prior years' financial statement by those who are interested in such a history. Furthermore, to fully understand the changes, one needs to consider the effects of acquisitions and divestitures, so the information proposed would provide an incomplete analysis.

  We believe providing a history of gains and losses could inappropriately suggest a pattern of overly optimistic or overly pessimistic assumptions relative to other plan sponsors. For example, ignoring the effect of changes in the assumed discount rate, a 3% liability loss in a year would be considered high (1% is more typical), but changing the discount rate by 50 basis points could trigger an additional liability gain or loss of 6% or more, depending on the duration of the benefit obligation. As a result, two companies could have an identical experience gain or loss on their measurement of the DBO, but because the duration of their obligations (and therefore discount rate) differ, they would report different liability-related gains or losses, appearing to have very different experience.

  In short, we recommend this historical information not be required.

- Disclose contributions expected to be paid to the plan in next fiscal year

  We agree that information about expected contributions provides useful insight into the company's expected cash flows for the coming year. However, because of the significant uncertainty of amounts that will be contributed in the next fiscal year – for both required and discretionary contributions – until late in that fiscal year, we have serious concerns with the reliability of the information that would be disclosed. In the U.S., required contributions for a plan year are often not finalized until late in the following year. For example, required contributions for the plan year ending December 31, 2004 might not be known until September 2005.

  While we agree that disclosure of expected contributions provides valuable insight into the company's expected cash flows, we recommend permitting employers to disclose their expected contributions to the plan as a range. We believe this is more consistent with how companies budget and manage their cash flows, and would avoid unwarranted reliance on the amount disclosed as expected required contributions, which may be unpredictably volatile until late in the year.

- Provide sensitivity information about the assumed medical cost trend rate

  We would observe that it may be appropriate to expand the term "medical cost trend rate" to "health care cost trend rate" in order to encompass the trend rate on prescription drugs, which can be a significant share of the cost of postretirement health care benefits.

  We agree that sensitivity information about the effects of changes in this assumption is useful, particularly since its development is more subjective than development of the assumed discount rate and/or expected rate of return on plan assets.

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) narrative description of investment policies and strategies
(b) benefits expected to be paid in each of the next five fiscal years and in the 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.

While a narrative disclosure of investment policies and strategies might be insightful for a single plan or group of similarly invested plans, investment policies and strategies are

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likely to differ in different geographical regions due to economic, political and legislative considerations. As a result, we believe it would be unwieldy for multinationals, with potentially hundreds of plans, to provide sufficiently insightful disclosure. In short, we believe this proposed disclosure fails the cost-benefit analysis.

We believe that information about expected benefit payments is useful in assessing the company's expected cash flows. However, we believe that providing information about expected benefit payments, without disaggregating it by the source of the funding (i.e., employer assets or plan assets) is not responsive to the user's interest in understanding the company's and the plan's cash flows, and how well the plan assets align with the plan's cash flow. Further, since other cash flow information (i.e., expected contributions) is presented for only the next year, we believe that providing expected benefit payments for more than one year adds little or no value for assessing future cash flows, and may raise questions when actual payments legitimately differ from what had been expected.

We believe it is always useful to explain significant changes in assets, liabilities and costs that are not otherwise apparent from the disclosures. We would also encourage disclosure of additional asset categories if that information is expected to be useful in understanding the risks associated with each asset category. It is difficult to argue with encouraging companies to provide additional information that they believe would be useful to the readers of their financial statements!

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We appreciate the opportunity to comment and would be pleased to discuss our comments and concerns with you further, if you so desire.

Sincerely yours,

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