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Project Manager
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Dear Anne

Comments on Exposure Draft of Proposed Amendments to IAS19 Employee Benefits

Lane Clark & Peacock LLP (LCP) is pleased to respond to the Exposure Draft of Proposed Amendments to IAS19 Employee Benefits. LCP is a leading firm of consulting actuaries in the UK, with 55 Partners and over 250 staff. The firm provides actuarial advice across many areas including employee benefits, investment, insurance, and risk management.

I address our response in the order of the questions posed in the draft.

Question 1 – Initial recognition of actuarial gains and losses

We believe that the proposal of recognising actuarial gains and losses as they occur, outside profit and loss is a positive move increasing transparency for readers of accounts. However, this exposure draft merely increases the number of options available under IAS19, which increases the likelihood of inconsistency between different companies reporting under IAS19. We believe this will make comparisons between accounts potentially more confusing.

The comments in the introduction to the exposure draft suggest that the IASB do not consider the proposed method of recognising actuarial gains and losses to be an ideal solution. We look forward to when a long term solution is proposed which would remove the uncertainty surrounding the long term aim of IAS19.

Question 2 – Initial recognition of the effect of the limit on the amount of a surplus that can be recognised as an asset

We feel the proposals are suitable however, we prefer the approach adopted in paragraph 67 of FRS17 and would suggest this approach is adopted instead.

Question 3 – Subsequent recognition of actuarial gains and losses

We do not comment on this question.

Question 4 – Recognition within retained earnings

We do not comment on this question.

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

a) We agree with the extension of the provisions in IAS19 relating to group multi-employer plans as it puts group multi-employer plans on a more equal footing with multi-employer plans for unassociated employers. As there are other specific criteria that must be met before the entity uses defined contribution accounting, there is no need to distinguish between different multi-employer plans arbitrarily.

b) We do not agree with the criteria detailed in paragraph 34 and in particular 34(b). We feel that it would be appropriate for all participating employers in a multi-employer plan to be treated equally irrespective of whether they are listed or not.

Consider the situation whereby a group of companies under common control are all participants in a multi-employer defined benefit plan. The group consists of a holding company that is listed and a number of wholly owned subsidiaries. The listed company and all the subsidiaries have employees in the multi-employer plan.

Paragraph 34(b) would appear to require the holding company to account for its share of the plan as a defined benefit plan. However, the other employers would be able to account for their share as a defined contribution plan on the grounds that "there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual enterprises participating in the plan."

If there is indeed "no consistent and reliable basis" then we do not see how the holding company would be able to carry out these requirements.

Question 6 – Disclosures

We agree with the additional disclosures, however we have the following suggestions:

- Paragraph 120 (e) – this disclosure requires "a reconciliation of opening and closing balances of the fair value of plan assets, showing separately, if applicable, the effects during the period attributable to each of the following: expected return on assets, actuarial gains and losses, foreign currency exchange rates, contributions paid by the employer, contributions by plan participants, benefits paid, business combinations, and settlements."

A typical UK pension plan has a substantial proportion of its assets invested in overseas assets. The return on these assets could be considered to be made up of an actual asset return in the local currency and a currency gain or loss due to the movement in foreign currency exchange rates. The wording of paragraph 120(e) appears to require these two elements of the return to be shown separately. In practice this breakdown is almost impossible to determine because the data available from asset managers does not generally include this split.

We believe that it would be more appropriate only to show the impact of exchange rate movements for plans whose assets and liabilities are measured in a different currency from that in which the accounts are produced. For example, a UK listed company with UK and US pension plans would not show any exchange rate impact for its UK plan but would for its US plan. If this is the IASB's intention we feel the wording requires clarification.

- Paragraph 120(n) requires the effect of a one percentage point increase and a one percentage point decrease in the assumed medical cost trend rates. We do not think it is necessary to show both figures as the differential effects of an increase and decrease are usually negligible. Moreover, we feel it would be more useful to show in addition the effect of a one percent decrease in the discount rate for the pension liabilities. This would provide the reader of the accounts with a feel for the sensitivity of both healthcare and pension liabilities to the assumptions used.
- We would suggest that paragraph 121 should refer to the description of the plan including "all the **principal** terms of the plan", in order to avoid any implication that all aspects, including minor points, should be disclosed.

Question 7 – Further disclosures

a) We do not feel that a narrative description of investment policies and strategies adds much value. This is currently required under FAS132 but has lead to a number of vague disclosure statements along the lines of "The investment strategy is determined by the Trustees of Plan X. The Trustees aim to invest the assets of the Plan to ensure that benefits promised to members are provided", which does not add much to understanding how the pension plan invests its assets.

b) We believe there is little to be gained from disclosing the benefits expected to be paid in each of the next five fiscal years and in aggregate for the following five fiscal years. The production of such information is costly, time consuming and does not add much information for the reader of the accounts.

c) We agree that an explanation of any significant events would be useful but would hope that companies would want to provide this information if there was a material change.

We are happy to expand on any points made in this letter if that would be helpful to the IASB. We have also set out in Appendix 1 details of a few typographical errors which we have noticed.

Yours sincerely

{Sent as an attachment to an e-mail on 30th July 2004 at 11:30}

Adam Poulson FIA
Consultant

Appendix 1

Minor typographical and similar points

Paragraph references relate to the draft paragraphs of IAS19 set out in the exposure draft.

Paras 61(g), 93C, 120(g) – “profit or loss” rather than “profit and loss” or “income statement”?

Para 120(h)(ii) – “the” rather than “he”

Para 120(o)(ii) – “effects of actuarial gains and losses” rather than “experience adjustments”?