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Your ref:
Our ref: AC/KVS

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Dear Ms McGeachin

Amendments to IAS19 Employee Benefits
Actuarial Gains and Losses, Group Plans and Disclosures

Aon Consulting is pleased to comment on the Exposure Draft of Proposed Amendments to IAS19 Employee Benefits entitled "Actuarial Gains and Losses, Group Plans and Disclosures". I am writing in my capacity as chair of the European Retirement Benefits Group. The comments are based on our experience in working with Companies in relation to their Retirement Benefit Schemes.

Our specific responses to your questions are set out below. Overall, our view is that accounting standards on retirement benefits should assist users of accounts in their understanding of the nature of, and risks associated with, the benefits being provided, as part of an overall view of the Entity's financial assessment.

Question 1 - Initial recognition of actuarial gains and losses

We recognise that the proposed Standard may well represent an interim Standard pending a comprehensive reconsideration of the accounting for post-employment benefits. We agree that the addition of the option to recognise actuarial gains and losses as they occur, outside profit or loss, in a statement of recognised income and expense would be welcome for UK companies who are in the process of adopting such an approach under FRS17. However, a choice of accounting treatments is less desirable in the longer term and we would welcome progress in the area of harmonising the standards covering post-employment benefits set by the various accounting standard boards.

Although the disclosures should be sufficient such that users of accounts could reasonably reproduce the alternative treatment if so desired, we think that there will be issues of comparison due to the fact that the new alternative allows companies to avoid recognition of (part of) costs for pensions via the profit and loss accounts.

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

We have no comment on this question

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Question 3 - Subsequent recognition of actuarial gains and losses

We agree that this proposal is consistent with the treatment of the initial recognition, but as said under Question 1, comparison of accounts using the different methods will be made significantly more complex.

Question 4 - Recognition within retained earnings

We have no 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

We agree with the extension of the provisions in IAS 19 relating to multi-employer plans for use in the separate or individual financial statements of entities within a consolidated group that meet specified criteria.

In particular, a number of Companies permit participation of subsidiaries in the Group pension scheme on terms that a) do not relate to the terms on which any surplus/ deficit would apply in the event of a scheme termination or cessation of membership b) do not relate to the terms that may apply if the ownership of the subsidiary were to change or members were to transfer to another Group company and c) apply for a short period of time (eg until the next actuarial assessment) and there is no discussion as to what future terms apply. In such circumstances, additional flexibility about the treatment on either a defined benefit or defined contribution approach is welcome.

However, we note that at the same time IFRIC are separately consulting about multi-employer plans and discourage the use of defined contribution accounting for multi-employer schemes. The practical effect of the proposed extension is therefore not clear.

Question 6 - Disclosures

We agree with the additional disclosures with the exception of two comments below:

120 (o) On inception the reconciliation will be immediately available only for 2 periods; the five year period envisaged will not be readily available to Companies who have not previously adopted IAS19 (or have not been accounting on a similar basis before). We would suggest that this builds up from the two years available at inception date so that over time the full five years will be able to be shown.

121 The intention of the additional requirement in this paragraph is not clear – it could be read as implying a full description of each and every benefit is required, which is not consistent with paragraph 120(b) or the final sentence of paragraph 121.

Question 7 - Further disclosures

a) we have no objection to this information being provided

b) it is not clear how this information is useful to users of accounts.

c) we have no objection to this information being provided

Yours sincerely

Anne Claes
Consulting Actuary - Managing Director