technical release

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TECH 29/04

AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES

Memorandum of comment submitted in July 2004 to the International Accounting Standards Board concerning the exposure draft,' Amendments to IAS 19 Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures'

Contents	**Paragraphs**

INTRODUCTION

1. The Institute of Chartered Accountants in England & Wales welcomes the opportunity to comment on the exposure draft, *Amendments to IAS 19 Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*, published for comment in July 2004 by the International Accounting Standards Board. The Institute is the largest accountancy body in Europe, with more than 126,000 members operating in business, public practice and within the investor community. The Institute operates under a Royal Charter, working in the public interest.

2. We have reviewed the exposure draft and set out below a number of comments and suggestions for consideration by the Board. We deal first with significant matters before commenting on the specific issues raised in the consultation paper. In general, we support each of the separable components of the Board's proposals. We would encourage the Board to implement changes to IAS 19 even if a decision is taken not to proceed with some aspects of the proposals.

MAJOR POINTS

Support for the New Option

3. We strongly support the proposed option for companies to recognise all actuarial gains and losses in full in the period in which they arise in the Statement of Recognised Income and Expenses (the 'SORIE'). In our view, immediate recognition of actuarial gains and losses is the most appropriate accounting treatment. The transparency of pension cost accounting would be enhanced significantly if the SORIE option led more entities to adopt immediate recognition, avoiding the shortcomings of the 'corridor' deferral mechanism. These potential benefits should not be postponed pending the outcome of the wider review of IAS 19.

4. We recognise that the recognition in the SORIE (rather than in the profit and loss account) and the addition of a further option to IAS 19 are not perfect solutions and lack a firm conceptual foundation. In particular, the existence in IFRS of optional accounting treatments is, in principle, unacceptable. It undermines the credibility of IFRS internationally and jeopardises the comparability of financial statements. Accordingly, there is an urgent need for the Board to undertake the comprehensive review of IAS 19 at the earliest opportunity to address the existence of optional accounting treatments, the complexity of its language and other shortcomings. Any long-term solution also depends on completion of the delayed international project on reporting comprehensive income, which should be assigned the highest priority by the Board in its new work programme.

RESPONSES TO SPECIFIC QUESTIONS

Question 1 - Initial recognition of actuarial gains and losses

IAS 19 requires actuarial gains and losses to be recognised in profit or loss, either in the period in which they occur or on a deferred basis. The Exposure Draft proposes that entities should also be allowed to recognise actuarial gains and losses as they occur, outside profit or loss, in a statement of recognized income and expense.

Do you agree with the addition of this option? If not, why not?

5. Yes. Please see our comments in paragraphs 3-4 above. The UK standard FRS 17 requires immediate recognition of all actuarial gains and losses, and in our view has improved significantly the transparency of information in the financial statements about defined benefit plans. Whilst to date some UK companies have chosen not to fully apply the requirements of the standard (gradual adoption is permitted), in many cases this is likely to reflect uncertainty over the potential impact on calculations of profits available for distribution, which we expect to be resolved shortly.

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

Paragraph 58(b) of IAS 19 limits the amount of a surplus that can be recognized as an asset to the present value of any economic benefits available to an entity in the form of refunds from the plan or reductions in future contributions to the plan (the asset ceiling). The Exposure Draft proposes that entities that choose to recognise actuarial gains and losses as they occur, outside profit or loss in a statement of recognised income and expense, should also recognise the effect of the asset ceiling outside profit or loss in the same way, i.e. in a statement of recognised income and expense.

Do you agree with the proposal? If not, why not?

6. We agree that companies that take advantage of the new option should treat the effect of the asset ceiling in the same way as actuarial gains and losses. This represents the most rational accounting treatment.

Question 3 - Subsequent recognition of actuarial gains and losses

The Exposure Draft proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should not be recognised in profit or loss in a later period (i.e. they should not be recycled).

Do you agree with this proposal? If not, why not?

7. We recognise that IFRS require recycling of certain - although not all - other items and that the Board intends to explore the issue of recycling in detail in its project on reporting comprehensive income. However, there is no rational basis on which actuarial gains and losses could be recycled in this context and, accordingly, the revised IAS 19 should not permit this.

Question 4 - Recognition within retained earnings

The Exposure Draft also proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should be recognised immediately in retained earnings, rather than recognised in a separate component of equity and transferred to retained earnings in a later period.

Do you agree with this proposal? If not, why not?

8. We agree that actuarial gains and losses recognised in the SORIE should recognised immediately in retained earnings, rather than a separate component of equity. We see no justification for a different approach.

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

(a) The Exposure Draft proposes an 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.

Do you agree with this proposal? If not, why not?

(b) The Exposure Draft sets out the criteria to be used to determine which entities within a consolidated group are entitled to use those provisions.

Do you agree with the criteria? If not, why not?

9. IAS 19 provides a limited exemption from defined benefit accounting for multi-employer plans where sufficient information is not available. This is a major concession. Entities should, wherever possible, account for their proportionate share of the defined benefit obligation, plan assets and cost. However, we agree that it is logical to extend the provisions in IAS 19 relating to multi-employer plans to some group entities.

10. Paragraph 34 of the exposure draft sets out detailed restrictions on the use of the exemption by entities under common control. For example, subsidiaries that are less than 100% owned and entities with any listed debt or equity are excluded. The Board has not explained, in paragraphs BC23 and BC24, why it decided to permit only the plans of companies meeting criteria 'similar to' (rather than identical to) those of IAS 27 to be treated as multi-employer plans. A more logical approach would be to replace the restrictions with a reference to the existing and less rigid exclusion criteria set out in paragraph 10 of revised IAS 27, which *inter alia* do not exclude partly-owned subsidiaries if all of the owners have had the opportunity to object. The use of two sets of criteria simply adds unnecessarily to the complexity of IFRS.

11. Finally, we would draw attention to our concerns regarding the separate proposals on multi-employer plans published by IFRIC in May 2004 (Draft Interpretation D6, *Multi-employer Plans*). In our submission to IFRIC, we note that the draft Interpretation lacks clarity and in effect might nullify the exemption provided in IAS 19. This would be an unacceptable outcome.

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 the US standard SFAS 132 Employers' Disclosures about Pensions and Other Post-retirement Benefits.

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

12. There is considerable scope for improving pensions disclosures in financial statements. However, while we agree that the detailed information required under revised IAS 19 will often be of considerable interest to users, we are not convinced that the prescriptive approach adopted will ensure that companies disclose the most appropriate information. For example, detailed information is required on medical cost trend rates (new paragraph 120 (n)), but not on key mortality assumptions. The information on pension plans provided in financial statements might be more useful to analysts and other users if companies were required to disclose all key financial assumptions (perhaps with appropriate sensitivity analysis), together with appropriate demographic information.

13. We also suggest that:

- The Board clarifies the extent to which information on different plans may be aggregated in the notes to the financial statements;

- companies should be permitted to build-up the new five year trend data required in new paragraph 120(o) over a transitional period; and

- the Board's intention in including the words '*as soon as it can reasonably be determined*' in new paragraph 120 (p) should be clarified.

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) a narrative description of investment policies and strategies;

(b) the benefits expected to be paid in each of the next five fiscal years and in 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.

14. We recommend the inclusion in IAS 19 of a modified version of one further SFAS 132 disclosure requirement: the benefits expected to be paid in the following fiscal year. This should be required for unfunded plans only, since for such plans benefits represent the entity's cash flows (for funded plans, 120(p) requires disclosure of the relevant cash flows). This disclosure should only be required for a single year (SFAS 132 requires disclosures for each of the following five fiscal years), in line with paragraph 20(p).

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