CL 59

31 July 2004

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David,

Re: Exposure Draft of Proposed Amendments to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures

We are pleased to provide our comments on the above Exposure Draft.

Overall we are not supportive of this Exposure Draft. Substantial changes are introduced on a piecemeal basis rather than through comprehensive projects dealing with both the accounting for employee benefits and "Reporting Comprehensive Income".

Another "interim solution" is proposed that provides a third option for the recognition of actuarial gains and losses. It will decrease the comparability of financial statements. This is contradictory to the IASB's objective stated in the IFRS preface, which is to require like transactions and events to be accounted for and reported in a like way. This Exposure Draft will also create further divergence with US GAAP, which seems inconsistent with the Board's objectives under the short-term convergence project and the global goal of convergence of accounting standards around the world. We share the merits of the "corridor" approach as expressed in IAS 19 BC42 and would therefore not be supportive of future projects which would ultimately remove this approach.

In addition to changes to IAS 19, the exposure draft proposes an amendment to IAS 1. We consider that this modification, which is not entirely clear, may pre-empt the result of the current work on comprehensive income. We are most attached to a thorough discussion on this matter before any move is made in any direction.

In addition, the Exposure Draft extends the use of multi-employer plan exemption. The proposal may have the merit of helping groups to reduce costs for preparing individual financial statements. It is issued almost concurrently with the IFRIC Draft Interpretation 6, Multi-employer Plans, which, we understand, tries to limit the situations where the multi-employer plan exemption is applied. We have not identified any attempts by the IASB or the IFRIC to explain the interaction between these two documents, and they appear to be contradictory.

Finally, we are not convinced of the usefulness of some of the proposed new disclosures, especially the disclosures related to asset allocation.

Our responses to the questions raised in the Exposure Draft and comments on specific matters of concern are set out in the Appendix to this letter.

If you have any questions regarding our comments, please do not hesitate to contact me at 33 (0) 1 43 16 82 88

Sincerely,

Gérard GIL
Group Chief Accountant

C/C :
Monsieur Antoine BRACCHI
Président du Conseil National de la Comptabilité
3, Boulevard Diderot
75 572 PARIS CEDEX 12

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?

We disagree with the addition of a third option for the recognition of actuarial gains and losses for the following reasons:

- It decreases the comparability of financial statements. This seems contradictory to the IASB's objective to require like transactions and events to be accounted for and reported in a like way;
- It creates significant divergence with US GAAP, which seems to be inconsistent with the Board's objectives under the short-term convergence project;
- It pre-empts the outcome of certain discussions under the project "Reporting Comprehensive Income";

We also believe the Board should clarify the circumstances under which entities will be allowed to change their accounting policy for the recognition of actuarial gains and losses under IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

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?

We disagree. With actuarial gains and losses recognised immediately, the limit in IAS 19.58(b) will play when there is an increase in past service costs during the period and/or a decrease in 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. We do not see on what basis the effect of the asset ceiling resulting from those changes should not be accounted in profit or loss.

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?

Although we understand the arguments against the recycling of actuarial gains and losses, the proposed principle would not be consistent with the same recycling principles already included in IAS 39, Financial Instruments: Recognition and Measurement, and IAS 21, The Effect of Changes in Foreign Exchange Rates. In addition, we believe that this issue should be addressed together with the wider issues dealt with under the project on "Reporting Comprehensive Income". The proposed amendments to IAS 19 could be seen as pre-empting the outcome of this project.

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?

As retained earnings is not a defined term in IFRS literature, we believe this issue should not be dealt with by the IASB currently but it may be addressed with the project on reporting comprehensive income. Where other Standards require income and expense to be recognised in equity, the Board generally does not define the caption of equity in which those elements shall be classified.

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?

The proposal may have the merit of helping groups to reduce costs for preparing individual financial statements. The extension of the application of the requirements in IAS 19 dealing with multi-employer plans to defined benefit plans for a group in the separate or individual financial statements of the entities in the group appears to be contradictory with the IFRIC Draft Interpretation 6, Multi-employer Plans. We understand that this latter document would like to limit the situations in which the multi-employer plan exemption is applied. As we have not identified any attempts by the IASB or the IFRIC to explain the interaction between these two documents, the intent of the Board is unclear to us particularly in the light of an apparent contradiction in the Basis for Conclusions between BC22 and BC24(a).

(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?

We note that the criteria brought forward in this Exposure Draft are different from the criteria applicable in order to decide whether a parent does not need to present consolidated financial statements under the revised IAS 27 Consolidated and Separate Financial Statements. Mainly, we challenge the need for the entity to be a wholly-owned subsidiary. We believe the Board should also consider providing an exemption where the subsidiary is a partially-owned subsidiary of another entity and its other owners including those not otherwise entitled to vote, have been informed about, and do not object to, the subsidiary treating the defined benefit plan as a multi-employer plan.

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 Postretirement Benefits.*

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

We are not convinced that the additional disclosures to be provided are relevant, pertinent and reflect needs of the users of financial statements. Unless research or results of field tests would prove the contrary, we are not in favour of adding additional disclosures.

Although we see some merits in providing some information on the level of risk inherent in the plan, we do not believe the disclosures on the asset allocation as proposed in IAS 19.120(i) will provide useful and relevant information to the users of financial statements. The inherent risk in a plan depends on many more elements than just a description of the overall categories of assets in the plan. It will also depend on the risk profile of the issuer of the financial assets, the type of industry they are related to, currency, geographical location of the assets, etc.

Although we acknowledge that in some cases changes in medical cost trends could have a major impact on the defined benefit obligation, other assumptions might have a major impact on the defined benefit obligation as well. Therefore we recommend that reference be made in IAS 19 to paragraph 116 of IAS 1 *Key Sources of Estimation Uncertainty*, with medical cost trend rates given as an example, instead of the specific requirement on medical cost trend rates as currently proposed.

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.

We refer to our comment under question 6.