Western Australia

AUDITOR
GENERAL

4th Floor Dumas House
2 Havelock Street
West Perth 6005
Western Australia

Tel: 08 9222 7501
Fax: 08 9321 5183
Email: AG@audit.wa.gov.au

SERVING THE PUBLIC INTEREST

CL 71

Our Ref: 3453-09

Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Madam

INVITATION TO COMMENT ON EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 19 *EMPLOYEE BENEFITS: ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES*

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and the following have responded supporting the general form and content of this ED.

- Auditor-General of New South Wales
- Auditor-General for Victoria
- Auditor-General of Queensland
- Auditor General for Western Australia

Our comments on specific matters are contained in the attachment.

The non-inclusion of an ACAG member in the submission does not necessarily mean they disagree with the submission.

The opportunity to provide comment is appreciated and I trust you will find the attached comments useful.

Yours faithfully

D D R PEARSON
AUDITOR GENERAL FOR WESTERN AUSTRALIA
July 14, 2004

Attach

ATTACHMENT

RESPONSE TO INVITATION TO COMMENT ON PROPOSED AMENDMENTS TO IAS 19 *EMPLOYEE BENEFITS: ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES*

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 recognised income and expense.

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

We disagree with the proposal to recognise actuarial gains and losses outside profit or loss for the following reasons:

- A choice of options (i.e. income statement or directly to retained earnings) to recognise actuarial gains and losses may result in entities having incomparable financial reports. This is inconsistent with the objective of issuing Accounting Standards that promote comparability between financial reports;
- It is inappropriate to recognise actuarial gains and losses directly in retained earnings as they meet the definition of income and expense set in the *Framework for the Preparation and Presentation of Financial Statements*; and
- The full recognition of actuarial gains and losses in the income statement provides greater transparency than both the corridor approach and the "direct to retained earnings" option.

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 recognised 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, ie in a statement of recognised income and expense.

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

As noted in question 1, we disagree with the proposal to recognise actuarial gains and losses outside profit or loss.

Nevertheless, the suggested accounting treatment for the "asset ceiling" is supported if the proposal is implemented.

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 the proposal? If not, why not?

We disagree with the proposal for the reasons outlined in the response to question 1. We are strongly of the view that actuarial gains and losses should only be recognised in the income statement in the period in which they occur.

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 the proposal? If not, why not?

We do not support the proposal for reasons outlined in the response to question 1. As indicated in our response to question 3, our view is that actuarial gains and losses should only be recognised in the income statement in the period in which they occur.

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?

We agree with the proposal.

(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 agree with the criteria suggested but would like further clarification included in the Standard in regard to the application of the criteria.

Question 6 Disclosures

The Exposure Draft proposes additional disclosures that:

(a) provide information about trends in the assets and liabilities in the defined benefit plans 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 agree with the proposals.

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.

We do not see a need to include these disclosures as the matters covered in these disclosures appear to apply more to the "Plans". We believe it will be more appropriate for these disclosures to be included in the "Plans" financial report rather than the entities' financial reports.