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2 August 2004

Ms. Anne McGeachin
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International Accounting Standards Board
30 Cannon Street
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By email: CommentLetters@iasb.org

Re: Exposure Draft of Proposed Amendments to IAS 19 *Employee Benefits - Actuarial gains and losses, group plans and disclosures*.

Grant Thornton International supports the work of the International Accounting Standards Board (IASB) and welcomes the opportunity to provide input to the IASB's Invitation to Comment.

While we agree that the proposals contained within the Exposure Draft on IAS 19 Amendments: *Actuarial gains and losses, group plans and disclosures* will lead to enhanced transparency in defined benefit accounting, we acknowledge that the changes will have some cost in terms of understandability of and comparability between IFRS-based financial statements. We are concerned over the complexity of defined benefit accounting and the cost involved in its application with respect to SME's, in both developed and emerging economies, and in particular the extent of the proposed disclosures. We hope that the SME project will relieve unnecessary burdens for this sector. We also welcome the proposed forthcoming comprehensive review of accounting for post-employment benefits.

The Exposure Draft contains several distinct proposals. In the event that the IASB might decide not to proceed with one of these, we urge it to proceed with the others, and not to abort all of them. In particular, we consider that the proposals to allow certain plans that pool assets contributed by various entities under common control to be treated as multi-employer plans gives rise to benefits that should not be lost.

We set out in the attached Appendix our comments on the specific questions raised in the Invitation to Comment. If you should wish further explanation of our comments please contact our Director of International Financial Reporting, April Mackenzie (april.mackenzie@gt.com or phone +1 (212) 624 5428).

Yours sincerely

Barry Barber
Worldwide Director of Audit and Quality Control

April Mackenzie
Director of International Financial Reporting

APPENDIX: Exposure Draft of 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 agree that the recognition of actuarial gains and losses, related to defined benefit retirement benefit plans, as they occur, will result in more complete recognition of actuarial gains and losses. Such complete recognition will improve the transparency of the financial statements, over the current requirements contained within IAS 19.

We note that paragraph 13 of the *Preface to International Financial Reporting Standards* states that the IASB intends not to permit choices in accounting treatment. The same paragraph also sets out an objective of the IASB of reducing the number of choices in accounting treatment, available to preparers of IFRS financial statements.

Nevertheless, in this case we believe that the additional option proposed in paragraph 93A should be permitted. In the context of the numerous companies moving to IFRS for the first time in 2005 (most notably in Europe), most of which will probably set the IAS 19 corridor to zero at their date of transition, the proposals represent an opportunity for clear transparent ongoing IFRS accounting without the unwelcome profit and loss account volatility implications that IAS 19 application would otherwise entail. Also, as the IASB has, understandably, not yet had the time to carry forward their project to review IAS 19; it would not be a positive step to eliminate a currently used solution of merit.

However, we are concerned that the wording of paragraph 93A appears to imply that different treatments of aspects of IAS 19 for different plans would have been acceptable but for the restriction placed by 93A itself. This is contradictory to IAS 8 paragraph 13 and could undermine the requirement for an entity to select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard or an Interpretation specifically requires or permits categorization of items for which different policies may be appropriate.

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?

We agree with this proposal in the context of the proposal to recognise actuarial gains and losses as they occur in the statement of recognised income and expense.

Question 3 - Subsequent recognition of actuarial gains and losses

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

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

We agree with the concept in the context of this Exposure Draft that once actuarial gains have been recognised in a statement of recognised income and expense, they should not be recognised in profit or loss in a later period.

Question 4 - Recognition within retained earnings

The Exposure Draft also proposes that, when actuarial gains and losses are recognised outside of 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?

We agree that actuarial gains and losses recognised outside of profit or loss in a statement of recognised income and expenses should be recognised immediately in reserves.

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

We support the concept of extending 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.

However, we are unsure as to why a subsidiary entity, that qualifies under paragraph 34 (a) (ii) but is also an intermediate holding company that chooses to produce IFRS consolidated financial statements, should be deprived of the exemption for those accounts. Paragraph 23 in the Basis for Conclusions makes the judgment that it is not worth the costs involved for companies that meet the IAS 27 criteria for exemption from preparing consolidated financial statements, to apply defined benefit accounting using a consistent and reasonable basis of allocation. Following this logic, it must be true for any consolidated accounts that they may produce.

We also propose that the IASB considers extending the provisions in IAS 19 relating to multi-employer plans for the use in the separate or individual financial statements of entities within a consolidated group. We feel that substantial costs savings could be realised, especially by SME's who may not have access to the economies of scale available to larger entities, if the provisions were extended to all subsidiary entities under common control rather than only 100% owned subsidiary entities, provided agreement is obtained from minority interests.

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 proposal? If not, why not?

We do not support the additional disclosures at this time and recommend that any change to disclosure requirements take place within the scope of the comprehensive review of accounting for post-employment benefits.

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 do not support the inclusion of additional disclosures beyond those proposed in the Exposure Draft and as indicated above do not support an extension of the disclosures at this time.