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30 July 2004

Anne McGeachin
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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Ms Geachin,

Exposure Draft - Proposed Amendments to IAS 19 Employee Benefits April 2004

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board - NASB) is pleased to comment on the International Accounting Standards Board's (the Board's or IASB's) Exposure Draft of *Proposed Amendments to IAS 19 Employee Benefits – Actuarial gains and losses, group plans and disclosures*. Our responses to the questions raised in the Exposure Draft are set out in the Appendix to this letter.

We are not convinced by the fact that the proposed changes for the recognition of actuarial gains and losses represent an improvement to current reporting under IFRS and we question why such a change is necessary. First, the IASB is proposing the introduction of an additional option whereas its objective is to increase the comparability of financial statements and reduce options in IFRS literature. Secondly, the proposed treatment pre-empts some of the discussions that may take place under the project dealing with "Reporting comprehensive income". Finally, it creates a further divergence with US GAAP and so, does not serve the purpose of global convergence of accounting standards.

We believe that the benefits of certain of the proposed disclosures to be limited, particularly the sensitivity analysis, which is focused on one specific assumption (medical costs) and does not provide disclosure of the potential consequential effects of the interaction between assumptions if an assumption changes.

Yours sincerely
Norsk RegnskapsStiftelse

Idar Eikrem
Chairman

<u>Question 1 - Initial recognition of actuarial gains and losses</u>

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?

<u>Response</u>

We disagree with the proposed introduction of a new option for the recognition of actuarial gains and losses for the following reasons:

(a) it will reduce, not increase the comparability of financial statements around the world. IASB has clearly stated an objective of reduction of options in IFRS literature and the proposal is in contradiction of this objective

(b) it pre-empts an open and full debate on certain aspects of the project of "Reporting comprehensive income". The Exposure Draft proposes to include an additional option in IAS 19 allowing entities to recognise actuarial gains and losses as they occur in the balance sheet and in the Statement Of recognised Income and Expense (hereafter referred to as the SORIE). The improved IAS 1 Presentation of Financial Statements introduced the requirement to show on the face of the statement of changes in equity "total income and expense for the period" being the sum of a) profit or loss for the period and b) each item of income and expense for the period that, as required by other standards or by interpretations, is recognised directly in equity. According to the proposed amendments to IAS 19 an entity applying the proposed third option would be required to present, as part of its primary statements, a statement of changes in equity that would be limited to the changes in equity arising from transactions other than with its shareholders. Such a statement has now to be titled "Statement Of Recognised Income and Expense" (hereafter referred to as SORIE) (see paragraph 93B, Appendix F: Amendment to IAS 1 and BC 12). In addition, the exposure draft proposes the following amendment to IAS 1: when an entity chooses to present changes in equity arising from transactions with shareholders separately from other transactions (i.e. only applies paragraph 96 and not paragraph 97 of IAS 1) the statement of changes in equity shall be titled SORIE. It should be noted that even if the third IAS 19 option is not used this means that whenever a statement of changes in equity includes only those items specified in paragraph 96 of IAS 1 the statement must be titled SORIE.;

(c) it would create a significant difference of treatment with US GAAP, which benefits we cannot see at present. IAS 19 already requires a large amount of disclosures that enable users of financial statements to adjust the financial statements for the effect of any unrecognised actuarial gains and losses, should they wish so.

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

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?

Response

We disagree. This proposal pre-empts an open and full debate on certain aspects of the project of "Reporting comprehensive income", in particular those related to the presentation of the effect of the limit on the amount of a surplus that can be recognised as an asset. In addition, we question why the effect of the asset ceiling resulting from the other distinctive elements (increasing cumulative unrecognised past service costs 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) would be accounted for differently.

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?

Response

We believe that the issue of recycling should be studied in a comprehensive way. The proposed amendments to IAS 19 could be seen as pre-empting the outcome of the IASB's project on comprehensive income in this respect.

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?

Response

We believe that these proposals are a logical consequence of the proposal to recognise actuarial gains and losses as they occur in the SORIE without any subsequent recycling in the profit or loss.

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

(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?

<u>Response</u>

(a) We found it very difficult to understand from the proposed amendments to paragraph 34 and the new paragraph 34A what the intended change is in the IAS 19 requirements for separate or individual financial statements of entities in a group. Therefore, we recommend the Board to redraft this portion of the amendments.

(b) As regards the criteria to be used to determine which entities within a consolidated group are entitled to use the proposed extension, we challenge the need for the entity to be a <u>wholly-owned</u> subsidiary and believe that the IASB should consider to apply a similar approach as in the improved IAS 27 *Consolidated and Separate Financial Statements* (e.g. "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).

<u>Question 6 - Disclosures</u>

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?

<u>Response</u>

<u>Disclosures about trends in the plan</u>

We note the discussion in BC 25, which explains that the potential risk of misinterpretation of future cash flow implications of a plan by users of financial statements was the basis for the Board's decision to require disclosure of five-year histories of the plan liabilities, plan assets, the surplus or deficit and experience adjustments. We do not believe that this risk exists with users who have reasonable knowledge of business and economic activities and accounting. We note that under paragraph 25 of the Framework, it is assumed that users have reasonable knowledge. In addition, users normally would be able to obtain prior years information, if needed, by going back to earlier financial statements. We believe a disclosure of the overall funding policy of a defined benefit plan would be more useful information.

Sensitivity analysis in relation to medical cost trend rates

Although we acknowledge that in some cases changes in medical cost trends may have a
major impact on the defined benefit obligation, we believe it is not the only key assumption that may have a significant effect on the defined benefit obligation if it changes. In addition, the effect of a change in one percentage point may be significant in some environments but not material in others. We believe a more principle-based disclosure requirement, which is not limited to medical costs and the effect of one percentage point change only, would be more appropriate and useful for investors.
However, we believe that disclosures of hypothetical changes do not provide useful
information, because economic conditions and changes often affect multiple elements. An
analysis that varies only one assumption at a time, holding the others constant, could me
misleading or misinterpreted. As a result, we do not support the new proposed disclosure in IAS 19.120(n).

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.

Response

No, we do not believe that these disclosures should be required, nor any others beyond those proposed in the exposure draft and discussed above.