CL 57

RESPONSE OF THE ASSOCIATION OF BRITISH INSURERS (ABI) TO THE IASB EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO INTERNATIONAL ACCOUNTING STANDARD (IAS) 19 EMPLOYEE BENEFITS: ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES

1 EXECUTIVE SUMMARY

1.1 We welcome the proposal that entities should also be allowed to recognise actuarial gains and losses as they occur, outside the profit and loss account in a statement of recognised income and expense. This will permit IAS 19 to be adopted in a way that is more closely aligned with FRS 17.

1.2 We are generally happy with the detail of what is being proposed.

1.3 We think the option in paragraph 34 to treat a pension plan as a multi-employer plan where entities are under common control but the plan otherwise meets the definition of a multi-employer plan, should be extended to listed parent companies where the consolidated accounts, in following IAS, adopt a defined benefits approach.

1.4 We also believe that where an allocation of a defined benefit scheme cannot be made across the individual members of a group, it should be permissible to apply defined contribution accounting to the individual group members (including the parent company) with defined benefit accounting restricted to the group accounts.

2 ANSWERS TO THE SPECIFIC QUESTIONS RAISED

1 *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 with the addition of this option. In particular it will permit UK entities that are required or choose to adopt International accounting standards from 1 January 2005 to continue their existing accounting treatment without the need for any significant changes where previously they have adopted FRS 17 in full.

2 *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?

Full consistency would require a provision in IAS 19 equivalent to paragraph 67 of FRS 17.

3 *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 (ie they should not be recycled).*

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

We fully agree that actuarial gains and losses recognised in a statement of recognised income and expense should not be recognised in profit or loss in later periods. We agree with the Board that there is no rational basis on which recycling could be undertaken.

4 *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?

We agree with this proposal but subject to a requirement for separate disclosure of the element of retained earnings attributable to the pension scheme.

5 (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 with a consolidated group are entitled to use those provisions.

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

We think the option in paragraph 34 to treat a pension plan as a multi-employer plan where entities are under common control but the plan otherwise meets the definition of a multi-employer plan should be extended to listed parent companies where the consolidated accounts in following IAS adopt a defined benefits approach. Where defined contribution accounting is applied to the subsidiaries of a group because insufficient information is available to make an apportionment, it would seem inconsistent to require a different treatment for the parent company.

Moreover, it may not always be as easy as the Exposure Draft assumes to allocate defined benefits plans over the individual members of a large group, or between shareholders and policyholders of life insurance undertakings. The value of making allocations between undertakings may in any case be limited where they are all under common control. We believe that IAS 19 should reflect FRS 17 in this regard which, where an allocation of a defined benefits scheme cannot be made, permits defined contribution accounting for the individual group members (including the parent company) and requires defined benefit accounting only in the group accounts.

6 *The Exposure Draft proposes additional disclosures that (a) provide information about trends in the assets and liabilities in the defined benefit plan and the assumption 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.*

We have no comments on the disclosure proposals.

7 *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 believe this additional disclosure is necessary.

Ref T/701/004
27 July 2004
[N021705A*FRT/DWRI/DERYCK/2004]