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Organización Internacional de Comisiones de Valores
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September 10, 2010

Exposure Draft: Defined Benefit Plans – Proposed Amendments to IAS 19
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: ED: Defined Benefit Plans – Proposed Amendments to IAS 19

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft on Defined Benefit Plans – Proposed Amendments to IAS 19 (the ED or the Exposure Draft).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Standing Committee No. 1 does not have comments on all of the proposed improvements in the Exposure Draft. Accordingly, we have only responded below to certain of the Board's questions in the Exposure Draft.

General Observation

We believe the Board's proposal to require recognition of changes in defined benefit obligations and the fair value of plan assets when they occur is a significant step forward in the evolution of defined benefit plan accounting. We recognize that this change results in follow-on issues related to the presentation of these changes and the measurement of the components of these changes. We generally support the Board's conclusions in these areas as a targeted short-term solution. However, we would like to emphasize the need for a comprehensive review of the accounting for employee benefits, with a view to fundamentally improving the quality of information provided to users of the financial statements. Given the overall goal of convergence with U.S. GAAP, we would recommend

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: (34.91) 417.55.49 • Fax: (34.91)
555.93.68
mail@oicv.iosco.org • www.iosco.org

that the Board conducts such a comprehensive review together with the U.S. Financial Accounting Standards Board (FASB), also taking into account the outcome of the financial statement presentation project. The Board's exposure draft on defined benefit plans also highlights the need for the Board to undertake work to define other comprehensive income providing a robust concept for classifying income items as other comprehensive income.

Responses to the Board's Questions

Question 1: *The exposure draft proposes that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. (Paragraphs 54, 61 and BC9–BC12) Do you agree? Why or why not?*

As stated above, we support recognition of all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. We believe immediate recognition will provide users of financial statements with more meaningful information regarding an entity's benefit obligations, will alleviate complexities associated with application of the corridor approach in accounting for defined benefit plans, and will improve comparability by eliminating options in the accounting for defined benefit plans.

Question 2: *Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?*

We agree that entities should recognize unvested past service costs when the related plan amendment occurs to conform to IAS 19's principles, which require recognition of a defined benefit obligation regardless of whether benefits have vested.

Question 3: *Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18) Why or why not?*

Question 6: *Should entities present:*

(a) service cost in profit or loss?

(b) net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss?

(c) remeasurements in other comprehensive income?

(Paragraphs 119A and BC35–BC45) Why or why not?

As stated in our General Observation above, we generally support the Board's decision to disaggregate defined benefit costs into: (a) service costs for presentation in profit or loss, (b) net interest for presentation in profit or loss, and (c) remeasurements for presentation in other comprehensive income as a targeted short-term solution. However, we strongly recommend that the Board reconsider this decision as part of a comprehensive project on defined benefit plan accounting, and after completion of the financial statement presentation project and any potential new project to define other comprehensive income.

We believe that a commitment to future reconsideration of this issue is important due to the inter-relatedness of a number of the Board's projects. For example, as part of the financial statement presentation project, the IASB and the FASB (collectively, the Boards) have tentatively decided to require an "operating finance" category on the statement of financial position and the statement of comprehensive income. While we are not expressing views on this category at this time, we note that finalization of this decision may alleviate the need to disaggregate defined benefit costs into three components.

Further, any potential project added to the Boards' agenda to define other comprehensive income may affect whether and to what extent remeasurements are classified in other comprehensive income.

The recognition of remeasurements in other comprehensive income also raises the question of whether, when, and how amounts in accumulated other comprehensive income should be recycled to profit or loss. We recognize the challenges in identifying a suitable basis for the recycling of these amounts, as potential triggers for recycling (e.g., sale of plan assets, lump sum distributions to plan participants) may be difficult to operationalize. However, at a minimum, we recommend the Board consider recycling of remeasurement amounts in other comprehensive income upon plan termination.

Question 4: *Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?*

We agree with the Board's decision to exclude changes in the defined benefit obligation resulting from changes in demographic assumptions from the service cost component. However, we again refer to our General Observations regarding the reconsideration of this presentation as part of a comprehensive project.

Question 5: *The exposure draft proposes that the finance cost component should comprise net interest on the net defined benefit liability (asset) determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset). As a consequence, it eliminates from IAS 19 the requirement to present an expected return on plan assets in profit or loss.*

Should net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset)? Why or why not? If not, how would you define the finance cost component and why? (Paragraphs 7, 119B, 119C and BC23–BC32)

We do not object to the Board's decision to measure the finance cost component as the discount rate applied to the net defined benefit liability (asset), as we recognize that use of the discount rate is a practical expedient intended to alleviate criticisms regarding overly optimistic and sometimes inappropriate expected rate of return assumptions. However, we acknowledge that the use of the discount rate may understate asset returns, as companies likely invest in assets with returns greater than the yields on high quality corporate bonds, and that it will not reflect the investment policy put in place by the entity (or on behalf of the entity).

To address these concerns, we recommend that the Board require additional disclosures as follows:

- Disclosure of the overall expected rate of return assumption.
- Disclosure of the expected rate of return assumption by asset class.
- Further disaggregation of assets beyond property, government debt instruments, other debt instruments, entity's own equity instruments, and other equity instruments. Additional required asset classes may include cash and cash equivalents; equity securities segregated by industry type, company size, or investment objective; debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); and investment funds (segregated by type of fund).

- A narrative description of investment policies and strategies, including target allocation percentages, investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations.
- A narrative description of the basis used to determine the expected rate of return on assets on an overall basis and by asset class, including the extent to which the assumptions were based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined.
- Disclosure of a sensitivity analysis, as currently required, of changes in the expected rate of return assumption on an overall basis and by asset class.
- Disclosure of experience adjustments, as currently required, on an overall basis and by asset class.

In addition, as stated in our General Observations above, we believe this area should be reconsidered as part of a comprehensive project on defined benefit plan accounting, and after completion of the financial statement presentation project and any new project to define other comprehensive income.

Question 7:

- (a) *Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) Why or why not?*
- (b) *Do you agree that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss? (Paragraphs 98A, 119A(a) and BC48)*
- (c) *Should entities disclose (i) a narrative description of any plan amendments, curtailments and non-routine settlements, and (ii) their effect on the statement of comprehensive income? (Paragraphs 125C(c), 125E, BC49 and BC78) Why or why not?*

We agree with the Board's decisions in each of these areas. However, we again refer to our General Observations regarding the reconsideration of this accounting as part of a comprehensive project.

Question 8: *The exposure draft states that the objectives of disclosing information about an entity's defined benefit plans are:*

- (a) *to explain the characteristics of the entity's defined benefit plans;*
- (b) *to identify and explain the amounts in the entity's financial statements arising from its defined benefit plans; and*
- (c) *to describe how defined benefit plans affect the amount, timing and variability of the entity's future cash flows. (Paragraphs 125A and BC52–BC59)*

Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

We recommend the addition of an objective to disclose information regarding the risks and uncertainties associated with the defined benefit plans. While objective (c) above regarding the amount, timing, and variability of an entity's future cash flows may include the notion of risks and uncertainties, the proposed disclosure requirements, coupled with the recommendations included in this letter, suggest that this is an important concept for which prominence as an objective may be beneficial.

In connection with these objectives, we also believe that the Board should provide further clarification as to what “materially different risks” means in IAS 19.125B. This paragraph states that “an entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks.” This notion of “materially different risks” might be interpreted diversely. Further, the ED lacks examples which would help clarify the IASB’s intention and which could lead to disagreements between reporting entities and regulators about disclosures provided.

Question 9: *To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:*

- (a) information about risk, including sensitivity analyses (paragraphs 125C(b), 125I, BC60(a), BC62(a) and BC63–BC66);*
- (b) information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e));*
- (c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f));*
- (d) information about asset-liability matching strategies (paragraphs 125J and BC62(b)); and*
- (e) information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c)).*

Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?

We agree with the proposed new disclosure requirements, as modified for the recommendations noted in our responses to questions 5, 10, and 12.

Question 10: *The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? (Paragraphs 33A and BC67–BC69) Why or why not?*

We note that the FASB recently issued an exposure draft related to multi-employer plan disclosures. While the FASB’s proposed disclosures are similar, they are not identical, to those in the ED. For example, the FASB proposed a requirement for entities to disclose a narrative description of their exposure to significant risks and uncertainties arising from their participation in multi-employer plans, whereas the ED more narrowly requires disclosure of the extent to which the entity can be liable to the plan for other entities’ obligations under the terms and conditions of the multi-employer plan.

While we recognize that the IASB’s project of amendments to IAS 19 is independent of the FASB’s project on multi-employer plan disclosures, we believe convergence in this area (to the extent possible, recognizing that IAS 19’s accounting for multi-employer plans differs from that under U.S. GAAP) would be beneficial in enhancing comparability of financial statements prepared under IFRS and U.S. GAAP.

Question 11: *The exposure draft updates, without further reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control to make them consistent with the disclosures in paragraphs 125A–125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not?*

We agree with the Board's decisions in these areas.

Question 12: *Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)*

We believe that there should be disclosure that links the entity's funding arrangements to the liability of the pension scheme, so as to enable the reader to understand how the liability is envisaged to be settled between employer funding contributions and investment returns. The U.K. GAAP disclosure recommendation, which states “In order to evaluate the economic resources available to the entity, users of financial statements are particularly interested in the period of time over which the liabilities of the defined benefit scheme mature,” may be helpful in this regard. We believe the addition of this requirement would provide disclosures that are more meaningful than those set out in paragraph 125K of the ED, and support the objective in paragraphs 125A.

Question 13: *The exposure draft also proposes to amend IAS 19 as summarised below:*

- (a) The requirements in IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, as amended in November 2009, are incorporated without substantive change. (Paragraphs 115A–115K and BC73)*
- (b) ‘Minimum funding requirement’ is defined as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan. (Paragraphs 7 and BC80)*
- (c) Tax payable by the plan shall be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax. (Paragraphs 7, 73(b), BC82 and BC83)*
- (d) The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84–BC86)*
- (e) Expected future salary increases shall be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years. (Paragraphs 71A and BC87–BC90)*
- (f) The mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. (Paragraphs 73(a)(i) and BC91)*
- (g) Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92–BC96)*

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

We agree with the Board's proposed amendments. However, regarding proposed amendment (d) above, we recommend that the Board clarify the nature of administration costs (for example, external direct costs such as fund manager fees) related to plan assets that may be reflected as a reduction of the return on plan assets. In addition, regarding proposed amendment (c) and (d) above, we recommend the Board discuss in the Basis for Conclusions its consideration regarding the recognition of taxes payable and administration costs in profit or loss, rather than as part of the return on plan assets or the measurement of the defined benefit obligation.

Question 15: *Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?*

We believe that the proposed amendments should be applied retrospectively, as we believe that much of the information necessary to implement these changes should be readily available and retrospective application would enhance comparability for users.

Question 16: *In the Board's assessment:*

(a) the main benefits of the proposals are:

(i) reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.

(ii) eliminating some presentation options currently allowed by IAS 19, thus improving comparability.

(iii) clarifying requirements that have resulted in diverse practices.

(iv) improving information about the risks arising from an entity's involvement in defined benefit plans.

(b) the costs of the proposal should be minimal, because entities are already required to obtain much of the information required to apply the proposed amendments when they apply the existing version of IAS 19.

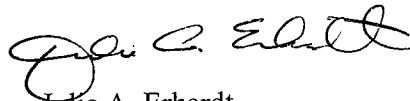
Do you agree with the Board's assessment? (Paragraphs BC103–BC107) Why or why not?

We agree with the Board's assessment.

* * * *

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Julie A. Erhardt

Chairman

IOSCO Standing Committee No. 1