OICV-IOSCO

Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valore

September 28, 2004

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

Re: D9 Comment Letter

Dear IFRIC Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (the Committee or SC1) thanks you for the opportunity to comment on Draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions (*D9). IOSCO is committed to promoting the integrity of international markets through promotion of reliable high quality accounting standards, including rigorous application and enforcement.[1] Members of SC1 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 SC1 and are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions.

We support the IFRIC's objective to provide guidance for the employee benefit plans within the scope of D9, and we also agree with the decision that such plans are defined benefit plans and therefore should be addressed using the defined benefit plan guidance of IAS 19. As you will see from our response to the Invitation to Comment and additional detailed comments below, we have several suggested points of clarification and encourage the IFRIC to reconsider its views on select portions of the guidance.

Response to Invitation to Comment

The draft Interpretation set out, inter alia, requirements for defined benefit plans when the benefit depends on future returns on assets, with or without an accompanying guarantee of a fixed return. In applying IAS 19 Employee Benefits to the benefits that depend on future returns on assets, the draft Interpretation requires specified changes in the plan liability to be treated as actuarial gains and losses. The entity's accounting policy on the recognition of actuarial gains and losses, therefore, applies. (Paragraph 9)

[1] See IOSCO website, www.iosco.org

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Do you agree with this approach, or do you believe that changes in the plan liability for benefits that depend on future asset returns should not be treated as actuarial gains and losses, and should therefore be recognized immediately?

We agree with this approach for plans that promise a return based on future plan assets. For plans that promise a return based on notional assets, we believe that the IFRIC needs to further explain how its conclusion is consistent with IAS 19.

The Board specifically concluded in IAS 19 that differences between expected and actual returns on plan assets should be treated as actuarial gains and losses because "the changes in the fair value of any plan assets are, in effect, the results of changing estimates by market participants and are, therefore, inextricably linked with changes in the present value of the obligation."[2] Given this language, we understand why the IFRIC has suggested in D9 that when a liability is based on plan assets, the difference between expected and actual gains or losses represents an actuarial gain or loss.

The IFRIC appears to have concluded in D9 that gains or losses on notional assets should be treated similar to gains or losses on plan assets but has not explained why they believe that notional assets are similar to plan assets and should therefore be afforded the same accounting treatment. We believe that there are distinct differences between plan assets and notional assets. Plan assets are used to fund benefit payments, whereas notional assets referenced in a benefit formula are used to determine an entity's obligation and are not used to fund benefit payments. IAS 19 recognizes a link between the benefit obligation and the assets that will fulfill that obligation. However, this link does not exist when only the measurement of the plan's benefit obligation, and not the plan's funding formula, is based on notional assets.

Accordingly, we encourage the IFRIC to redeliberate its conclusion. If the IFRIC concludes that changes in the fair value of notional assets are "inextricably linked" with changes in the present value of the obligation, then the basis for this conclusion should be included in D9. Otherwise, we think that the measurement of liabilities for these plans should be based on the actual notional account balances.

Additional Comments

Paragraph 1. We believe that the IFRIC should provide guidance on the application of D9 to employee benefit plans that provide a benefit based on a promised return on notional assets and may include features, such as a minimum benefit amount, determined using a traditional defined benefit formula (e.g., benefit payments based on final average salary). These plans, which are sometimes referred to as "cash balance" plans, are common in certain jurisdictions and appear to fall within the scope of D9. The application of paragraphs 12-17, which describe the accounting for plans with a combination of a guaranteed fixed return and a benefit that depends on future asset returns, initially seems to be the appropriate model to follow. However, the application of the requirements in those paragraphs for "cash balance" plans as described above is not clear. For example, the application of paragraphs 13-15 requires the defined benefit asset or liability arising from the traditional defined benefit formula to be compared to the defined benefit asset or liability arising from the promised return on notional assets. However, should a comparison be made instead between the gross benefit obligations under both benefit formulas, rather than the net liabilities?

Paragraph 7. We suggest that the IFRIC clarify how the guidance related to the "asset ceiling" in paragraph 58 of IAS 19 should be applied to plans within D9's scope. For

[2] Paragraph 47 of Basis for Conclusions.

example, should this guidance be applied initially to plan assets prior to the measurement of the liability in accordance with paragraph 6, or should it be applied solely to the net asset balance that may arise in accordance with paragraph 7?

In addition, we assume that a "net asset" arises only when the benefit formula is based on a future return on plan assets and not on notional assets. If our understanding is incorrect, then we suggest that the IFRIC clarify this point.

Paragraph 11. We suggest that the IFRIC clarify its intention regarding this requirement. Since paragraph 61 of IAS 19 requires presentation of a single net amount on the income statement, similar to what is being proposed here, it is not clear whether this guidance is a reiteration of paragraph 61 or whether it pertains to the disclosure requirements in paragraph 120 of IAS 19. In addition, we encourage the IFRIC to further explain its basis for the conclusion in paragraph BC18 that the breakout of the cost elements would be unduly complex.

Paragraph 15 and Illustration IE9. We believe that the IFRIC needs to clarify whether the additional plan liability recorded to the extent of the net defined benefit asset is actually offset against the net defined benefit asset in the financial statements. In the absence of offsetting, there is a net defined benefit asset and a separate liability for pension obligations on the financial statements. This separate presentation seems inconsistent with the "net asset/liability" approach required by IAS 19, paragraph 54. If the IFRIC believes that these amounts should be offset, then it should state this in the Interpretation. If offsetting is not intended, then the IFRIC should explain in D9 how this additional plan liability reconciles with the conclusions in IAS 19 where the Board rejected the recognition of an additional minimum liability.

Illustrations. IE11 illustrates the accounting for a change in the discount rate. While the accounting for changes in the discount rate is clearly within the scope of IAS 19, it is not clear why this illustrative example is specifically relevant to this interpretation. We suggest that the IFRIC consider removing this illustration if it is not specifically relevant to this Interpretation.

Paragraphs BC10 – 11. We believe the guidance provided in these paragraphs is relevant to a broader range of plans than those within the scope of D9. For example, the accounting for benefit plans with formulas that do not contain a promised future return but are expressed in terms of current salaries will need to consider this guidance when applying paragraphs 67 and 70 of IAS 19. While we believe IAS 19's guidance in these paragraphs is clear, some have suggested that it is important from an educational perspective to remind users of IAS 19 that the projection of future salaries and the use of the Projected Unit Credit Method are explicitly required, since this is divergent in certain circumstances from pension accounting standards where the use of a projected unit credit method is not permitted. We therefore suggest that the IFRIC consider broader dissemination of this guidance.

We appreciate the opportunity to comment on D9. If you have any questions, please do not hesitate to contact me at 202-942-4400.

Sincerely,

Scott A. Taub

Scott A. Taub
Chair, IOSCO Standing Committee No. 1