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Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
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Organização Internacional das Comissões de Valore

28 July 2004

Ann McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Ms. McGeachin:

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 provide our thoughts regarding the Exposure Draft of Proposed Amendments to IAS 19, ***Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures*** (the ED). IOSCO is committed to promoting the integrity of international markets through promotion of 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.

The Context of Our Comments

We observe that the main thrust of this ED is the addition of an optional method of accounting for actuarial gains and losses associated with Post Employment Benefit Obligations (PEBOs). Specifically, this method would require that those using it recognize actuarial gains and losses, in the period in which they occur, as an adjustment of stockholder equity in the statement of recognized income and expense. The Board has indicated that the basis of its decision to permit this optional method of accounting was its desire to accommodate what it perceived as a more transparent, though less than ideal, accounting practice "pending further developments on the presentation of profit or loss and other items of recognized income and expense."[2]

[1] See IOSCO website, www.iosco.org
[2] Paragraph BC10.

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Despite the fact that, as indicated in our response to Question 3, some members of SC1 had strong reservations regarding this proposal, SC1 has decided not to object to the contents of this ED. However, we do wish to communicate two broader concerns that we have identified as a result of the issuance of this ED.

Our first concern relates not only to this ED, but in retrospect, also applies to the issuance of another proposed "interim" standard, ED6 – Exploration for and Evaluation of Mineral Resources. Both EDs contain "optional" methods of accounting for certain activities.[3] Members of SC1 are concerned that the Board's proposal to permit optional methods of accounting in each of these instances (a) dilutes comparability of financial statements across entities and (b) runs counter to one of the Boards stated goals in performing the Improvements Project, which was to "…to reduce or eliminate alternatives, redundancies and conflicts within existing Standards…"

It is stated in the "Comparability" section of the Framework that "Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position" (paragraph 39). Additionally, paragraph 41 states that "The need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards." In each ED, the Board has justified the addition of such options on the basis that the ED is an "interim" or "practical" solution. We disagree with the implication that concerns regarding diminished comparability may be overcome by the expectation that a proposed change to the accounting literature will be temporary in nature. Rather, it is our belief that the introduction of optional methods of accounting should be limited to those instances in which the Board believes that the benefits associated with adding such options clearly outweigh concerns regarding the diminished comparability that will ensue from them. Thus, we believe that it would be helpful if the Board included a discussion of these considerations in the Basis for Conclusions of this, as well as future, EDs.

Our second concern relates to the frequency with which the Board has used interim proposals/standards. Indeed, the issuance of this ED, similar to the issuance of ED 6, seems to raise an expectation that a comprehensive project on the related subject will follow. We are concerned that this expectation may in effect be viewed as the Board setting its long-term agenda via the issuance of short-term standards. We find this particularly troubling due to the fact that:

- The Board's near-term agenda is already quite crowded, and we are unsure as to how long these "interim" standards will in fact be in place; and
- The addition of the option proposed in this ED may, in fact, inhibit the Board's future consideration in a comprehensive project on PEBOs, as the Board may not feel it can reasonably prohibit a treatment it had so recently added to the literature.

[3] ED 6 affords entities the option of using a newly defined *cash generating unit for exploration and evaluation assets* for purposes of assessing whether such assets are other than temporarily impaired.

Comments to Specific Questions Asked by the Board

The remainder of this letter responds to the questions raised in the invitation to comment. The response to question three contains some concerns that were shared by many, (but not all) members of SC1. For many of these members, the concerns expressed may have caused them to object to the provisions of this ED if it were not intended to be an "interim" solution. In such instances, the lack of consensus regarding these concerns will be clearly identified.

Question 1 – Initial recognition of actuarial gains and losses
IAS 19 requires actuarial gains and losses to be recognized 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 recognize actuarial gains and losses as they occur, outside profit or loss, in a statement of recognized income or expense. Do you agree with the addition of this option? If not, why not?

Please see our response to Question 3.

Question 2 – Initial recognition of the effect of the limit on the amount of a surplus that can be recognized as an asset
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 recognize actuarial gains and losses as they occur, outside profit or loss in a statement of recognized income and expense, should also recognize the effect of the asset ceiling outside profit or loss in the same way, i.e., in a statement of recognized income and expense. Do you agree with the proposal? If not, why not?

Please see our response to Question 3.

Question 3 – Subsequent recognition of actuarial gains and losses
The Exposure Draft proposes that, when actuarial gains and losses are recognized outside of profit or loss in a statement of recognized income and expense, they should not be recognized 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?

SC1 believes that it would be preferable for actuarial gains and losses to be accounted for by a single generally accepted accounting method. We recognize that in order to do so, it will be necessary for the IASB to undertake a comprehensive review of accounting for PEBOs.

Many, but not all, members of SC1 expressed concerns regarding the Board's proposal to permit the recognition of actuarial gains and losses as they occur, outside profit or loss, in a statement of recognized income or expense. These members of SC1 believe that users of financial statements focus primarily on the reported net income of an entity and do not fully comprehend the relevance of Comprehensive Income. Because the impact of actuarial gains and losses are an important measure of changes in the entity's obligations, these SC1 members believe that such gains and losses should, at some point, be reflected in the statement of profit or loss under any allowed method of accounting for PEBOs. Thus, these members believe that recycling through the statement of profit or loss should be required for changes initially recognized outside of that statement.

These individuals also believe that in order to ensure that the accounting for PEBOs reflects a user's understanding of the distinctions between each component of an entity's financial statements, it would be preferable for the Board to complete its Reporting Comprehensive Income project prior to the Board's development of a model for accounting for actuarial gains and losses.

On the contrary, other members of SC1 concur with the Board's belief that immediate, transparent recognition of actuarial gains and losses arising in the current period provides "better information than non-recognition of an arbitrary amount of that current best estimate" (paragraph BC7). These individuals also believe that the addition of this option may provide an incentive for entities to switch to a method of accounting that they believe will provide users with the current PEBO of the reporting entity.

Question 4 – Recognition within retained earnings
The Exposure Draft also proposes that, when actuarial gains and losses are recognized outside of profit or loss in a statement of recognized income and expense, they should be recognized immediately within retained earnings, rather than recognized 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?

Please see our response to Question 3.

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

Our understanding of the proposals within the ED is that they would not result in any public company being able to apply the multi-employer plan provisions of IAS 19 in the financial statements that they prepare for the public. Assuming that our understanding of the provisions is correct, we agree with the proposals for the reasons discussed in the ED.

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 costs 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?

We note that the expected return disclosures required by paragraphs 120(i) and 120(m)i appear to be duplicative. We believe, however, that the Board's intention in requiring each type of disclosure is to provide users of financial statements with complementary, rather than duplicative information. Specifically, in order to truly understand the nature of an entity's PEBO, we believe that it is imperative that users understand the composition of an entity's plan assets, and the expected return assumptions for each subclass of those assets. To this effect, we recommend that the Board consider including a comment in the Basis for Conclusions that identifies and acknowledges the interrelatedness of these required disclosures.

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 the 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.

It is our understanding that SFAS 132 requires the disclosures noted above because the FASB determined, largely in response to user concerns, that the information provided by the disclosures was useful to investors. Therefore, we believe that the Board should provide a basis for its decision to exclude these specific disclosures from the ED. Additionally, since another national accounting standards setter (the FASB) has recently determined that these disclosures are useful to investors, we suggest that the Board, at a minimum, consider encouraging the disclosures in the amended Standard. Furthermore, if the Board believes that some, or all, of these disclosures are currently required under another IFRS, then the Board should specifically reference those IFRS to clearly indicate that this information should be disclosed in the financial statements.

We appreciate the opportunity to comment on the ED. 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