The Corporate Reporting Users' Forum

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International Accounting Standards Board
30 Cannon Street
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Dear Anne

Amendments to IAS 19 Employee Benefits

The Corporate Reporting Users' Forum (CRUF) welcomes the opportunity to comment on the Discussion Paper, *Preliminary Views on Amendments to IAS 19 Employee Benefits*. Our response is set out below.

We welcome the IASB's project to review pension accounting. While we believe that aspects of the limited-scope project described in the Discussion Paper may bring some significant improvements, we encourage the IASB to undertake the more comprehensive review of post-employment benefit accounting described in paragraphs 1.11 and 1.12 as soon as possible. The CRUF supports the approach suggested in the recent EFRAG paper, *The Financial Reporting of Pensions* – namely, a fundamental re-think of pensions reporting.

We support the view that entities should recognise all changes in the value of the plan assets and in the defined benefit obligation in the financial statements in the period in which they occur. The "corridor" method causes confusion and additional work for users of accounts, and we believe its abolition will simplify and improve pension accounting.

We also believe that the IASB is right to reconsider the presentation of components of defined benefit costs. The CRUF believes that only two of the suggested presentation methods are worth further consideration. Some CRUF members favour the inclusion of all changes in the defined benefit obligation and in the value of plan assets in profit or loss, although we think sufficient disaggregation of the separate elements of the gains and losses would be important. Other CRUF members favour the Approach 3 described, in which interest income is calculated using market yields on high quality corporate bonds;

this would have the effect of recognising in profit or loss a notional interest charge or income on the net pension deficit or surplus.

We do not support the proposals creating the new category of "contribution-based promises" as part of this initial project. In our view, these proposals are too ambitious for such a limited-scope project and would be better considered as part of a fundamental review of accounting for post-employment benefits. In particular, CRUF members in Germany are concerned that the new category would cover the majority of pension benefit plans in some countries. We also believe that the proposals would result in very different accounting for schemes offering quite similar benefits, which would reduce comparability.

Finally, we welcome the Board's commitment to review the disclosure requirements for all post-employment benefit promises comprehensively when it develops an exposure draft. As the significant improvements of a fundamental pension accounting review are apparently many years away, we believe that improved disclosure could reduce the detrimental impact of the current flawed accounting. In particular, the CRUF would encourage greater disclosure of the sensitivity of values to changes in underlying assumptions.

Answers to specific questions

Question 1 - Scope of the project

Given the objective of the IASB project to address specific issues in a limited time frame, are there additional issues which you think should be addressed by the Board as part of this project? If so, why do you regard these issues as a matter of priority?

We would like this project to address disclosure issues. See answer to question 14.

We also note that the more comprehensive review of post-employment benefit accounting described in paragraphs 1.11 and 1.12 is urgently required. This phase 1 project should be kept to a very limited scope in order to proceed to the phase 2 project as quickly as possible. In our view it should be a high priority on the Board's agenda.

Question 2 – Recognition and presentation of defined benefit promises

Are there factors that the Board has not considered in arriving at its preliminary views? If so, what are these factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

The Board's preliminary view that entities should not divide the return on assets into an expected return and an actuarial gain or loss would affect reported net income. The recognition of all pension costs in profit or loss would be likely to result in greater incidence and diversity of non-GAAP earnings measures. Some CRUF members favour an alternative presentation for this reason. However, we agree with the Board's preliminary view that the current recognition of the expected return on pension assets in profit or loss is unsatisfactory, and should be reconsidered.

Question 3

(a) Which approach to the presentation of changes in defined benefit costs provides the most useful information to users of financial statements? Why?

We believe users will particularly benefit from adequate disaggregation of pension costs and clarity about where the pension costs have been recognised in comprehensive income. For example, at present users are frequently unable to distinguish between changes in pension liabilities arising from variations in discount rates and those arising from revision of mortality assumptions, as these are combined as "actuarial gains or losses".

(b) In assessing the usefulness of information to users, what importance do you attach to each of the following factors, and why:

> *(i) presentation of some components of defined benefit cost in other comprehensive income; and*
> *(ii) disaggregation of information about fair value?*

Some CRUF members favour excluding some components of defined benefit cost from profit or loss, in order to arrive at an underlying earnings number which excludes volatility in pension asset returns. These members therefore favour Approach 3 described, in which interest income is calculated using market yields on high quality corporate bonds. Other CRUF members would prefer that all components are included in profit or loss, leaving users to determine an alternative earnings figure if they wish, although we think sufficient disaggregation of the separate elements of the gains and losses would be important.

(c) What would be the difficulties in applying each of the presentation approaches?

For users, Approach 3 using an interest income calculated from corporate bond yields would be simplest, as it is likely that most users would not make any pension adjustment to the earnings figure. Any other approach would probably require some adjustment if users wish to calculate an "underlying" earnings figure. Approach 2 could confuse some users, by excluding the pension interest cost from profit or loss, which is inconsistent with other accounting standards.

Question 4

(a) How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?

We believe that users would benefit if the Board would specify which elements of pension cost should be classified as operating items and which should be classified as financial income or expense. Specifically, we believe that the costs of service (as described in the Discussion Paper, ie including all service costs and changes in service costs caused by changes in assumptions other than the discount rate) should be reported as operating costs. All other pension income or costs should be excluded from the operating category. At present there is considerable diversity in practice, and companies do not always clearly disclose the line items in which pension costs are included (although this breaches the requirement in IAS 19 paragraph 120A(g)).

(b) Please explain any alternative approach to presentation that provides more useful information to users of financial statements. In what way does your approach provide more useful information to users of financial statements?

See above.

Question 5 - Definition of contribution-based promises

Do you agree that the Board has identified the appropriate promises to be addressed in the scope of this project? If not, which promises should be included or excluded from the scope of the project, and why?

We do not agree the Board has identified the appropriate promises to be addressed in this project and we are concerned by the potential implications of this proposal. As noted in the Discussion Paper, this definition of contribution-based promises includes many promises for which the measurement requirements of IAS 19 are not particularly difficult to apply. This is a major and wide-reaching change which is inappropriate for a limited-scope project. We believe that this pension project should either address a much more limited number of plans, for which the current IAS 19 approach is very difficult to apply, or should not introduce the new category at all. We also believe that the proposals could result in very different accounting for pension plans offering economically similar benefits, which may reduce comparability and influence corporate decisions on pension benefits.

Question 6

Would many promises be reclassified from defined benefit to contribution-based promises under the Board's proposals? What are the practical difficulties, if any, facing entities affected by these proposals?

We believe that the answer to this will vary by territory. CRUF members in Germany, for example, have raised concerns that the new category would cover the majority of pension benefit plans in some countries.

Question 7 – No significant change for accounting for DC schemes

Do the proposals achieve that goal? If not, why not?

No comment.

Question 8 – Recognition issues related to contribution-based promises

Do you have any comments on those preliminary views? If so, what are they?

See question 5.

Question 9 – Measurement of contribution-based promises

(a) Are there alternative measurement approaches that better meet the measurement objectives described in this paper? Please describe the approaches and explain how they better meet the measurement objectives.

We are concerned that the conclusions reached in Phase 1 may pre-judge some important questions which should be addressed in a wider review of pension accounting (the proposed Phase 2). In particular, the proposals to incorporate the effect of risk, including credit risk, are a significant change, and need to be considered in much greater detail. We would therefore support the proposals for measurement only for a much narrower definition of contribution-based promises, with a clear Board commitment that the measurement of fair value would be re-considered fully in Phase 2.

(b) To what extent should the effect of risk be included as a component of the measurement approach at this stage of the Board's post-employment benefit promises project? How should this be done?

See above.

Question 10

(a) Do you agree that the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase? If not, why?

No comment.

What are the practical difficulties, if any, of measuring the liability for a contribution-based promise during the payout phase at fair value assuming the terms of the benefit promise do not change?

See questions 5 and 9.

Question 11 – Disaggregation, presentation and disclosure of contribution-based promises

(a) What level of disaggregation of information about changes in the liability for contribution-based promises is useful to users of financial statements? Why?

It is essential that changes in the liability are split between the service cost and other value changes. Companies should be required to disclose where these components have been allocated within the income statement.

(b) Do you agree that it is difficult to disaggregate changes in the contribution-based promise liability into components similar to those required for defined benefit promises? If not, why not?

This will depend on the type of promise. For example, some contribution-based promises may be affected by changes in mortality assumptions; it would be quite possible to disaggregate this effect.

Question 12

Should changes in the liability for contribution-based promises:

> *(a) be presented in profit or loss, along with all changes in the value of any plan assets; or*
> *(b) mirror the presentation of changes in the liability for defined benefit promises (see Chapter 3)?*

Why?

As noted earlier, some CRUF members believe that all changes in Defined Benefit liabilities should be presented in profit or loss, and therefore they would favour (a).

If the contribution-based promise category was defined much more narrowly (as we would prefer) then we believe that it would be appropriate for all changes to be presented in profit or loss.

Question 13 – Benefit promises with 'higher of' option

(a*) What are the practical difficulties, if any, in identifying and measuring the 'higher of' option that an entity recognises separately from a host defined benefit promise?*
(b) Do you have any other comments on the proposals for benefit promises with a 'higher of' option? If so, what are they?

No comment.

Question 14 – Other matters

What disclosures should the Board consider as part of that review?

We welcome the Board's commitment to review the disclosure requirements for all post-employment benefit promises comprehensively when it develops an exposure draft. We supported the ASB's Reporting Statement (*Retirement Benefits: Disclosures*) issued in January 2007, and would like to see many of these recommended disclosures incorporated into IAS 19. It would also be helpful if companies were required to disclose any deferred tax asset or liability associated with the post-retirement benefit liability or asset (IAS 12 disclosures are commonly insufficiently detailed, and this is an important part of our analysis for many companies).

We would also like the Board to consider using a similar approach to that used under IFRS 7.

Question 15

Do you have any other comments on this paper? If so what are they?

Please see our initial comments.

The Corporate Reporting Users' Forum

About the Corporate Reporting Users' Forum (CRUF)

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB. CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. The chairmanship of the CRUF rotates at each meeting and different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

CRUF participants take part in discussions and joint representations as individuals, not as representatives of their employer organisations. The participants in the Forum that have specifically endorsed this response are listed below.

Yours sincerely

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