Date

22 October 2008

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Sir David Tweedie
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Dear Sir David,

Re: IASB Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) is pleased to submit its comments on the IASB Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits* (the "DP").

2. FEE as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting its views on the EFRAG Draft Comment Letter through the FEE comment letter to EFRAG dated 7 October 2008. We have also considered EFRAG's final submission to the IASB of 17 October 2008.

3. Like EFRAG, we agree that IAS 19 should be improved to reduce some of the existing inconsistencies that arise in its application and limit the issues encountered when implementing it. However, we believe that the review of IAS 19 may take a number of years to complete. Accordingly, the IASB should focus its proposals on the most pressing and widespread issues in the context of a short-term project on IAS 19.

4. Overall, we share the key messages from EFRAG:

   - We are concerned that the proposals to redefine employee benefit schemes into contribution-based promises (a new notion) and defined benefits promises, as well as the introduction of a new measurement basis, go beyond the changes that should be introduced via a short-term project. Furthermore, we are unsure to understand exactly what the measurement approach is for this new nature of promises. On this basis, we then favour no changes be introduced in a short-term project which may need to be reconsidered as part of a longer-term project;

   - In assessing the approaches to the presentation of defined benefit promises, we agree with EFRAG that consideration should be given to what the long-term view should be and the direction taken by other relevant IASB projects;

   - While we support the Board's proposal to eliminate the option to defer recognition of all the changes in benefit assets and obligations and recognise that Approach 1 appears to be the most appropriate from a conceptual point of view, this cannot be addressed in isolation from the current IASB project on the presentation of the performance statement. We encourage the IASB to focus on completing the Financial Statement Presentation project first to conclude on the long-term approach to the presentation of gains and losses in the performance statement (or statements);

- Therefore, we support keeping the SORIE method, at least as a short-term measure until the outcome of the IASB project on the presentation of the performance statement is known. We see no real benefits in adopting at this stage new approaches such as Approach 2 and Approach 3, since we do not view them as significant or valuable improvements to the SORIE method;

- We agree with the IASB's preliminary views that the value of the plan assets and post employment obligations should be recognised in full and immediately on the balance sheet, abolishing the existing option to use the corridor approach. We believe that the IASB should proceed now with the removal of the corridor approach, irrespective of its decisions on the other elements of its proposals.

5. Our responses to the questions in the Invitation to comment Section of the DP are contained in the Appendix to this letter.

We would be pleased to discuss any aspect of this letter that you may wish to raise with us.

Yours sincerely,

Jacques Potdevin
President

Ref: ACC/JP/LF-SR

Appendix: Responses to the questions in the Invitation to comment - IASB Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*

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?

Issues being dealt with in this project

6. We agree with EFRAG and the IASB that accounting for post-employment benefits is a very complex area and is in need of a fundamental review. In our Comment Letter to EFRAG and the ASB on the PAAinE - Discussion Paper on the Financial Reporting of Pensions (dated 1 August 2008), we welcome the fundamental reconsideration of accounting for pensions and provide some input to the debate on the critical conceptual arguments for the various approaches presented.

7. Like EFRAG, we consider that the review of IAS 19 may take a number of years to complete. A solution could be to focus in the short-term on some of the aspects of the proposals. We are not aware of any major issues in respect of the definition of defined contribution promises and defined benefit promises that require immediate attention. Accordingly, we believe that the IASB should only address measurement issues relating to some promises that include a guaranty feature. In this context we believe that the IASB should proceed now with the removal of the corridor, irrespective of its decisions on the other elements of its proposals.

8. We agree with the IASB's preliminary views that the value of the plan assets and post employment obligations should be recognised in full and immediately on the balance sheet, abolishing the existing option to use the corridor approach. Conceptually, we can see no grounds for deferring the recognition of part of an asset or liability. Therefore, we believe that actuarial gains and losses should be recognised immediately.

Issues not being dealt with in this project

9. We do not think there are any other areas that the Board should have addressed in this short-term project.

Question 2 – Recognition and presentation of defined benefit promises

Chapter 2 describes the Board's deliberations on the recognition of defined benefit promises. The Board's preliminary views are summarised in paragraphs PV2–PV4.
Are there factors that the Board has not considered in arriving at its preliminary views? If so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

Recognising the value of the plan assets and post-employment benefit obligation in full

10. In principle, we support the limitation of options in accounting standards, in particular when the existence of options is not justified by a strong case identifying practical difficulties which would arise should these not be available. We agree that the range of options currently available under the existing IAS 19 makes comparability between entities difficult.

11. Like EFRAG, we cannot find any conceptual basis for the deferral or smoothing of actuarial gains and losses and accordingly we agree with the IASB's preliminary views that the value of the plan assets and post employment obligations should be recognised in full and immediately on the balance sheet, abolishing the existing option to use the corridor approach.

Appendix: Responses to the questions in the Invitation to comment - IASB Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*

Dividing the return on assets into an expected return and an actuarial gain or loss

12. We broadly agree with EFRAG's comments in paragraph 7 in the Appendix of its Final Comment Letter and the IASB's preliminary view that the return on assets should not be divided between the expected return and an actuarial gain or loss. In addition, we support disclosure of information about the expected returns and the funding of the pensions in the notes to the financial statements.

13. However, we believe, like EFRAG, that keeping the current IAS 19 approach for the presentation of actuarial gains and losses, with the expected return on assets presented in the profit and loss, may be the most appropriate short-term solution, at least until the outcome of the IASB project on the presentation of the performance statement is known. See also our response to Question 3.

Recognition of unvested past service cost

14. We are not aware of any major issues arising with the recognition of unvested past service costs. Furthermore, we are of the opinion that the proposed change was not strongly motivated. However, we could accept an amendment requiring that the unvested past service costs should be recognised immediately and in full.

Question 3 - Recognition and presentation of defined benefit promises

Chapter 3 sets out alternative approaches for the presentation of components of the defined benefit cost and analyses the relative merits of each approach. These approaches are summarised in paragraph PV5.

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

(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?

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

15. In assessing the approaches to the presentation of defined benefit promises, we agree with EFRAG that consideration should be given to what the long-term view should be and the direction taken by other relevant IASB projects. Like EFRAG, we think that any proposals to change IAS 19 cannot be isolated from the current IASB project on the presentation of the performance statement. We encourage the IASB to focus on completing the Financial Statement Presentation project first to conclude on the long-term approach to the presentation of gains and losses in the performance statement (or statements).

16. We support application of Approach 1 on the basis that this may be the most appropriate long-term solution, in particular if there will only be one single statement for reporting financial performance. However, we would appreciate the implementation which reduces the volatility in earnings, for example the use of a long-term average interest rate for the calculation of the defined benefit obligation.

Appendix: Responses to the questions in the Invitation to comment - IASB Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*

Presenting all actuarial gains and losses in OCI

17. In addition, we support keeping the SORIE method, at least as a short-term measure until the outcome of the IASB project on the presentation of the performance statement is known. We see no real benefits in adopting at this stage new approaches such as Approach 2 and Approach 3, since we do not view them as significant or valuable improvements to the SORIE method. We are unaware of practical reasons to change the existing requirements. Furthermore, keeping the current treatment, would avoid unnecessary changes in the short-term on practical grounds.

18. Accordingly, we share EFRAG's comments in paragraph 15 in the Appendix of its Final Comment Letter that the current IAS 19 approach should be considered as an intermediate step.

Presenting all changes in value of the obligation and assets in profit or loss (ie Approach 1)

19. If the assumption is that in the long-term there will only be one single statement for reporting financial performance, we would agree with having Approach 1 adopted (reporting all changes in profit or loss). However, in the short-term, we see no justification to abolish the SORIE method. Therefore, we support application of Approach 1 on the basis that this may be the most appropriate long-term solution. We support keeping the SORIE method, at least as a short-term measure until the outcome of the IASB project on the presentation of the performance statement is known. See also our comments in paragraph 16 of this letter.

Approaches 2 and 3

20. We see no real benefits in adopting at this stage new approaches such as Approach 2 and Approach 3; we do not view them as important improvements to the SORIE method.

21. In particular, under Approach 2, entities would present interest costs in other comprehensive income. We do not think this is appropriate as interest costs are included in and represent a significant part of the costs of employee benefits, so in our opinion, should be presented in the profit or loss account.

22. Approach 3 is more complex than the others in that it requires estimating a "normal" income on plan assets which would be a mix of interest bearing, dividend depending on the mix composition of the plan assets.

Disaggregation and presentation

23. In principle, we think that having additional disclosures allowing users to better understand the components of a single figure aggregating all gains and losses can be more meaningful. So we have no major issues with EFRAG's proposals in paragraph 21 in the Appendix of its Final Comment Letter that as a minimum it would be useful to segregate the items that represent employment costs from interest income and from interest expense in appropriate parts of the statement of comprehensive income.

Question 4 - Recognition and presentation of defined benefit promises

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

(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?

24. Requiring more explanation in the disclosures presented would enable users to better understand the information provided. See our response to Question 3.

25. Under Approach 3, we believe that it would be useful to require the disclosure of the expected return of assets in the notes, if the IASB decides to require entities to report actual return on assets.

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?

26. We agree with EFRAG that the proposals to redefine employee benefit schemes into contribution-based promises (a new notion) and defined benefits promises go beyond the changes that should be introduced via a short-term project. The changes proposed could have far reaching consequences.

27. We also agree that the introduction of this new concept could lead to inconsistencies between plans which are not so different in practice and that are appropriately dealt with under the current requirements.

Question 6 - Definition of contribution-based promises

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

28. We note that in some European countries, it appears that many plans accounted for currently as defined benefit promises would be reclassified as contribution-based promises under the Board's proposals (for example in Germany only a minority of promises are typical final salary promises and this proposal would have a significant impact upon newly awarded promises). This could result in practical problems should there be a retrospective application of the proposed new categorisation.

29. It is acknowledged the trend, in several European countries, for employers to move from defined benefit schemes to defined contribution schemes will continue regardless of any revised requirements of IAS 19.

30. In addition, practical difficulties may arise given the current practice inexperience of valuing any type of pension promise on the proposed basis.

Question 7 - Definition of contribution-based promises

Contribution-based promises, as defined in this paper, include promises that IAS 19 classifies as defined contribution plans. The Board does not intend this proposal to lead to significant changes in the accounting for most promises that meet the definition of defined contribution plans in IAS 19.

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

31. We do not agree with the proposed definition of contribution-based promises, because it is counter-intuitive and misleading to postulate a defined-contribution promise that includes an element of risk. We note that this accords with the EFRAG view. We are not aware of any major issues with the existing distinction between defined contribution and defined benefit plans. Conceptually, we believe that the existing distinction is appropriate and should be retained.

Appendix: Responses to the questions in the Invitation to comment - IASB Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*

Question 8 - Recognition issues related to contribution-based promises

Chapter 6 discusses recognition issues related to contribution-based promises. The Board's preliminary views are summarised in paragraphs PV9–PV11. Do you have any comments on those preliminary views? If so, what are they?

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

32. We broadly agree with the Board's preliminary views on the recognition issues related to contribution-based promises that are summarised in PV9 to PV11. However, we consider that attribution in line with the benefit formula may give a different cost recognition pattern for some promises compared to the current treatment when accounted for as defined benefit promises and we do not believe this is justified in the context of a short-term project.

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.

(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?

33. We agree with EFRAG that the question of appropriate measurement attribute should be pursued only as part of the long-term project in order to allow full consideration of all aspects of the accounting for benefits (as detailed in paragraph 39 in the Appendix of the EFRAG Final Comment Letter).

34. Regarding the inclusion of the effect of risk as a component of the measurement approach, we agree with EFRAG that the DP is not clear whether it is the credit risk of the promise or the credit risk of the company that is being addressed in the Board's proposals.

Question 10 - Measurement of contribution-based promises

(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?

35. As acknowledged by the Board, the liability can be valued in a different way depending on how it was accumulated. This will inevitably lead to an inconsistency:

    (a) Either the contribution-based promise liability must be remeasured when it ceases to accumulate, so that it is measured consistently with defined benefit promises but with a significant discontinuity in its own measurement; or

    (b) Two identical liabilities may be measured differently when the benefit has ceased to accumulate, merely because the type of promise is different.

36. Neither approach is satisfactory. The inconsistencies noted result from the introduction of a new measurement basis applicable only to some of the current defined benefit schemes and we have expressed our concern with these proposed changes in a short-term project.

(b) 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?

37. Like EFRAG, we have not identified practical difficulties in measuring the liability during the payout phase, which do not exit during the accumulation phase.

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?

(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?

38. The level of disaggregation should be sufficient for users to understand the volatility in profit or loss. See our response to Question 5.

Question 12 - Disaggregation, presentation and disclosure of contribution-based promises

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?

39. We agree with EFRAG that option (a) would be simpler to implement but that option (b) would lead to greater consistency in the presentation of defined-benefit and contribution-based promises currently treated as defined-benefit promises. On the basis that we see significant benefits in achieving greater consistency in this respect, our preference is to have the information presented in accordance with (b).

40. In addition, we believe that principles underlying contribution-based promises and defined benefit promises are the same, hence their presentation should be the same too.

Question 13 - Benefit promises with a 'higher of' option

(a) What are the practical difficulties, if any, in identifying and measuring the 'higher of' option that an entity recognizes 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?

41. In principle, we agree with EFRAG that it is unclear how you would value the "higher of" option. In practice, we do not believe that these plans are widespread and suggest that this issue be addressed through implementation guidance.

Appendix: Responses to the questions in the Invitation to comment - IASB Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*

Question 14 – Other matters

The Board intends to review the disclosures required about post-employment benefit promises in a later stage of this project. As part of that review, the Board intends to consider best practice disclosures in various jurisdictions. For example, explicit requirements to disclose information about the mortality rates used to measure postemployment benefit liabilities could be introduced to allow users to understand the inherent uncertainties affecting the measurement of those liabilities.

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

42. We favour having better and more relevant information rather than more disclosures. This would enable users to better understand the information reported in the balance sheet.

43. Where these have a significant impact upon the measurement of the liability, relevant disclosures may include demographic assumptions – for instance estimates of proportion of employees who will take early retirement, the proportion entitled to/availing of partner's pension, and/or those who will opt for a lump sum on retirement.

Question 15 – Other matters

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

44. We do not have any further comments at this stage.