Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
GB – LONDON EC4M 6XH

E-mail: commentletters@ifrs.org

30 September 2010

Ref.: ACC/HvD/TS/ID

Dear Sir David,

Re: FEE Comments on IASB Exposure Draft Defined Benefit Plans Proposed Amendments to IAS 19

(1) FEE (the Federation of European Accountants) is pleased to comment on the IASB Exposure Draft Defined Benefit Plans Proposed Amendments to IAS 19 (the "ED").

(2) As a founding organisation of EFRAG we have also contributed to the EFRAG consultation process by submitting on 2 September 2010 the FEE comments on EFRAG's Draft Comment Letter of 21 May 2010. EFRAG has issued its final comment letter on 15 September 2010. We have considered the EFRAG Final Comment Letter in our response and made reference to the EFRAG comments where relevant.

(3) We agree with EFRAG that the value of the plan assets and the defined benefit obligations should be recognised in full and immediately on the balance sheet.

(4) Except for the elimination of the corridor approach, we do not believe that other significant changes in the measurement of defined benefit arrangement should be introduced without a comprehensive review of pension accounting. In our opinion, many of the changes proposed in this ED do not respond to a pressing need for revision in the application of IAS 19.

(5) We regret that the IASB has decided to defer a fundamental review of IAS 19 and focused on certain amendments at this stage. We think this is unfortunate, as pension arrangements have moved on from the initial inception of IAS 19. New types of pension arrangements of a hybrid nature do not fit in the binary DB/DC classification.

(6) Our comments on the proposed changes other than the elimination of the corridor approach should be read in the context of an assumption that the IASB has decided to continue with this project.

(7) We disagree with the proposed requirement of applying a high quality corporate bond rate to determine the return on plan assets. We acknowledge that there are concerns in practice about the reliability of using the expected rate of return. However, we are not convinced that using a conventional rate of return would provide more relevant information than the entity's own expectation about the expected return on assets. We would prefer that the IASB postpone such changes in order to undertake an overall review of IAS 19.

(8) In the meantime, we would favour maintaining the expected rate of return and addressing the concerns expressed by providing additional guidance on how to establish a reasonable rate of return, requirement for back testing or improved disclosures rather than by proposing significant changes in principles at short notice.

(9) We agree with EFRAG that the unvested past service cost should be recognised in full and immediately in the period of the plan amendment since this is consistent with the principles in IAS 19.

(10) Conceptually, we also agree with the proposed disaggregation of the defined benefit costs into three components (service costs, finance costs and remeasurements). However, we do not support the proposed presentation of these components, more particularly the presentation of the remeasurement component in the other comprehensive income only. As a transitional solution, we recommend that the IASB retain both presentation options currently available in IAS 19 (i.e. either recognition in profit or loss or in other comprehensive income, without recycling) until a fundamental debate on performance reporting has taken place.

(11) Like EFRAG, we agree with the proposed disclosure objectives. However, we are not convinced that this principle based approach has been consistently applied in the various paragraphs of the ED dealing with new disclosure requirements. Therefore, we recommend that IASB reassess the usefulness and relevance of the information provided by the various additional disclosures.

Our responses to the questions in the Invitation to comment of ED are contained in the Appendix to this letter.

For further information on this letter, please contact Tibor Siska, Project Manager, at +32 2 285 40 74 or via email at tibor.siska@fee.be from the FEE Secretariat.

Yours sincerely,

Hans van Damme

President

Appendix

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 immediately when they occur. Do you agree? Why or why not?

(12) We agree with the proposal that the value of the plan assets and defined benefit obligations should be recognised in full and immediately on the balance sheet.

(13) Conceptually, we do not believe that the deferral of the recognition of part of the changes in the benefit obligation and plan assets can be justified. In addition, we support the limitation of options in the accounting standards when their use results in impairment of comparability between entities. On this basis, we agree with the removal of the corridor approach.

Question 2

Should entities recognise unvested past service cost when the related plan amendment occurs? Why or why not?

(14) We agree with EFRAG that the unvested past service cost should be recognised in full and immediately in the period of the plan amendment. This change is justified since it eliminates an existing inconsistency within IAS 19.

(15) Like EFRAG, we note that this accounting treatment is inconsistent with IFRS 2 *Share Based Payment* which requires that the change in the benefit be recognised over the vesting period of the related awards. However, the internal consistency in IAS 19 is considered more important than the consistency of IAS 19 with IFRS 2.

Question 3

Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? Why or why not?

(16) Like EFRAG, we agree with the proposed disaggregation of the defined benefit costs. Different components of the defined benefit costs have different characteristics and risk profiles. Therefore, it is appropriate that they are presented distinctly. We believe that this proposal will improve comparability in how expense and income related to defined benefit plans are presented by various entities.

(17) However, as further discussed in our response to Question 6, we have concerns about the presentation of the proposed components.

Question 4

Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? Why or why not?

(18) We agree with EFRAG that changes in the demographic assumptions should not be presented as part of the service cost. Changes in these assumptions should be treated like other actuarial assumptions and be included in the “remeasurement” component.

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?

(19) We disagree with the proposed changes to the rate to be used to calculate the return on plan assets. We believe that the short-term project should be limited to issues that require immediate attention and that it should not introduce changes that will need to be reconsidered as part of a more fundamental review of IAS 19.

(20) Similar to EFRAG, we are not convinced that using the rate on high quality corporate bonds to calculate the return on plan assets presented as part of finance cost is appropriate. We agree with the IASB that the estimation of the expected rate of return requires management judgement, but do not believe that this necessarily results in an unreliable estimate. We acknowledge that there are currently concerns about the reliability of this estimate in practice but these should be addressed by the IASB providing additional guidance on how to establish a reasonable rate of return, requirement for back testing of the rate used in the current period and by improved disclosure.

(21) In our view, the rate of return on high quality corporate bonds would not result in a faithful presentation of the return that is reasonably expected from the plan assets. The return on high quality corporate bonds is irrelevant to the actual return on fund assets except where the assets themselves are high quality corporate bonds. We are not convinced that the proposed conventional rate of return would provide more relevant information than the entity’s own expectation about the return of actual plan assets. Thus, we do not think that this part of the proposal is an improvement on the current IAS 19.

(22) As noted in our response to the ED on Credit Risk in Liability Measurement, we question the inclusion of a risk adjustment in the measurement of IAS 19 liabilities. Under the going concern assumption, employees expect that their remuneration will be paid and do not typically demand higher or lower salaries based on the credit worthiness of an entity (except in rare circumstances). We believe that this aspect of IAS 19 will need to be reconsidered as part of the more fundamental review of IAS 19.

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?

Why or why not? Why or why not?

(23) Conceptually, we agree with EFRAG that the service cost component should be presented as an operating item and the net interest component as part of a finance cost, both in profit or loss.

(24) However, we think that there is a need for a fundamental debate on underlying issues such as how to present changes in defined benefit obligations and in the fair value of plan assets in the performance statement as well as what the other comprehensive income means, including recycling. IAS 1 *Presentation of Financial Statements* does not provide clear principles on identifying items to be recognised in other comprehensive income or in profit or loss. We believe that these presentation issues should be addressed as part of the current IASB project on the presentation of the performance before they are addressed in IAS 19. We recommend that IASB retain both presentation options currently available in IAS 19 (i.e. either recognition in profit or loss or in other comprehensive income, without recycling) until this fundamental debate has taken place.

Question 7

a. Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and therefore presented in the remeasurement component? 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?

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? Why or why not?

(25) We agree with EFRAG that curtailments and other non routine settlements should be treated in the same way as plan amendments, with gains and losses presented in profit or loss. We also agree that the routine settlements, i.e. settlement permitted under the terms of the benefit plans, should be accounted for as remeasurements.

(26) Like EFRAG, we think that there is a need for more clarification on the dividing line between “routine” and “non routine” settlements to avoid misinterpretations of these terms and consequential inconsistent application of the standard.

(27) We agree with the need to provide disclosure on plan amendments, settlements and curtailments. However, we note that paragraph 125C(iv) refers to “any plan amendments”. We believe that it should refer to “*significant* plan amendments”.

(28) In addition, it seems that the proposals that both past service cost and gains and losses arising from curtailments should be presented in profit or loss whereas the effect of non-routine settlement should be recognised in OCI are inconsistent with the view expressed in paragraph BC43, stating that only items that provide less useful information about the amount and timing of future cash flows should be presented in other comprehensive income because there is no substantial difference between all these elements based on predictive value. This inconsistency further emphasis the need for a conceptual debate on what should be presented in the other comprehensive income.

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 affects the amount, timing and variability of the entity's future cash flows.

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

(29) We agree with the proposed objectives. We think that they support a principle based approach and provide an appropriate basis on which to develop sufficient and relevant information about the defined benefit plans. However, we are not convinced that this principle based approach has been consistently applied in various paragraphs of ED dealing with new disclosure requirements. Therefore, we recommend that the IASB reassess the usefulness and relevance of the information provided by the various additional disclosures.

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?

(30) We agree with EFRAG that the Standard should not contain an exhaustive list of mandatory disclosures. It would be more useful to provide examples which could assist the preparer to understand how the disclosure objectives can be met. Such an approach would assist in reducing the prescriptive disclosure requirements to those elements necessary to ensure quality and comparability of the information provided. As result of the field testing, all of these need to be determined by the IASB on the basis of a cost and benefit analysis.

(31) We think that the disclosure should also provide information about how the plan assets are managed even if the entity is not directly involved in asset management.

Characteristics of its defined benefit plans (125C)

(32) We agree with proposed disclosure.

Other information about amounts recognised in the financial statements (125F, 125G(b) and 125H)

(33) We agree that an entity should disaggregate the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets. However, we find that the proposed disclosure in paragraph 125F is too prescriptive. We consider that the exact format of the disclosure should be left to the judgement of the entity based on the characteristics of its plan assets.

(34) Paragraph 125G(b) requires disclosure of the processes used to determine demographic actuarial assumptions. We do not understand the purpose of this information. We suggest that the objectives sought in requiring the information be more clearly stated otherwise there is a risk that it will result in boilerplate information.

(35) Paragraph 125H requires entities to disclose the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth. We are of the opinion that the cost to produce this disclosure outweighs the usefulness of the information provided.

Amount, timing and uncertainty of future cash flows (125I(ii) and 125J)

(36) Paragraphs 125I(ii) and 125J. These requirements seem to be excessively detailed. We recommend that the IASB decide on the relevance of this disclosure requirement on the basis of a cost-benefit analysis after field testing has been done.

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?

(37) We agree that some additional disclosures about participation in multi-employer plans are useful such as 33A (a)-(d) but others are considered too extensive and prescriptive. For instance, 33A (f)(iii) requires the entity to provide information about the expected overall contribution to the plan for the next five annual reporting periods assuming a stable workforce, constant salary level and other assumptions for future salary levels that are not necessarily relevant and useful information to the users. We recommend that IASB reassess these disclosure requirements in the context of the overall disclosure objectives.

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? Why or why not?

(38) Similar to our previous comments on question 10, we think that the IASB should reassess the usefulness and relevance of these additional requirements in the context of overall disclosure objectives.

Question 12
Do you have any other comments about the proposed disclosure requirements?

(39) We do not have additional comments.

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.
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.
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.
d. The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets.
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.
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.
g. Risk sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation.
Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why? Do you agree? Why or why not? What alternative do you propose?

IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

(40) We agree with EFRAG that the requirements established by IFRC 14 and the definition of the "minimum funding requirement" should be incorporated in the Standard. It is also recommended that the Standard include application guidance and illustrative examples about the minimum funding requirements in the Basis for Conclusion.

Tax payable

(41) Although we do not agree with the proposals in the ED related to the recognition of return on plan assets, as noted in our response to Question 5, but the treatment proposed with respect to tax payable is consistent with those proposals. Accordingly, should the IASB go ahead with its proposals on return on plan assets, we agree with EFRAG that it would be reasonable to include taxes that are related to the assets as part of the return on the assets.

Cost related to the management of the plan assets

(42) We consider that the treatment proposed in the ED with respect to administrative costs of managing plan assets is consistent with the ED proposals related to the return on plan assets. Accordingly, should the IASB go ahead with its proposals on return on plan assets, we agree that it would be reasonable to include administrative costs that are related to managing the assets as part of the return on the assets.

(43) We agree with EFRAG that it is difficult in practice to separate the cost of managing the plan assets from other costs.

(44) Additionally, we believe that there should be guidance around “administration costs” in the final document in order to distinguish them from other operational costs. This is because the inclusion of certain administration costs can increase the present value of the defined benefit obligation significantly.

Expected future salary increases

(45) We agree with EFRAG that expected salary increases should be considered in determining the best estimate of the defined benefit obligation.

Mortality assumptions

(46) We agree with EFRAG that the best estimate of the liability includes the effect of the estimates of the future change in mortality rates.

Risk sharing and conditional indexation

(47) We do not believe that the proposed amendments in the ED in respect of shared funding (ED paragraph 64A) and shared risk (ED paragraph 85(c)) are clear enough to achieve the objective stated in BC 95&96. The proposed text appears to require an entity to identify future employee contributions relating to current and past service costs separately from other contributions and to only take into account for measurement purposes those future employee contributions relating to current and past services. As a result, under the text as drafted most of future premium contributions by employees would effectively be ignored for IAS 19 measurement purposes. In our view, this would not appropriately recognise the relationship mandated by law, between the employer, the pension fund and the participants. We would appreciate if the IASB could consider and address this issue by clarifying the proposed requirements or at least explain why future funding by employees should be ignored.

Question 14
IAS 19 requires that entities account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. In the Board’s view, many plans that meet the definition of a defined benefit multi-employer plan would also meet the condition for defined contribution accounting.
Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?

(48) We agree with EFRAG that the best allocation basis is the internal agreement among all the employers that participate in the multi-employer plan. If a reliable allocation can be made, the defined benefit accounting method provides a more relevant measurement basis.

(49) We also note that in certain countries, such as in the Netherlands, there are difficulties in practice in determining whether the exemption as described in paragraph 32 (b) for entities participating in defined benefit multi-employer applies. Paragraph BC 75(b) does not provide either sufficient resolution for this application issue and nor add further clarification to the already existing accounting requirements. We believe that the IASB should provide further guidance in order to help entity assessing whether there is a “consistent and reliable” basis of allocation.

Question 15
Do you agree that entities should apply the changes resulting from the proposed amendments retrospectively? Why or why not?

(50) In principle, we think that changes should be applied retrospectively. However, we are unable to express a definitive view on this issue before field testing has been performed.

(51) In order to encourage early application, the IASB should consider allowing early adopters to omit comparative information in the year of adoption, as it was done with respect to the application of IFRS 7 *Financial Instruments: Disclosures*.

Question 16
In the Board’s assessment the main benefits of the proposals are:
Reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.
Eliminating some presentation options currently allowed by IAS 19, thus improving comparability.
Clarifying requirements that have resulted in diverse practices.
Improving information about the risks arising from an entity’s involvement in defined benefit plans.
Improved comparability between entities
Improved disclosures about defined benefit plans.
Do you agree with the Board’s assessment? Why or why not?
In the Board’s assessment 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 in applying the existing version of IAS 19.
Do you agree with the Board’s assessment? Why or why not?

(52) We are not convinced with the benefits summarised by the IASB in question 18. In particular, the cost of producing all disclosures required by the ED should not be underestimated. To be able to reliably measure the costs against the benefits of the proposed disclosures there is a need for field testing.

(53) Except for the elimination of the corridor approach, we do not think that the changes proposed by the ED represent significant improvements over the current IAS 19.

Question 17
Do you have any other comments on the proposals?

Distinction between short- and long-term employee benefits

(54) We note that the definition of short-term and long-term employee benefits has been amended by adding a new text of 'the entity expects to become' to paragraph (7). With this change, it seems (based on additional information contained in the BC) that these two categories are distinguished based on the entity's estimation of the expected date of the benefits utilisation rather than the date of the contractual entitlement to these benefits. However, it remains unclear how to classify benefits with multiple utilisation points: should those benefits be split or treated as a whole as short term or long term benefits. We consequently suggest that IASB further clarifies these classification requirements and provide additional application guidance in order to avoid inconsistent application of the standard.

Presentation of actuarial gain and loss on other long-term employee benefits

(55) The IASB decided to combine the post-employment benefits and other-long term employee benefits into one category under the name of long-term employee benefit. As a result of this, actuarial gains and losses on other long-term employee benefits and particularly for many bonus arrangements would be recognised in other comprehensive income, rather than in profit or loss as currently required. As stated previously in this letter, this proposed change should be deferred until a fundamental review of the pension accounting has been completed.