

**Adoption of IAS 19R
by Europe's Premier Listed Companies:
Corridor Approach Versus Full Recognition**

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Presentation structure

- I. Research Objectives
- II. Background
- III. Sample and Findings for 2005
- IV. Updated findings for 2006 and 2007

Research objectives in the full report for 2005

1. Prevalence of defined benefit plans at European blue chips
2. Distribution of pension accounting method selected
 - (1) corridor approach
 - (2) full recognition through P&L
 - (3) full recognition through SORIE
3. Rationale and impact of applying IAS 19 option
4. "As-if-recognition impact" on balance sheet and P&L for corridor companies
5. Transparency of disclosed pension assumptions
6. 'Best practice' disclosures

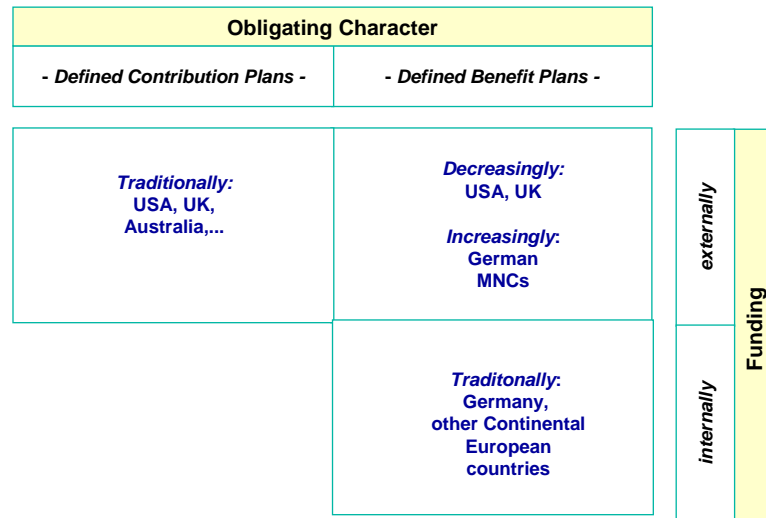
Slide 3

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Slide 4

Corporate Pension Schemes



Slide 5

Accounting for defined benefit plans

... complex

... long-term liabilities based on several assumptions

demographic assumptions

- rates of employee turnover
- disability and early retirement
- mortality

financial assumptions

- future salary / benefit levels
- discount rate
- expected return on plan assets

... differences between parameter assumptions and realised values, and changes in assumptions, lead to "actuarial gains and losses"

Slide 6

Sensitivity analysis of pension assumptions Bayer 2005

Total	Pension obligations		Other post-employment benefit obligations	
	0.5 percentage point increase	0.5 percentage point decrease	0.5 percentage point increase	0.5 percentage point decrease
€ million				
Change in discount rate				
Benefit obligation 2005	(1,022)	1,155	(59)	47
Benefit expense 2006	12	(13)	3	(4)
Change in projected future remuneration increases				
Benefit obligation 2005	131	(120)	0	0
Benefit expense 2006	15	(14)	0	0
Change in projected future benefit increases				
Benefit obligation 2005	620	(549)	–	–
Benefit expense 2006	38	(34)	–	–
Change in expected return on plan assets				
Benefit expense 2006	(40)	40	(2)	2

Bayer, Annual Report 2005, p. 156

Slide 7

Views on corridor approach

Supporters

Immediate recognition not ... valid valuation basis for (long-term) net liabilities
 ... uncertainties raise reliability issue
 ... variations from period to period: not relevant, erratic, difficult to understand, misleading
 ... merits of corridor: only long-term trends are reflected in balance sheet

(UNICE 2004)

Opponents

accounting fiction
 nasty little smoothing mechanism
 confusing, misleading
 fair value of assets and of pension obligation = economic reality = most relevant

(CSFB 2005)

Slide 8

IASB view

Deferred recognition and 'corridor' approaches complex, artificial and difficult to understand

Immediate recognition approach represents faithfully entity's financial position - Generates income and expense items that are not arbitrary and that have information content

IAS 19 (rev. 2004): Basis for Conclusion:

Slide 9

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Slide 10

Sample selection

Companies included in indices: 549

Deleted:

Crosslisted -22

US-GAAP -32

Annual Report not in English - 5

Other reasons: - 9

Total: 481

Companies without defined-benefit plans: - 75

Companies with defined-benefit plans: 406

Companies with material defined-benefit plans defined as 2% of total assets: 265

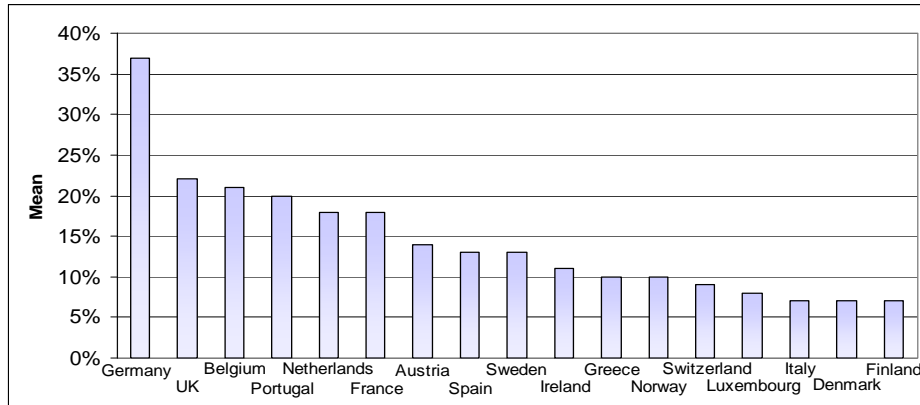
Slide 11

1. Prevalence and materiality of pension accounting issues across Europe in 2005

Funded status of Plan in millions of euro				
Country	Index	Mean	Median	Standard Deviation
UK	FTSE 100	894.8	299.5	1,413.3
Ireland	ISEQ 20	199.2	58.9	334.4
UK and Ireland subtotal		761.9	223.8	1,306.7
Netherlands	AEX	560.7	304.0	574.4
Greece	Athex 20	116.1	51.2	151.4
Austria	ATX	461.4	123.3	984.0
Belgium	BEL 20	407.5	188.7	457.6
France	CAC 40	1,853.3	818.1	3,253.0
Germany	DAX 30	3,712.5	1,322.7	4,286.9
Spain	IBEX 35	4,322.9	278.0	7,032.2
Luxembourg	LuxX	620.4	620.4	825.3
Italy	MIB-30	467.0	341.4	454.3
Norway	OBX	122.9	92.8	112.8
Denmark	OMXC 20	82.5	46.6	239.9
Finland	OMXH 25	110.2	44.4	237.8
Sweden	OMXS 30	364.6	245.4	387.7
Portugal	PSI-20	617.3	309.2	795.8
Switzerland	SMI	389.9	141.2	546.1
All others subtotal		990.8	257.6	2,360.0
Total		913.9	247.8	2,067.1

Slide 12

1. Funding deficits of defined-benefit plans divided by equity in 2005



	Ger	UK	Belg	Port	Neth	Fr	Aust	Spain	Swed	Ire	Gre	Nor	Switz	Lux	Italy	Den	Fin
n	18	64	9	6	14	27	12	3	14	17	3	9	16	2	7	10	15
Mean	37%	22%	21%	20%	18%	18%	14%	13%	13%	11%	10%	10%	9%	8%	7%	7%	7%

Slide 13

2. IAS 19 accounting methods in 2005

- 136 corridor approach
- 7 full recognition through P&L
- 122 full recognition through SORIE
 - 90% of UK and 76% of Irish companies use full recognition compared to 29% in other countries
 - use of option widespread in Portugal (67%), Denmark (64%), Germany (55%)

Slide 14

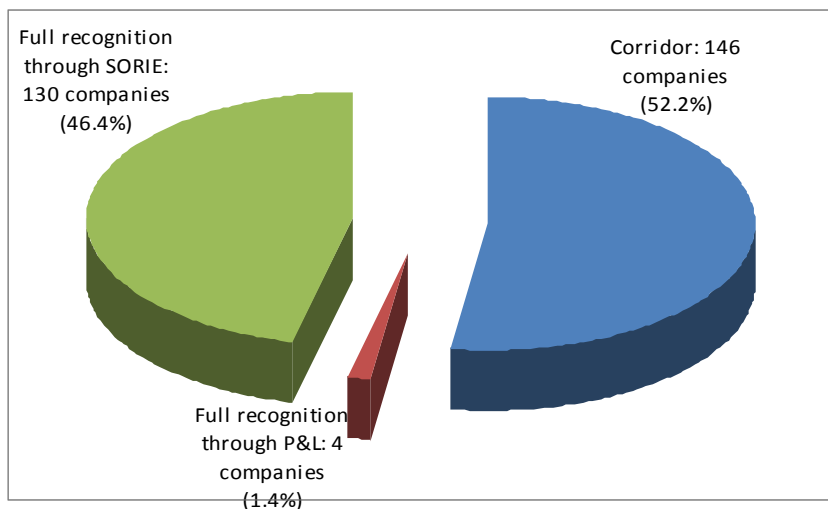
2. IAS 19 accounting method in 2005

Country	Index	Total number of companies	Corridor	Full recognition through P&L	Full recognition through SORIE
UK	FTSE 100	72	7	1	64
Ireland	ISEQ 20	17	4	0	13
UK and Ireland Subtotal		89	11	1	77****
Netherlands	AEX	15	11****	0	4
Greece	Athex 20	3	2	1	0
Austria	ATX	13	8****	1	4
Belgium	BEL 20	9	6****	0	3
France	CAC 40	28	23****	0	5
Germany	DAX 30	18	8	0	10****
Spain	IBEX 35	3	2	0	1
Luxembourg	LuxX	2	1	1	0
Italy	MIB-30	7	4****	2	1
Norway	OBX	9	8****	0	1
Denmark	OMXC 20	11	3	1	7****
Finland	OMXH 25	21	21****	0	0
Sweden	OMXS 30	14	12****	0	2
Portugal	PSI-20	6	2	0	4****
Switzerland	SMI	17	14****	0	3
Other subtotal		176	125	6	45
Total		265	136	7	122

Slide 15

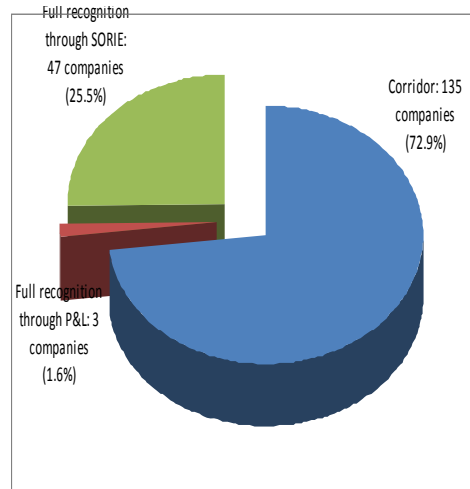
IV. Movement toward full recognition during 2006 & 2007

All countries – 2005



Slide 16

Movement toward full recognition 2005 – Excluding UK/Ireland



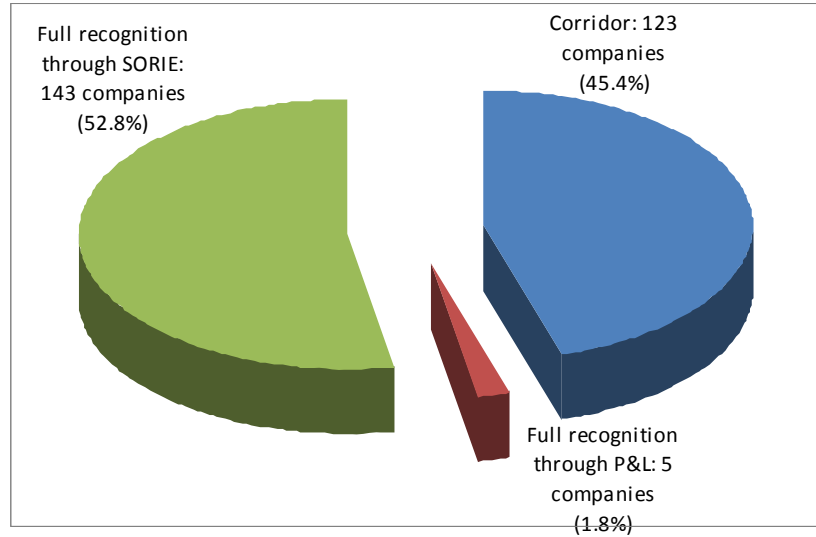
Slide 17

IAS 19 Method Across Country 2005

Index	Country	Corridor	Full recognition through P&L	Full recognition through SORIE
ATX	Austria	10	1	5
BEL 20	Belgium	7	0	3
FTSE 100	UK*	7	1	70
OMXC 20	Denmark*	4	0	7
OMXH 25	Finland	22	0	0
CAC 40	France	23	0	5
DAX 30	Germany*	7	0	11
Athex 20	Greece	2	1	0
ISEQ 20	Ireland*	4	0	13
MIB-30	Italy	6	0	1
LuxX	Luxembourg	1	1	0
AEX	Netherlands	12	0	4
OBX	Norway	8	0	1
PSI-20	Portugal*	2	0	4
IBEX 35	Spain	3	0	1
OMXS 30	Sweden	14	0	3
SMI	Switzerland	14	0	2
	Total	146	4	130

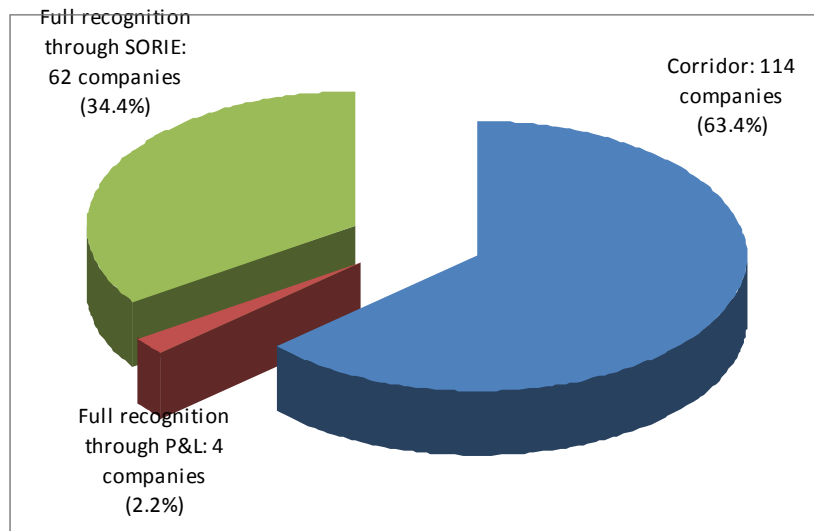
Slide 18

Movement toward full recognition during 2006 & 2007 All countries – 2006



Slide 19

Movement toward full recognition during 2006 & 2007– 2006 – Excluding UK/Ireland



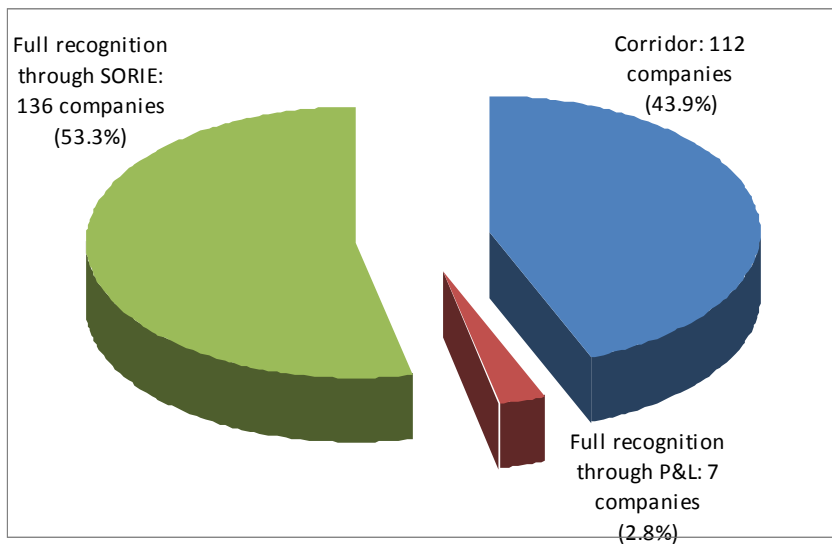
Slide 20

IAS 19 Method across country 2006 Excluding UK/Ireland

Index	Country	Corridor	Full recognition through P&L	Full recognition through SORIE
ATX	Austria	8	1	7
BEL 20	Belgium	7	0	3
OMXC 20	Denmark	4	0	7
OMXH 25	Finland	21	0	1
CAC 40	France	19	0	10
DAX 30	Germany	5	0	13
Athex 20	Greece	2	1	0
MIB-30	Italy	6	0	1
LuxX	Luxembourg	1	1	0
AEX	Netherlands	10	0	5
OBX	Norway	5	0	1
PSI-20	Portugal	2	0	4
IBEX 35	Spain	2	0	1
OMXS 30	Sweden	11	1	5
SMI	Switzerland	11	0	4
	Total	114	4	62

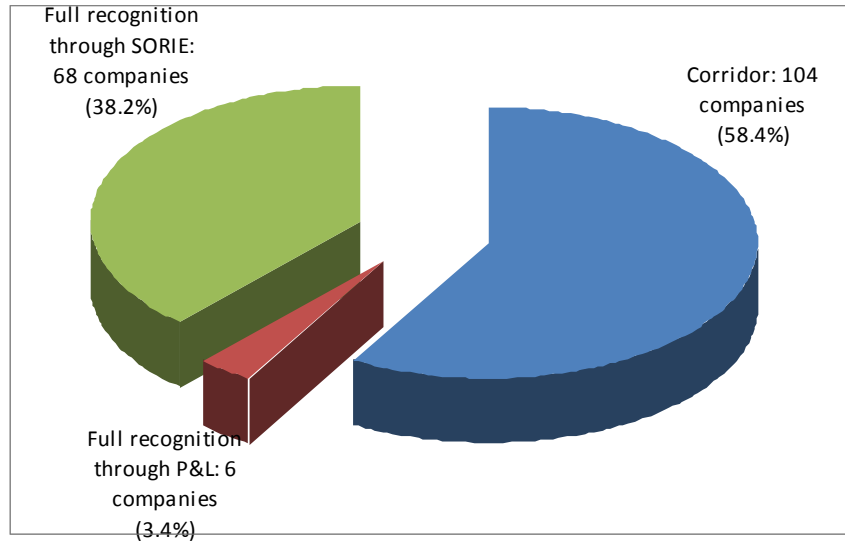
Slide 21

Movement toward full recognition during 2006 & 2007 All countries – 2007



Slide 22

Movement toward full recognition during 2006 & 2007 All countries – 2007 – Excluding UK/Ireland



Slide 23

IAS 19 Method Across Country Excluding UK/Ireland

Index	Country	Corridor	Full recognition through P&L	Full recognition through SORIE
ATX	Austria	8	1	7
BEL 20	Belgium	5	1	4
OMXC 20	Denmark	3	0	7
OMXH 25	Finland	21	0	2
CAC 40	France	14	0	14
DAX 30	Germany	5	0	13
Athex 20	Greece	2	1	0
MIB-30	Italy	5	0	2
LuxX	Luxembourg	1	0	0
AEX	Netherlands	8	2	3
OBX	Norway	7	0	1
PSI-20	Portugal	2	0	4
IBEX 35	Spain	2	0	2
OMXS 30	Sweden	10	1	5
SMI	Switzerland	11	0	4
	Total	104	6	68

Slide 24

Why the change? Austria

- **RHI**
 - “In order to **improve transparency**, RHI Group elected to use the new option provided by IASB and change the method used to record the provisions for pension and termination benefits. Change was made 12/31/06.”
- **Zumtobel Group AG**
 - **Initial application of the amended IAS 19 “Employee Benefits“**
 - An option was added to IAS 19 in December 2004, ... In order **to improve transparency**, this option was applied to the provisions for pensions and severance compensation for the first time as of 30 April 2007

Slide 25

Why the change? Germany

- **Deutsche Telekom AG**
- From its consolidated financial statements as of December 31, 2006, Deutsche Telekom recognizes actuarial gains and losses in the period in which they occur outside profit or loss in retained earnings including carryforwards. Deutsche Telekom adjusted comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. Deutsche Telekom believes that fully recognizing actuarial gains and losses when they occur **results in a better presentation of the financial position in the balance sheet, since hidden reserves and liabilities are realized and the financial statements thus provide more relevant information.** This change in accounting policy results in an increase of the liability for the pension liability in the amount of the unrecognized actuarial gains and losses in the balance sheet.

Slide 26

Why the change? Ireland

- **Independent News & Media PLC**
- ... the election to recognise all actuarial gains and losses immediately **more fully reflects the net asset position** of the Group

Slide 27

Why the change? Netherlands

- Vedior NV
- Due to the fact that the **defined benefit plan is closed and has no more active participants**, actuarial gains and losses that arise in calculating the Group's obligation are recognised immediately in the income statement.

Slide 28

Why the change? Switzerland

- **Roche Holding AG**
- The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results **since 1990**. The International Accounting Standards Board (IASB) has published a number of new and revised standards and interpretations that first became effective in 2006, which the Group implemented from 1 January 2006. The only significant changes that relate to the Roche Group financial statements arise from IAS 19(revised) 'Employee benefits', in particular with respect to defined benefit pension and other post-employment benefits. These changes have been implemented effective 1 January 2006 and the comparative 2005 results have been restated for these changes from those previously published.
- **Defined benefit plans – Actuarial gains and losses:** All actuarial gains and losses are now recognised immediately and recorded directly to equity. Previously actuarial gains and losses below a certain threshold were not recognised and those above this threshold were only recognised progressively. As a result of this change the Group's **consolidated balance sheet more accurately represents the funding status of the various plans.**

Slide 29

Why the change? France

- **Alcatel SA**
- On January 1, 2007, Alcatel-Lucent adopted (with retrospective effect as of January 1, 2005) the option offered by Amendment to IAS 19
- Management believes that the change will **more fairly present the fair value of assets and liabilities related to retiree benefits in the company's balance sheet and eliminate significant volatility in its results of operations for certain plans**, the participants of which are all, or almost all, fully eligible to receive benefits.

Slide 30

Why the change?

- A few companies did not mention a change in method occurred
- Several described the change in method and the impact but provided no rationale

Slide 31

Interest/discount rate trends 2005 - 2007

- For companies reporting a specific rate, an upward trend for each country
- Netherlands 4.35 / 4.66 / 5.44
- Austria 4.45 / 4.54 / 4.94
- Belgium 4.63 / 4.80 / 5.40
- France 4.40 / 4.55 / 5.27
- Germany 4.24 / 4.44 / 5.39
- Italy 3.91 / 4.32 / 4.84

Slide 32

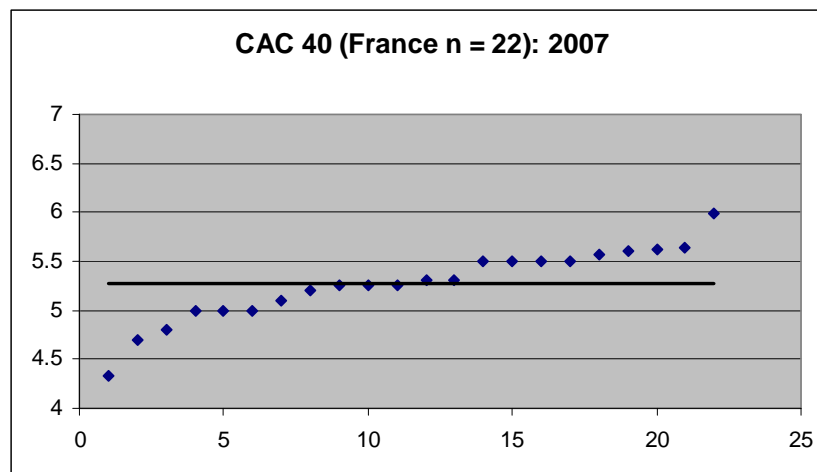
Interest/discount rate trends 2005 - 2007

- UK 4.89 / 5.20 / 6.00
- Ireland 4.45 / 4.89 / 5.57
- Norway 4.44 / 4.46 / 4.86
- Denmark 4.54 / 4.91 / 5.54
- Finland 4.48 / 4.52 / 5.03
- Sweden 4.26 / 4.41 / 4.92
- Portugal 4.55 / 4.71 / 5.22
- Switzerland 3.63 / 3.64 / 4.12

Slide 33

Interest/discount rate trends 2005 – 2007

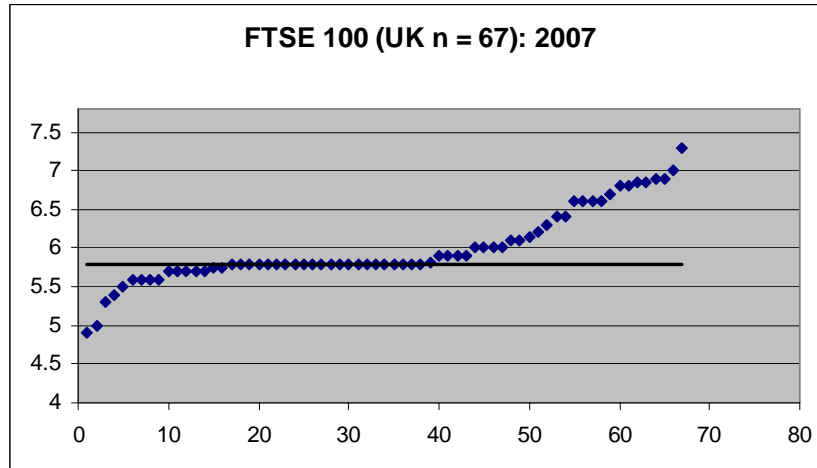
Mean 5.27; Standard deviation 0.37; Min 4.33, Median 5.28, Max 5.98



Slide 34

Interest/discount rate trends 2005 – 2007

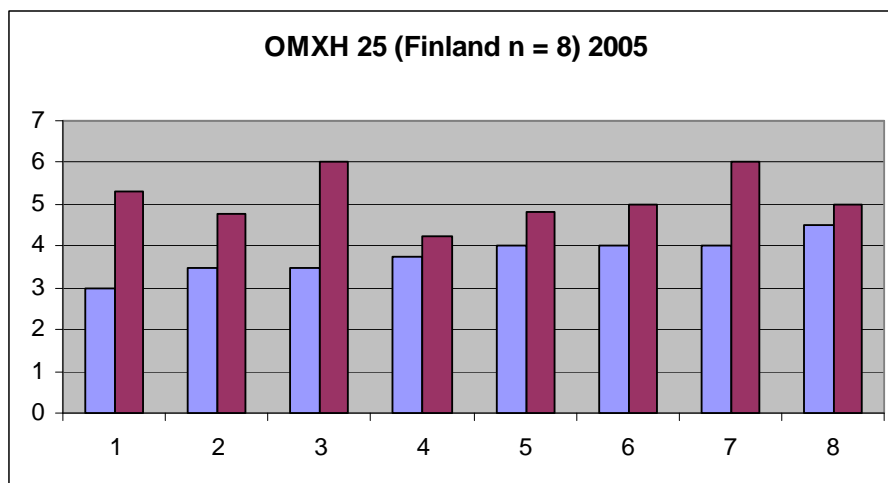
Mean 6.00; Standard deviation 0.48; Min 4.90, Median 5.80, Max 7.30



Slide 35

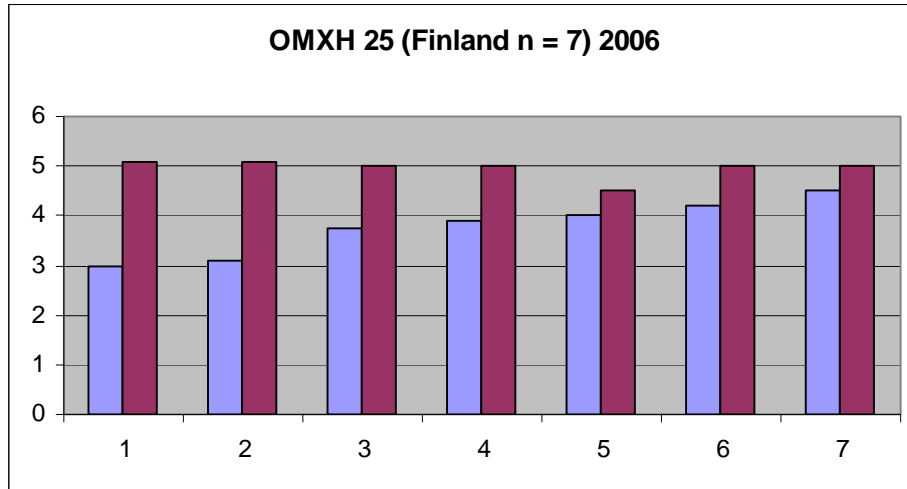
Interest/discount rate trends 2005 – 2007

Some companies continue to report ranges



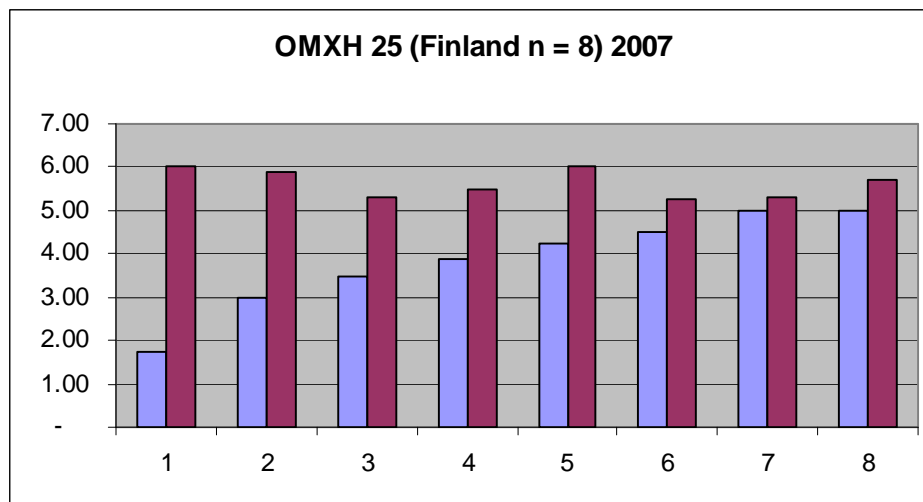
Slide 36

Interest/discount rate trends 2005 – 2007
Some companies continue to report ranges



Slide 37

Interest/discount rate trends 2005 – 2007
Some companies continue to report ranges



Slide 38