ASSOCIATION OF
aca
CONSULTING ACTUARIES
St Clement's House, 27-28 Clement's Lane, London EC4N 7AE

Tel: 020 3207 9380 Fax: 020 3207 9134 Email: acahelp@aca.org.uk Web: www.aca.org.uk

Date:	6 September 2010
Prepared for:	International Accounting Standards Board
Prepared by:	Association of Consulting Actuaries

Comments on Exposure Draft "Defined Benefit Plans - Proposed amendments to IAS 19"

Introduction

This paper is submitted on behalf of the Association of Consulting Actuaries. We appreciate the opportunity to respond to the exposure draft "Defined Benefit Plans (Proposed Amendments to IAS 19)"

About the ACA

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members are all qualified actuaries and all actuarial advice given by our members is subject the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes. The ACA is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

Key points

Our detailed responses to the questions raised by the Board are set out in the Appendix to this letter. Our key points are summarised below.

- We support the removal of the "corridor" option to defer recognition of gains and losses. Use of this option can lead to a balance sheet asset or liability completely unrepresentative of the underlying financial position of the employee benefit plan and can mislead users of the accounts.
- The removal of the expected return on plan assets (to be replaced with, effectively, the discount rate applied to plan assets) is a significant change from the current standard. We note that it removes one of the key areas of subjectivity in IAS 19 and so provides greater comparability between companies. It also removes the current advantage for companies of taking greater risk with employee benefit plan assets without recognition of the corresponding increase to risk.
- The proposed split of the pension cost seems reasonable. A key change is to treat settlements as remeasurements – effectively bringing IAS 19 into line with US GAAP by requiring measurement of the settlement liability but with AA-rated corporate bonds allowed as a proxy until the settlement cost is known. We believe there are downsides to this approach which we expand on in our response to question 7.
- The proposal to include an allowance in the defined benefit obligation for future administration expenses is theoretically sound. However, we believe it could lead to significant practical problems, both in calculation and in the magnitude of the impact.

- Our key concern is around the enhanced disclosure requirements. A number of the proposed additional disclosures are too wide, vague and onerous. This is particularly so of those which require disclosure of the wider legislative environment in each territory and these requirements could prove unworkable.

Signed on behalf of the Association of Consulting Actuaries

Simon Robinson FIA
Chairman
ACA Accounting Committee
+44 (0)20 7939 4958
simon.robinson@hewitt.com

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 when they occur. (Paragraphs 54, 61 and BC9-BC12) Do you agree? Why or why not?

We support the Board's proposal to remove the corridor option, on the grounds that the removal of options improves comparability between entities.

Further, use of the deferred recognition option currently within IAS 19 can result in perverse situations where, for example, the entity recognises an asset in respect of an employee benefit plan which is in deficit. Such situations reduce the credibility of IAS 19.

The immediate recognition option means that the balance sheet asset or liability more closely reflects the financial position of the employee benefit plan and is thus more transparent to users of the accounts.

Immediate recognition of changes in the defined benefit obligation and plan assets is also more consistent with US GAAP.

Question 2:

Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?

In general we do not have a strong view on treatment of unvested past service cost as past service cost in the UK almost always vests immediately.

However, we see no reason to change to requiring immediate recognition of unvested past service costs. If immediate recognition were required, companies could simply restructure the terms of the benefit change which led to the past service cost so that recognition would continue to be spread.

Further, requiring immediate recognition of an unvested past service cost is inconsistent with the attribution requirements of IAS 19 – illustrated by the examples to paragraph 70 of IAS 19. We do not see why an economically identical benefit should be attributed differently because it is considered a past service cost rather than a current service cost. If entitlement to a benefit is dependent on service over future periods, the value of that entitlement should be attributed uniformly to each of those future periods.

Question 3:

Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14-BC18) Why or why not?

We support the Board's proposal.

In our view, disaggregating the defined benefit cost provides helpful information to users of accounts.

Question 4:

Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19-BC28) Why or why not?

In our view, the service cost should exclude changes in the defined benefit obligation resulting from changes in demographic assumptions. We can see no reason to treat demographic assumptions differently from financial assumptions – both are an entity's best estimates of future experience which may need to be revised from time to time in light of new information.

Further, notwithstanding the wording of paragraph 73, some assumptions are not clearly either financial or demographic. For example, salary growth has both financial and demographic elements: financial to the extent that salary may be expected to increase broadly in line with GDP in each territory, and demographic to the extent that salary may be expected to increase due to promotional or seniority reasons.

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 and 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? (Paragraphs 7, 119B, 119C and BC23-BC32)

On balance, we support this approach. Intuitively, this proposal treats the deficit as a debt owed by the entity to the employee benefit plan and applies interest to this debt.

The proposal is simpler and less subjective than the current approach of deriving an expected return on assets based on the nature of plan assets held. The range of expected returns on assets assumed by different companies is greater than that for any other assumptions used which reduces comparability between companies.

This approach also removes the current situation where companies are rewarded in P&L for taking greater risk with employee benefit plan investments but with no adjustment for that additional risk. This is because investments with higher expected returns generally have higher volatility of returns.

However, we note that this net interest proposal still results in different treatment of assets held directly by a company (but which are perhaps notionally allocated to support an employee pension plan) with those held directly by an employee benefit plan. Further, effectively assuming that the rate of return on plan assets equals the discount rate will lead to a long-term bias in other comprehensive income as actual returns on plan assets either outstrip or understate the amount charged to P&L depending on the investment strategy of the benefit plan.

We also note that this approach results in divergence from the principles of section 715 of US GAAP.

With regard to the wording of paragraphs 119B and 119C, we urge the Board to clarify in the final changes to IAS 19 the extent to which the net defined liability (asset) needs to be remeasured during the accounting period to allow for material changes to the net liability (asset). Otherwise, there is likely to be material divergence in practice and lack of comparability between accounts. This is a larger issue than for the wording of the current paragraph 82 of IAS 19 due to the greater volatility of the net balance sheet compared with the defined benefit obligation.

For example, paragraph 119C could be read as meaning that plan assets should be continuously measured throughout the reporting period. This would be inconsistent with considering the defined benefit obligation based on assumptions at the start of the reporting period. It would cause considerable extra work, without any obvious benefit to users of accounts, if continuous measurement of IFRIC 14 restrictions is required.

Interim accounts typically remeasure the net balance sheet on a half-yearly or quarterly basis but the profit or loss is fixed using assumptions from the measurement at the start of the reporting period. For consistency with this, we suggest amending paragraph 119B so that “any material changes” should be clarified as “any material cashflows to and from the plan".

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 cost in profit or loss?

(c) Remeasurements in other comprehensive income?

(Paragraphs 119A and BC35-BC45) Why or why not?

We support this proposal. We believe it reflects the nature of the liabilities accrued and accruing in respect of long-term employee benefits.

Including unexpected changes in other comprehensive income is useful for users of financial statements as it reduces the volatility of the P&L charge which enhances year-to-year comparison of profitability.

Question 7:

(a) Do you agree that gains and losses on routine and non-routine settlements are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) 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? (Paragraphs 98A, 119A(a) and BC48)

(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? (Paragraphs 125C(c), 125E, BC49 and BC78) Why or why not?

Settlements

This proposal removes the distinction which currently exists between economically similar events – for example, the distinction currently made in the UK between "buy-ins" and "buy-outs". The current distinction would cease to exist as the impact of each would be recorded in OCI rather than the current practice of recording in OCI and P&L respectively.

Further, it removes any divergence in practice in allocation of certain events as routine or non-routine settlements – for example an "enhanced transfer value" exercise carried out by an entity compared with the exercise by individual members of UK pension plans of their right to a transfer value.

We note that, given the proposed recognition of settlements as remeasurements, IAS 19 appears to move towards the US approach of the defined benefit obligation as a proxy for the settlement cost until the true settlement cost is known.

However, treating settlements as remeasurements means that the potential change in the value of the liability as a result of the settlement is not recorded in P&L. For example, if accrued benefits are secured with an insurance company, the benefit is likely to be more secure than if it had remained the responsibility of the employer. A more secure benefit should have a higher value placed on it and this higher value is not just a revision to a previous estimate.

Further, plans which otherwise provide identical benefits would record different P&L charges depending on whether the sponsoring entity's expectation at point of accrual was that benefits would be bought-out at retirement or whether the sponsoring entity expected to pay benefits direct from the plan but subsequently chose to buy-out on retirement.

Curtailments

We support this proposal. In our view, the current distinction is quite arbitrary. Further, if the corridor option is removed, there is no difference in impact anyway.

However, we do note that it may not always be clear whether an event is a curtailment or an experience item. As an example, where a company requires significantly increased contributions from employees if they wish to continue to participate for future service, this may lead to a larger number of withdrawals from the plan than had previously been assumed. In that situation, it is not clear whether the significantly increased number of withdrawals would be a curtailment or an experience item.

Narrative change

We support this proposal. In our view, this will help users of accounts understand movements in pension liabilities. We also suggest that a narrative description is provided of other material factors which result in a change in the results – for example, both the impact of key assumption changes and key experience items.

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 affect the amount, timing and variability of the entity's future cash flows. (Paragraphs 125A and BC52-BC59) Are these objectives appropriate? Why or why not?

We agree that (a) and (b) are appropriate objectives. However, we are concerned that the objectives within (c) are unclear and this concern is mirrored in our answer to question 9 around the potentially onerous additional disclosure requirements.

Question 9:

To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:

(a) Information about risk, including sensitivity analyses (paragraphs 125I, BC60(a), BC62(a) and BC63-BC66);

(b) Information about the process used to determine the 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));

(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?

We do not believe the proposed new disclosure requirements are appropriate. Broadly, our concern is around the quantity and subjectivity required – many of the proposed disclosures are narrative rather than quantative and they are also very wide-ranging. They are likely to result in generic wording becoming standard in each territory, which then serves no useful purpose.

More specifically:

(a) 125I is appropriate, and many companies already provide disclosures which would comply with this due to the wider requirements of IAS 1.

(b) 125G(b) is appropriate, although we would recommend that both this and 125G(a) are amended to clarify that this is just a requirement for assumptions to which the results are most sensitive. This clarification is provided in BC60(d) but this does not appear to be carried through to 125G

(c) 125H is appropriate for the reasons specified in BC60(f). However, we note that there is no clarity on how to calculate the accumulated benefit obligation and this is likely to lead to divergence in practice similar to that for the accumulated benefit obligation as calculated for US GAAP. Clarification should be provided on whether the accumulated benefit obligation is equal to the termination liability, that calculated by assuming future salary increases are nil or some further measure.

(d) 125J is appropriate and, in our experience, entities which have implemented risk reduction strategies similar to those specified will already provide such disclosure.

(e) We do not believe 125K is appropriate. There are a large number of factors which could result in contributions differing from service cost and we believe a narrative discussion of such factors would be lengthy, technical and complex. Further, it is likely that standard wording would develop in each territory in an attempt to meet this requirement and such standard wording would not be helpful to users.

With regard to the other disclosure requirements:

- 125C(a)(ii) is unworkable. Not only are regulatory frameworks extremely complicated and dangerous to summarise in the notes to accounts, such frameworks will presumably be the same for all companies operating in each territory. Thus, it would be more appropriate for users of the accounts to familiarise themselves more generically with the requirements of each territory. We also suggest that the initial words, "the effect of" are deleted as it is not clear how it would be possible to comply.
- In our view, the requirements of 125C(a)(ii) would also be duplicated by the requirements of 125K.
- 125C(a)(iii) is not appropriate. This should not be required unless and until it also becomes a requirement to disclose in the accounts the terms of all material contracts with suppliers, customers, lenders, and powers that those counter-parties have under those contracts in all scenarios. Further, we wish to flag that disclosure of pension plan trustees' "responsibilities" is potentially quite different from pension plan trustees' "powers".
- We suggest that 125E(c) should also require disclosure of experience gains and losses.

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?

We suggest 33A(c) is either removed or moved to be part of (f) as this disclosure is not required for stand-alone defined benefit plans so is only of relevance if the entity accounts for the plan as if it were a defined contribution plan. That is, this information could be relevant in illustrating the likely proportion of a multi-employer plan's liabilities for which the reporting entity could be held responsible.

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? (Paragraphs 34B, 36, 38 and BC70) Why or why not?

It was not clear to us that there were any substantial changes to paragraphs 34B, 36 and 38. The changes shown appear to be simply changing the references.

To be consistent with the disclosure requirements for multi-employer plans, if accounting for the plan as if it were a defined contribution plan it might be useful to provide an indication of the number of employees for which the reporting entity has responsibility as a proportion of the total membership.

Question 12:

Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A-125K and BC50-BC70)

We believe some example disclosures to help understand interpretation would be useful and would avoid wide interpretation in practice – that is, as for example 6 but with narrative items rather than quantative items.

Our key concern as noted above is that the disclosure requirements appear to be very lengthy and onerous.

As a more minor point, paragraph 125F requires subdivision of investments into those which have a quoted price in an active market and those which do not. We suggest that assets are subdivided into levels 1, 2 and 3 as for US GAAP. Otherwise, using the terminology of US GAAP, we are not clear whether or not "level 2" assets would be considered to have a quoted price in an active market. We suggest the real focus should be on assets where there are real uncertainties in valuation – i.e. "level 3".

We also find the wording of paragraphs 125D and 125E to be less clear than the paragraphs they are replacing, although they appear to be aiming to achieve the same thing.

We do not believe that it is possible in practice to split the effect of non-routine settlements between demographic and financial assumptions (125E(c)(ii) and (iii)). For example, if it was a settlement effected via a buy-out with an insurer, the insurer is not obliged to disclose the financial and demographic assumptions used to set the buy-out premium and so it is not possible to analyse the reasons for the difference between the DBO and the settlement cost.

Question 13:

The exposure draft also proposes to amend IAS 19 as summarised below:

(a) The requirements of 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. (Paragraphs 115A-115K and BC73)

(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 benefit plan. (Paragraphs 7 and BC80)

(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. (Paragraphs 7, 73(b), BC82 and BC83)

(d) The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84-BC86)

(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 to later years. (Paragraphs 71A and BC87-BC90)

(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. (Paragraphs 73(a)(i) and BC91)

(g) Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92-BC96)

Do you agree with the proposed amendments? Why or why not? If not, what alternatives do you propose and why?

IFRIC 14

We have concerns about the current inconsistent application of IFRIC 14 by company, territory, and definition of minimum funding requirement - for example, whether or not a company has a right to a refund of surplus. We suggest that IFRIC 14 is not incorporated unchanged and that further clarification of these points is provided.

We note that the "net defined benefit liability (asset)" is defined as the total of:

a) the deficit or surplus; and

b) the effect of the limit in paragraph 115B.

This definition is incomplete because paragraph 115K can also require adjustment of the net defined benefit liability for an additional liability. For example, the definition appears inconsistent with the summary in paragraph IE7 which clearly shows the additional liability in accordance with 115K as a component of the net defined benefit liability. For clarity, we suggest adding: "c) the effect of any additional liability in paragraph 115K" to the definition of net defined benefit liability.

Further, there appears to be a change in application of IFRIC 14 as the exposure draft proposes that interest cost is calculated on any additional liability recognised due to a minimum funding requirement. At present, no interest cost would be calculated on such an additional liability.

Minimum Funding Requirement

We support the definition proposed for minimum funding requirement. However, we believe further guidance will be required to remove the diverging practice which has arisen in interpretation of this requirement.

For example, in the UK the minimum funding requirement is widely interpreted as being the Schedule of Contributions for each pension plan. Although these Schedules commonly have an expiry date of around 10 years from the date of signing, in practice they are revised every three years following the triennial funding valuation. Further, companies may have a right to call a new funding valuation at any point. Thus, it is not clear for how long the current Schedule of Contributions should be assumed to be in force and therefore the value to be placed on any minimum funding requirement.

Tax payable

We believe this proposal may cause practical implementation difficulties. Also, we note that paragraphs 7 and 73(b) do not appear to support the definition in (c) above although the Board's intention in clear in BC83.

With regard to practical implementation difficulties, we would value guidance on whether premiums relating to government guarantee schemes (e.g. the PPF levy in the UK and the PBGC levy in the USA) are defined as a tax for this purpose. Such levies can be volatile and large and could increase the defined benefit obligation by, perhaps, 10% or more.

Furthermore, the 2008 PAAinE paper (chapter 5, section 8) provided a useful discussion on these points. In their conclusion published in November 2009, paragraph 4.85 states that the ASB "has formed the view that, whilst its preliminary view that expenses of administering the plan’s accrued benefits is conceptually sound, as a matter of practicality (and taking into consideration the likely materiality of such expenses), that it would be more appropriate to expense the costs as incurred."

Administration costs on plan assets

As with tax payable, we believe this proposal may cause practical implementation difficulties as identified in the PAAinE papers. Conceptually, we agree that entities should reserve for future administration expenses in respect of accrued benefits, but note that feedback from our clients is that this is not popular. We also note that this is not convergent with common practice under US GAAP.

As with the previous point, paragraphs 7 and 73(b) do not support the Board's intention as clarified in paragraph BC84.

From a practical perspective, placing a present value on a future stream of expense payments is not a trivial exercise. To a large extent, given the requirement to project future cashflows in line with a variety of (mainly new) assumptions and then discount these cashflows to the calculation date in line with yields on AA-rated corporate bonds, calculating an expense reserve is like calculating the defined benefit obligation for an additional plan.

This will result in significantly higher compliance costs for many companies.

It is also not clear the treatment of a "new" expense – that is, whether it would increase the defined benefit obligation via an actuarial loss (so recognised in other comprehensive income) or via a past service cost (so recognised in P&L). For example, if a territory introduced a government guarantee scheme, this would result in additional future costs to an entity which would increase the defined benefit obligation – would this increase to the defined benefit obligation be considered an actuarial loss or a past service cost?

There is also potential inconsistent treatment in practice where administration expenses and investment costs are not separately identifiable. For example, will trustee investment sub-committee expenses be treated as administration expenses (and reserved in the defined benefit obligation) or investment costs (and treated as part of the investment gain or loss in other comprehensive income).

Similarly, the treatment is unclear for higher than expected expenses in a year where the additional expenses are incurred due to actions taken by the employer (for example, a feasibility study around changes to benefits).

Also, to avoid divergence arising in practice, we would value clarification on the treatment of expenses where the employer pays expenses direct compared with paying via an employee benefit plan.

Attribution (i.e. consideration of future salary increases)

This proposal addresses inconsistency in treatment in practice and provides consistency with the measurement of final-salary plans.

However, we note that it also provides inconsistency with defined contribution plans and suggest that the next phase of the review of IAS 19 addresses this. In our view, this inconsistency could most easily be addressed by removing future salary growth from the defined benefit obligation – which also supports the argument for disclosing the accumulated benefit obligation now.

Mortality assumptions

We support this proposal. It is already common practice in the UK and not doing so would suggest that the assumption made is not a best estimate of future experience.

However, we recommend that the wording is amended to clarify that IAS 19 requires a best estimate of future mortality rates by allowing for expected changes to current rates.

Risk sharing and conditional indexation

We support this proposal. If surplus would be used to increase employees' benefits (either as a constructive obligation or a legal obligation) then the value of this should be included in the defined benefit obligation. To not do so would be to overstate the asset available to the entity.

Question 14:

IAS 19 requires entities to 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, this would apply to many plans that meet the definition of a defined benefit multi-employer plan. (Paragraphs 32(a) and BC75(b))

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?

We note that it would be a divergence from US GAAP to require allocation of liabilities.

However, in the UK, it is usually possible to make a sensible allocation of an entity's share of the net defined benefit liability and such an allocation is often made for other purposes – for example, to allocate funding deficits to participating employers. There can also be estimated exit prices – that is, the amount an entity would have to pay to cease participation in a multi-employer plan. But we appreciate that would be an allocation of net defined benefit liability rather than an allocation of assets, liabilities and cost.

Question 15:

Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97-BC101) Why or why not?

We don't believe this is something on which we are well qualified to comment. However, given that immediate recognition of all gains and losses will be a requirement of the proposed amendments to IAS 19, it does not appear onerous to restate the start of the comparative period and such restatement is a general requirement of IAS 8.

Question 16:

In the Board's assessment:

(a) The main benefits of the proposals are:

a. Reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.

b. Eliminating some presentation options currently allowed by IAS 19, thus improving comparability.

c. Clarifying requirements that have resulted in diverse practices.

d. Improving information about the risks arising from an entity's involvement in defined benefit plans.

(b) 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 when they apply the existing version of IAS 19.

Do you agree with the Board's assessment? (Paragraphs BC103-BC107) Why or why not?

We agree with the Board's assessment, but with some concern that there would be significant costs attached to some of the proposed disclosures which are lengthy and onerous.

Also, the expense reserve will be a new calculation – in many ways, given the requirement to project future cashflows in line with a variety of (mainly new) assumption and then discount these cashflows to the calculation date in line with yields on AA-rated corporate bonds, like calculating the DBO for an additional plan.

This will result in higher compliance costs for many companies.

Question 17:

Do you have any other comments on the proposals?

Benefits not related to service

We note that the fourth example illustrating paragraph 69 does not derive from the wording of paragraph 69 and suggest that paragraph 69 is clarified to explain this.

Related to this point, clarification is needed on the treatment of benefits not related to service – for example, lump sums on death which are not related to service. US GAAP is seen as prescriptive on this but there is currently divergence in practice under IAS 19. Using the fourth example illustrating paragraph 69 suggests that IAS 19 will diverge with US GAAP going forward.

Example 6 and the asset ceiling

We believe that example 6 on pages 51-53 contains some inconsistencies regarding the asset ceiling under 125D(a)(iii). Page 53 shows a restriction on surplus of 24 at 1 January 20X8 but it is not clear what this represents. The net defined benefit liability is 156 on page 51, which is equal to the DBO of 10,338 on page 52 less assets of 10,182 on page 53. Therefore, this DBO and asset valuation imply that there is no asset ceiling impact at this date, and so no interest adjustment would apply in 20X8 rather than the 1 shown on page 53.

There is a similar inconsistency at 31 December 20X8.

Timing of settlements
We note that slightly different wording is used within 119D regarding the timing of settlements. In the first sentence a settlement occurs "when an entity enters into a transaction" and in the last sentence "at the transaction date". We would request that the same wording is used in both sentences; the first sentence is in line with existing IAS19.

Paragraph 50
We have a number of concerns with paragraph 50 and suggest it is substantially revised. Below are some examples of these concerns:

- 50(a)(iii) is not needed because past service costs have to be included in the DBO calculated in 50(a)(i) and (ii).
- 50(c) has missed off asset returns in excess of those implicit in the net interest on the net defined benefit liability (asset). The new definition of actuarial gains and losses in paragraph 7 relates only to changes in the DBO.
- 50(c) also omits to mention service costs in the amounts to be presented in comprehensive income.
- 50(c)(ii) refers to 119D but 119D focuses on settlements only rather than actuarial gains and losses more widely.

"Best estimate"
As noted by the (UK) Board for Actuarial Standards, "best-estimate" is not well-defined, and it would a breach of (UK) Technical Actuarial Standards (potentially subject to professional disciplinary action) for an actuary to use the term without defining its meaning. We suggest that IASB clarifies what it means each time it uses this term. For example, in the context of uncertain future outcomes, is "best-estimate" intended to refer to the mean, median, modal or other outcome?

Produced by:
Association of Consulting Actuaries
St Clement's House
27-28 Clement's Lane
London EC4N 7AE
Tel: 020 3207 9380
Fax: 020 3207 9134
Email: acahelp@aca.org.uk
Web: www.aca.org.uk

6 September 2010