UNICE
THE VOICE OF BUSINESS IN EUROPE

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20 July 2004

Dear Sir David,

RE: EXPOSURE DRAFT ON IAS 19 AMENDMENTS: ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES

UNICE welcomes the opportunity to comment on the exposure draft on IAS 19 amendments, regarding actuarial gains and losses, group plans and disclosures.

UNICE supports efforts to improve existing accounting standards, towards an increasing convergence of accounting standards around the world.

In assessing the added value of proposals set out, UNICE takes into account the increased quality of financial information that should be derived from them, as well as the increased usefulness of financial information for users, with the appropriate cost/benefit balance in mind.

Our comments on the various proposals contained in the afore-mentioned exposure draft vary from strong objection to full approval, on the basis of the criteria mentioned above. Our detailed analysis is provided in the attachment to this letter.

Should you wish to comment further on any of this, please do not hesitate to contact us.

Yours sincerely,

J. Chauvin

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1- Immediate recognition of actuarial gains and losses directly posted to equity (Questions 1 to 4 of the invitation to comment)

UNICE rejects the addition of a third option for the treatment of actuarial gains and losses. Whatever the angle from which we analyse this proposal, our response is negative.

1.1 UNICE does not believe that immediate recognition of actuarial gains and losses is a valid valuation basis for the net liability or surplus in a defined benefit plan.

Long-term liabilities such as post-employment benefit obligations raise a critical valuation issue. The balance between relevance and reliability, as required in the IAS framework, is difficult to strike: to be relevant, the valuation has to try to assess the best estimate of what the future cash outflow might be: variations in expected return on assets or interest rate, from period to period, might not be relevant in consideration of the long-term nature of the obligation; the uncertainties arising from that long-term feature raise a reliability issue: the only available measurements are current measurements.

The attempt of the corridor method at solving this valuation issue has the merit of keeping the current measurements as the valuation references, without reflecting the erratic variations from period to period in the valuation of the net liability. Under that treatment, only long-term trends are reflected in the liability presented on the balance sheet. Other variations offset each other from period to period. The information presented to the users of financial statements is therefore more relevant and hence more useful. Disclosure of the liability reflecting the valuation obtained on the basis of the current assumptions nonetheless serves as a reference.

Whenever an entity wants to discharge itself on some third-party from some or the whole of its post-employment benefit obligation, the payment it would have to make at the closing date would never reflect the liability computed on the basis of the assumptions current at the balance sheet date. Therefore, immediate recognition of actuarial gains and losses should not be introduced as the most relevant valuation, before a project dealing with the valuation of long-term liabilities is undertaken.

UNICE believes that, at present, the corridor remains a most valuable valuation approach and therefore does not support the proposed third option. In UNICE's view, immediate recognition of actuarial gains and losses make accounts difficult to understand, because irrelevant variations are reflected.

We would like to stress the attention of the Board to the arguments that support the corridor approach as developed in the basis for conclusions of the existing IAS 19 (paragraphs 42 onwards). We note that the Board rejects the corridor approach on the basis of the arguments that supported the deferred recognition method to be abandoned back in 1998 (see BC6 of the ED) and wonder whether this confusion is likely to have influenced the Board's tentative decision.

1.2 UNICE does not support the addition of options when dealing with similar transactions.

UNICE believes that options should be provided in standards, only when entities may be faced with different economic scenarios that call for judgement to be exercised and the right accounting treatment to be selected. This is not the case when dealing with post-employment obligations. The additional option proposed is likely to impair comparability of the information presented.

Moreover, the actuarial gains and losses issue has relevance only to the balance sheet valuation issue. There is no related income statement issue whatsoever.

Therefore to double the immediate recognition option, actuarial gains and losses being under the first option shown immediately through P/L and under the second option directly posted to equity, does not offer any supplementary relevant option for the measurement of the liability, the only element at stake here.

1.3 UNICE believes that in proposing this additional option, the IASB is pre-empting two debates that require a full and formal due process, the debate on the right valuation method for post-employment benefits and the debate on comprehensive income.

The IASB has in the past already expressed its willingness to retain immediate recognition of actuarial gains and losses through P/L as the only available accounting treatment. It believes that entities do not opt for immediate recognition, because doing so would lead to recognising actuarial gains and losses through P/L. The introduction of the third option is valuable, in its view, because it believes that entities would be attracted to a method whereby actuarial gains and losses would never hit the performance measurement of the entity.

In doing so, the IASB is clearly pre-empting the debate that is planned to take place whenever the IASB undertakes a comprehensive project on employee benefits.

It is also pre-empting the outcome of the Performance Reporting debate. As shown in questions 2 to 4, in proposing the third option, if the third option is to be retained, the Board has to make decisions on issues such as recycling and the proper line item to be retained to follow up actuarial gains and losses accumulating within equity. These questions are related to the afore-mentioned debate. UNICE takes the opportunity to reaffirm its view that no item should be posted directly to equity without recycling being required. Indeed all variations in retained earnings that arise from transactions other than with owners have, in its view, to be reported through net income. Otherwise, there is no sound basis for a comprehensive and consistent measurement of performance.

Also in making the presentation of a SORIE (Statement Of Recognised Income and Expenses) mandatory whenever the option is selected, the IASB is pre-empting on the Comprehensive Income issue. The IASB claims that such a statement increases the transparency of the information presented. This disregards the fact that the Statement of variations in equity is fully adequate to report on any item that flows directly into equity. The subtotal of recognised income and expenses has already been made mandatory (for all entities) within the revised version of IAS 1 paragraph 96 (although without the least due process).

1.4 *UNICE is committed to changes that bring improvements and to steps forward towards convergence.*

The proposed third option provides neither. The IASB acknowledges that the third option is certainly no ideal solution. This, in UNICE's view is enough to justify not adopting it.

All other standards, except for the UK standard do require that actuarial gains and losses are reported through P/L. To adopt the third option is therefore a direction opposite to convergence. It is worth noting that the UK standard is not yet mandatory in the UK, and that the ASB still has the time to amend its own standard in order to be consistent with IAS 19.

However, some of our UK constituents who have already implemented IFRS 17 or intend to do so in 2004 are supporting the introduction of the third option, because they do not wish to revert from the change just made.

2- Group plans (Question 5 of the invitation to comment)

UNICE welcomes the IASB proposals. It suggests that the proposals are extended to controlled entities none of whose minority interests object to the simplified treatment. UNICE believes that substantial actuarial valuation costs can be eliminated, and that the relevant financial reporting is still provided to the users of the financial statements of the entities that meet the criteria of paragraph 34.

3- Disclosures (Questions 6 and 7 of the invitation to comment)

UNICE does not object to the additional disclosures proposed in the exposure-draft, although they require quite a burdensome and costly collection effort, throughout entities that may deal with hundreds of different employee benefit plans.

UNICE however agrees with those disclosures, provided that the standard more clearly states that the required information is needed at an aggregate level, and not on a more detailed analytical level. The aggregate level is the only level at which, in UNICE's view, the information provided may be useful to the reader of financial statements.

UNICE concurs with EFRAG's view on paragraph 120 (n), dealing with medical cost expenses.

UNICE does not believe that the additional information listed in question 7 is needed.