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5 July 2010

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Exposure Draft – Defined Benefit Plans: Proposed Amendments to IAS 19

Dear Steve:

We refer to your letter dated 5 May 2010 and would like to set out our comments on the International Accounting Standards Board's ("Board") Exposure Draft – Defined Benefit Plans: Proposed amendments to IAS 19. We generally support the Board's aims to make improvements to the recognition, presentation and disclosure of defined benefit plans. We agree that these improvements will make it easier for users of financial statements to understand how defined benefit plans affect a company's financial position, financial performance and cash flows.

Our comments on the specific questions raised in the exposure draft are attached. We would be happy to further clarify or discuss any of the above points should you so wish.

Yours sincerely,

Rita Liu
Secretary

Enc.

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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 agree that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets. This will improve the comparability of financial statements. Currently, due to the multiple options available for recognising gains and losses arising from defined benefit plans, comparability between financial statements is not always possible. Also, the current standard could result in a situation where an entity might recognise an asset in the statement of financial position even when the plan is in deficit (e.g. corridor method under IAS19.92).

Question 2

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

We agree that changes in unvested past service cost arising from plan amendments should be recognized immediately when the related plan amendment occurs as both vested and unvested past service costs form part of the present value of the obligation that arises from employees' past service cost.

Disaggregation

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 agree with the proposal to standardize the presentation of defined benefit cost into three components: service cost, finance cost and remeasurements.

Defining the service cost component

Question 4

Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?

We agree that changes in demographic assumptions should not form part of the service cost and should be treated as part of the remeasurement component. This will be consistent with the treatment applied to other estimation assumptions.

Defining the finance cost 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? (Paragraphs 7, 119B, 119C and BC23–BC32)

We do not believe that the finance cost component should be calculated by applying the discount rate to the net defined benefit liability/(asset). We acknowledge that the advantages to this approach are that it may reduce the volatility in the profit and loss account charge from significant changes in the expected return on plan assets and the discount rate is a prudent assumption of the return on plan assets. However, the resulting net interest income from the plan assets may vary significantly to the actual return on plan assets. This is because in reality, contributions to defined benefit plans will be invested into a variety of assets such as equities, corporate securities, government paper, time deposits etc. The average return on these assets is not based on the yield of high quality corporate bonds. The current standard states that the interest cost should only be calculated for the gross defined benefit obligation and that the profit and loss account charge should also include the expected return on plan assets. We believe that the current approach, including separate disclosure of interest cost on the gross liability and expected return on plan assets, should be retained because it will take into account the nature of the plan assets to estimate the return.

Presentation

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

We support that the remeasurement component is not related to the entity's operational performance so it should not be reported under profit or loss.

We have reservations in reporting the net interest on the net defined benefit liability/(asset) as part of finance costs in the profit and loss account. We believe that this will be misleading to readers of financial statements as there is no actual interest paid/received on the net defined benefit liability/(asset). Furthermore finance costs will only be relevant for certain companies such as trading companies but will not be relevant for financial institutions. We suggest that the service cost and net interest should be aggregated and reported as part of staff costs in the profit and loss account with disclosure of the components of the profit and loss charge included in the notes to the financial statements.

We also have reservations on the calculation of the net interest component and believe that the current standard's requirement for a separate interest cost for the defined benefit obligation and an expected return on plan assets may be more appropriate. However, we agree that both of these should be reported together with the service cost in the profit and loss account.

Settlements and curtailments

Question 7

(a) Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) Why or why not?

We support the proposal to treat gains and losses on routine and non-routine settlements as part of the remeasurement component because by nature, they are

experience adjustments arising in the period.

(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)

We support the view that gains and losses arising from curtailments should be presented in the profit and loss account.

(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?

We support the disclosure.

Disclosures

Defined benefit plans

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? If not, how would you amend the objectives and why?

We agree that these objectives are appropriate.

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?

We do not support the below disclosure requirements: -

Item (a): -

Given that the Board acknowledged the difficulty in providing sensitivity analyses on plan assets and agreed that disclosure of such analyses are not required (per BC65), we consider that sensitivity analyses on defined benefit obligation are not meaningful to the users or it maybe misleading as they do not have the whole picture of the risks involved.

Item (d): -

We question the usefulness of this information given that measuring the liability tenor may involve a lot of technical assumptions which may not be easily understandable for most of the users of financial statements. We suggest that this disclosure requirement is removed from the exposure draft.

Multi-employer plans

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 have no comments on this aspect of the exposure draft.

State plans and defined benefit plans that share risks between various entities under common control

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?

We have no comments on this aspect of the exposure draft.

Other comments

Question 12

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

See comments under Question 9.

Other issues

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. (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 defined 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 in 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 alternative(s) do you propose and why?

We agree with the proposed amendments described above.

Multi-employer plans

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 multiemployer 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 have no comments on this aspect of the exposure draft.

Transition

Question 15

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

We agree that entities should apply the proposed amendments retrospectively. In any case, due to the multiple options available under the current standards entities will have to recalculate opening balances for unrecognized changes in the present value of the defined benefit obligation and the fair value of plan assets.

Benefits and costs

Question 16

In the Board's assessment:

(a) the main benefits of the proposals are:

(i) reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.

(ii) eliminating some presentation options currently allowed by IAS 19, thus improving comparability.

(iii) clarifying requirements that have resulted in diverse practices.

(iv) 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 believe that the main benefit of the proposal is the elimination of the options for recognizing changes in the present value of defined benefit obligations and changes in the fair value of plan asset, thus improving comparability. We also agree that the proposals assist in clarifying requirements.

We believe that there will be additional costs to entities from the increased risk disclosure requirements. As many of these disclosure requirements are very technical, we do not believe the benefit of disclosing this information will necessarily outweigh the costs.

Other comments

Question 17

Do you have any other comments on the proposals?

We have no other comments on the exposure draft.