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Mouvement des Entreprises de France
MEDEF

A F E P

Association Française des Entreprises Privées

IASB
30 Cannon Street
London EC4M 6XH
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Paris, August 31, 2010

Re: Exposure draft Defined Benefit Plans

We welcome the opportunity to comment on the IASB exposure draft Defined Benefit Plans - Proposed amendments to IAS 19 (the ED) presenting amendments to the recognition, presentation and disclosure of defined benefit plans.

While we understand the Board's objective to improve transparency and comparability by eliminating all current accounting options in IFRS, we regret that all of these amendments are to be made in advance of a comprehensive and public debate on what performance means and which is the best way to depict it in financial reporting. We believe that such issues are today fundamental and should be no longer ignored.

We think that net income is an important key performance indicator and we believe that this is also the view of users of the financial statements. We are therefore opposed to this process, which consists in modifying standards on an individual basis in the absence of over-arching strong and consistent principles relating to performance, the use of OCI and recycling, as we note that each successive change results in a diminution in the relevance of net income.

Furthermore, we believe that the proposals go beyond the elimination of one accounting option and introduce significant changes which should, in our view, be examined as part of a comprehensive review of all aspects of post-employment benefit accounting and disclosure.

We provide detailed comments in our responses to the questions posed in the ED in the appendix to this letter.

Should you require any further information or clarification, please do not hesitate to contact us.

ACTEO	AFEP	MEDEF
Patrice MARTEAU Chairman	Alexandre TESSIER Director General	Agnès LEPINAY Director of economic and financial affairs

Appendix to our comment letter on the exposure draft Defined Benefit Plans – Proposed amendments to IAS 19

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?

While we can understand the benefit of recognizing in full defined benefit plan assets and obligations in order to improve comparability and transparency in financial statements, we regret that this set of amendments is to be made before the completion of a fundamental review of post-employment benefits pension accounting.

Furthermore, we are not convinced that all recognition and measurement principles as stated in IAS 19 are fully relevant to the depiction of the amount of cash outflows that will arise from these long-term obligations and assets, and we would encourage the Board to reconsider its conclusions in the light of the cohesiveness between IAS 19 and the conceptual framework's definition of liabilities and assets and the rate used to discount the obligation. In addition, we note that there is often a huge gap between regulatory pension measures used for funding requirements and the accounting measurement of these and this leads us to wonder about the relevance of the latter.

We believe that all these issues should be further analysed before major decisions are made about presentation in the financial statements.

Question 2

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

View 2 As stated in our answer to Q1, we think that IAS 19 really needs to be fully revised with the aim of achieving consistency with the conceptual framework and other more recent standards. Indeed, we think that the accounting for vested or non vested services is not consistent with the provisions of IFRS 2, and that that standard ought to be reconsidered at the same time as IAS 19. Until a comprehensive review of the standard has been undertaken, therefore, we are in favor of retaining the impact on net income that is required under the current standard. This can be achieved in the context of full immediate recognition of the obligation in the following way: unvested pas service cost should be recognized in full in OCI and then transferred to profit and loss as an expense over the period until the benefits become vested.

Finally, when past service cost is material, it should be presented on a separate line in profit or loss in accordance with the principles of IAS 1, and not presented within the service cost line.

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 that such a disaggregation of the defined benefit cost is useful as these components do not share the same economic features and do not have the same predictive value.

We agree with the three components proposed in paragraph 119A.

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 with the rationale developed in BC19-22, that the service cost component should exclude gains and losses resulting from changes in the assumptions used to measure the service cost.

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 are strongly opposed to this proposal and we believe it will deteriorate the usefulness of the information provided to users. A normative finance cost component combined with all actuarial gains and losses recognized through OCI with no recycling, will lead to providing the same net income for very different asset management strategies. The resulting interest component derived in this way would have no economic meaning because management decisions, such as to invest in more or less risky assets, would no longer be reflected in the net result.

The expected return on plan assets should be maintained as relevant information because it reflects the way assets are managed in order to fulfil future obligations to service benefits. We do not agree with the assertion that the finance cost component should only reflect the passage of time. While this may be true in the case of the benefit obligation, it is not the case for investments in plan assets. Even if the assets and obligations are presented on a net basis in the statement of financial position, they not do share the same characteristics nor are they measured on the same basis; entities do not invest in assets only to be rewarded by the time value of money.

Furthermore, the proposal to compute a net finance cost using a high quality corporate bond rate would not lead to a faithful representation of the returns that investors require or expect from such assets and would be arbitrary. We do not understand the Board's arguments related to the lack of objectivity and reliability in determining the expected return, when at the same time we observe an expanded use of fair values in IFRS, even in the absence of reliable market data.

In respect of the Board's concerns about abuse, we would like to remind it that the way expected return is evaluated is fully disclosed and could be easily challenged. Comparison of expected against actual return seems more useful than a finance component which has no real economic meaning.

Finally, we think that all gains and losses representing the variances between the expected return and the actual return should be recycled from OCI to profit and loss on a systematic and rational basis, as explained further in our response to Question 6.

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?

We agree with service cost being presented in profit or loss as a cost of service received, as is the cost of employee compensation.

We also agree with the finance component being presented in profit or loss even if we do not agree with proposed approach to computing it (see answer to Q5)

In respect of the remeasurement component, we welcome the Board's decision not to require its immediate recognition in its entirety in the net result

That said, we have a number of concerns with the approach adopted, as discussed below.

We strongly regret that the Board continues to avoid establishing a rationale to determine what to present in or outside net income, and when and on what basis to recycle items, in order to ensure that users are provided with a useful net income figure. Unfortunately, the Board has also avoided this debate within its current project on Presentation of Financial Statements.

We believe that it is a sound principle that all management decisions should be reflected at some time in the net result, which continues to be the principal performance measure. The provision of additional benefit to its employees, and the choices made in investing in different kinds of plan assets are management decisions, all the effects of which should ultimately be reflected in net income.

Measurement at the reporting date may fail to reflect the impact of the management's strategic planning horizon or the long-term nature of pension assets and liabilities. Performance reporting should reflect the way that assets and liabilities are managed and used by the entity. That is why, when IFRS measurements do not represent this business model, a distinction should be made between changes in value that correspond with the model and other changes. Indeed, we believe that OCI has a key role to play in distinguishing managed performance from the overall change in net assets.

Recycling is absolutely necessary to make net income fully relevant as a performance indicator. A change in an asset or liability may not be relevant to the performance analysis in one period but may be relevant to that analysis in a later period. Recycling is the only guarantee of relevance of the net income in a context where values recognised in the statement of financial position do not always represent the business model of an entity. We believe recycling should be mandatory and applied consistently over all standards because it helps serve the stewardship objective of financial reporting.

Moreover, recycling would cease to be a practical issue if it were defined by a robust and consistent principle serving the relevance of the performance statement

Returning to the pension issue, we agree that plan asset fair values give useful information about the entity's performance and its exposure to risk. While we do not deny that these values also reflect the management's investment strategy, we believe that in most business models asset values are not managed from day to day but over a much longer period. This is why we believe that changes in their fair values should be first presented in OCI. Nevertheless, these value fluctuations should also be included at some stage in net income because they are the result of management decisions.

Consistently with Assets held for Sale, or foreign currency translation adjustments, we believe that recycling should occur when liabilities and assets are derecognised. However, as it is rarely practical to identify individually the gains and losses linked to the assets or liabilities upon derecognition, it is clearly necessary to develop a simple practical solution to achieve the same result.

This could be done, for example, by distinguishing between the actuarial gains and losses of the benefit obligation and the plan assets and apply to them the most appropriate method of amortising them to profit and loss, such as:

- the actuarial gains and losses on the obligation could be taken to profit and loss on a straight-line basis over the expected life of the benefit obligation or in proportion to the benefits paid of the year and the amount of obligation;
- the actuarial gains and losses on the plan assets could be amortised in proportion to benefit payments from plan assets of the period and the amount of the plan assets.

This is illustrated in the attached example.

Finally, recycling would have the advantage of being more convergent to the current US standard on pensions.

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 believe that gains and losses arising from non-routine settlements should be recognised immediately in net income in common with all other liabilities settled before their contractual terms. This would be consistent with the recent decisions in IFRIC 19.

It would also be consistent with our view on recycling to recognise these as an actuarial gain or loss (the ultimate reevaluation) first in OCI, and then to recycle them to net income once the liability was fully extinguished, that is, immediately (see our response to Q6).

Routine settlements are quite difficult to isolate from the total change in the obligation amount and should be considered and recognised as actuarial gains and losses, as a practical expedient.

(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 agree that all plan amendments, positive or negative, should be recognized in the same way.

(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?

Yes, it would be useful information to explain and quantify material non-recurrent transactions.

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?

Although we agree with the proposed disclosure objectives, we would draw your attention to the very significant number of new disclosure requirements which are proposed to be added to the numerous existing requirements. We recognise that paragraph 125B implies that plans can be aggregated for the purpose of disclosure, but we think that it should be made clear that individual disclosures should be provided only for significant plans and when the disclosures are relevant and useful. If this is not permitted, we think that there is a risk that users will be swamped with large volumes of unhelpful information.

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);

We agree that this disclosure helps to explain some of the variability of the entity's future cash-flows, and this information is already provided by many entities but only to the effects on the defined benefit obligation at the end of the reporting period, not on current service cost.

We do not see the utility of the requirement of paragraph 125I(a)(ii). Our interpretation of the requirement is that the service cost for the current reporting period should be in effect re-estimated using the assumptions chosen by the entity for the next reporting period, as by definition the new assumptions must have been reasonably possible at the beginning of the period. We think that this would then raise the question of why the resulting figures are not used for the current reporting period, and thus raise doubt about the service cost actually recognised.

(b) information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e));

We agree that this information is useful provided it remains a high-level description of the process and does not imply a detailed description of the individual methods used for each demographic group.

(c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f));

We do not understand the purpose of this request. Disclosures should not be used to deal with perceived weaknesses in the accounting principles: if the Board believes that the obligation should reflect projected salary growth, the Board must be consistent with this choice. We also do not agree with the assertion in BC55f), that "this amount is similar to the amount of the entity's obligation if the plan were to be terminated" because this amount also integrates non-vested rights which would not be payable upon termination.

(d) information about asset-liability matching strategies (paragraphs 125J and BC62(b)); and

This is relevant information particularly if the expected return on assets is eliminated. However, on the grounds of clarity and in order to reduce the unnecessary burden on preparers, we believe that it should be made clear that entities must exercise judgement about the plans for which such information should be given and the level of detail that is appropriate. In order to ensure that the disclosure is useful, would also be helpful if both paragraph 125J and the basis for conclusions explained more fully what information is required and what the purpose of the disclosure is.

(e) information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c)).

We find this requirement is confusing. We cannot find a requirement to disclose future service costs or contributions over the following five years and therefore wonder what the value of disclosing the difference between two sets of undisclosed figures is.

If what is required is an indication of the level of contributions over the next five years and discussion of the factors that could cause this to vary significantly, then we think that this may be one of the most relevant pieces of information. It is, however, most difficult to provide.

What could be provided is a general description of the main regulatory financing mechanisms, but any comparison with service cost, which is calculated on a completely different set of principles from the funding obligation, would be both complex and of doubtful utility. In fact, the disclosure of future minimum contributions, as required in some jurisdictions(limited to available data), better reflects the amount the entity will actually have to pay than the service cost and thus appears more pertinent to us.

Are the proposed new disclosure requirements appropriate? Why or why not?

If not, what disclosures do you propose to achieve the disclosure objectives?

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?

Paragraph 36 should be clarified to make it clear that information required by paragraph 33A is required only for state plans that are defined benefit plans.

We also think it is necessary to explain clearly the purpose of the disclosures of paragraph 33A. In particular, the disclosures required in sub-paragraphs (c), raise the question of why the entity does not recognise the related amounts if it has the relevant information available to do so. If such information is not relevant for recognition purposes, it should not be either relevant for disclosures.

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?

With the provisos made in our response to Question 10, we agree, in principle, with these disclosures for those plans which defined-benefit plans seen from the entity's point of view. The disclosure should be limited to information about the extent that the plans affect the entity's cash flows and financial position and exclude any detailed description of the state's benefit schemes themselves.

Question 12

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

No.

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)

This requirement is presented as clarification of what is currently required by IAS 19, but appears to go beyond current requirements, in our view. Furthermore, it is far from clear to us what is envisaged in the description of sources of taxes in paragraph 73(b)(iv) and under the return on plan assets definition in paragraph 7.

We think it is necessary for the IASB to provide examples of taxes which should be taken into account in calculating the amount of the benefit obligation and those which would be excluded because they are linked to the financing mechanism of the plan.

It is our understanding of paragraph 7 that the taxes and administrative costs related to the return on plan assets are deducted in arriving at the return on assets. The proposed return on assets to be recognised in profit or loss is based on a normalised return calculated using the discount rate specified in paragraph 78. This means, we think, that the costs and taxes are treated as a part of actuarial gains or losses and taken to OCI. We find this illogical and think it lends weight to our view that an expected return including the effect of costs and taxes is more pertinent to the profit and loss.

We do not agree with the inclusion of the costs of administering benefits in the benefit obligation. There are many different methods available to provide the benefit administration service, ranging from in-house, through outsourcing to complete coverage by insurance schemes and it is very difficult to predict what method will be adopted in the distant future. Any estimate of such costs will be unreliable and may have a material impact upon the benefit obligation. We think it is preferable to account for these on an "as-incurred" basis. Once again, we think this proposal is a significant change rather than a clarification of current requirements.

Nevertheless, if the IASB were to proceed with this proposal, we think that it would be advisable to provide clear guidance about the nature of the costs that should be included (whether internal, external, actuaries', etc.) and how they should be taken into account.

We would recommend that a study be made of the impact of the effect of all these elements before incorporating them in a final standard, as we believe they are more than just clarification of what exists and could have a very significant effect on benefit plan net obligations.

(a) 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)

See our answer to Q13 (c)

(b) 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)

(c) 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)

In respect of the question of mortality assumptions, we wonder what the significance of the use of the word 'current' is in paragraph 73(a)(i), as it is not used in other sub-paragraphs here. Paragraph 73 requires "best estimates of the variables" and that should be sufficient for all variables.

(d)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?

Yes, we agree, other than as discussed in the individual sections above.

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?

Question 15

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

We think that a full retrospective application would be very onerous for entities which are currently using the corridor approach. Moreover, the new accounting principles for administrative costs, taxes and past service cost are not easy to reconstitute for all prior periods. We think that on these grounds a limited retrospective application should be considered. This approach would entail the calculation of the benefit obligation and the plan asset value using the new rules at the beginning of the first comparative period and elimination of the previous asset and obligation amounts without identification of amounts that would have been included in OCI. The new accounting methods would be applied from that point forward.

Question 16

In the Board's assessment:

(a) ***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.***

(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 ?

As discussed above, there are substantial new disclosure requirements, including those in respect of « other long-term benefits" which are brought into the same disclosure framework as defined-contribution or –benefit plans for the first time. Collection of the required information for hundreds of different plans and training of staff to do this could be onerous. In addition, some of the requirements are not clear and we would therefore request the Board to provide enough guidance to make the purpose and content of disclosure and computations clear in order to facilitate the transition with as little disruption as possible.

Furthermore, we expect that the reconstitution of the elements necessary for full retrospective application will be onerous, and therefore would recommend a simplified approach to the transition.

Question 17

Do you have any other comments on the proposals?

We would like to express strong concerns about the decision no longer to differentiate other long-term benefits from post-employment employee benefits, as it would lead to extensive additional disclosures which could be overly onerous, with no additional benefits.

The basis for conclusion provides no explanation for this decision and we urge the Board to reconsider its position after a complete analysis of all of the consequences of this amendment.

Other long term employee benefits encompass a lot of items, such as jubilees, long-term bonus, CET (reduction in working hours) and so on …. While we see no benefit in providing the whole of information required in § 125A- 125 K, we are quite sure that it will generate a very heavy administrative cost to collect this information. At the least, the Board should also have to consider the consequences of these proposals relating to the measurement of these benefits, particularly in the context of fully retrospective application.