International Accounting Standards Board
30 Cannon Street
London
EC3M 6XH

25 March 2002

Dear Board Members

**Draft amendment to IAS19 - the asset ceiling**

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure draft (ED), which was considered recently by ACCA's Financial Reporting Committee and I am writing to give you their views.

**General comments**

We do not think that IASB should proceed with the amendment for the present.

We agree that there is potentially a counter-intuitive result highlighted which can be produced by IAS19, especially if the income statement effect of actuarial gains and losses is considered in isolation from the other elements (for instance regular service cost, interest or discount). We note, however, that the approach of IAS19 to defer actuarial gains and losses and spread them forward over the expected future service lives of employees, will tend not to produce clear balance sheet positions. Any perceived anomaly is therefore to some extent inevitable from this spreading forward approach where a balance sheet asset might represent either an underlying scheme surplus or actuarial losses deferred. Without a fundamental review of IAS19 there seems no assurance that this is the only counter-intuitive result which can be produced by the standard. Furthermore paragraph 60 clearly foresaw the particular problem and opted for the deferral of losses to override the effect of the asset ceiling. This proposed amendment is therefore to change something which derives from a fundamental element of IAS19 and which is not to correct an accidental unforeseen effect.

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We would not support this amendment to IAS19, but would support IASB bringing forward a more considered revision of the standard.

We have a number of other objections to the way in which IASB are proceeding with this matter.

- Piecemeal and ad hoc amendments to existing standards, of which this would be an example, is not in principle the way for global standard setting to operate. Urgent issues arising are meant to be dealt with by IASB's interpretations committee, but we accept that because paragraph 60 was so clear on the subject the desired change could not be made by that route.
- The one month period for comment on the ED is far too short. Global standards need to be considered by a wide variety of entities (for example companies, auditors and national standard setters) who may have to apply and implement them, and they need to be translated into many languages. It is very unfortunate that IASB's due process has been undermined in this way by the very first change it makes to its standards. The other amendments to existing standards as part of the improvements project, are going to be subject to a three month comment period, we understand.

**Responses to IASB's specific questions**

*Q1. Is the issue of sufficient importance to warrant a limited amendment to IAS19?*

No. For the reasons noted above we do not think this amendment should be pursued. We also note that the perceived anomaly will be restricted to companies which had a pension surplus, and where the asset was restricted by the inability to access it via reduced contributions or refunds (the asset ceiling).

*Q2. If so, does the proposed amendment to IAS19 appropriately address the issue?*

We think that the wording achieves the desired result. It is, however, very difficult to understand, even with the explanatory material in Appendix C, and this is inherently undesirable.

The wording of paragraph 58(b) should not refer to the <u>net</u> total when (i) and (ii) are meant to be added together and not netted off.

*Q3. Should the limited changes become effective for accounting periods ending on or after 31 March 2002, with earlier application encouraged?*

No. This application date will in effect make the changes retroactive as any amendment arising from the ED cannot be approved before 31 March 2002. An application date soon after the approval date should be selected instead.

*Q4. Do you agree that there should be no specific transitional provisions for the limited changes proposed in this exposure draft?*

Yes.

If there are any matters arising above where further clarification would be helpful, please be in contact with me.

Yours sincerely

Richard Martin
Secretary to the Financial Reporting Committee