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Dear Sir David

**Exposure draft: Limited amendment to IAS 19 'Employee Benefits' relating to asset ceiling**

The German Accounting Standards Board is pleased to comment on the exposure draft issued by the International Accounting Standards Board. The German Accounting Standards Board announced the exposure draft in the German language with the invitation to comment directly to the GASB. However, no comments have been submitted by 25 March 2002. Therefore, the following comments represent the German Accounting Standards Board opinion only and are not based or biased upon any third party comments.

**1. *Is the issue identified of sufficient importance to warrant a limited amendment to IAS 19?***

We are of the opinion that a limited amendment is sufficient. This is mainly due to the fact that the anomalies may lead to a distortion of a true and fair view of financial statements. Hence, without any amendment the issue could probably only be resolved by making use of the overriding principle. However, we consider the limited amendment to be appropriate only as an interim solution that will be revised by an improvement project in due course.

**2. *If so, does the proposed amendment to IAS 19 (paragraph 58A) appropriately address the issue? Does it create any anomalies? If the proposed amendment is inappropriate, can you suggest any alternative?***

**2.1 *Does the proposed amendment to IAS 19 appropriately address the issue?***

The proposed amendment ("quick fix") is designed to cover the anomalies arising from circumstances as described in the examples included in the exposure draft. However, we suggest the following additional amendments to take into consideration.



- paragraph 54, 2. sentence:
  - delete the word “enterprise” and replace with the word “entity”
  - delete the word “should” and replace with the word “shall”
- paragraph 58A, 1. sentence:
  - potential gains and losses leading to the anomalies result from „unrecognised“ actuarial gains and losses. Hence, the word „unrecognised“ should be incorporated.
- paragraph 58A, 2. sentence:
  - delete the word “enterprise” and replace with the word “entity”
  - delete the word “should” and replace with the word “shall”
  - „The enterprise should make such an adjustment by immediately recognising the following under paragraph 54“.  
This sentence from our point of view is misleading. Unrecognised actuarial gains or losses are already included in the calculation of the amount determined under paragraph 54, i.e. they are included under paragraph 54(b). We understand that the actuarial gains and losses shall be recognised immediately under paragraph 54(a) or 54(d) dependant upon the source they occurred from. It may be appropriate to specify this in the wording.

## 2.2 Does it create any anomalies?

We are concerned not to be in a position to foresee whether the amendment is likely to create new anomalies.

## 2.3 If the proposed amendment is inappropriate, can you suggest an alternative?

The following thoughts may not be helpful for a quick fix. However in the light of the improvement project of IAS 19 we would like to emphasise on the below mentioned suggestions:

### 2.3.1 Impairment test for negative defined benefit liabilities

The anomalies that have arisen this year are due to the definition of the asset ceiling i.e. a strict definition of the corridor approach

With respect to IAS 36 Impairment of Assets we would prefer an incorporation of assets arising from negative defined benefit liabilities in IAS 36. This would imply the following:

- to amend IAS 19.58 emphasising that any resulting asset is subject to impairment testing
- to amend IAS 36.1(d) to exclude assets arising from employee benefits from the exemption list.



### 2.3.2 Improvement of the corridor approach

In general we are of the opinion that the option of deferring actuarial gains and losses as set out in the corridor approach is acceptable. However, a broader project of improvement could include a simpler approach concerning the asset ceiling moving the standard towards a concept based approach rather than a rules based approach.

3. ***Do you agree that the limited changes should become effective for accounting periods ending on or after 31 March 2002, with earlier application encouraged (paragraph 159A)?***

We agree that the amendment should become effective immediately. However, we are concerned that a considerable number of entities for which the financial year ended at 31 December 2001 have already prepared their financial statements by April, and hence, the quick fix may not have any impact on them.

4. ***Do you agree that there should be no specific transitional provisions for the limited changes proposed in this exposure draft? Consequently, IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, will apply to any changes in accounting policies that are made to comply with IAS 19 if amended as proposed (paragraph 160).***

We agree that no transitional provisions are necessary and that any amendments would be applied pursuant to IAS 8.

With respect to a broader improvement project on IAS 19 we would like to liaise with the IASB more closely. The GASB has implemented a project group to develop a post employee benefit standard for consolidated financial statements under German commercial code. We are of the opinion that the IASB as well as the GASB would benefit from such a close relationship both technically and cost wise.

Yours sincerely

Hans Havermann