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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Canon Street

London EC4M 6XH
United Kingdom

Düsseldorf, 19 March 2002
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Dear David,

Re.: Exposure Draft of a Proposed Amendment to IAS 19 „Employee Benefits": The Asset Ceiling

We appreciate the opportunity to comment on the aforementioned Exposure Draft and would like to submit our comments as follows:

We share the Board's view that the combination of deferred recognition of actuarial gains and losses and the asset ceiling, as currently pursued by IAS 19, can entail increases in the pension asset and recognition of a gain solely as a result of actuarial losses (or past service cost) arising in the period. We also understand and concur with the Board's concern that recognition of gains solely attributable to actuarial losses is perceived counter-intuitive and that these effects should be cured. However, it should be noted that the proposed approach might be considered as not consistent insofar as one can either hold the view that the amendment is too far going or argue that it is not far going enough.

Those advocating the first view would primarily refer to paragraphs 76 and 77 of the Basis for Conclusions. Paragraph 76 states that the Board, in approving E 54, intended to introduce an asset ceiling comprised of expected future refunds from the plans and reductions in contributions arising from a surplus; that is, a pension asset should be limited to the amount that actually represents future economic benefits and, thus, satisfies the Framework's definition of an asset. However, according to paragraph 77, the Board subsequently reversed that view, because it concluded that the limit on the recognition of an asset should not override the treatments of actuarial losses or past service cost in order not to defeat the purpose of these treatments.

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Thus, they might argue that, under the corridor approach of IAS 19, it is irrelevant whether or to which extent a negative amount satisfies the Framework's asset definition. Consequently, regarding the proposed amendment of IAS 19, it remains debatable why certain actuarial losses and past service cost arisen in the current period should qualify for recognition of an asset (those that are accompanied by a reduction in the present value of the economic benefits specified in IAS 19.58(b)(ii)), while any remainder should not (that is, why actuarial losses and past service cost should only be able to avoid a decrease in the asset resulting from a reduction of economic benefits, but should be precluded from triggering an increase in the asset).

In contrast, those who hold the opposite view would preclude any actuarial losses and past service cost from being recognised as an asset, irrespective of the extent they are accompanied by a reduction in the present value of economic benefits in the form of refunds or reductions of future contributions. Compared to the proposed amendment, they would modify the asset ceiling by deleting IAS 19.58(b)(i), arguing that only amounts that satisfy the definition of an asset should be recognised.

Given the above arguments, we consider the proposed amendment of IAS 19 acceptable as an interim solution only, which should be reconsidered when undertaking a comprehensive review of the deferred recognition and the asset ceiling rules of IAS 19 as indicated in paragraph 78D of the proposed Basis for Conclusions.

In addition, we suggest that further discussions of the Board also address another inconsistency of the treatment of unrecognised actuarial losses and past service cost. So far, the proposed amendment focuses only on how to deal with actuarial losses and past service cost in situations where the amount determined under IAS 19.54 is negative (an asset); that is, it attempts to avoid an overstatement of assets. However, in our view the Board's reasoning as to imposing a limit on the recognition of actuarial losses and past service cost equally applies, if the amount determined under IAS 19.54 is positive (a liability), because recognising an overstated asset is as less representationally faithful as understating a liability. Therefore, the question arises whether the deduction of unrecognised actuarial losses and past service cost under IAS 19.54 should be subject to a similar limitation as the one included in the proposed paragraph 58A.

Yours sincerely,

Klaus-Peter Naumann

Chief Executive Officer