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Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street, 1<sup>st</sup> floor  
GB-London EC4M 6XH

Zürich, 26 March 2002

## **Comments on Exposure Draft of a Proposed Amendment to IAS 19, Employee Benefits: The Asset Ceiling**

Dear Sir David,

We welcome the opportunity to comment on the above Exposure Draft. We have reviewed the Exposure Draft and respond to the questions included in the invitation to comment as follows:

- 1 Yes, we believe that the issue identified is of sufficient importance to warrant a limited amendment to IAS 19, especially considering the recent development of the markets and the fact that many pension plans have incurred actuarial losses.
- 2 While the proposed amendments to IAS 19 seem to achieve the objective of correcting the current inconsistencies, we do not believe that the drafting as it currently stands is sufficiently understandable. The proposed amendments would require an enterprise to recognise in a first step a gain that does not make any sense. In a second step, a loss is recognised that did not occur. We are concerned that this would result in misleading / confusing disclosures in practice. We would prefer an effort to be made to draft the standard in a way that prevents a gain to be recognised in the first place. Please also see our answer to question 3 on the effective date.

We also have some clarification and drafting issues on the amendments to IAS 19 as currently drafted. If you decide to go ahead with the amendments as currently drafted, we recommend that you consider the following:

- We believe it would be easier to understand the issue if there would be examples in the Appendix C showing the effect both *without* and *with* paragraph 58A.

We therefore suggest that you complement the examples in the Appendix showing the effect when applying paragraph 58A, with some additional text and a table showing the effect without paragraph 58A. We suggest that the following examples be included in Appendix C. Examples that are currently not included in the Exposure Draft are marked with \*. We also suggest new titles to the existing examples.

Example 1A: Actuarial losses and no change in the economic benefits available - paragraph 58 applied *without* paragraph 58A.

Example 1B: Actuarial losses and no change in the economic benefits available - paragraph 58 applied *with* paragraph 58A.

Example 2A\*: Actuarial losses and a decrease in the economic benefits available - paragraph 58 applied *without* paragraph 58A.

Example 2B: Actuarial losses and a decrease in the economic benefits available - paragraph 58 applied *with* paragraph 58A.

Example 3A\*: Actuarial gains and a decrease in the economic benefits available - paragraph 58 applied *without* paragraph 58A.

Example 3B: Actuarial gains and a decrease in the economic benefits available - paragraph 58 applied *with* paragraph 58A.

Example 4A\*: Period in which the asset ceiling ceases to have an effect - paragraph 58 applied *without* paragraph 58A.

Example 4B: Period in which the asset ceiling ceases to have an effect - paragraph 58 applied *with* paragraph 58A.

- We also suggest the following drafting improvements (suggested changes underlined):

### **Paragraph 58**

58. The amount determined under paragraph 54 may be negative (an asset). An enterprise should measure the resulting asset at the lower of:

- (a) the amount determined under paragraph 54; and
- (b) a ceiling that is the net total of:

.....

### **Appendix C, text right below paragraph 58 (page 5 in ED)**

Without paragraph 58A (see below), .... the recognition of an actuarial loss (gain) in determining the amount specified by paragraph 54 leads to a gain (loss) ....

### Appendix C, all tables (columns A to G)

Column F: Add "(Asset ceiling)" right below "Recognised asset" to clarify that this is actually the asset ceiling referred to in paragraph 58.

F
Lower of D and E
Recognised asset
<u>(Asset ceiling)</u>
0
30

### Appendix C, all other tables

Add references to the columns referred to earlier in the examples.

	Balance sheet asset under paragraph 54 <u>(Column D)</u>	Effect of asset ceiling	Asset ceiling <u>(Column F)</u>
Year 1	100	(100)	0
Year 2	70	(70)	0
Gain/(loss)	(30)	30	0

If you include examples that show the effect without paragraph 58A as we suggest above, it will be easier to understand this table.

- 3 Yes, we agree with the proposed effective date, if you decide to go ahead with the amendments as drafted today. However, we cannot see how earlier application would be possible given the effective date of 31 March 2002.

As noted in our answer to question 2, we would prefer an effort to be made to draft the standard in a way that prevents a gain to be recognised in a first step. We assume such an effort to result in an effective date later in 2002, which would be acceptable. We appreciate that it is important that the problem gets solved as soon as possible.

- 4 Yes, we agree that there should be no transitional provisions for the limited changes proposed in the Exposure Draft and that IAS 8 should be applied accordingly.

However, it is said "In applying those changes retrospectively, as required by the benchmark and allowed alternative treatment in IAS 8". Is this wording related to the general improvements project? According to the current wording in IAS 8, it is possible to apply changes prospectively in (rare) cases where the resulting adjustment is not reasonably determinable. We suggest that you clarify the drafting in this respect.

Yours sincerely,

Swiss Institute of Certified Accountants and Tax Consultants  
*Accounting and Auditing Practices Committee*

Urs Moser

Philipp Hallauer