

March 22, 2002

Sir David Tweedie
Chairman International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Dear David

Re: IAS 19 Amendment re the Asset ceiling

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the Exposure Draft of a proposed amendment to IAS 19, Employee Benefits: The Asset Ceiling. The letter is submitted in EFRAG's capacity of contributing to IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive IFRS on the issue.

We do agree that the current text of IAS 19 needs amendment in that, in certain circumstances, it can require an entity to report counter-intuitive gains or losses. We also believe the proposed change is acceptable.

However, in our view the change amounts to a "quick fix" of a single issue in IAS 19 whereas a more fundamental review of the standard is needed. Such a review should address not only the amortisation provisions but also a further consideration of the matters discussed in paragraph 41 of the basis of conclusions for IAS 19.

We are, however, seriously concerned that a four week exposure period is far too short to be able to obtain considered views from organisations that are expected to consult members and others. This is even more important when the issue and the proposed amendments are themselves complex and include examples that are not at all easy to follow. The normal exposure period of three months is the minimum necessary to be able to respond with fully considered comments. We hope that in future all such amendments will follow the normal exposure process.

Furthermore, the application date, one week after the end of the exposure period and before the board meets formally to discuss responses to the exposure draft, is too soon

and implies that a standard will come into force before it has been formally approved. In our view due process must be observed even when there is an apparent anomaly in a standard that suggests a change is needed.

Fortunately, in this particular case, it is likely that the amendment will prove to be relatively uncontroversial but we would not wish to see “quick fix” solutions applied in future to problems which may be more complex or about which there are different views as to how they may best be resolved.

We do recognise, of course, that there may be other instances where compliance with a standard may lead to inappropriate accounting and where the Board wishes to deal with the problem urgently. In such circumstances we suggest the Board consider announcing the recognition of a problem and the intention to resolve it by introducing an amendment to the standard with the normal due process (including a minimum three month exposure period) but recommending preparers to use the “true and fair override” as an interim measure until such time as the amendment has been approved. Such an override would operate in very limited circumstances for a very short period of time.

We are aware that IASB takes the view that the “true and fair” override should not be used other than for entity specific situations. Nevertheless, we regard situations such as this as likely to occur so rarely and to apply to so few companies that its use is justifiable.

Yours sincerely

Johan van Helleman
EFRAG, Chairman Technical Expert Group