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Sir David Tweedie
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Dear David

Amendments to IAS 19 "Employee Benefits": The Asset Ceiling

Thank you for the opportunity to comment on the Exposure Draft "Amendments to IAS 19 'Employee Benefits': The Asset Ceiling". Because of the short comment period, the attached comments have been prepared by the staff of the AASB and have not been considered by the Board. The staff support the thrust of the Exposure Draft, but would suggest an alternative approach to achieving the proposed objective.

Yours sincerely

Keith Alfredson

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Chairman
Australian Accounting Standards Board

Exposure Draft
"Amendment to IAS 19 'Employee Benefits': The Asset Ceiling"

AASB Staff Comments

Introduction

The following comments are made by the staff of the Australian Accounting Standards Board (AASB). The AASB has not considered the issue addressed in the exposure draft. The comments address the specific questions raised in the exposure draft, and provide comments on the proposed amendments to IAS 19.

Questions raised in the exposure draft

Q1 *Is the issue of sufficient importance to warrant a limited amendment to IAS 19?*

AASB staff support the IASB view that IAS 19 should be amended to "prevent gains (losses) being recognised solely as a result of the deferred recognition of past service cost and actuarial losses (gains)" (Basis for Conclusions, paragraph 78A).

We therefore support the IASB in dealing with the issue identified.

Q2 *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?*

Our preference would be to address the issue by deleting paragraph 58(b)(i). The test in paragraph 58 would then restrict any defined benefit asset to the lower of the amount determined under IAS 19.54 and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Where the amount determined under IAS 19.54 is an asset, IAS 19.58 already prohibits a "pure" application of the corridor approach by imposing a ceiling. The amendment we propose would both address the concerns relating to this issue and ensure that no entity recognises an asset with a carrying amount greater than the carrying amount that would be recognised if the asset were to be measured by more conventional methods. Our proposed amendment would mean·

- deletion of paragraph 58(b)(i);
- there is no need for draft paragraphs 58A and 58B; and
- minor amendments to draft Appendix C.

Q3 *Should the limited changes become effective for accounting periods ending on or after 31 March 2002, with earlier application encouraged (paragraph 159A)?*

No. Except under exceptional circumstances, we are of the view that standards should apply to reporting periods that start after the standard is approved by the Board. Given that any changes to IAS 19 will not be approved by the IASB until at least April, we consider that these limited changes should become effective for periods starting after the approval of the amendments to IAS 19, with earlier application encouraged. We are not aware of any circumstances that would make earlier mandatory application appropriate in this case.

Q4 *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)*

Yes. In our view the requirements in IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" are appropriate.

Editorial Comments

Appendix C

The implication throughout Appendix C is that all changes in the surplus in a plan are actuarial gains or losses. For example, page 6, paragraph 3 starts "In year 2 there is an actuarial loss in the plan ...". We recommend that at least one example in the appendix separate the change in the plan surplus between an anticipated gain (loss) and an actuarial gain (loss).

There is a table showing the effect of the asset ceiling at the end of the discussion of each example. In each case, the discussion is prefaced by "in effect, the actuarial loss is recognised immediately". For examples 1 and 3, the preceding discussion identifies that the actuarial loss must be recognised immediately in accordance with paragraph 58A. For example 2, the actuarial loss is not recognised immediately under paragraph 58A. Further, to suggest that the loss is offset by "the effect of the asset ceiling" implies recognition of what, in most examples, is noted in the calculations for potential future recognition. Accordingly, we recommend that this table and accompanying commentary be deleted.

Various comments imply that actuarial gains and losses can only be deferred when the calculation under paragraph 54 leads to a liability. As we understand IAS 19, the asset ceiling does not affect the amount of prior period actuarial gains and losses that can be deferred, but only affects the amount of current period actuarial gains and losses that can be deferred. Accordingly, we recommend the deletion of:

- the second footnote on page 8, because it implies that actuarial gains and losses can only be deferred when the amount determined by paragraph 54 is less than the amount determined under paragraph 58(b); and

- the last sentence on page 9, because this sentence states that the unrecognised [presumably actuarial] losses "arose before the asset ceiling had anv effect".

Amendments to IAS 19

As we understand the effect of the proposed changes, current period actuarial gains and losses are not to be deferred where deferral would result in the recognition of a gain (loss) being recognised solely as the result of an actuarial loss (gain) or the deferral of past service cost in the current period. Accordingly, we recommend that draft paragraph 58A be amended as follows:

"(a) net actuarial losses and past service cost <u>in the current period</u> to the extent that they exceed any reduction in the present value of the economic benefits specified in paragraph 58(b)(ii) and

(b) net actuarial gains and past service cost <u>in the current period</u> to the extent that they exceed any increase in the present value of the economic benefits specified in paragraph 58(b)(ii)."