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International Accounting Standards Board
30 Cannon Street
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REF/TAJD/FRG

Dear Sirs,

EXPOSURE DRAFT AMENDMENT TO IAS 19, EMPLOYEE BENEFITS: THE ASSET CEILING:

The global firm of Ernst & Young is pleased to respond to the IASB's Exposure Draft, *Amendment to IAS 19, Employee Benefits: The Asset Ceiling.* Our principal comments are set out below, while our answers to the Board's four specific questions are given in an appendix.

We are aware that the Board will consider more fundamental revisions to IAS 19 in due course. On that basis, the Exposure Draft represents an attempt quickly to remove an anomaly brought to the Board's attention, and as such we support it.

Notwithstanding the intentionally narrow focus of the Exposure Draft, we believe that two further issues, relating to the computation of the ceiling, could usefully be considered at the same.

- The Exposure Draft introduces some (albeit very minor) additional guidance in this respect in paragraph 58B by the introduction of the words, 'in relation to recoverability of a surplus, based on the current terms of the plan'. An underlying question is what exactly is meant by 'the present value of any economic benefits available in the form of reductions in future contributions to the plan'. The new wording supports an interpretation based on expected future cash payments, which seems to be confirmed by the suggested examples showing a recoverable amount of zero. Funding payments to a pension plan will very likely be determined on the basis of *funding* valuations which are different from the surplus determined under the standard. It seems to us that the future reduction in real cash flows based on a completely different measurement of a surplus can have little relevance to the measurement of any IAS 19 balance. We note in this regard that the UK Standard (FRS 17) makes clear that the asset ceiling is to be a *theoretical* one — the present value of the liability expected to arise from future service by the scheme members, measured under that standard. We suggest that a similar approach be adopted in IAS 19.

- Whatever basis is adopted for 'reductions in future contributions,' the Standard currently includes no guidance as to what future events should be taken into account. In particular, it would be helpful if some clarification were given as to how projected growth or decline in membership of the plan (from organic growth/decline, acquisitions/divestments, redundancies, etc) should be considered.

We would be pleased to discuss our comments with the Board or staff at your convenience. Please contact Danita Ostling at 0207 951 8772.

Yours faithfully

Ernst & Young

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APPENDIX

ANSWERS TO THE SPECIFIC QUESTIONS ASKED IN THE EXPOSURE DRAFT.

Question 1

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

Yes.

Question 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 an alternative?

Yes, the proposed amendment appropriately addresses the issue.

Our consideration of the draft has not identified any new significant anomalies. However it should be remembered that a very short comment period inevitably means that some such anomalies may exist yet not be identified by respondents.

One detailed drafting point has come to our attention. In the first table in example 3 of appendix C, row two column G it should say ‘Loss recognised in year 2’ and not ‘gain’.

Question 3

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

No, given that this date has already passed. We think it wrong in principle for a standard to take effect for balance sheet dates before its publication.

Question 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).

Yes.