WILLIAM M.
MERCER

IASB Exposure Draft on Proposed Revisions to IAS 19 – The Asset Ceiling

Submission by William M. Mercer (March 2002)

I. Introduction and Overview

William M. Mercer ("Mercer") thanks the IASB for the opportunity to comment on its Exposure Draft of a Proposed Amendment to IAS 19, Employee Benefits: the Asset Ceiling.

Mercer is the world's largest consulting firm that advises international organisations and multinational companies on all aspects of the employer/employee relationship and employs more actuaries than any other employer. Mercer has particular expertise in the application and interpretation of standards for employers' accounting for employee benefits around the world. For many years, we have been assisting clients in:

- The preparation of accounting information for employee benefits in many countries;
- The worldwide co-ordination of this information for clients with multi-country operations; and
- The use of such published accounting information in determining the implications for mergers and acquisitions.

Our analysis of the issues and our answers to the four questions posed in the exposure draft are set out in Part II. In summary, it is not obvious to us that a change is necessary, and, if a change is considered necessary, we believe there should be a transition easement avoiding the need to apply the change retrospectively. We also disagree with the proposed wording.

II. Our Analysis and Answers to the Four Specific Questions

Question 1 – Is the issue identified of sufficient importance to warrant a limited amendment to IAS 19?

We recognise that we do not have the necessary information to make a judgement on this issue. However, we suspect that the issue is not sufficiently important to justify the change.

We note in particular that the Canadian Institute of Chartered Accountants (CICA) considered the same issue with respect to the cap in the Canadian standard CICA 3461 and concluded that no changes were necessary. We understand that CICA is the accounting body with most experience of working with such a cap.

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?

The changes as drafted may lead to immediate recognition of gain or loss in situations where the problem identified (gain leading to loss or loss leading to gain) does not occur. This can happen because actuarial losses may lead to a reduction in cumulative actuarial gains (which would not lead to an increase in the cap or recognition of a gain). Similarly, actuarial gains may just add to existing cumulative actuarial gains (which again would not lead to an increase in the cap or recognition of a loss). In both these circumstances, the proposed changes would require immediate recognition.

We have considered alternative wording but have not yet satisfied ourselves that our alternative is sufficiently robust. We would be pleased to help develop alternative wording if the IASB decides to proceed with an amendment.

Question 3 – Should the limited changes become effective for accounting periods ending on or after 31 March 2002, with earlier application encouraged (paragraph 159A)?

Yes.

Question 4 – Do you agree that there should be no specific transitional provisions for the limited changes proposed in the 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 wit IAS 19 if amended as proposed (paragraph 160).

We understand that the effect of having no specific transitional provisions is that previous IAS 19 figures will need to be reworked. We consider that the need for a change is questionable and that the issue is certainly not sufficiently important to

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require reworking prior figures. We would prefer to see a transitional easement allowing adoption on a prospective basis only, noting in the disclosures the consequent lack of comparability with prior year figures.

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