March 25, 2002

International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Sirs:

EXPOSURE DRAFT OF PROPOSED AMENDMENT TO IAS 19

We are pleased to provide our comments on the proposed amendment to IAS 19, *Employee Benefits*, regarding the asset ceiling. Our responses to specific questions, including our observations and comments, follow.

Question 1.
We agree that this issue is of sufficient importance to warrant a limited amendment to IAS 19.

Question 2.
We agree that the current standard may produce counter-intuitive results when actuarial losses are incurred. However, our concern is that, in some situations, the proposed adjustment

- overrides the delayed recognition of past service cost as *required* by paragraph 96 of IAS 19
- results in immediate recognition of actuarial gains and losses arising in the current period, contrary to a company's policy of delaying recognition of actuarial gains and losses as permitted by paragraph 92 (i.e., inconsistent application of that accounting policy)
- amends paragraph 58(b)(i) to include unrecognized net gains in determining the net asset to be recognized on the balance sheet pursuant to paragraph 54.

We are particularly troubled by undermining the integrity of those more substantive provisions of IAS 19 to address a situation that arises with much less regularity and that rectifies itself over time. If, however, the Board concludes differently, we believe the proposed approach should be described more precisely and the examples simplified.

Clarification of Paragraph 58A
We believe the proposed wording of paragraph 58A would be clarified to more precisely reflect what we believe to be the Board's intent, by stating
"(a) net actuarial losses and past service cost *arising in the current period* to the extent that they exceed any reduction in the present value of the economic benefits specified in paragraph 58(b)(ii*) (or the entire net actuarial loss and past service cost arising in the*

current period, up to the amount of the increase in the asset ceiling, if the present value of the economic benefits in paragraph 58(b)(ii) is unchanged or increased) and
(b) net actuarial gains *arising in the current period* to the extent that they exceed any increase in the present value of the economic benefits specified in paragraph 58(b)(ii) *(or the entire net actuarial gain arising in the current period, up to the amount of the decrease in the asset ceiling, if the present value of the economic benefits in paragraph 58(b)(ii) is unchanged or reduced)*."

We also suggest noting that the calculations required by paragraph 58A should be performed at the end of the fiscal year, and should take into consideration the effect of any gains, losses, past service cost and changes in economic benefits arising in the current period.

Ignore past service cost arising during the period
While we understand the desire to rectify the counter-intuitive result that arises when actuarial losses occur, we do not agree that the proposed treatment should be applied to past service cost arising during the period. In IAS 19, the Board concluded that past service cost should be amortized over the average period until the amended benefits become vested. Unlike actuarial losses, which one could argue immediately increase the current liability, past service cost is ultimately a liability only if the employees vest in the underlying benefit. Subjecting unvested past service cost to immediate recognition when the asset ceiling is increased overrides the intent of paragraphs 96 and 99 and overstates the employer's liability attributable to services rendered to date.

Eliminate unnecessary complexity
The description and mechanics of the determination of the asset ceiling adjustment is unnecessarily complex.

- The examples may be easier to understand by inserting a column between columns F and G that shows the amount of the reserve against the balance sheet asset (i.e., D – F).
- The examples may be easier to understand if the year 2 data were presented before applying paragraph 58A, with a separate line illustrating the adjustment required by paragraph 58A and the final amounts. For example, example 2 (actuarial loss of 35, economic benefits decrease by 10) would be illustrated as follows:

	A	B	C	D = A+C	E = B+C	F = lower of D and E	G = D – F	H (Net gain/loss recognized)
Year	Surplus	Economic benefits	Unrec-ognized losses (gains)	Para. 54 (Balance sheet asset)	Para. 58(b) Limit	Net asset to be recog-nized	Valuation reserve	Change in G and Para. 58A gain/loss recognized in year 2
1	60	30	40	100	70	70	30	
2	25	20	75	100	95	95	5	25
Para. 58A Adjust-ment			(25)	(25)	(25)	(25)		(25)
	25	20	50	75	70	70	5	-

We are troubled that, in some cases, the proposed approach results in immediate recognition of losses (or gains) beyond the amount needed to offset the increase (or reduction) in the asset ceiling. This may occur when the actuarial gain or loss is partially offset by an increase or decrease in the economic benefits – that is, actuarial losses and an increase in economic benefits, or actuarial gains and a decrease in economic benefits. For example, in example 3, the actuarial gain was 50, and economic benefits decreased by 5, yet the loss recognized due to the increase in the valuation reserve was 55, rather than 45 as we would have expected. This is because the unrecognized net gain was considered in the paragraph 58(b) limit, contrary to paragraph 58(b):

	A	B	C	D = A+C	E = B+C	F = lower of D and E	G = D – F	H (Net gain/loss recognized)
Year	Surplus	Economic benefits	Unrec-ognized losses (gains)	Para. 54 (Balance sheet asset)	Para. 58(b) Limit	Net asset to be recog-nized	Valuation reserve	Change in G and Para. 58A gain/(loss) recognized in year 2
1	60	30	40	100	70	70	30	
2	110	25	(10)	100	15	15	85	(55)
Para. 58A Adjust-ment			50	50	50	50		50
	110	25	40	150	65	65	85	(5)

(If this approach is retained, it would be helpful to explain to the reader that the ultimate net loss of 5 is due to the loss of economic benefits of 5.)

We believe it would be more appropriate, and consistent with paragraph 58(b), to determine the loss to be recognized as follows, ignoring the unrecognized net gain in determining the asset ceiling:

	A	**B**	**C**	**D = A+C**	**E = B+C *(when C is a loss)***	**F = lower of D and E**	**G = D – F**	**H (Net gain/loss recognized)**
Year	Surplus	Economic benefits	Unrec-ognized losses (gains)	Para. 54 (Balance sheet asset)	Para. 58(b) Limit	Net asset to be recog-nized	Valuation reserve	Change in G and Para. 58A gain/(loss) recognized in year 2
1	60	30	40	100	70	70	30	
2	110	25	(10)	100	25	25	75	(45)
Para. 58A Adjust-ment			45	45	45	45		45
	110	25	35	145	70	70	75	–

Question 3.
We agree with the proposed effective date and with permitting earlier application.

Question 4.
We believe it is appropriate to follow the guidance in IAS 8 to reflect the effects of this proposed amendment of IAS 19, and would not advocate specific transition provisions.

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We appreciate the opportunity to respond to the Board's proposed Amendment and would be happy to expand on our comments or answer questions you may have, should you so desire.

Sincerely yours,

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