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PROPOSED AMENDMENT TO
IAS 19, EMPLOYEE BENEFITS: THE ASSET CEILING

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

We acknowledge that the current requirements in IAS 19.58 may result in the recognition of a gain or loss in the income statement that is the result of deferring the recognition of an actuarial gain or loss under IAS 19.92. We believe, however, the larger issue is the need for an asset ceiling and, ultimately, the acceptability of a "corridor" approach in accounting for actuarial gains and losses. Therefore, instead of addressing this selected issue related to a specific anomaly, we believe it would be preferable for the IASB to address this, and other issues with the application of IAS 19, as part of a larger project on employee benefits.

In addition, we understand that the International Financial Reporting Interpretation Committee recently added to its agenda a project on how to determine the present value of economic benefits available in the form of refunds or reduction in future contributions to the plan under IAS 19.58(b)(ii). This suggests that there are additional issues associated with the asset ceiling. We support this initiative and the need to develop further guidance on how to determine this amount. Assuming the IASB decides to move forward with amending IAS 19, we suggest that any amendment also address how the amount in IAS 19.58(b)(ii) is determined.

Question 2: 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 proposed amendment represents a modification to the general "corridor" approach, as it requires partial recognition in the income statement of actuarial gains and losses that would otherwise have been unrecognized. As noted in IAS 19.95, the "corridor" approach is based on the notion that over time actuarial gains and losses would offset one another. The proposed amendment to recognize certain actuarial gains and losses in the current period is inconsistent with this notion and would preclude the natural "offsetting" of unrecognized gains and losses in which the "corridor" approach is based.

Although the proposed amendment may address the identified anomaly, we believe it results in additional detailed rules that add increased complexity to an already complex standard. Assuming the IASB decides to move forward with amending IAS 19, we encourage the IASB to consider a less complex approach that is focused on concepts rather than rules.

As a result, we suggest that any amendment to address the anomaly identified focus on the relationship between the defined benefit plan surplus and the present value of the economic benefits available to the employer (i.e., the concept of recoverability). The concept of recoverability is inherent in other Standards such as IAS 2, IAS 12, IAS 36, and IAS 39. Therefore, we believe that a less complex and equally effective solution to the anomaly identified would be to simply eliminate IAS 19.58(b)(i). Consequently, any surplus would be written down to the amount of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. We note that this generally would be consistent with the approach taken in U.K. Financial Reporting Standard No. 17.

The Exposure Draft notes that the present value of the economic benefits available cannot exceed the surplus in an employee benefit plan. We agree with this statement and note the example illustrating IAS 19.60 assumes the present value of available future refunds and reductions in future contributions exceeds the plan surplus. Therefore, we suggest that IAS 19 be amended to correct this illustration.

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

We note that the Exposure Draft indicated that the IASB intends to vote on this amendment at its April 2002 meeting. Assuming the IASB decides to move forward with amending IAS 19, we suggest that the effective date of any amendments not predate the final approval by the IASB. Therefore, we suggest an effective date for annual financial statements covering periods ending on or after 30 June 2002, with earlier application encouraged.

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).

Assuming the IASB decides to move forward with amending IAS 19, we agree that no specific transitional provisions are necessary and that any amendments would be applied pursuant to IAS 8.