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VEVEY, 25 March 2002

Dear Sirs,

EXPOSURE DRAFT OF A
PROPOSED AMENDMENT TO IAS 19 - ASSET CEILING

We wish to refer to your invitation to comment on the above exposure draft and we are pleased to summit our comments.

GENERAL REMARKS

First and foremost we do not consider that the proposed amendment is a limited one. The issue of employee benefit asset recognition has several implications such as the economic nature of the assets carried to the balance sheet and whether the enterprises can really receive future cash flows out of such assets. We also consider that the proposed asset ceiling does not address all these issues and has unwarranted effects in the sense that it fails to recognise expenses when some future economic benefits are lost and that it results in carrying to the balance sheet assets whose future economic benefits may be doubtful. This stems from the fact that IAS 19 is income statement oriented and has sometimes unwarranted effects on the balance sheet. Therefore, we consider that the Board should readdress all the issue of employee benefit asset recognition in another much broader scope exposure draft.

We also consider that, due to the complexity of accounting for employee benefits, an exposure period of barely one month is not sufficient. A comment period for this kind of changes should have been of at least of two months to allow the enterprises to digest the changes, study the conceptual and practical implications and prepare a considered comment.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

While we agree that changes are warranted in the area of employee benefit assets, we consider that the scope of the revision of the standard should be broader because, as we explain below, there are other points to be taken into consideration such as the nature of the assets and the use of the corridor.

Question 2

No. We do not consider that the proposed amendment adequately addresses the issue.

The Framework says the following in paragraph 49 :

(a) "An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise", and

(b) "a liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits".

In a defined benefit plan, the future economic benefits (and their sacrifices) should be seen from a long term perspective because the obligations will crystallise over a rather distant time horizon. For this reason, IAS 19 has established that actuarial gains and losses should be recognised over the remaining life of the participants and the recognition will take place if such gains and losses exceed the limit of the corridor. IAS 19 also requires that an excess of the plan assets can be recognised only if the enterprise can withdraw the asset or reduce future contributions. Such reductions of contributions represent a future economic benefit only inasmuch as the enterprise incurs a retirement benefit cost. Unfortunately, the proposed amendment mixes the aforementioned two criteria and leads sometimes to odd results.

In example 2, the future economic benefits decrease by 10 but, due to an increase of the unrecognised actuarial losses, the impact is nil on the income statement. Furthermore the asset of 70 encompasses actuarial losses.

In example 3, the future economic benefits decrease by 5 and there is a loss recognised to the income statement, which is correct, but the asset recognised on the balance sheet still amounts to 65 due to the actuarial losses.

The situation of example 4 is the worst one, the enterprise's future economic benefit are down to zero (from 25), no loss is recognised but there is an asset of 65 that is entirely due to actuarial losses!

In order to meet the framework definition of an asset, we consider that the cap should be fixed only to the future economic benefits available in terms of refunds, reduction in contributions, that meet the characteristics described above. Actuarial gains and losses generally do not have the character of assets and liabilities in accordance with the Framework and hence should be treated as unrecognised assets and liabilities. In most cases, they represent a bridge between the balance sheet of the plan and the employee benefit assets and liabilities carried to the balance sheet of the enterprise and they should be released to the income statement in accordance with the provisions of the standard including those of the corridor.

Question 3

Given the fact that the above issues are more important that those outlined in the Exposure Draft and that they question all the recognition of employee benefit assets, we recommend that the ED be re-exposed and that its implementation be fixed at the beginning of a calendar year with sufficient time allowed to the enterprises to plan the changes.

Question 4

No. We disagree with the proposal of no specific transitional provisions. IAS 8 should apply since, as mentioned above, the change could be significant.

We thank you for giving us the possibility to comment on this exposure draft.

Yours very truly,

NESTEC Ltd.

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Financial Reporting Guidelines