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Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

14 September 2010

Dear Kevin

Exposure Drafts ED 195 and ED 199

I am enclosing a copy of the PricewaterhouseCoopers response to the following International Accounting Standards Board's (IASB) Exposure Drafts:

- ED/2010/3 *Defined Benefit Plans (proposed amendments to IAS 19)* [AASB ED 195]
- ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)* [AASB ED 199]

The letters reflect the views of the PricewaterhouseCoopers network of firms and as such include our own comments on the matters raised in the Exposure Drafts.

AASB specific matters for comment

ED 195 *Defined Benefit Plans*
The proposed amendments to the definition of 'return on plan assets' should be sufficient to clarify the treatment of superannuation contributions tax. However, we found BC 85 confusing in this context and have raised this with the IASB in our response to question 13 in the attached submission.

ED 199 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*
As explained in the enclosed submission, we are not supportive of the proposed changes to the disclosure requirements. However, should the IASB decide to go ahead and approve the new disclosures, entities that have elected to report under tier 2 of the new differential reporting framework should be exempt from providing such detailed information. This would be consistent with the approach taken in AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* in relation to the financial risk management disclosures in AASB 7 *Financial Instruments: Disclosures*. In particular, we note that tier 2 entities do not have to

provide any of the information about the fair value hierarchy that is required under paragraphs 27A and 27B of that standard.

Both exposure drafts

We are not aware of any regulatory or other issues that could affect the implementation of either of the proposals for not-for-profit and public sector entities.

Subject to our concerns about specific matters as expressed in our submissions to the IASB, the proposals would result in financial statements that would be useful to users. Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

Jan McCahey

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Sir David Tweedie
Chairman
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6 September 2010

Dear Sir

Defined benefit plans (proposed amendments to IAS 19)

We are pleased to respond to your Exposure Draft – Defined benefit plans (proposed amendments to IAS 19) ('exposure draft').

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of the member firms that commented on the exposure draft. 'PricewaterhouseCoopers' refers to a network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the Board's efforts to improve the comparability and transparency of the accounting for post-employment benefits. We believe that the proposals in the exposure draft improve the existing model. It is difficult, however, to develop a cohesive model for the presentation of remeasurements and other changes in the defined benefit obligation when there is no definition of performance or principle for the use of other comprehensive income ('OCI'). We encourage the Board to address, as part of its post-June 2011 agenda, the nature of performance, the purpose and use of OCI and the extent to which recycling should be required.

We also note that the proposed amendments do not address the measurement of the defined benefit obligation. We encourage the Board to address, at an appropriate time in the future, issues related to measurement, together with other issues raised in the discussion paper prepared by the UK ASB for 'Pro-active Accounting Activities in Europe' on the financial reporting of pensions.

Recognition of changes in the defined benefit liability

We agree with the Board that all changes in the measurement of the defined benefit liability should be recognised in comprehensive income in the period in which they arise. This will enhance the comparability of the financial statements by removing an accounting choice. It will also improve transparency by recognising immediately in the statement of financial position all changes in the defined benefit liability. We also agree with the Board that the effect of changes in benefits earned in previous periods should be recognised immediately in profit or loss.

Presentation

The exposure draft proposes a number of amendments to the presentation of changes in the defined benefit obligation. We have noted above that it is difficult to assess these proposals without a clear principle for distinction between profit or loss and OCI and for recycling. We therefore accept that most of the proposals are pragmatic, short-term solutions that improve the existing model, but we believe that all presentation-related issues should be reconsidered in the future after the Board has developed a comprehensive model for reporting performance and for the use of OCI.

We agree that post-employment benefit changes should be disaggregated into service, finance and remeasurement components. Distinguishing these components and specifying where each should be presented will increase comparability and transparency by removing an accounting choice. The items included in remeasurements can be volatile and might distort profit or loss. The exposure draft therefore proposes that remeasurements are presented in OCI and are not recycled to profit or loss, which is consistent with the current model. We accept that a presentation consistent with the existing model is a pragmatic approach until the Board reconsiders employee benefit accounting in the context of any new guidance for reporting performance and the use of OCI.

We understand the proposal that the finance component is calculated using the net defined benefit asset or liability and the discount rate. This simplifies current accounting by eliminating the expected return on plan assets. The proposed accounting also continues to reflect the difference in economic substance between funded and unfunded benefit arrangements. We accept the proposal as a pragmatic simplification and therefore an improvement to the current model, although we would also accept retaining the current model until the Board reconsiders employee benefit accounting as a whole. We encourage the Board to reconsider the measurement of the finance component as part of a wider project to consider accounting for employee benefits.

Settlements and curtailments

The exposure draft over-complicates the treatment of settlements. We believe that the definition of settlements should exclude routine settlements, which are normal benefit payments, and that the accounting for settlements should be consistent with the accounting for past-service costs and curtailments – that is, immediate recognition through profit or loss, rather than as a remeasurement.

Disclosures

We believe the disclosure proposals are excessive and should be reduced. We have attached in Appendix B some suggestions for reducing the volume of disclosures and focusing on information that is most helpful to users. We also suggest that the Board consider transitional relief from some of the new disclosure requirements.

Clarifying amendments

We support most of the proposed changes, but our experience is that it is critical that the detailed drafting of these changes is unambiguous. We have made some suggestions in the attached responses to the detailed questions, and we encourage the Board to seek views on the drafting from the Employee Benefits Working Group and other constituents.

We have expanded on the above and responded to the specific questions raised in the exposure draft in the attached Appendix A and added some additional comments in Appendices B and C.

If you have any questions in relation to the letter, please do not hesitate to contact John Hitchins, PwC Global Chief Accountant (+44 207 8042497) or Tony de Bell (+44 207 213 5336).

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix A

Recognition

Question 1
The exposure draft proposes that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. (Paragraphs 54, 61 and BC9–BC12) Do you agree? Why or why not?

We agree with the proposal, which will enhance the transparency and comparability of reporting for post-employment benefits by reducing options and bringing on to the statement of financial position amounts, which might currently be 'off balance sheet'.

Question 2
Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?

We agree with the proposal, which is consistent with the proposed treatment of other changes in the defined benefit obligation. We note that this treatment is inconsistent with the treatment of modifications of share-based payments prescribed by IFRS 2, but it is consistent with the treatment of vesting requirements in the current employee benefits standard.

Disaggregation

Question 3
Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18) Why or why not?

We agree with the proposal, which will increase comparability and transparency. The proposal eliminates an accounting policy choice and therefore provides clarity about presentation in the statement of comprehensive income.

Defining the service cost component

Question 4
Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?

We agree with the Board that changes in the demographic assumptions have a different predictive value than service cost. They should therefore be included with other remeasurements at this time. Drawing a distinction between different types of remeasurement adjustment is arbitrary and does not provide more useful information. The treatment of changes in demographic assumptions should be reviewed in the context of the results of the Board's consideration of performance reporting.

Defining the finance cost component

Question 5

The exposure draft proposes that the finance cost component should comprise net interest on the net defined benefit liability (asset) determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset). As a consequence, it eliminates from IAS 19 the requirement to present an expected return on plan assets in profit or loss.

Should net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset)? Why or why not? If not, how would you define the finance cost component and why?
(Paragraphs 7, 119B, 119C and BC23–BC32)

We accept the proposal that the finance charge be determined by applying the discount rate to the net defined benefit asset or liability. This is a pragmatic approach that is consistent with the net position recorded in the statement of financial position under the current model. This proposed model also simplifies current accounting by eliminating the expected return on plan assets, and continues to reflect the difference in economic substance between funded and unfunded benefit arrangements. We therefore accept the proposal as a simplification, but we encourage the Board to reconsider the measurement of the finance component as part of a wider project to consider accounting for employee benefits. We would also accept retaining the current model until the Board reconsiders the measurement of the finance component.

We accept that the proposal relating to the finance charge simplifies the current model, but the Board should explain the calculation of the net finance charge more clearly. The exposure draft suggests that net interest cost should be calculated by multiplying the average net defined benefit asset or liability over the reporting period by the period start discount rate. This mixes the measurements and may be impractical in many cases, as it implies multiple calculations of the net defined benefit asset or liability at different dates during the year. The proposals require a current discount rate to be used to calculate the net defined benefit asset or liability. This will vary over the year. It is inconsistent to measure the finance cost by multiplying a net defined benefit asset or liability, calculated using a current discount rate, by the discount rate at the start of the year.

Most entities applying IFRS calculate the finance cost and expected return on plan assets at the start of the year, allowing for expected cash flows, and do not change them unless there is a significant plan amendment, curtailment or settlement. The general year-to-date principle of interim financial reporting is inconsistent with using an up-to-date statement of financial position to determine the interest cost. It is also inconsistent with IAS 19 paragraphs 82 and 106, which refer specifically to the start of the year. We believe that additional guidance for the interaction of IAS 19 and IAS 34 is required in the final standard. We suggest that this guidance be based on the net defined benefit asset or liability at the beginning of the year, which is the model most commonly used in practice.

Presentation

Question 6

Should entities present:
(a) *service cost in profit or loss?*
(b) *net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss?*
(c) *remeasurements in other comprehensive income?*
(Paragraphs 119A and BC35–BC45) Why or why not?

We agree that post-employment benefit changes should be disaggregated into service, finance and remeasurement components. We also accept that remeasurements should be presented in other comprehensive income. Distinguishing these components and specifying where each should be presented will increase comparability and transparency by removing an accounting choice. The classification into components and the presentation of remeasurements should be reconsidered in the context of the Board's future consideration of reporting performance and employee benefit accounting.

The proposals improve the current standard by eliminating an accounting policy choice, which will enhance transparency and comparability. We accept the proposals for this reason. However, we believe that the Board should address as soon as possible fundamental questions around the nature of performance, the purpose of OCI and what is subsequently recycled out of OCI and through profit or loss.

Settlements and curtailments

Question 7

(a) *Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) Why or why not?*

(b) *Do you agree that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss? (Paragraphs 98A, 119A(a) and BC48)*

(c) *Should entities disclose (i) a narrative description of any plan amendments, curtailments and non-routine settlements, and (ii) their effect on the statement of comprehensive income? (Paragraphs 125C(c), 125E, BC49 and BC78) Why or why not?*

(a) We understand that 'routine settlements' are the normal payment of benefits. We agree that variations between actual and expected payments or changes in the estimate of future benefit payments are actuarial gains or losses and should therefore be included in remeasurements.

We do not agree that non-routine settlements should be included in remeasurements. We believe this accounting is inconsistent with the measurement basis required by the current standard and the distinction drawn in paragraph 119D between actuarial gains or losses that arise in the period up to the settlement and the step-change that results from a settlement. It is sometimes difficult to distinguish between non-routine settlements and curtailments or past-service costs. The proposals will introduce an unnecessary tension to this distinction because of the different accounting.

IAS 19 requires the defined benefit obligation to be recorded using a fulfilment model based on the discounted value of expected future benefit payments, rather than a settlement model. Typically the cost of settling a defined benefit will be greater than the defined benefit obligation. A decision to incur a higher settlement cost, or negotiate a lower cost, will normally be a decision of management or plan trustees. We believe that such costs arise from an active decision to change the nature of the plan or the benefits, rather than the factors outside the control of the entity that are typical of remeasurements, and that they should be recognised through profit or loss rather than through OCI.

We believe it is impracticable to treat routine and non-routine settlements in the same way. We suggest that the Board define settlements to exclude normal benefit payments (that is routine settlements).

(b) We agree that the effects of curtailments and plan amendments should be reflected through profit or loss.

(c) The disclosures required by paragraphs 125C(c) and 125E should be restricted to those changes that are significant to an understanding of the financial statements. We have included further comments regarding disclosure in Appendix B.

Disclosures

Defined benefit plans
Question 8

The exposure draft states that the objectives of disclosing information about an entity's defined benefit plans are:

(a) *to explain the characteristics of the entity's defined benefit plans;*
(b) *to identify and explain the amounts in the entity's financial statements arising from its defined benefit plans; and*
(c) *to describe how defined benefit plans affect the amount, timing and variability of the entity's future cash flows.*
(d) *(Paragraphs 125A and BC52–BC59) Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?*

The proposed objectives are appropriate. We note, however, that the future cash flows for funded defined benefit plans can be complex, as they fall into two categories: benefit payments and contributions from the employer. Benefit payments are typically made or funded by the benefit plan and reflect the plan terms. Contribution payments are typically made by the reporting entity. These payments may be constrained by minimum funding requirements, but most plans typically allow considerable flexibility in the timing of payments, particularly around the funding of any deficit. It is difficult to draft generic disclosure requirements that capture the nature of these payments. We have attached some thoughts and suggestions for the disclosure proposals in Appendix B.

Question 9

To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:

(a) *information about risk, including sensitivity analyses (paragraphs 125C(b), 125I, BC60(a), BC62(a) and BC63–BC66);*
(b) *information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e));*
(c) *the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f));*
(d) *information about asset-liability matching strategies (paragraphs 125J and BC62(b)); and*
(e) *information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c)).*

Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?

We believe the proposed disclosure requirements are excessive and there is a danger that useful information will be obscured by the detail. We have attached some thoughts and suggestions for improvements to the disclosure proposals in Appendix B.

Multi-employer plans

Question 10

The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements?

(Paragraphs 33A and BC67–BC69) Why or why not?

The additional disclosures are potentially useful; however, the usefulness of the projection of future contributions will vary significantly between plans, depending on the variability in their funding arrangements. We also note that disclosure of the amount that an entity may be required to pay on withdrawal from the plan may not be practical. The terms under which an entity withdraws from a plan are often subject to negotiation between the entity and the plan. Even when the plan terms specify the arrangements for withdrawal, the plan may be unwilling or unable to routinely provide that information to all participating employers on a timely basis due to cost or resource constraints.

State plans and defined benefit plans that share risks between various entities under common control

Question 11
The exposure draft updates, without further reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control to make them consistent with the disclosures in paragraphs 125A–125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not?

The proposals for plans that share risks between entities under common control (often referred to as group plans) primarily affect separate financial statements and are affected by the issues common to transactions between entities under common control and other related parties. There is currently diverse interpretation of paragraph 34A about what constitutes a contractual agreement or a stated policy, and on the identification of 'the group entity that is legally the sponsoring employer for the plan'. We suggest that the Board considers clarifying the guidance and provides a clear definition of 'sponsoring entity'. The Board should also include a principle for determining what constitutes a 'contractual agreement for charging the net defined benefit cost'.

Other comments

Question 12
Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)

We have provided further comments and suggestions for the disclosure proposals in Appendix B.

Other issues

Question 13
The exposure draft also proposes to amend IAS 19 as summarised below:
(a) *The requirements in IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, as amended in November 2009, are incorporated without substantive change. (Paragraphs 115A–115K and BC73)*
(b) *'Minimum funding requirement' is defined as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan. (Paragraphs 7 and BC80)*
(c) *Tax payable by the plan shall be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax. (Paragraphs 7, 73(b), BC82 and BC83)*

(d) *The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84–BC86)*

(e) *Expected future salary increases shall be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years. (Paragraphs 71A and BC87–BC90)*

(f) *The mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. (Paragraphs 73(a)(i) and BC91)*

(g) *Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92–BC96)*

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

We support the proposed amendments, but we believe that the text should be absolutely clear to reduce the possibility of different interpretations. In addition to the specific comments made elsewhere in this letter, we believe the drafting of (e) leaves scope for different interpretations. It is possible to interpret the exposure draft to require that current mortality rates should be assumed rather than an estimate of the rates that will apply many years in the future.

We also believe that BC 85 is confusing and could be read as requiring that the costs of managing the plan assets be included in the calculation of the defined benefit obligation and not in the return on assets. We suggest that the basis for conclusions explains that investment management costs should be included in the return on assets and, where the benefits are dependent on investment returns, in the assumptions about future benefit payments in accordance with BC 84.

Multi-employer plans

Question 14

IAS 19 requires entities to account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. In the Board's view, this would apply to many plans that meet the definition of a defined benefit multi-employer plan. (Paragraphs 32(a) and BC75 (b))

Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?

Our experience is that defined contribution accounting is applied to most of these plans on the basis that insufficient information is available to identify a proportionate share of the defined benefit obligation and plan assets. There is diversity in practice about how much information is 'sufficient' to apply defined benefit accounting. This diversity will continue unless the Board clarifies the guidance on the circumstances in which an entity should apply defined benefit or defined contribution accounting. For example, the additional disclosures proposed include "*33A (d) details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan*".

Some argue that attribution of the surplus or deficit and the ongoing service cost is sufficient to allow defined benefit accounting, so that defined benefit accounting should be applied if the information suggested as a disclosure item is available. Others argue that apportionment of the surplus or deficit does not allow a reliable apportionment of either assets or liabilities and is therefore insufficient to allow defined benefit accounting.

We also note that the exposure draft proposes to replace interest cost and expected return on assets with a single net finance cost (or income). Some might argue that this strengthens the argument that it is not necessary to apportion assets and liabilities to apply defined benefit accounting.

We therefore consider that the accounting for multi-employer plans should be considered as part of the next project in the Board's consideration of IAS 19.

Transition

Question 15
Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?

We agree that the amendments should be applied retrospectively. We also suggest that the Board consider transitional relief from some of the new disclosure requirements, in particular the proposed sensitivity analyses.

Benefits and costs

Question 16
In the Board's assessment:
(a) *the main benefits of the proposals are:*
- (i) *reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.*
- (ii) *eliminating some presentation options currently allowed by IAS 19, thus improving comparability.*
- (iii) *clarifying requirements that have resulted in diverse practices.*
- (iv) *improving information about the risks arising from an entity's involvement in defined benefit plans.*

(b) *the costs of the proposal should be minimal. because entities are already required to obtain much of the information required to apply the proposed amendments when they apply the existing version of IAS 19.*

Do you agree with the Board's assessment? (Paragraphs BC103–BC107) Why or why not?

We agree with the benefits of the proposals for post-employment benefit accounting and that the costs of implementing these proposals should not be significant. We believe, however, that the Board may have underestimated the effort required to implement the additional disclosures and the changes to the treatment of other long-term benefits.

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Other comments

Question 17
Do you have any other comments on the proposals?

(a) The exposure draft proposes that the distinction between post-employment benefits and other long-term employee benefits be removed. We believe this creates unnecessary complexity for most of the benefits paid while an employee is in employment. The current standard requires the obligation to pay these benefits to be recognised in full in the statement of financial position, with all changes in the obligation recorded in profit or loss. The proposals, together with the additional disclosure requirements for post-employment benefits, require changes in the obligation to be split between operating and finance costs in profit or loss, and remeasurements in OCI. This would require considerable additional work for relatively little benefit, given the materiality and lack of volatility in most of these benefits. We suggest that the current distinction remains and that the changes in other long-term benefits continue to be recognised in full in profit or loss.

We also believe that the extensive disclosures required for post-employment benefits would be disproportionate for other long-term benefits. This suggests that the disclosures for other long-term benefits should be more restricted, or emphasises the need for a cut-off, other than simple materiality, in determining which plans need to be disclosed (see Appendix B)

(b) The following wording has been inserted in paragraph 104A:-

> *"An entity shall disaggregate changes in its right to reimbursement in the same way as for changes in plan assets (see paragraph 119C). The amounts presented in the statement of comprehensive income in accordance with paragraph 119A may be presented net of amounts relating to changes in the carrying amount of the right to reimbursement."*

It is not clear whether or not a notional return at the discount rate should be assumed on any reimbursement right. The definitions of the calculation of net interest and remeasurements refer only to plan assets and do not reflect reimbursement rights. We believe that the Board's intention was to reflect an implied return in the net interest cost and a remeasurement gain or loss consistent with the treatment of plan assets; but this is not clear and is inconsistent with the definitions of interest cost and remeasurements.

(c) Paragraph 61 states that:-

"An entity shall recognise <u>changes in the net defined benefit liability (asset) in the statement of comprehensive income</u> ..."

Contributions paid to a defined benefit plan or benefits paid directly by the entity will lead to changes in the net defined benefit liability (asset) but should not affect the statement of comprehensive income. We therefore suggest that the wording is changed to the following: "changes in the net defined benefit liability (asset) in the statement of comprehensive income that do not result from contributions to a funded defined benefit plan or payment of benefits...."

(d) The exposure draft includes proposals to clarify the definitions of short-term and long-term benefits. We believe there is inconsistency in application of the current definitions; some believe that the short/long distinction in IAS 19 should be the same as the current/non-current distinction in IAS 1. This confusion arises because both standards use the term "due to be settled", which is not defined.

We believe that "due to be settled" in both IAS 1 and IAS 19 refers to the expected date that settlement will take place, without any modification to the existing terms of the obligation and not to the earliest contractual date at which settlement could take place. IAS 1.69(d) requires a liability to be current unless the entity has an unconditional right to defer settlement beyond 12 months. There is no similar requirement in IAS 19.

We believe that a liability, such as long-service leave, for which the counterparty could require payment within the next 12 months, is a current liability (IAS 1). It is also a long-term benefit (IAS 19) because it is earned over several years and is not expected to be settled within 12 months of the end of the period(s) in which it was earned. The proposed changes do not sufficiently clarify this principle.

We also believe that the inclusion of paragraphs 11-16 under the heading of short-term benefits is not helpful, as some argue that this implies all compensated absence is a short-term benefit, although compensated absence could be either short term or long term depending on the facts and circumstances. We have included in Appendix C some suggested wording.

(e) The proposals require past-service costs to affect profit or loss, but actuarial gains or losses to affect OCI. The classification of a change in the defined benefit obligation between past-service cost and actuarial gain or loss may have a significant impact on profit or loss. The IFRIC noted in November 2007 that it can sometimes be difficult to distinguish between a change in assumptions and a change in benefits. This can be particularly difficult where changes result from legislative changes. We believe it would be helpful if the Board incorporated in the revised standard some application guidance to clarify the difference between these items.

Appendix B

Disclosures

We are concerned that many of the disclosure proposals could lead to 'boiler plate' disclosure rather than useful information - for example, paragraphs 125C, 125G (b), 125J and 125K. We are also concerned that the proposed sensitivity analyses could prove onerous for entities with plans in many different territories without providing useful information. We do not believe that the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraph 125H) is useful additional information when there is a requirement to provide sensitivity analyses.

It is not uncommon for an entity to have a large number of individually immaterial plans that are in aggregate material. It could be misleading to exclude such plans from the disclosures required by the paragraphs 125D and 125E. We also note that the aggregation of economically diverse territories for the purposes of the investment analysis in 125F and the assumptions in 125G could result in the disclosure of averages that are not useful to a reader of the financial statements. We also note that one purpose of the sensitivity analyses required by 125I is to allow a user of the financial statements to consider the possible impact of any pessimism or optimism in the assumptions disclosed under 125G. Where the range of assumptions underlying aggregated disclosures - and hence the range of 'reasonably possible' variations in those assumptions - is broad, the sensitivity analysis may be misleading.

We believe that the disclosures should allow users to:

- form a judgement on whether the assumptions are pessimistic or optimistic and the accuracy of previous assumptions;
- make approximate adjustments to the results disclosed by a preparer to put results from different entities onto a comparable basis;
- consider the future cash flow effects of the benefit obligations; and,
- identify the significant risks to which the preparer is exposed that could impact those future cash flows.

The accounting for employee benefits provides a common measure of the liabilities but allows a wide range of judgement, which emphasises the need for disclosures about assumptions and sensitivity. A possible alternative to the sensitivity analyses in paragraph 125I would be disclosures that analyse the defined benefit obligation into current active employees, retirees and terminated vested but not yet retired employees, together with disclosure of the sensitivity of the these components and the service cost to a 1% change in the discount rate. This would allow users to make a reasonable judgement on the assumptions without having to consider all significant actuarial assumptions. We also believe that the information about experience adjustments currently required by IAS 19 paragraph 120A(p) is valuable and should be retained.

The funding requirements applicable to an entity are no less important to an understanding of the financial impact of pension plans than the accounting requirements in many territories. These requirements vary significantly between territories. We suggest that disclosures set out in paragraphs 125C(b), 125J and 125K are restricted to those plans that are significant to an understanding of the financial statements and where there is a significant risk that changes in assumptions would result in material adjustments to the carrying amounts. Paragraph 125K mixes accounting (service cost) and funding (contributions), so limiting the disclosure to consideration of the funding would provide clearer information.

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Appendix C

Suggestions regarding detailed wording

Definitions of short-term benefits and other long-term benefits

8 Short-term employee benefits *may* include items such as:
(a) wages, salaries and social security contributions;
(b) short-term compensated absences ~~(such as paid annual leave and paid sick leave)~~ where the compensation for the absences is expected to ~~become due to~~ be settled within twelve months after the end of the *reporting* period in which the employees render the related employee service *(which may include paid annual leave or paid sick leave)*;
(c) profit-sharing and bonuses ~~payable~~ if they are expected to ~~become due to~~ be settled within twelve months after the end of the *reporting* period in which the employees render the related service; and
(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

22 If profit-sharing ~~and~~, bonus payments, *social security contributions or compensated absences* are not expected to ~~become due to~~ be settled wholly within twelve months after the end of the *reporting* period in which the employees render the related service, those payments are ~~other~~ long-term employee benefits (see paragraphs ~~126–131~~ 24–125K).