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Mr Kevin Stevenson
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Our ref Submission - Tier 2 ED 195

9 May 2011

Dear Sir

Submission - Tier 2 Supplement to ED 195

We are pleased to have the opportunity to comment on the Tier 2 Supplement to ED 195 *Defined Benefit Plans (proposed amendments to AASB 119).*

We appreciate the Board's efforts to expedite the process of updating the Tier 2 reporting requirements. However in the event that the IASB, upon issuing the final amendments, makes changes to the underlying exposure draft to which the Tier 2 proposal relates, we believe that the AASB should re-expose for comment the disclosures included in the final amendments together with its analysis of whether or not the disclosures should be included in the Tier 2 reporting requirements.

Executive Summary

We agree with the majority of the reduced disclosures proposed for entities applying Tier 2, however we do not agree with exemptions from paragraphs 125C(c) and 125J. Our detailed comments are provided in Appendix 1 of this letter.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9335 7630, or Michael Voogt on (02) 9455 9744.

Yours faithfully

Martin McGrath
Partner In Charge, Department of Professional Practice

Appendix 1 – Tier 2 Supplement to ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*

Whether you agree with the AASB disclosure proposals in paragraphs 33A and 125A-125K of ED 195 in relation to Tier 2 entities as set out in the Analysis of Proposed Disclosures section below.

We do not agree with the AASB proposal to exempt entities applying Tier 2 from the following paragraphs:

- Paragraph 125C(c) – which requires "*a narrative description of any plan amendments, curtailments and non-routine settlements*". Principle 6(f) of the 'Tier 2 Disclosure Principles' would support this disclosure requirement, as this is an example of *"transactions and other events and conditions encountered by such entities"*. In addition it may be argued that this disclosure would provide information required by principles 6(a) and 6(b).

  Furthermore, we do not believe that making such a disclosure would be particularly onerous or that the cost of doing so would outweigh the benefit.

  We also do not believe that a reasonable basis for an exemption has been provided in the 'Analysis of Disclosure Requirements Relating to Tier 2 Supplement to AASB Exposure Draft ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*'. Presuming that *"...plan amendments, curtailments and non-routine settlements occur relatively infrequently in the Australian context..."* and *"...are usually not significant..."* should not, in our view, form the basis of an exemption.

  Given the potential significance of amendment or curtailment transactions we believe that it should be up to the Tier 2 entity to determine non-disclosure on the basis of materiality rather than exempt all Tier 2 entities on the assumption that such transactions occur relatively infrequently.

- Paragraph 125J – "an entity shall disclose details of **any** asset-liability matching strategies used by the plan, including the use of annuities and other techniques, such as longevity swaps, to manage longevity risk" (emphasis added).

  We have two initial issues with this:

  - The Staff analysis implies that only disclosures around 'longevity risk' are required by paragraph 125J. Paragraph BC 62(b) of the Basis of conclusions of ED/2010/3 *Defined Benefit plans (Proposed amendments to IAS 19)* makes it clear that the IASB's intention was to require disclosure of *"...an entity's use of asset-liability matching investment strategies..."*. *"...the use of annuities and other techniques, such as longevity swaps, to manage longevity risk..."* being just *one* example but that **all** "*...asset-liability matching strategies used by the plan ...*" should be disclosed.

- Paragraph 125C(b) of Tier 2 Supplement to ED 195, which has not been exempted for Tier 2 entities, requires disclosure *"...of the extent of the risks to which the plan exposes the entity..."*, so by giving an exemption to paragraph 125J, which essentially requires disclosure of the asset-liability matching strategies used by the plan to mitigate certain of these risks, would leave 'unanswered questions' for users. That is, the financial report alerts users to the existence of risks but does not require disclosure of how those risks are managed.

Therefore, in terms of the Tier 2 principle of 'user need', we believe it is necessary to assess whether an 'all or nothing' disclosure with regards to risk would be preferable.

Looking to other pronouncements that deal with the disclosure of risks and how they are mitigated, AASB 7 *Financial Instruments: Disclosures – Compiled AASB Standard –RDR Early Application Only* ("AASB 7 RDR") exempts Tier 2 entities from the disclosures required by paragraphs 33-42 which require disclosure around the risks that arise from financial instruments and how they have been managed - typically credit risk, liquidity risk and market risk. In other words, both the disclosure of the *extent of these risks* as well as the mitigation thereof have been exempted for Tier 2 entities (i.e. 'a nothing' disclosure approach).

On the other hand Tier 2 entities are not exempt from AASB 7 RDR.22 which requires an entity to disclose the nature of the risks being hedged as well as a description of each type of hedge for fair value hedges, cash flow hedges, and hedges of net investments in foreign operations (i.e. 'an all' disclosure approach).

For consistency purposes we believe that either an all or nothing disclosure approach should be taken here.

In relation to Tier 2 Supplement to ED 195, we agree with the Staff analysis with regards to the necessity to retain paragraph 125C(b) in the Tier 2 disclosure requirements, as it is an extension of the disclosure principle in paragraph 125A(a) and corresponds with paragraph 6(a) of the 'Tier 2 Disclosure Principles'.

We would therefore support an 'all' disclosure approach, i.e. not to exempt Tier 2 entities from paragraph 125J.

It should also be noted, that if entities applying Tier 2 are exempted from paragraph 125H, then paragraph 125A(b) will need to be edited accordingly, by removing the reference to paragraph 125H.