

Chamber of Pension Actuaries

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The Chamber of Pension Actuaries is the professional organisation of independent Swiss pension actuaries in Switzerland. The Chamber's key aims are to contribute to the development of occupational pensions, protect the interests of our profession, provide opportunities for sharing experiences and further education and participate in the further development of social insurance law through representation on relevant political bodies and through the provision of joint opinions on current legal issues etc.

We appreciate the opportunity to comment on the IASB's Exposure Draft, *Defined Benefit Plans, Proposed amendments to IAS 19*. We offer the following observations:

Recognition

Question 1

The exposure draft proposes that entities should recognize 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?

The ED does not offer a very strong conceptual argument for preferring immediate to deferred recognition, especially in regard of the current used measurement methodology of the pension obligation which includes different uncertain elements about the future development of the relevant economic parameters and the duration of the liabilities.

We can see that the fair value principle should also be applied for the presentation of pension liabilities and that an application of such a principle might lead to the concept of immediate recognition of all changes in the present value of defined benefit obligation and in the fair value of plan assets.

Under such a concept it should also be clarified how an eventually to recognize liability should be determined in the case employees might have to participate in the refinancing of such liability (similar to the limitation in recognized assets that would also be recognized in the OCI). In fact it might well be that the employees have to pay supplemental contributions or they get lower interest credits on their cash-balance accounts for a certain time to refinance a shortfall in the plan that was related to the changes in the present value of the defined benefit obligation and in the fair value of plan assets. If such case occurs, we would assume that the present value of the liability recognized through such measures by the employees should reduce the liability recognized in the OCI. This reduction might even be shown as a separate line item.

Question 2

Should entities recognize unvested past service cost when the related plan amendment occurs (Paragraphs 54, 61 and BC13)

Why or why not?

An unvested past service cost should not be recognized immediately as a liability. If a plan is amended after the first time adoption of IAS 19, and part of the amendment is unvested, e.g. dependent on the future service of the employees, this part of the past service cost does not represent a liability at the balance sheet. In fact, such unvested past service cost will only result in a liability if the employee renders the service up to the vesting period. This means that unvested past service cost are liabilities that might realize in future. An immediate recognition is in contradiction to the true and fair presentation.

The treatment under the current IAS 19 seems to be appropriate and there are no implementation issues. A change would also create discrepancies to other IFRS standards..

Disaggregation**Question 3**

Should entities disaggregate defined benefit cost into three components: service cost, finance cost and rereasurements? (Paragraphs 119A, 61 and BC14-BC18)

Why or why not?

It is suggested that the defined benefit cost is split into three components. We agree that such a split enhances comparability and provides useful information mainly in regard of the different level of uncertainty associated with each component. Moreover, to separate finance cost is in line with the requirement to recognize the funded status as a liability in the balance sheet.

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?

Yes, the service cost should exclude changes resulting from changes in the demographic assumptions.

The demographic assumptions are set as the best estimate of the future assumptions at the current date. Plan members who are currently pensioners are not working for the company, and therefore should have no further employment cost. Demographic assumption changes for pensioners should therefore be excluded from the service cost.

The board previously stated that their reason for wanting to include changes in demographic assumptions for active members as part of service cost was to ensure that companies chose reasonable assumptions

and would not have the ability to manipulate Profit and loss (P&L) figures. Including the affect of demographic assumption changes in service cost would actually increase the ability of firms to manipulate P&L figures as the firms have flexibility in terms of when to update to new assumptions and therefore when the related additional expense would occur. If changes to demographic assumptions are not included in the service cost then there is actually less ability to manipulate the P&L through their selection.

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)

The ED does not offer a very strong conceptual argument for eliminating the expected return on plan assets in profit or loss. We think that the current disclosure requirements with regards to setting the return assumption would have been sufficient for the investor to understand the impact on profit and loss. Thus, we would have preferred the status quo.

On the other hand, we think this approach can be reasonable, if a purely liability driven view is to be established, particularly when a plan is in deficit. However, we would like to draw attention to the specific situation of an over-funded plan with an asset ceiling restriction where we believe the results could be counter-intuitive.

	Year 1	Year 2
DBO	900	945
Assets	1000	1050
Surplus	100	105
Asset ceiling restriction	50	55
Net pension asset	50	50
Interest income on Net pension asset (5%)	2.5	

In this example the net pension asset is restricted to the amount of surplus that the employer can use to reduce its future contribution requirements, which is 50. The policy within the pension fund is that this amount does not receive investment returns. This is a situation which is common in Switzerland (if there is a so-called 'employer contribution reserve'). As such, the net pension asset at the end of year 2 will be restricted to 50, the same net pension asset in year 1. The company has however received an income of 2.5 from the expected interest on the net pension asset during the year even though it was in effect known that the surplus would not increase. At the same time, a different charge is taken outside the income statement through OCI due to the change in the asset ceiling restriction. This situation seems counter-intuitive to us.

It would be preferable for the net interest/income in this case to be based on the rate at which the economic value available would be expected to grow (i.e. 0% in this case).

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?

a) Yes, service cost should be in P&L, since it is part of ongoing employment cost. Pension benefits are an important part of the overall compensation package offered to employees, and the current service cost is the portion of the cost of operating the pension plan which does not relate to plan assets and so is wholly an employment cost

b) Yes, net interest should be part of finance costs in P&L. The net deficit is either an obligation for the company to pay future contributions, or an asset which can be used to reduce future contributions. In either case it is appropriate to treat the amount similar to other financial instruments and include its cost or income separately from employment costs. Presently, interest on service cost is recognized either in service cost or interest cost. We would like some clarification where this component should be allocated.

c) Yes, remeasurements should be presented as part of other comprehensive income. If a pension fund was wholly owned and controlled by the sponsoring company then it may make sense to include all changes in its liabilities and assets as part of P&L. In practice the pension fund generally operates as a quasi independent entity in most if not all jurisdictions. In particular if the sponsoring company goes bankrupt any assets in the pension fund are generally not available to creditors. In some jurisdictions (including Switzerland) the pension plan also has the ability to reduce, or improve, benefits independently from the sponsoring employer and in doing so affect the level of the pension liabilities. The pension fund therefore is not like a wholly owned subsidiary of its sponsoring company, and as such what the company really owes the pension fund is best thought of as a future stream of contributions. As such changes today on the level of plan assets or liabilities do not have a direct effect on that future stream of contributions, so including such changes in P&L in the current year is misleading.

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 the profit or loss?

(Paragraphs 98A, 119A(a) and BC48) Why or why not?

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 and BC49 and BC78) Why or why not?

a) In our opinion this would be a reasonable approach. In Switzerland it is a requirement by law that members take the value of their pension benefit with them to their new employer when leaving the firm.

If there are a lot of leavers in a particular year this could trigger a settlement calculation otherwise we would usually treat the payments made as benefits paid.

We agree that in this context it would make sense to treat the resulting gain/loss when a member leaves as a remeasurement component.

b) This approach appears reasonable.

c) This may be helpful in understanding the disclosures. However, in practice, this will add to costs of producing the disclosures which may present problems for smaller firms.

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.

Paragraphs 125A and BC52-BC59) Are these objectives appropriate? Why or why not? If not, how should you amend the objectives and why?

In principle we would be concerned if too many details regarding the nature of the defined benefit plans are required.

Pension schemes in Switzerland may be quite complex. In addition, a single employer may offer several different pension plans to various groups of employees. A large amount of requirements to disclose detailed information can be very costly. It is also likely that the results are not fully understood by readers of the accounts in which case the added information may also be misleading.

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 assets-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)

a) In Switzerland the material assumptions would usually include the discount rate, the salary increase rate and the assumed rate of interest credited on accumulated savings balances. This would create a large amount of additional work. Particularly, in the case of the interest crediting rate, it is likely that the results will not be understood in countries outside of Switzerland. Sensitivities to the discount rate, in isolation, can also be misleading as a change in discount rate would also often lead to a corresponding increase in the interest crediting rate. As such we do not consider the additional amount of work that would be required as justified given the usefulness of results in presenting an accurate picture of the liabilities.

b) Possibly useful information but too much detail in our view.

c) This figure would aid in understanding results and would not require a large amount of additional work.

d) and e) possibly useful information but too much detail particularly for smaller companies.

Multi-employer plans

Question 10

The exposure draft proposes additional disclosure 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

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

We support the proposal.

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 that share risks between various entities under common control to make them consistent with the disclosure in paragraphs 125A-125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not

We support the proposal.

Other comments

Question 12

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

We do not have any further comments.

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 cost 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© and BC92-BC96)

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

a) Incorporation of IFRIC 14

We welcome the Board's decision that IAS 19 should incorporate, without substantive change, the requirements of IFRIC 14 as amended in November 2009.

b) Definition of minimum funding requirement

We agree with the proposed definition of "minimum funding requirement".

c) & d) Administration expenses and tax

From a conceptual point of view we agree on the proposed amendment to include administration expenses which are not subject to future service in the calculation of the defined benefit liability. This specially applies if the pensions are paid by an independent legal entity.

However, if administration costs are generally going to be required to be included in the IAS 19 defined benefit liability, then we think that additional clarity should be provided by the IASB with regards to how this is performed. Our clients are not necessarily in favour of such treatment and we note that this will create yet another difference between defined benefit plan accounting under IFRS and under US GAAP. This may be particularly troublesome for clients currently reporting the same liabilities as per IFRS as they are reporting for US GAAP.

Current practice by the majority of entities has been to expense plan administration costs either as a reduction in the actual and expected return on assets or through a direct charge to P&L. The requirement to build a reserve for future taxes and administrative expenses into the DBO, could increase the DBO by as much as a few percent.

Further the requirement to build a reserve for future administrative expenses into the DBO and service cost raises a number of practical issues. Employers could reach different conclusions on these issues, resulting in some lack of comparability from one to another without further guidance.

BC84 seems to imply that the present value of those expenses that are likely to be incurred regardless of future employee service (e.g., trustee fees, actuarial fees, audit fees, administration fees that don't vary based on size of benefit, etc.) should all be included in the DBO. Is this the intention? If so, then very little would be left in the service cost.

In some cases a bundled administration and investment service is offered by a single vendor. In such cases it may not be easy to separate general administrative fees from investment fees.

We would urge the IASB to reconsider these proposals. We believe that it would make more sense to leave the provision for administrative expenses in IAS 19 as it currently is, but require more disclosure about how the employer is reflecting those expenses in the measurement of the defined benefit asset/liability and the benefit cost.

e) Clarification regarding the attribution where benefits are back-end loaded

We support the clarification proposed and note that it will make IAS 19 consistent with US GAAP.

f) Mortality assumption

In our opinion the description "current estimates" with respect of mortality rates is not clear and potentially confusing. Paragraph 73(i), should at least insert "future" in front of mortality rates, and would be better to explicitly state "allowing for expected changes in mortality rates".

g) Risk sharing and conditional indexation

We agree with the Board's assessment that risk-sharing and conditional indexation features affect the ultimate cost to the entity of providing the benefit and should therefore be taken into account in the measurement of the defined benefit obligation, however we believe that some further clarification/guidance is needed.

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 participation 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?

Swiss plans participating in collective foundations constitute multi-employer plans as per IAS 19. We currently value such plans using IAS 19 defined benefit accounting and this approach is supported by the Treuhand Kammer (absent a determination from the client that the plan is immaterial and can [for simplicity] be accounted for on a defined contribution basis) and we anticipate continuing to do so in the future.

Transition

Question 15

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

Yes, we support the option for an early adoption.

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 that the key points in the proposal are useful. But we think also that it is a false conclusion to believe that with more narrative and disclosed information about characteristics of the defined benefit plans it is possible to better understand local "specialities" (e.g. impact/effect of local framework) for not very high qualified professionals. Such local "specialities" in small countries are sometimes very difficult to understand for the investors.

We assume that alone with more detailed information and longer presentation the work is not done. A lot of additional explanatory notes have to be prepared for the valuation report and finally in the annual report of a company only a summary of this is published. Therefore we expect that the cost for the proposal will increase more than expected by the Board. Furthermore, the shorter the time between valuation and reporting date and the more information should be provided the more estimates will be requested. Given the fact that all estimates have a certain amount of uncertainty the question is whether the additional required information will really lead to better results.

Other comments

Question 17

Do you have any other comments?

Convergence with US GAAP

We appreciate further convergence with US GAAP. The present proposal goes in the right way, but leaves some important accounting differences (e.g. recycling of actuarial gains/losses).

Treatment of Risk Benefits (Example “Disability” on page 27)

Paragraph 69 example 4 reads as follows:

4 A plan pays a long-term disability benefit that is the same for any disabled employee regardless of the length of service. The expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

Referring to the new example 4 that was added in paragraph 69 many Swiss pension plans provide temporary to normal retirement age disability benefits and surviving spouse benefits that are not related to service, e.g. it is relatively common that such benefits are equal to a fixed percentage of insured salary regardless of employee service. We understand that this example just shows how to value such a plan on a stand alone basis and that if such a disability benefit is part of the overall benefits of a defined benefit plan, the plan sponsor still can include the valuation of the disability benefit in the overall valuation of the defined benefit obligation as under the current IAS 19.