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RÉPUBLIQUE FRANÇAISE

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Chairman

AB /JMB/MP

n°460

Paris, July 5, 2004

Sir David TWEEDIE
Chairman

IASB
30 Cannon Street

LONDON EC4M 6XH

CL 12

Dear David,

On behalf of the Conseil National de la comptabilité (CNC) I am writing to comment on the Draft Comment Letter regarding the Exposure Draft of proposed Amendments to IAS 19 *Employee Benefit* : Actuarial Gain and Losses, Group Plans and Disclosures.

We disagree with the proposed amendments for the main following reasons :

- The proposed Exposure Draft leads to the introduction of a new option ; elimination of options is a stated goal of the current Board, as it is considered that options hamper comparability between companies. Besides, the proposed option is not convergent with the FASB standards, another stated goal of the Board.

- The Draft proposes the implementation of innovative accounting treatments on issues regarding comprehensive income, and recycling ; we do not support any innovative treatments on these issues before a thorough debate has taken place.

Yours sincerely,

Antoine BRACCHI

MINISTÈRE DE L'ÉCONOMIE
DES FINANCES ET DE L'INDUSTRIE

Question 1 - Initial recognition of actuarial gains and losses

IAS 19 requires actuarial gains and losses to be recognised in profit or loss, either in the period in which they occur or on a deferred basis. The Exposure Draft proposes that entities should also be allowed to recognise actuarial gains and losses as they occur, outside profit or loss, in a statement of recognised income and expense. Do you agree with the addition of this option? If not, why not?

We are not in favour of the proposed option for the following reasons :

- we concur with the EFRAG's analysis on the SORIE..
- the introduction of an additional option is not consistent with the stated objective of the Board to eliminate options ; this is aggravated by the fact that there is no guidance in IAS 19 and in the proposed amendments on which option should be used in which situations in order to provide the best financial information (preferred accounting treatment);
- this option is not included in the convergence project (IFRS / US Gaap) :
- there is no conceptual basis for the final standard arising from the introduction of the new option ;

Question 2 - Initial recognition of the effect of the limit on the amount of a surplus that can be recognised as an asset

Paragraph 58(b) of IAS 19 limits the amount of a surplus that can be recognised as an asset to the present value of any economic benefits available to an entity in the form of refunds from the plan or reductions in future contributions to the plan (the asset ceiling). The Exposure Draft proposes that entities that choose to recognise actuarial gains and losses as they occur, outside profit or loss in a statement of recognised income and expense, should also recognise the effect of the asset ceiling outside profit or loss in the same way, ie in a statement of recognised income and expense.*
Do you agree with the proposal? If not, why not?

We do not agree with the rationale of the Exposure Draft, therefore, we are not in favour of the proposed treatment.

As we understand that the proposal derived from Financial Regulating Standard 17 applicable in UK, it would be useful to detail in the basis for conclusions the differences, if any, between this standard and the proposed amendment, including the treatment of past service cost (see §67 of FRS 17).

Question 3 - Subsequent recognition of actuarial gains and losses

The Exposure Draft proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should not be recognised in profit or loss in a later period (ie they should not be recycled).
Do you agree with this proposal? If not, why not?

We agree with the comments of EFRAG.

We observe that the interdiction of recycling (i) would result in no recognition in income of a portion of the employees defined benefits granted by an entity (ii) is a new accounting procedure as recycling is required by other accounting standards (IAS 21, IAS 39, including IAS 16 and IAS 38 which allow transfer from revaluation surplus to retained earnings).

Question 4 - Recognition within retained earnings

The Exposure Draft also proposes that, when actuarial gains and losses are recognised outside profit or loss in a statement of recognised income and expense, they should be recognised immediately in retained earnings, rather than recognised in a separate component of equity and transferred to retained earnings in a later period. Do you agree with this proposal? If not, why not?

We agree with the comments of EFRAG.

We also mention that the proposal is made in the context where IFRS's do not provide any definition of the components of equity, including retained earnings.

If the proposal is confirmed, we would see some advantage to disclose the cumulative amounts of actuarial gains or loses directly transferred to equity.

Question 5 - Treatment of defined benefit plans for a group in the separate or individual financial statements of the entities in the group

(a) The Exposure Draft proposes an extension of the provisions in IAS 19 relating to multi-employer plans for use in the separate or individual financial statements of entities within a consolidated group that meet specified criteria.
Do you agree with this proposal? If not, why not?
(b) The Exposure Draft sets out the criteria to be used to determine which entities within a consolidated group are entitled to use those provisions.
Do you agree with the criteria? If not, why not?

We agree with the comments of EFRAG under a) and b).

As for the question 5(a), we do not see any effect of the change proposed by IASB as the entities under common control participating to a common defined benefit plan will always be able to obtain the necessary information to use defined benefit accounting and will not be allowed to account for the plan as if it was a defined contribution plan.

Question 6 - Disclosures

The Exposure Draft proposes additional disclosures that (a) provide information about trends in the assets and liabilities in the defined benefit plan and the assumptions underlying the components of the defined benefit cost and (b) bring the disclosures in IAS 19 closer to those required by the US standard SFAS 132 Employers' Disclosures about Pensions and Other Pos tretirement Benefits.
Do you agree with the additional disclosures? If not, why not?

As it is mentioned by § BC 25, the proposed additional disclosures derive from a review of disclosures required by national standards. It can be assumed that these standards include US Gaap. We agree with this effort to harmonise the information required in different sets of standards.

However, we note that differences still exist between IAS 19 and FSASs .

Disclosures on post employment defined benefits as per US Gaap are based on the nature of the plan, i.e. pension plans (IAS 87), post retirement benefits other than pensions (FAS 106) and post employment benefits (FAS 112). On the contrary, information to be disclosed under IAS 19 is to be provided separately based on the funding status of the plans whatever their nature : IAS 19.120 requires to disclose (i) the present value of defined benefit obligations that are wholly unfunded and (ii) the present value of defined benefit obligations which are wholly or partly unfunded. This difference in approach for disclosures under IAS 19 and US Gaap should first be addressed before IAS 19 requires additional disclosures.

We agree on disclosures from § 120 a to §120 h, but we don't agree with §120 i. we suggest to provide only the global allocation of plans.
§120 o i and ii is too fastidious and US GAAP don't ask for these disclosures, so we suggest to wait before taking a decision on this topic that US have adopted IAS 19.

Question 7 - Further disclosures

Do you believe that any other disclosures should be required, for example the following disclosures required by SFAS 132? If so, why?
(a) a narrative description of investment policies and strategies;

(b) the benefits expected to be paid in each of the next five fiscal years and in aggregate for the following five fiscal years; and (c) an explanation of any significant change in plan liabilities or plan assets not otherwise apparent from other disclosures.
SFAS 132 also encourages disclosure of additional asset categories if that information is expected to be useful in understanding the risks associated with each asset category.

We agree with the comments of EFRAG.
We don’t believe further disclosures are needed.