

Via email: www.iasb.org

September 3, 2010

International Accounting Standards Board

Re: Exposure Draft ED/2010/3 *Defined Benefit Plans Proposed Amendments to IAS 19*.

The Accounting Principles and Auditing Standards Committee (the AP&AS “Committee”) of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the International Accounting Standards Board (the “Board”) on this proposed standard.

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

Generally, the Committee supports this proposed standard. Please see our responses to the questions below.

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?

The majority of the Committee is in favor of revaluing plan assets to fair value, because that valuation would be on the same basis as the related defined benefit obligation. Reporting the fair value of the plan assets provides the readers a more accurate picture of the net liability for the obligation at the end of the period without non-disclosure devices like deferred gains/losses or the existing “corridor” to obscure the net obligation. The process would result in more comparable data among reporting entities for the use of readers than the current provisions of IAS 19 due to the elimination of alternative choices on accounting treatment and disclosure.

However, some members of the Committee are not in favor of recognizing changes in the fair value of plan assets when they occur. Plan assets are not like other investments because they are a portfolio that is held for the long term to pay future benefits. It is not available for any other use by the entity (unless the plan is overfunded, which is not the norm). Its value will fluctuate over time, but that is not income or loss to the entity unless the fluctuations cause a long term variance from an assumed rate of return. These members believe it is for this very reason that the current standard uses a "corridor" approach and that approach should be retained.

Question 2

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

Yes, it is a cost of the amendment and should be recognized in income when it occurs regardless of whether the benefits are vested or not.

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?

Yes, this is very logical and will simplify the accounting substantially.

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, it is a remeasurement of the obligation and should be accounted for like an actuarial gain or loss.

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)

Yes, it is internally consistent to recognize financing cost at the same rate as is used to discount the defined benefit liability. It is a relatively simple approach and would be more understandable to readers of financial statements.

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?

Yes, the categories are logical and are important to understanding costs of the plan.

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?

We agree for routine and some non-routine settlements; but, if non-routine settlements are the result of an entity event accounted for separately in profit or loss, then the effects of that event on the defined benefit obligation should be accounted for in income as an impact of the event that gave rise to them. This would be appropriate for readers' understanding of the impact of those significant entity events. An alternative approach would be to report the related defined benefit remeasurements separately in other comprehensive income so readers could determine the impact of the event.

(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)

Yes, because curtailments are equivalent to plan amendments, the related gains or losses should be accounted for as those for plan amendments.

(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?

Yes, narrative descriptions of significant plan amendments, curtailments and non-routine settlements and their effects on comprehensive income are logically a part of making the accounting for the defined benefit plan comprehensible to the readers.

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 would you amend the objectives and why?

Yes, they all seem reasonable.

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?

Yes, all the proposed disclosures seem reasonable and appropriate for the readers to understand the effects of an entity's defined benefit plans. While the disclosures may be extensive, the disclosure for readers would otherwise not be thorough or transparent. The disclosures do not appear unduly burdensome for preparers.

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?

Yes, these disclosures are reasonable. We recommend that, to the extent possible, the Board make these disclosures similar to those specified by the FASB in its anticipated Accounting Standards Update referenced in Paragraph BC69.

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?

No, disclosures from paragraph 33A seem adequate for now. There is a need to deal with the impact of the chronic underfunding of state plans on the participating entities and that should be considered in the next benefit plan project.

Question 12

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

No additional comments.

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?

Yes.

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 multiemployer 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?

Since these are defined benefit plans, defined benefit accounting should be the norm, rather than the exception. Unfortunately, the changes in the industrial landscape have threatened the solvency of the participating entities and, consequently, of the plans. Multi-employer plans tend to be most common in "legacy" industries that may never fully recover. Defined benefit accounting might lead to huge actuarial losses for remaining participating entities, with no certainty that they could, or would be willing to, pay for the losses stemming from other participants' inability to pay. This is a major social and political issue, outside the purview of accounting. We have no specific situations involving these circumstances to offer the IASB.

Question 15

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

The majority of the Committee believes that retrospective application is appropriate and not unreasonably burdensome to preparers since most of the data involves measurements already required by IAS 19 in financial statements presented for prior periods. Most of the changes involve just presentation and disclosures.

However, some members of the Committee are not in favor of retrospective application, because it would be expensive and disruptive. For example, for manufacturing companies which allocate employee benefit costs to product costs, determining adjustments to inventory and cost of goods sold in prior year financial statements might be very difficult. These members believe the main benefit of the new standard is on the accounting on the balance sheet, so a cumulative catch-up approach is appropriate.

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?

Yes, we believe the benefits articulated by the Board are appropriate. The proposed changes would narrow options for entities and provide greater comparability of the information on entities' defined benefit plans.

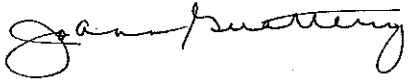
Question 17

Do you have any other comments on the proposals?

No additional comments.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink, appearing to read "JoAnn Guattery". The signature is fluid and cursive, with the first name "JoAnn" written in a larger, more prominent script than the last name "Guattery".

JoAnn Guattery, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants