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Association Suisse des Actuaires
Schweizerische Aktuarvereinigung
Swiss Association of Actuaries

Zurich, 4 September 2008

International Accounting Standard Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Preliminary Views on Amendments to IAS 19 Employee Benefits

Dear Sir

We refer to the preliminary views paper of March 2008 and are pleased to submit on behalf of the Swiss Association of Actuaries our comments on the proposed amendments to IAS 19 Employee Benefits.

If upon reading these comments you identify points you would like to discuss please do not hesitate to contact our chairman, Marc Chuard. We would be glad to be of any future assistance in this respect.

Yours sincerely

Swiss Association of Actuaries

Marc Chuard
Chairman of the Board

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COMMENTS ON

THE PRELIMINARY VIEWS ON AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS PAPER OF MARCH 2008

INTRODUCTION

The implementation of the IAS 19 standard related to employee benefits was always a controversial issue in Switzerland.

The two main reasons are the following.

The assets of pension funds have to be segregated by law from the assets of the sponsoring company. As a consequence the pension fund is a legally separated entity from the company. This legal independence implies in the view of some people economic independence. As a consequence they see no justification for the pension fund to have an impact on the financial statements of the company.

Secondly the most frequent pension plan in Switzerland is based on individual savings accounts with additional guarantees; the nature and extent of the guarantees varies from one plan to another. The individual savings is increased yearly by a retirement credit defined in the rules of the pension plan. According to Swiss Law and general public consensus such plans are considered as defined contribution type of plans. Therefore the classification of these plans as defined benefit by IAS 19 is controversial and is frequently criticised.

After long and emotional discussions following the implementation of IAS 19 revised in 1998 it is now generally accepted that practically all pension plans in Switzerland are defined benefit for IAS 19 purposes. The issue remains however highly political and emotional.

Considering this context and the importance of accounting standards related to pensions to our profession our association welcomes the opportunity to comment on the proposed changes.

Due to the nature of our association our comments are limited to issues related to our profession i.e. actuarial technique and design of pension benefit issues. Indeed we claim no expertise related to accounting or presentation of financial statements.

OUR COMMENTS

Our association welcomes the Board's initiative to review the current IAS 19 standard. Indeed based on our experience some of the current provisions of the standard are difficult to apply and lead in some cases to questionable results. The trend of converting classical defined benefit plans to hybrid plans based on individual savings with various types of guarantees provides additional justification for the need of a review of IAS 19.

As far as possible we would also be in favour of convergence in pension accounting between FAS 87 and IAS 19.

1. Chapter 3 of Preliminary Views – Presentation of approaches for defined benefit promises

The issues addressed in this chapter are strictly speaking more of reporting than of actuarial nature.

This being said however we strongly support approach 2 recommending a split between the service cost and other (=financial) costs. The service cost is recognised in the profit and loss.

All other costs, including changes in the value of plan assets are recognised in other comprehensive income.

This allows for a clear split between the actuarial cost (based on the nature of the benefit promise) and all financial costs (such as changes in plan assets, in assumptions etc.).

Indeed Approach 1 bundling all costs in one component and recognising this amount in the profit and loss would severely distort our understanding of the yearly cost of a pension promise.

2. Chapter 4 of Preliminary Views - Introduction of contribution-based promises

We support the idea of introducing a separate category of contribution oriented plans. The savings plans common in our country would be in this category. Indeed the features of such plans are different from pure defined benefit and pure defined contribution plans. As a consequence a specific approach to contribution oriented plans is justified in our view.

Furthermore it is questionable whether the actuarial cost method (Projected Unit Credit) prescribed by the current standard is appropriate to determine the pension liability related to individual savings plans.

3. Chapter 5 of Preliminary Views - Definitions

The definition of contribution based plans is comprehensive in our view.

The proposed definitions focus, if our understanding is correct, on retirement benefits. Further guidance related to disability and survivor benefits of active employees would be useful. Indeed the liability related to these benefits can have a non negligible impact on the total pension liability.

Clarification how far the definition of the disability and survivor benefits can have an impact on the classification of the plan as contribution oriented or defined benefit would be of assistance. This would need rephrasing or suppressing the paragraph 5.60 concerning benefit promises with more than one outcome. The strict interpretation of this paragraph would mean that the proposed modifications of the standard do not apply to Swiss plans. In our view this would miss the purpose of the project.

We would not object to the possible Board's position that the classification of pension plan is based on the retirement benefit. Ancillary benefits should be included in the determination of the pension cost and liability, but do not have an impact on the classification of the plan.

4. Chapter 7 of Preliminary Views – Measurement of contribution oriented promises

From the actuarial perspective this is the main point of the proposed change of the standard. According to our understanding the Preliminary Views paper recommends that the liability of a contribution oriented promise should reflect future cash flows related to the promised benefits adjusted for time value of money.

As a principle and on the high level we certainly would agree with this approach. On the practical side however we are not aware of an actuarial method that does not satisfy these requirements. Indeed, to simplify all actuarial methods boil down to discounting future cash flows.

For example any Unit Credit Method and in particular the Projected Unit Credit method discounts future cash flows.

Generally speaking we favour the principle of giving as much professional freedom as possible to the actuary performing the calculation. In the case of an accounting standard however we would welcome additional guidance concerning the practical and technical side of how the liability of a contribution oriented plan should be determined. After all one of the main purposes of the accounting standard is to facilitate the comparison of financial results between companies. We doubt the lack of a recommended actuarial method would have a favourable contribution to the overall aims of the standard.

We would be happy to provide any assistance the Board considers useful to support further guidance in respect of the actuarial cost method.

5. Chapter 8 of Preliminary Views – Measurement of benefits after the accumulation phase

We agree with the proposal that benefits during accrual and in payment should be measured according to the same methodology.

6. Chapter 9 of Preliminary Views – Disaggregation, presentation and disclosures

We support the view that the presentation of the cost of contribution oriented plans should mirror the presentation of defined benefit plans. As expressed under point 1 above we favour the disaggregation of the components of the yearly cost in an actuarial part recognised in profit and loss and financial part recognised in the other comprehensive income.

7. Chapter 10 of Preliminary Views – Benefits with "higher of" option

We are not convinced the proposed separate recognition of high of option is necessary in the majority of cases. In many cases, especially in Switzerland, one of the two promises is predominant. We therefore would recommend the plan is treated according to the value of the predominant component.

The Board's recommendation is perhaps valuable in cases where both options are in substance equivalent.