Letter by email

Sir David TWEEDIE
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Brussels, 6 September 2010

Dear Sir,

RE: IASB EXPOSURE DRAFT – (ED/2010/3)

On 29 April 2010 the IASB ('the Board') published the exposure draft 'Defined Benefit Plans – Proposed amendments to IAS 19'. The American Benefits Council (ABC), the European Association of Paritarian Institutions of Social Protection (AEIP) and the National Coordinating Committee for Multiemployer Plans (NCCMP) submitted a joint reaction to the exposure draft and the European Federation for Retirement Provision (EFRP) sent in an individual response. By means of this letter we would like to highlight our common concerns to the proposed changes to IAS 19.

Societies face the major challenge of providing their citizens with adequate and sustainable retirement income. Population ageing will make state pay-as-you-go pension schemes increasingly hard to afford in the coming decades. The number of pensioners is set to rise, while the number of people to support their pension benefits will decline. Many governments have already responded to this demographic trend by reforming state retirement plans. The deterioration of government finances due to the financial crisis will put further pressure on public pension provision.

Occupational pension plans are in our view well-placed to compensate for declining public pension replacement rates. Occupational pension schemes are able to deliver retirement income at very low costs by exploiting economies of scale. Moreover, defined benefit plans organise intergenerational solidarity by smoothing funding surpluses and shortfall over time. Such intergenerational risk-sharing reduces exposure of individual plan members to demographic and financial risks.

Whilst we accept that it is important that investors in entities have clarity and transparency of each entity's pension obligations, we are concerned that some amendments proposed by the Board will discourage – rather than encourage – one type of occupational pension plan, i.e. defined benefit (DB) plans and raise their costs. We believe it is important that employers continue to be able to provide such plans, within the diversity of pension provision, as they do enable risk-sharing within and between generations.

- In recent years we have witnessed a strong shift from DB plans towards defined contribution (DC) schemes, where individuals retain a most of the investment risks themselves. We are concerned that the intended abolition of the deferred recognition and corridor options may – in countries where its use is prevalent – contribute to the ever growing pressure on DB plans to close through reflecting short-term capital market volatility in companies' financial statements. This may lead to social consequences in countries where occupational DB plans represent a significant part of social and pension arrangements.

- The exposure draft introduces new disclosure requirements for company sponsored schemes as well as multi-employer plans. We are worried about the proposed increase in disclosures, which would increase administration costs of plans and may eventually result in lower retirement benefits. In particular, we believe that the requirement for members of multi-employer plans to disclose 'the amount that is required to be paid upon withdrawal…' (paragraph 33A (d)) needs clarification to make clear that 'amount' means a description of how the amount is arrived at, rather than a wind-up figure for each employer. In addition, we find that the requirement to disclose expected contributions in the next five years (paragraph 33A (f) (iii)) is going to be difficult and expensive for multi-employer plans and entities to comply with, and we would suggest that this requirement is deleted.

The amendments to IAS 19 will make it significantly harder to provide citizens with predictable retirement income based on collectivity and risk-sharing. In this respect, it is regrettable that the cost-benefit analysis contained in the exposure draft does not take into account such social costs. Therefore, we would like to invite the Board to consider the wider social and economic impact arising from the behavioural changes that its proposals are likely to produce.

Sincerely yours,

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The **American Benefits Council** is a trade association representing primarily large employers and other organizations in the United States that directly sponsor or provide services to health and retirement benefit plans serving over 100 million Americans.

The **European Association of Paritarian Institutions of Social Protection** represents the European Paritarian Institutions of Social Protection in Brussels since 1997. The Association gathers 27 leading large and medium-sized Social Protection Management Organizations which equally represent the employees and the employers through a joint governance scheme; plus 39 affiliates from 22 countries. AEIP represents its members' values and interests at the level of both European and International Institutions.

The **European Federation for Retirement Provision** represents the various national associations of pension funds and similar institutions for supplementary/occupational pension provision. Its membership at large consists of institutions for workplace (2nd pillar) retirement. Some of them are also operating purely individual pension schemes (3rd pillar).

The **National Coordinating Committee for Multiemployer Plans** is a non-profit membership organization founded in 1974 in response to a clear lack of understanding of multiemployer plans that was demonstrated by lawmakers during the enactment of ERISA. It is dedicated exclusively to the advocacy and protection of multiemployer plans, their participants and their families.