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October 22, 2003

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

Dear Sir David,

Comments on the Convergence Project of IAS 19 *Employee Benefits*

The Accounting Standards Board of Japan (ASBJ) respects IASB's continuing effort to conduct the Convergence Project on IAS 19 *Employee Benefits*. The International Issues Standing Committee of ASBJ has been considering this project as a liaison standard-setter, and has some concerns on the tentative decisions made by IASB to date. We hope that IASB will take the following issues into consideration in this project.

Best Regards,

Ikuo Nishikawa

Chairman, International Issues Standing Committee
Vice Chairman, Accounting Standards Board of Japan

1. In Japan, a comprehensive standard pertaining to accounting for retirement benefits was issued in 1998, taking into consideration US SFAS 87 and IAS 19 at that time. It is currently effective in practice. Our comments are provided based on our experience in the development process and the practice of accounting for retirement benefits in Japan.
2. Our understanding is that, in IASB's convergence project of IAS 19 *Employee Benefits*, IASB has taken into consideration UK ASB's FRS 17 *Retirement Benefits*, and has tentatively agreed with the following for defined benefit plans based on the principle of recognising all changes in plan assets and plan liabilities immediately:
 - (1) that the "corridor" approach will be eliminated and actuarial gains and losses shall be recognised as income or expense immediately;
 - (2) that past service cost, whether vested or unvested, shall be recognised as an expense immediately; and
 - (3) that the actual return on plan assets shall be recognised in total immediately, and shall not be separated into expected return on plan assets and actuarial gains and losses.
3. No other standards of major countries require the above-mentioned accounting treatment. UK ASB's FRS 17 does not require the accounting on the face of the financial statements. In Japan, entities are required to amortise actuarial gains and losses regularly within a period no longer than the average remaining service period whenever there is a significant change in the basis of calculations, which includes basic rates. This treatment is consistent with US SFAS 87 and the current IAS 19.
4. The existing standards on accounting for retirement benefits are based on the projected benefit obligations, which is calculated from a number of actuarial assumptions. We believe that, because of considerable uncertainty involved with such measure, the existing treatment permitting deferred recognition of its changes has received fairly wide support in practice, from the perspective of ensuring the usefulness of net income information in predicting future profits. We question whether the information provided by immediately recognising the changes in the obligations would be more relevant to the decision-making needs of users of financial statements.
5. We believe that if IASB were to propose the tentative decisions in an Exposure Draft, IASB must consider carefully what issues in practice the tentative decisions would resolve and how the quality of financial information would be improved for users of the financial statements. Specifically, given the significant impact on net income, sufficient consideration must be given to opinions of those who are concerned and to the results of empirical researches, not only to conceptual consideration. We suggest that IASB should not go straight to an Exposure but issue a Discussion Paper instead and gather enough inputs from diverse backgrounds worldwide.
6. One of the reasons that the current IAS 19 provides for deferred recognition of actuarial

gains and losses is that immediate recognition can cause volatile fluctuations in liability and expense and implies a degree of accuracy which can rarely apply in practice and that this volatility may not be a faithful representation of changes in the obligation but may simply reflect an unavoidable inability to predict accurately the future events that are anticipated in making period-to-period measurements (IAS 19 BC39). The Japanese accounting standard for retirement benefits agrees with this understanding: “since actuarial gains and losses include not only the difference between the previous actuarial assumptions and what has actually occurred but also the effects of changes in actuarial assumptions, immediately recognising the actuarial gains and losses may not faithfully represent the status of the retirement benefit obligations”.

7. IASB seems to believe that the defined benefit asset or liability can be measured with sufficient reliability to justify recognition of actuarial gains and losses. However, in the practice of measurement of retirement benefits, there has been no significant improvement enhancing its reliability since the current IAS 19 was issued, and we do not believe that a drastic change of the accounting for actuarial gains and losses would have sufficient ground to obtain worldwide consensus.
8. Finally, we are concerned that the IASB’s tentative decision would be a regression from IASB’s goal of convergence. We believe that the adoption of an accounting treatment that has never been actually applied in any major countries would require considerable persuasiveness. However, we do not feel IASB’s tentative decision is convincing at present. We hope that the IASB develops standards that many countries can adopt with satisfaction.

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