

April 17, 2009

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

Dear Sir David:

**Re: Post-employment benefits**

I am writing this letter to share information we have obtained from Japanese constituents to our discussion paper on post-employment benefits and, based on it, to propose another alternative to be considered in your project so as to help you expeditiously complete the MoU.

In January 2009, the ASBJ published a discussion paper on post-employment benefits in Japan, including issues set out in the IASB's discussion paper "Preliminary Views on Amendments to IAS 19 Employee Benefits (the DP)" of March 2008. Comment letters to our discussion paper, many respondents opted strongly against recognising all changes in post-employment benefit obligation and plan assets in profit or loss immediately. Rather, they expressed a strong preference to a convergence to the method as currently used by SFAS 158. Proponents of this view typically argue that (1) the IASB should give priority on achieving the convergence with the US GAAP without prolonging its deliberation to overtake it by requesting recognition of all components in profit or loss and (2) the method adopted by SFAS 158 has reflected all changes in post-employment benefit obligation and plan assets in both the statement of financial condition and the statement of comprehensive income.

Having read comment letters to your board, we are also aware that most respondents to your DP are not quite satisfied with the Approach 1 of the DP that was tentatively favored by the IASB in January 2009. Many SAC and GPF members have also argued that such approach is inappropriate. Thus, we could understand that our constituents view does not surprise you.

In such circumstances, it should be prudent to take precedence the convergence with the US GAAP over new approaches. For this reason and from the spirit of the "Tokyo Agreement" of August 2007, we would like you to kindly be advised that the IASB seriously re-deliberate this issue and take into account, in addition to three approaches proposed in your DP, the method currently employed in SFAS 158. We are concerned if advancing the project without revisiting the issue now might eventually cause the delay of the project. If the IASB decides to allow the method used under the US GAAP, the IASB could quickly settle one of the central issues of this project and could allocate your resources to other important projects. This would gain momentum for the completion of the entire MoU projects as planned and would ease us to develop our standard in a converged manner.

For your information, I attach synopsis cited from our comment letter to your DP which was sent in September 2008. I expect this sort of information exchange would help you in gathering views from constituents across the globe as well as promoting our common goal of international convergence.

Yours sincerely,



Ikuo Nishikawa  
Chairman, Accounting Standards Board of Japan

CC: Mr. Tatsumi Yamada, Member, International Accounting Standards Board  
Mr. Warren McGregor, Member, International Accounting Standards Board

Abstract from ASBJ's comment letter dated September 26, 2008, on the IASB's discussion paper "Preliminary Views on Amendments to IAS 19 Employee Benefits"

## Recognition and presentation of defined benefit promises (Chapter 2 & 3)

### Question 2

Are there factors that the Board has not considered in arriving at its preliminary views? If so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

### Elimination of the deferred recognition and smoothing features of IAS 19

9. Chapter 2 of the DP proposes that entities should recognise the funded status of a defined benefit promise (that is, the value of plan assets less the value of defined benefit obligation) as an asset or a liability in the statement of financial position and concurrently recognise changes in that funded status in its statement of comprehensive income immediately, without deferred recognition.
10. We understand the necessity of the improvements to defuse criticisms against the anomalies in the deferred recognition model (such as the possibility that an entity may recognise an asset when the plan is in deficit or vice versa). However, as described in paragraph 2, we are of the view that the scope of this project should be limited to areas that can be achieved by June 2011 and thus controversial issues should be addressed not in this phase but in next phase of the project.
11. We understand the merit of the immediate recognition of the funded status of a defined benefit promise in the statement of financial position, because it would resolve the anomalies as mentioned in the previous paragraph and may be able to gain a consensus of constituents easily. However, for reasons described in paragraphs 12 to 17, we are of the view that the change of the basic approach in measurement of net defined benefit cost (including actuarial gain and loss and past service cost) under the existing IAS 19 would lead to a heated and prolonged controversy and thus it should not be dealt with in this phase of the project (further explanation is described later in paragraphs 21 to 29).

( It is only necessary to recognise the funded status as a liability )

12. Paragraph 2.7 of the DP notes the main criticism of the deferred recognition model in the existing IAS 19, including the problem that an employer with a defined benefit plan is not required to recognise economic changes in the cost of providing post-employment benefit promises (the changes in plan assets and benefit obligations) as those changes take place and

the problem that an entity may recognise an asset when a plan is in deficit or vice versa. However, for the purpose of resolving those problems, recognition of the funded status of a defined benefit promise in the statement of financial position would be sufficient and there is no need to fundamentally change the basic approach in measurement of net defined benefit cost under the existing IAS 19.

13. Paragraph 2.10 of the DP also points out that immediate recognition, rather than deferred recognition, would be consistent with the *Framework*, which states “the effects of transactions and other events are recognised when they occur ... and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.” However, we are of the view that the deferred recognition in profit or loss can be consistent with the *Framework*, as far as the funded status is immediately recognised in the statement of financial position. Under such method, an entity would recognise the changes in the funded status as a component of other comprehensive income in the statement of comprehensive income of the periods in which economic changes in the cost of providing defined benefit promises occur (see paragraphs 26 to 27).

(Necessity of deliberation from the viewpoint of decision usefulness)

14. Although there are various concerns about the volatility in profit or loss that could result from immediate recognition of actuarial gains and losses as described in paragraph 2.5 of the DP, the DP proposes that all entities should adopt immediate recognition on the ground that a measure should be volatile if it represents faithfully transactions and other events that are themselves volatile. On the other hand, findings from some empirical studies suggest that financial information based on deferred recognition is more useful in investors’ decision making than that based on immediate recognition. Appropriateness of immediate recognition should be considered from the viewpoint of decision usefulness that is superordinate to faithful representation. We are concerned that IASB’s deliberation on this point is insufficient.

Question 3

- (a) Which approach to the presentation of changes in defined benefit costs provides the most useful information to users of financial statements? Why?
- (b) In assessing the usefulness of information to users, what importance do you attach to each of the following factors, and why:
  - (i) presentation of some components of defined benefit cost in other comprehensive income; and
  - (ii) disaggregation of information about fair value?

- (c) What would be the difficulties in applying each of the presentation approaches?

Question 4

- (a) How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?
- (b) Please explain any alternative approach to presentation that provides more useful information to users of financial statements. In what way does your approach provide more useful information to users of financial statements?

Basic approach in measurement of net defined benefit cost under the existing IAS 19 with recycling

21. We support none of the alternative approaches proposed by the DP.

As described in paragraph 11, we are of the view that the basic approach in measurement of net defined benefit cost under the existing IAS 19 should remain unchanged in this phase of the project. In this view, the actuarial gains and losses and past service costs that arise during the period but are not recognised as components of net defined benefit cost pursuant to IAS 19 should be recognised as a component of other comprehensive income and included, in the statement of financial position, in accumulated other comprehensive income. Amounts recognised in accumulated other comprehensive income should be adjusted (recycled) as they are subsequently recognised as components of net defined benefit costs pursuant to IAS 19.

(FASB has adopted the approach to resolve similar problems )

25. The FASB has developed Statement No.158 (SFAS 158) “*Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*” in 2006 in the process of the improvements to accounting for postretirement benefits, which is phased similarly to IASB’s project of Post-employee Benefits. The problems that SFAS 158 aimed to resolve was almost the same as those in applying the existing IAS 19, which the IASB aims to resolve in this project (see paragraph B8 of SFAS 158 and paragraph 2.7 of the DP). The approach to the presentation of defined benefit cost described in paragraph 21 is a similar approach adopted in SFAS 158 and therefore it would be a sufficient solution to a large part of the problems.

(Changes in the value are reported in total comprehensive income only when they occur)

26. Under the accounting treatment with recycling as described in paragraph 21, the changes in value of plan assets and in defined benefit obligation are recognised as a component of other comprehensive income in the statement of comprehensive income of the periods in which they occur. And they are deducted from other comprehensive income in the period in which they

are reclassified to profit or loss subsequently as components of net defined benefit costs pursuant to IAS 19, to avoid including them in total comprehensive income twice. Therefore, this approach would ensure transparency by reporting the changes in value of plan assets and in defined benefit obligation in total comprehensive income only in the period when they occur.

27. In addition, such manner of reporting gains and losses is also adopted in IAS 39 "*Financial Instruments: Recognition and Measurement*" and IAS 21 "*The Effects of Changes in Foreign Exchange Rates*". We are of the view that this approach gives a faithful representation of changes in the values of assets and liabilities and thus there is no reason to reject it in accounting for post-employee benefits.