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Brasília, Distrito Federal – Brazil
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September 6, 2010

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

RE: Exposure Draft on Defined Benefit Plans - Proposed amendments to IAS 19.

Dear Board Members,

The "Comitê de Pronunciamentos Contábeis" - CPC[1] welcomes the opportunity to comment on the Exposure Draft named Defined Benefit Plans - Proposed amendments to IAS 19 (ED/2010/3).

This response summarizes the views of our members, which may be supported by the opinions of external parties, sent to us for analysis and to enhance the discussion on the subject matter. We have also made efforts to encourage other external parties to send comments directly to the IASB.

As a general comment we would like to express our support for most of the proposals made by the Board. The main concerns that we have are associated to: (1) the proposals made in order to modify the way unvested past service costs should be accounted for; and (2) the new disclosure requirements proposed by the Board for the amount, timing and variability of the sponsoring entity's future cash flows. Please notice that we are not against the disclosure objective itself, but the way the Board believes this objective should be achieved.

Please see our detailed comments on the Board's questions in the Appendix to this

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[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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If you have any questions about our comments, please contact Mr. Geraldo Toffanello[2] (*geraldo.toffanello@gerdau.com.br*), coordinator of a working group constituted to study any proposal-stage literature issued by the IASB.

Yours sincerely,

Edison Arisa Pereira
Technical Coordinator
Comitê de Pronunciamentos Contábeis (CPC)

[2] Mr. Geraldo is also member of the IFRS Advisory Council.

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Appendix – Consultation Questions

Recognition

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?

Comments on Question 1

We support the Board's proposal to eliminate the option to defer recognition of actuarial gains or losses that is currently permitted by IAS 19 for the accounting of defined benefit plans. However, we disagree with the proposal that unvested past service cost should be recognized at the time of a plan amendment. Such an approach would be, in our view, conceptually inappropriate and would create a gap between the way sponsoring entities manage their obligations to provide benefits to its employees and the way these same obligations should be accounted for. As stated in paragraph 2.18 of the DP[3] "the attribution of benefits to past service may be a means of assigning a fixed amount of increased remuneration among existing employees" and recognizing obligations based on benefit formulas may conflict with such an understanding.

Since the Board is not proposing at this time to review the accounting of defined benefit plans based on a benefit formula, it appears that the immediate recognition of unvested past service cost would simply be the logical outcome of a model that may or may not be the most appropriate one.

We agree that the proposal would, in general, enhance convergence toward US GAAP but we believe that as for past service cost the Board should expand the scope of its current project to include the re-examination of how benefit formulas should be applied.

Question 2

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

[3] Discussion Paper Preliminary Views on Amendments to IAS 19 Employee Benefits, issued by the IASB on March 2008.

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Comments on Question 2

We do not support the Board's proposal. Please see our comment on question 1.

Disaggregation

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?

Comments on Question 3

We agree with the disaggregation of the defined benefit cost into service cost, finance cost and the remeasurement component. We believe this form of presentation properly groups items with similar predictive values, it is easy to understand and somehow disaggregates costs related to active and inactive plan participants in the statement of profit or loss.

Defining the service cost component

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?

Comments on Question 4

We fully support the Board's proposal to exclude changes in the defined benefit obligation resulting from changes in demographic assumptions. Even though these changes might be seen as revisions in estimates of service cost accumulated in the statement of financial position, it would be severely inappropriate and misleading to present them as part of current period service cost which has a completely different predictive value, as noticed by some respondents of the DP issued by the Board on March 2008 and as stated in paragraph BC22 of the Exposure Draft.

Defining the finance cost component

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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)

Comments on Question 5

We agree that the single 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).

Presentation

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?

Comments on Question 6

We support the Board's proposal for the presentation of changes in the net defined benefit liability (asset). We believe that the proposal is simple to understand and properly segregates items with different predictive values.

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Based on the Exposure Draft, however, remeasurements shall be transferred immediately to retained earnings and shall not be reclassified to profit or loss in a subsequent period. This raises some questions as for the impact that such a proposal could have in terms of dividend distribution in different jurisdictions, since it would allow entities with significant unfunded plans caused by remeasurements to distribute profits in the same level of entities with overfunded plans. The effect of remeasurements may have a significant impact on future cash flows of an entity and, consequently, we believe this issue should be further investigated.

Settlements and curtailments

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?

(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)

(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?

Comments on Question 7

We agree with the proposals contained in items (a) and (b) above. As for item (c), we believe it should be mentioned that the disclosures should be limited to plan amendments, curtailments and non-routine settlements that have material effects in the financial statements. How to determine materiality would be based on judgment of quantitative and qualitative factors, taking into consideration that non-routine settlements would be presented as part of the remeasurement component, and would not affect profit or loss.

Disclosures

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Defined benefit plans

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?

Comments on Question 8

We agree with the above three proposed objectives.

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)).*

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Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?

Comments on Question 9

In general, we agree with the proposed new disclosure requirements. We do have, however, the following comments on some specific requirements:

Information about risk, including sensitivity analyses

One major issue that we have identified in the disclosures intended to provide information about the amount, timing and variability of the entity's future cash flows is associated to the valuation methodology currently required by IAS 19. The present version of IAS 19 requires companies to apply the Projected Unit Credit Method. That methodology seems to be the most suitable for accounting purposes and as far as we know the Board is not considering the possibility of changing that approach in future.

However, companies may utilize other methodologies to valuate their defined benefit obligations and to manage the funding of defined benefit plans. In fact, the valuation method applied by plans in Brazil in many cases differs from the Projected Unit Credit Method andhas a direct impact in the amount of future cash-outflows that may be incurred by the sponsoring entity.

Therefore, some analysis proposed by the Board may have little effect for companies that apply the Projected Unit Credit Method for accounting purposes only. Sensitivity analysis showing how amounts recognized in the financial statements could change due to variations in demographic or financial assumptions might not necessarily provide information about cash-flow risks. Besides, it would be costly to prepare such an analysis: companies will have to allocate resources and for those who hire the services of external actuaries, expenditures will probably increase.

Disclosure of factors that could cause contributions to differ from service cost and the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (accumulated benefit obligation), would also have reduced use if the Projected Unit Credit Method is not used for financial management purposes.

If the disclosure of the accumulated benefit obligation is intended to show for how much the obligation could be settled at the balance sheet date, this would not be achieved if the plan is managed using the aggregated method, for instance. Also, if the plan uses the aggregated method to define the contribution level for each period, service cost in the financial statements will necessarily differ from that amount.

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Instead of these above mentioned disclosures we would suggest the Board require the disclosure, in a tabular form, of risk factors that could materially influence future cash-flows. The Board could also require companies to disclose how they, as plan sponsors, may ensure that these risk factors are under control.

Asset-liability matching strategies

It is unclear for us how the disclosure of information about asset-liability matching strategies could be relevant for users of the financial statements, unless they provide information about the effectiveness of such strategies for each period. Therefore, we suggest the inclusion of more guidance about how these disclosures should be made in order to provide useful information for users of financial statements.

Multi-employer plans

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?

Comments on Question 10

We have no comment.

State plans and defined benefit plans that share risks between various entities under common control

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?

Comments on Question 11

We have no comment.

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Other comments

Question 12

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

Comments on Question 12

We have no additional comments.

Other issues

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)

COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

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(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?

Comments on Question 13

(a) We welcome the interpretative guidance of IFRIC 14, being included as part of the proposed amendments to IAS 19.

(b) We agree with the Board's proposed definition.

(c) We agree with the Board's proposal.

(d) We have concerns that the Board's proposal on this matter might excessively simplify the guidance for determining when administration costs should be considered a reduction in the return on plan assets or part of the actuarial assumptions used to measure the defined benefit obligation. Some plans may specify that part of plan assets might be used to cover plan expenses (other than those specifically related to the administration of plan assets). Also, treating these costs as part of the obligation might involve additional costs and little gain in terms of analysis. The same result could be achieved by requiring companies to separately disclose administration costs included in plan assets.

(e) We have no comment.

(f) We agree with the Board's proposal.

(g) We have no comment.

Multi-employer plans

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))

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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?

Comments on Question 14

We have no comment.

Transition

Question 15

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

Comments on Question 15

We are of the opinion that IAS 8 should not be fully applied to the proposed changes in accounting policy. Although we agree with assumption of reduced complexity in the determination and presentation of the amounts that would be recognized under the new model, some of the proposed disclosures might demand considerable preparation costs (please see our comment on question 9). If the Board decides to require those disclosures in a new version of IAS 19, we believe that the transitional provision should exempt companies from providing comparative information for them.

Benefits and costs

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.

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(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?

Comments on Question 16

As mentioned in our comment on question 15, some of the disclosures proposed might increase preparation costs and, as commented on question 9, are likely to provide little gain for users of the financial stamentes.

Other comments

Question 17

Do you have any other comments on the proposals?

Comments on Question 17

We suggest that an introductory comment be added on to what extent the proposed amendments are convergent with or divergent from the proposal being sought by the FASB.