SAAJ The Security Analysts Association of Japan
5F, Tokyo Stock Exchange Bldg., 2-1, Nihonbashi-Kabutocho,
Chuo-ku, Tokyo 103-0026 Japan
Telephone: (03) 3666-1515
Facsimile: (03) 3666-5843
E-mail address:intl@saa.or.jp

3 September 2010

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

Dear Sir David:

re: Comments on Exposure Draft
"Defined Benefit Plans"

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the exposure draft, "*Defined Benefit Plans*" put out by the International Accounting Standards Board (the Board). The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members exceed 23,000. The CAC is a standing committee of the SAAJ composed of 14 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants.

Immediate Recognition of Actuarial Gains and Losses (Question 1)

The CAC supports the exposure draft's proposal to eliminate the deferred recognition of actuarial gains and losses. IAS 19 permits an option where actuarial gains and losses are unrecognized if they are within a "corridor", and such gains and losses are deferred if they are outside the corridor. Many financial analysts think that when a pension plan is underfunded, such should be reflected in the statement of financial position without delay. Unrecognized actuarial differences, the recognition method applied, and deferred period are shown in notes. Consequently, Japanese analysts are forced to make adjustments to compare entities adopting the corridor approach with those adopting a policy of immediate recognition including entities using US GAPP. Elimination of deferred recognition would enhance the comparability of financial statements and therefore reduce the workload of financial statement users.

Remeasurements Recognized in OCI Should Be Recycled

The exposure draft proposes that remeasurement of a net defined benefit liability (asset) shall be presented in other comprehensive income (OCI) and not reclassified to profit or loss in a subsequent period (119A). However, the CAC thinks the amount presented in OCI should be reclassified or recycled to net income. As a defined benefit pension plan is an important part of overall employee compensation, not recycling remeasurements and charging them directly to retained earnings is equivalent to paying the said part of compensation directly from equity. As a consequence, a part of labor cost would not be included in cost of goods sold, which would distort production cost calculation and make inter-company comparisons difficult. On the other hand, when pension investments perform well and plan assets exceed liabilities, according to the exposure draft the difference cannot be used to reduce pension expenses but accumulated as retained earnings of the entity, although legally it belongs to the pension fund. This point is important as retained earnings are typically regarded as realized profits that belong to the stockholders and that are available for dividends.

The exposure draft, quoting IAS 19, says "The decision … not to recycle … is made because of the pragmatic inability to identify a suitable basis". (BC45) The Board has continuously put forward non-recycling proposals which would only degenerate net income as it is reported today and confuse financial statement users. In this context, the Board should make all efforts to identify a suitable basis to continue recycling. The CAC thinks cash contributions to a pension fund would be a suitable trigger for recycling. When accumulated OCI for pension is negative, an entity must sooner or later contribute cash to the plan to cover the deficit. Therefore, when an entity contributes cash, the same amount should be recycled to net income until such time the accumulated OCI becomes zero. This cash contribution trigger model offers a clear and suitable basis for recycling as it is backed by actual cash transactions and close to the realization concept.

The case where the accumulated OCI is positive should also be carefully considered. Here, an entity will typically withhold from contributing to the pension fund (pension holiday) and eventually accumulated OCI will become zero. A pension fund may actually even pay back excess cash to the entity. In this case, the same amount should be recycled to net income.

Financing Cost and Expected Return on the Pension Asset (Question 5)

The exposure draft proposes that financing cost be calculated using net assets and liabilities and the discount rate, that expected return shall not be used at all. The CAC thinks it appropriate to multiply assets by expected return as IAS 19 currently stipulates. In this regard, the CAC supports Tatsumi Yamada's alternative view mentioned in AV7. Multiplying net assets by the yield on high quality corporate bonds (the discount rate) is not rational as the multiplier is irrelevant to the actually invested asset (multiplicand). The CAC understands that some entities used overly optimistic expected returns in the past. However, expected return should be calculated based on actual asset allocation and, therefore, is not something to be arbitrarily determined by entities. Arbitrary calculation would be deterred if pension fund investment policy and actual asset allocation based on such policy are clearly disclosed. Simple prohibition of the use of expected return is really evading the heart of the matter.

Correctly calculated expected return is an expected value as defined in statistics. The Board often uses statistical expected value, for example, in the expected loss model regarding impairment of certain financial instruments and also in the expected value model in revised IAS 37. Not using a statistical concept in this exposure draft represents lack of consistency.

<u>Presentation of Settlements (Question 7)</u>

The exposure draft proposes that gains and losses at settlement are actuarial gains and losses and should therefore be included in remeasurement. As the CAC supports the recycling of actuarial gains and losses as mentioned above, it thinks gains and losses at settlement should be accounted for in profit and loss.

If you have any questions or need further elaboration, please do not hesitate to contact Sei-Ichi Kaneko, Executive Vice President, SAAJ (s-kaneko@saa.or.jp).

Sincerely yours,

Keiko Kitamura

Keiko Kitamura
Chair
Corporate Accounting Committee