Vereniging van Bedrijfstakpensioenfondsen

Unie van Beroepspensioenfondsen

Opf
Stichting voor Ondernemingspensioenfondsen

To the International Accounting Standards

Board (IASB)

30 Cannon street,

London EC4M 6XH

United Kingdom

Kenmerk : 10053 PvdG/HdH 14th September 2010
subject : Comment on Exposure draft IAS19

Dear members of the International Accounting Standards Board,

The Dutch pension fund organisations, OPF, VB and UvB represent the company wide, sector wide and occupational pension funds in the Netherlands. They provide for retirement income of over 90% of the Dutch employees. At the end of 2009, pension funds in the Netherlands managed an invested capital of about € 700 billion. Main characteristics of Dutch pension funds are shared risk, non-profit, conditional indexation, funds which are legally and economically independent of the company and at last resort the possibility to cut pension rights.

We would like to react to the Exposure Draft (ED) Defined Benefit Plans (Proposed amendments to IAS19). The Dutch Ministry of Social Affairs made a letter which is fully supported by our organisations and members (AV/PB/10/18108). This also holds for the proposed specific text alterations. We also agree with the comment letter of the Dutch Accounting Standards Board (DASB which gives a more detailed comment and also answers to your specific questions (see letter of DASB dated september 6th 2010, reference AdK).

In addition we would like to stress the following points:

In almost all Dutch pension schemes the indexation to wage or price increases is conditional. For 98% of the employees, the indexation depends of the financial position of the fund (mostly measured by the coverage ratio). When the financial position is below a certain level, indexation is zero and pension obligations for these employees are not indexed. In case the financial position is better, pensions are partly indexed and above a certain level of the coverage ratio full indexation can be granted. The only (legal and constructive) obligation for the employer in this respect is to pay the agreed contribution for the service period. For about 65% of the relevant funds, the sole source of funding for the granting of indexation is excess return, if any.
The attached stylised example illustrates this point. It takes an employer with an average pay fund with plan assets of 107, a yearly conditional indexation ambition of 2%, a duration of 15 years and a proportion of premium from employees of 1/3.

The present value of the total premium payments is 6.0, of which is 4.0 (2/3) attributable to the employer, making this the real obligation of the employer. However, the net liability based on the current proposals in the ED is 18.2, which is a difference of 14.2.

So, to cope with this and other kinds of caps on the obligations of the employer and obligations of the employees as well as limits to the rights of employees we suggest to add a sentence to paragraph 85 of the ED, because the criteria in that point seem to rule out various forms of risk sharing used in Dutch pension plans. As it reads now, *an entity* should be required to change benefits according to the terms of the plan while at least in the Dutch environment the discretion to change benefits is with pension fund management. Neither in the first sentence of paragraph 85 nor in paragraph 85c itself is any reference made to any funding arrangement. Therefore, we would like to add to paragraph 85:
"(d) the formal terms of the plan limit the legal and constructive obligation to pay additional contributions to cover a shortfall in the funds assets."

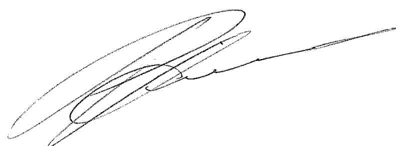
With regard to multi-employer plans, also some amendments are proposed. In an industry-wide pension fund the residual risk for companies is much more limited than in the case of a company pension fund. The contribution of the employers in such plans is based on the relevant actuarial assumptions for the whole sector and not on the characteristics of the work force of individual employers. The problem is the interpretation of "consistent and reliable basis". It could be argued that an allocation on the basis of the each company's share in the current contributions to the fund might satisfy these consistency and reliability criteria. Others argue that due to the continuously changing population of sponsoring companies multi-employer plans fall by definition under the 32(a) exemption. Therefore, this approach is not very clear and leads to different interpretations. Correspondingly, we would propose that the Board considers issuing further specific clarification of what is meant by "a consistent and reliable basis". Further accounting guidance for Multi employer plans potential can be improved by changing the current paragraph 32b in a way that reads as follows:
"the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the consequence that allocating the obligation, plan assets and cost to individual entities participating in the plan does not result in an asset or liability that reflects the extent to which the surplus or deficit in the plan will affect the individual entities' future contributions."

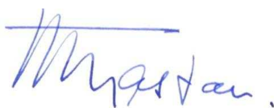
Furthermore, question 13 regards the issue of the net interest approach. Although we can follow the line of reasoning, in our view the proposed approach introduces an inconsistency. Most conditional benefits depend on the plan's investments, which generates returns in line with expected returns. It is inappropriate to calculate service costs assuming that pension increases depend on asset returns, but calculate net interest in a way that asset returns are lower than expectations. This would mean that the cost of providing the conditional benefit is charged up front to the entity's profit, while the asset return where this increase is dependent on is reported through other comprehensive income.

With regard to the specific questions we would like to memorize that we agree with the questions 4, 6a, 7b, 7c, 8, 11, 13a, 13b, 13c, 13d and 15. However, we don't agree with 1,2, 3, 5, 6b, 6c, 7a, 9, 10, 13e, 13f, 13g, 14 and 16. In this respect we follow the Q&A from the Dutch Accounting Standards Board.

We hope that these suggestions will lead to further discussions with experts and are properly taken into account when preparing the final standard.

Yours sincerely,





G.P.C.M. Riemen	mr. R. Bastian	mr. F. Prins
Director VB	Director UvB	Director OPF

Encl.: 2

Illustrative Example Risk Sharing IAS19 (Encl. 2)

Assumptions:

Starting value of plan assets	107		
Starting local regulatory value of liabilities	100		
Expected investment return (regulatory)	6,0%	per year	
Discount rate (regulatory)	3,5%	per year	
Discount rate (high quality corporate bond rate)	4,0%	spread:	0,5%
Indexation ambition	2,0%	per year	
Lower indexation limit	105%	cover ratio	
Upper indexation limit	125%	cover ratio	
Duration of liabilities	15	year	
Recovery period for premium	15	year	
Proportion of premium from employees	1/3		
Policy for financing indexation:	**D1**	Only from excess return (if any)	

Estimated Recovery Path (based on regulatory requirements):

year	assets boy	premium	return	assets eoy	liab boy	intrest	liab eoy	index	liab eoy ind	cover boy	cover eoy	cover eoy ind
1	107,0	1,2	6,5	114,7	100,0	3,5	103,5	0,6%	104,1	107,0%	110,8%	110,2%
2	114,7	1,0	6,9	122,7	104,1	3,6	107,7	0,9%	108,7	110,2%	113,8%	112,8%
3	122,7	0,9	7,4	131,0	108,7	3,8	112,5	1,1%	113,8	112,8%	116,4%	115,1%
4	131,0	0,8	7,9	139,6	113,8	4,0	117,8	1,4%	119,4	115,1%	118,5%	117,0%
5	139,6	0,6	8,4	148,7	119,4	4,2	123,5	1,5%	125,4	117,0%	120,3%	118,5%
6	148,7	0,5	9,0	158,2	125,4	4,4	129,8	1,7%	132,0	118,5%	121,8%	119,8%
7	158,2	0,5	9,5	168,1	132,0	4,6	136,6	1,8%	139,1	119,8%	123,1%	120,9%
8	168,1	0,4	10,1	178,6	139,1	4,9	144,0	1,9%	146,7	120,9%	124,1%	121,8%
9	178,6	0,3	10,7	189,7	146,7	5,1	151,8	2,0%	154,9	121,8%	124,9%	122,5%
10	189,7	0,3	11,4	201,3	154,9	5,4	160,3	2,0%	163,5	122,5%	125,6%	123,1%
11	201,3	0,2	12,1	213,6	163,5	5,7	169,2	2,0%	172,6	123,1%	126,2%	123,8%
12	213,6	0,1	12,8	226,6	172,6	6,0	178,6	2,0%	182,2	123,8%	126,8%	124,4%
13	226,6	0,1	13,6	240,3	182,2	6,4	188,6	2,0%	192,4	124,4%	127,4%	124,9%
14	240,3	0,0	14,4	254,7	192,4	6,7	199,1	2,0%	203,1	124,9%	127,9%	125,4%
15	254,7	-0,1	15,3	269,9	203,1	7,1	210,2	2,0%	214,4	125,4%	128,4%	125,9%

Results:

PUCM-value of liabilities assuming no risk sharing		125,2	=starting regulatory liability increased with indexation ambition for entire duration
Same, with expected conditional indexation		119,0	=present value of conditionally indexed liability end of period
Present value of total premium payments		6,0	
Due from employees	2,0		
Due from employer	4,0		

Presentation and analysis:

Best estimate of net defined benefit liability			4,0	=present value of future payments attributable to the employer
Consists of:	Plan assets	-107		
	Employee contributions	-2,0	(to be presented as part of the defined benefit obligation)	
	Defined benefit obligation	113,0		111,0

Risk sharing arrangement consists of:

Net liability without risk sharing			18,2	
Net liability with risk sharing			4,0	
Effect of risk sharing			14,2	
Consists of:	Conditional indexation	6,2		
	Employee contributions	2,0		
	Other effects	6,1		Is excess return on assets over IAS19-discount rate and indexation, which need not be funded by the employer