



LETTER OF COMMENT NO. 126

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Technical Director – File Reference No. 1025-300  
Financial Accounting Standards Board of the Financial Accounting Foundation  
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**Exposure Draft of Proposed Statement of Financial Accounting Standards: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans**

We largely support the provisions of the Exposure Draft since we believe the reporting of the full net surplus or deficit on the balance sheet represents an improvement in financial reporting.

However, we are concerned that we shall still record an accounting difference between US GAAP and IFRS in the income statement. There is a continued requirement under the proposed standard to amortise to net income actuarial gains and losses outside the '10% corridor'. This is inconsistent with HSBC's application of IAS 19 where actuarial gains and losses are recorded directly in reserves with no subsequent 'recycling' to the income statement. We object to this recycling on the basis that the 10% corridor is entirely arbitrary and that, if the corridor is aimed to stop abuse in assumption setting, appropriate disclosures can achieve this just as effectively. In this respect, we agree with the IASB's Basis for Conclusions in IAS 19 (reference BC48P-BC48T). We would, therefore, strongly support a decision by the FASB to likewise exclude such amortisation of actuarial gains and losses from postretirement benefit expense.

Our responses to the specific issues raised by the Board are presented in the attached appendix.

Yours faithfully

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## Appendix

### **Costs of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employer's Statement of Financial Position**

*Issue 1:* The Board concluded that the costs of implementing the proposed requirement to recognize the overfunded or underfunded status of a defined benefit postretirement plan in the employer's statement of financial position would not be significant. That is because the amounts that would be recognized are presently required to be disclosed in notes to financial statements, and, therefore, new information or new computations, other than those related to income tax effects, would not be required.

Do you agree that implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not?

**We agree that the costs of implementing the changes in this proposed Statement would not significantly increase over and above those incurred using the current methodology to measure plan benefit obligations, plan assets and annual net periodic benefit.**

### **The Employer's Measurement Date**

*Issue 2:* Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent's, this proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. This proposed Statement would eliminate the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position.

Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position?

**There are no specific implementation issues that would encumber the measurement of plan assets and benefit obligations as of the date of the employer's statement of financial position.**

### **Effective Dates and Transition**

#### **Recognition of the Overfunded or Underfunded Status**

*Issue 3(a):* The Board's goal is to issue a final Statement by September 2006. The proposed requirement to recognize the over- or underfunded statuses of defined benefit postretirement plans would be effective for fiscal years ending after December 15, 2006. Retrospective application would be required unless it is deemed impracticable for the reason discussed below.

An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement.

Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of?

**The information required to recognise the funded statuses of defined benefit postretirement plans is already determined to provide the currently required note disclosures.**

**We do not view as sufficiently problematic the assessment of the realisability of deferred tax assets recognised in prior periods. Recoverability should be assessed on the same basis as other deferred tax assets recognised at the time. Therefore, to aid comparability among the financial statements released by different entities, we do not believe the Board should provide an exemption to retrospective application.**



*Issue 3(b):* Some non-public entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-equity, and debt-to-equity. The calculations of those metrics are affected by most new accounting standards, including this proposed Statement.

The Board is interested in gathering information for use in determining the time required to implement this proposed Statement by entities that have such arrangements other than debt covenants. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements.

**Excluding arrangements relating to debt covenants, we are not aware of any significant contractual arrangements, including those relating to creditors/suppliers, that would be substantively affected by the proposed Statement.**

#### **Measurement Date**

*Issue 4:* The proposed Statement would require a public entity that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after December 15, 2006, the gain or loss would be recognized in earnings in that quarter. Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year.

Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after 15 December, 2007, alleviate those impediments?

**We do not believe that there are any specific impediments to implementation that would make the proposed effective date impracticable for a public entity. HSBC already uses its calendar year end as the measurement date for its pension and other postretirement schemes.**

#### **Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

*Issue 5:* This proposed Statement would apply to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*, Paragraphs 7-13 of this proposed Statement provide guidance for reporting the actuarial gains and losses and the prior service costs and credits by those organizations and entities.

Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided?

**We find that the extant standards provide sufficient guidance for not-for-profit organisations. The Illustrative Examples for Not-For-Profit Organizations and Other entities that do not report Other Comprehensive Income released by the Board on 2 May 2006 further assist in understanding how the guidance contained in the proposed Statement would be applied by not-for-profit organisations.**