

Canadian Coalition for  
**GOOD GOVERNANCE**

THE VOICE OF THE SHAREHOLDER

June 30, 2007

Mr. Peter Martin, CA  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

**Sent via e-mail**

Dear Mr. Martin,

On behalf of the 48 members of the Canadian Coalition for Good Governance who manage over \$1 trillion of assets, we thank you for the opportunity to comment on the exposure draft *Employee Future Benefits (Amendments to Section 3461)*. Our responses to the specific questions, applicable to the Canadian Coalition for Good Governance (CCGG) and its members, raised in the exposure draft are below. For clarity, statements referring to a defined benefit pension plan include Supplemental Retirement Plans (SERPs).

***1. Do you agree that the funded status of an entity's defined benefit plan(s) should be recognized in the balance sheet and that the AcSB should amend Canadian GAAP accordingly? If not, please explain why not.***

We fully support the proposal to recognize the funded status of a pension plan on the balance sheet. However, we do not agree that the primary measurement of the plan assets and obligations should be as of the balance sheet date. Using such a "mark to market" approach will create unnecessary volatility in the balance sheet and income statements since most defined benefit plans have a significant mismatch between the duration of the liabilities and the (shorter) duration of the investment portfolio. For financial statement readers, the real issue is the need for a funding requirement change resulting from regulatory filing requirements, usually done triennially. Annual fluctuations of the surplus and/or liability of a defined benefit plan are not highly relevant. A "mark to market" valuation of pension obligations only makes sense if the entire balance sheet is presented using the "mark to market" method.

As readers of financial statements, we support the inclusion of the funding status of a defined benefit pension plan on a going concern basis. We believe the market is unlikely to penalize an issuer for fluctuations in income and assets caused by the accounting approach to pensions as long as the impacts are addressed elsewhere such as in the MD&A and/or the notes.

The Coalition is a strong proponent of disclosure that is clear, useful and complete. Therefore, we believe there should be a mandatory, robust disclosure within either a note or the MD&A that details the key elements of the pension valuation (including a recognition of its funded or unfunded status) and pension cost which would help investors properly interpret the impact of

pension issues on reported results (and minimize the impact on a company's valuation). There should also be a discussion on practical issues such as to whom do any pension surpluses belong – the plan beneficiaries or the company? Surpluses should not be presented on the financial statements as they are not the company's (in situations where the surplus belongs to the plan beneficiaries) and are excluded by regulation from being used to operate the business. In situations where a company has more than one defined benefit program (e.g. a defined benefit program for all employees and a SERP for executives), the disclosure described above should be presented on a per-plan basis.

For those plans without a government guarantee of the pension funding (applicable to most corporations) supplementary disclosure of the pension obligation using a "solvency" approach should be required.

**3. Do you agree that a change in the valuation allowance arising from the limit on the carrying amount of a balance sheet asset should be recognized as a component of other comprehensive income for the period in which the change occurs, and a portion of that change should be reclassified as a component of benefit cost in net income to maintain the same net income as under current Section 3461 (see paragraph 3461.110A)?**

In addition, we believe the US-Canadian GAAP difference on the valuation allowance should be eliminated so that the funded status reflects fair value. The existence of a valuation allowance increases the complexity of the accounting and makes it difficult for many financial statements users to understand while increasing the costs of applying the standard by requiring financial statement preparers to keep complex records. In addition, eliminating the valuation allowance removes an additional complexity of determining the amount of the valuation allowance that should be included in net income and the amount to be included in other comprehensive income and as such removes any temptation for earnings manipulation that may arise.

**5. Do you agree with the relief provided to entities other than public enterprises, co-operative organizations, deposit-taking institutions or life insurance enterprises, specifically excluding the disclosure requirements in paragraphs 3461.159(b)-(b1)? If not, please explain why not. If you believe that differential reporting options are necessary, please specify what options are necessary and why.**

The CCGG is of the opinion that, generally, the more broadly the rules are applied, the easier it is for the users of financial statements to do comparisons. The ability to compare financial statements among companies should be a key consideration.

**6. Do you believe that the proposals are appropriate for application to not-for-profit organizations and, if so, do you believe that they will be able to apply the proposals? If not, please explain why not.**

We believe that it is appropriate for the proposals to apply to all entities, including non-profits. It is important that accounting rules be applied equally across all entities to ensure consistency in financial reporting.

**8. Do you agree with the effective dates and transitional provisions for the proposals? If not, please explain why not.**

The CCGG has no issue with the effective dates and transitional provisions for the proposals.

In summary, we believe that robust guidelines for pension disclosure (via a note to the statements or through the MD&A) are, in our view, the best way to achieve the intended benefits of the proposed accounting changes. Attempting to solve the current problems of reporting pension obligations by changing the accounting figures, as proposed, is fraught with complications and difficulties which may ultimately risks rendering the financial statements less useful instead of more useful, which we believe to be the intent of the exposure draft changes.

Thank you once again for the opportunity to provide our comments on this exposure draft. Should you require further information or clarification, please contact Paul Schneider (paul\_schneider@ccgg.ca or 416.868.3582) at the Coalition.

Yours truly,

A handwritten signature in black ink that reads "David R. Beatty". The signature is written in a cursive, flowing style.

David R. Beatty, O.B.E.  
Managing Director