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Le Président

AB/PhS

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D19 Comment Letters

International Accounting Standards Board

30 Cannon Street

London EC4M 6XH

United Kingdom

IFRIC DRAFT INTERPRETATION D19

IAS 19-The asset ceiling: availability of economic benefits and minimum funding requirements

Dear Sir or Madam,

I am writing on behalf of the Conseil National de la Comptabilité to give you our comments on the above-mentioned draft interpretation.

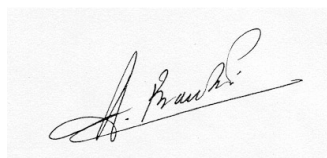
D19 provides a helpful clarification of the interaction between minimum funding requirements and the application of the asset ceiling as set out in §58 of IAS 19. In particular, it clarifies recognition and measurement issues arising when additional employer contributions give rise to assets, in the form of refunds or future contribution reductions, or to additional liabilities.

We are in agreement with the general principles set out in the “consensus” of D19. Some clarifications might, however, be useful (see our detailed comments in the Appendix).

Some correspondents consider that the issues in D19 might have been better dealt with via an amendment of IAS 19 rather than an interpretation. They consider that D19 introduces new situations not covered by IAS 19. They ask what the rationale is for making an interpretation rather than an amendment.

We trust you have found our comments helpful and would be pleased to give you any further information or explanations you require.

Yours sincerely,



Antoine BRACCHI

APPENDIX

1. Interpretation or amendment?

Some correspondents consider that the issues in D19 might have been better dealt with via an amendment of IAS 19 rather than an interpretation. They consider that D19 introduces new situations not covered by IAS 19 and is not therefore an interpretation of the text of the existing standard. They ask what the rationale is for making an interpretation rather than an amendment and question whether this is consistent with the decision to add paragraph 32A in IAS 19 in respect of “Multi-employer Plans”.

The interpretation provides for the recognition of an additional liability when the future contributions to be paid according to minimum funding requirements will not be available as a refund or a reduction in future contributions after they are paid to the plan. This additional liability either reduces the net defined benefit asset or increases the net defined benefit liability.

IFRIC suggested in its basis for conclusions (paragraph BC 2 and BC 3) that the interpretation D19 stems from the limitation placed by paragraph 58 of IAS 19 on the measurement of a defined benefit asset. Whilst we agree with the principle of recognising an additional liability, we think that the reference to paragraph 58 of IAS 19 is not sufficient to explain that the interpretation is based on IAS 19 requirements since:

- Minimum funding requirements are not specifically dealt with in IAS 19
- The asset ceiling applies under IAS 19 only when plan assets exceed the defined benefit obligation at the balance sheet date whereas under the interpretation D19 a forecast of future plan assets has to be made.

The IFRIC decided not to proceed with the proposals of the draft interpretation D6 *Multi-employer Plans* and the IASB therefore decided to clarify in IAS 19 § 32A the consequences of a contractual agreement determining how the surplus (or deficit) in a multi-employer plan will be distributed (or funded). As the latter case may be seen as raising fewer concerns than the effect of minimum funding requirements on the application of the asset ceiling, it could be useful to explain why an interpretation rather than an amendment is the appropriate manner to handle this issue.

2. Clarification of the wording of the scope

Paragraph 5 of D19 states that the interpretation will apply to “all long term and post employment benefit plans that are within the scope of IAS19”. The definition of scope of D19 is ambiguous as the terms “all long term benefits plan” are not those used by IAS19. We think that such ambiguity may not have a real impact in practice.

However, we support the suggestion in the Efrag’s draft response which is formulated as follows:

“We understand that IFRIC wishes to exclude short-term employee benefits from D19's scope—because they are not long-term—but our understanding is that the intention was to include termination benefits.

We believe that, if the wish was to exclude only short-term employee benefits, IFRIC should use the same wording as in IAS 19.4 to avoid any misunderstandings. Whatever the intended scope, it needs to be very clear.”

3. The title of the interpretation might be considered misleading

The title might be considered misleading as it could imply that the interpretation only addresses schemes with a surplus.

The Draft interpretation D19 clarifies two subjects:

- The availability of an economic benefit (§7 to §16) in situations where defined benefit plans are in surplus;
- The effect of a minimum funding requirement on the measurement of the defined benefit asset or liability (§17 to 19). This effect of minimum funding requirement is considered whatever the situation of the plan at the balance sheet date (surplus or deficit) since the objective is to identify situations where future economic benefits are not available and future minimum contributions relates to past services.

We think that the second subject of the draft interpretation is not sufficiently salient and may therefore be misunderstood. Several elements may contribute to such misunderstanding:

- The title of D19 “IAS 19 – The asset ceiling: availability of economic benefits and minimum funding requirements” may be misleading as it can be understood that the interpretation statements are related to defined benefit plans in surplus at the balance sheet date.
- Paragraphs 4 (background) and 6 (issues) of D19 are not explicit enough and do not clearly mention that the question is whether a minimum funding requirement in respect to past services could create a liability under IAS 19.
- The effects of a minimum funding requirement on the measurement of the defined benefit asset or liability is dealt with at the end of the interpretation (§17 to 19).

We suggest that D19 title may be changed so that it draws the attention on minimum funding requirement first. Paragraphs related to the background or issues could be amended also to make clear that required additional contributions payable in the future may not be available as a refund or a future contribution reduction and in the same time relate to past services. Thus, it will be clearer that D19 does not deal with plans in surplus only but considers the effects of the interaction between minimum funding requirement and future plan assets.

4. The measurement of the economic benefit available as a refund

Paragraph 11 of D19 states that “under IAS 19, the surplus at the balance sheet date is measured at a present value; therefore, even if the refund is realisable only at a future date, no further adjustment for the time value of money shall be made”.

If the future refund is defined as a percentage of the IAS 19 surplus, we agree that no further adjustment for the time value of money should be made; but where the refund corresponds to a lump sum payment, the measurement requirement as provided by § 11 of D19 seems contradictory. This may be also the case when the refund is equivalent to the surplus of the fund minus a termination cost.

We suggest that IFRIC explain further the basis of paragraph 11 requirements.

5. Further guidance on actuarial assumptions

Paragraph 15 of IAS 19, states that “any allowances for expected future changes in the demographic profile of the workforce shall be consistent with the assumptions underlying the calculation of the present value of the defined benefit at the balance sheet date”.

According to IAS19§73(a), demographic assumptions used to calculate the present value of the defined benefit obligation at the balance sheet date include mortality, rates of employee turnover, proportion of plan members with dependants who will be eligible for benefits.

The two first illustrative examples provided in D19 (IE1 to IE7) do not require making assumptions on future workforce. The third one requires assumptions on “the future IAS 19” service cost for the three years following the balance sheet date (see IE 10).

Implementing D19§13 implies calculating service costs for future periods and as a consequence making additional assumptions compared to those required for estimating the defined benefit obligation at the balance sheet date.

As stated in BC 27, the IFRIC disagreed with the view that contribution reduction should be determined by considering only the expected future working lifetime of the active members of the plan. It is not clear from this paragraph whether assumptions for new members joining the plan after the balance sheet date should be taken into account.

Therefore, we would find it useful if D19§15 were expanded to give guidance on the basis for making the necessary assumptions.

6. Further illustrative examples including actuarial gains and losses

We think also that it would be useful that the illustrative examples provided by D19 present a defined benefit plan for which not all actuarial gains or losses or past service costs have been recognised, so that the interaction between the interpretation and the requirement of IAS 19 related to actuarial gains and losses could be analysed further (e.g. cases where actuarial gains and losses are not immediately recognised but the additional liability is recognised in the profit and loss statement).