ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

8 April 2009

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007

Dear Chairman

Proposed Interpretation 10XX *Australian Superannuation Contributions Tax for Defined Benefit Plans*

We are pleased to submit our comments on Proposed Interpretation 10XX *Australian Superannuation Contributions Tax for Defined Benefit Plans*.

Overall, subject to our comment regarding recent discussions at the IASB, we support the issue of an Australian Interpretation to address the current diversity in practice as to whether the impact of superannuation contributions tax is included when accounting for defined benefit plans by employer sponsors. The impact of contributions tax is an Australian issue and one which the IFRIC has in the past not addressed. As contributions tax impacts on the ultimate cost of providing benefits by the employer sponsor to its employees, it should be included in the measurements required in relation to defined benefit funds as proposed by the draft Interpretation.

We also support the approach proposed in the draft Interpretation to include the impact of the contributions tax as part of the measurement of the defined benefit obligation (DBO) rather than as part of the return of plan assets. We are of the view that it is incorrect to deduct superannuation contributions tax payable by the plan from the return on plan assets because there is no relationship between the other components of the expected rate of return (eg interest and dividend income, realised and unrealised gains on plan assets) and the superannuation contributions tax.

On the other hand, inclusion of the contributions tax as part of the DBO is consistent with paragraph 7 of AASB 119 which defines the present value of a DBO as follows:

> "... the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods".

Paragraph 49 of AASB 119 also states that "... the payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability (and willingness) to make good any shortfall in the fund's assets..."

Hence, it is our view that the present value of a DBO should include all future payments required to settle the obligation; which includes those necessary to meet the future benefit payments as well as any resulting contributions tax. By taking this into account as part of the actuarial assumptions used to calculate the ultimate costs of an entity's DBO, this would ensure that appropriate consideration is given to contributions tax, whether the fund is in surplus or in deficit and regardless of the level of funding (ie funded or unfunded). On the other hand, including contributions tax as part of the expected return on plan assets would not be suitable in the situation where the plan is unfunded.

Contributions tax forms part of the overall cost of providing benefits to employees under a defined benefit plan. Contributions tax is however an obligation to the Australian Taxation Office as opposed to an obligation to the employee. It could therefore be argued that such cost should not be included in the DBO. However, to the extent that contributions tax is an overall cost of providing benefits to employees, it could be argued that the employer has an other long term employee liability which should be recognised separately. Such a long term employee liability would otherwise be accounted for using the Projected Unit Credit Method under AASB 119. Hence, whether the obligation to pay contributions tax is included as part of the DBO or recognised as a separate employee liability, the resulting net liability recognised would be the same (albeit that any changes in estimates may be accounted for differently).

We note that IASB staff presented an Issues Paper to the IASB at its March 2009 meeting (Staff Paper 8I) which appears to support the approach proposed by the draft Interpretation. It is our understanding that the IASB agreed to amend the definition of return on plan assets so that it includes any tax payable that has not been included in the actuarial assumptions used to measure the defined benefit obligation (DBO). As the issue has now been brought to the IASB's attention, we recommend that the AASB wait for the outcome of any changes which may be proposed by the IASB before issuing the Interpretation, to ensure that any Interpretation issued is not inconsistent with the IASB changes, if any.

Other comments on the draft Interpretation include:

- The Scope paragraph is currently unclear. It states that the Interpretation does not address any **other taxes** payable by superannuation plans. However, it has not referred to the specific type of tax that it deals with in the first instance, ie, contributions tax.

We would be pleased to discuss our comments further with you. Please contact Charles Feeney on (02) 9248 4665 or Georgina Dellaportas on (03) 9288 8621 if you wish to discuss any of the matters raised in this response.

Yours sincerely

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