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01 APR 2009

Mr Bruce Porter
The Acting Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

31 March 2009

Our Ref: dr/kl

Dear Bruce

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

Thank you for the opportunity to comment on the Australian Accounting Standards Board (AASB) Proposed Interpretation 10XX *Australian Superannuation Contributions Tax for Defined Benefit Plans* (Interpretation 10XX).

We do not believe that the AASB should proceed with the finalisation and issue of Interpretation 10XX, and would strongly recommend that instead the AASB work with the International Accounting Standards Board (IASB) on resolving this matter.

The reason for our objection is Interpretation 10XX represents the elimination of accounting policy options under Australian Accounting Standards that are available to entities that report under 'pure' International Financial Reporting Standards (IFRS), which may be seen as inconsistent with the AASB's objectives in relation to full convergence with IFRS and result in a lack of global comparability.

We note that at the March 2009 IASB meeting the Board specifically considered the issue of tax relating to pension costs. It is our understanding, based on our observer's notes, that the Board agreed with the staff recommendation i.e. to amend the definition of return on plan assets so that it includes any tax that has not been included in the actuarial assumptions used to measure the defined benefit obligation. This would be consistent with the approach taken for administration costs and would ensure that the tax is not double counted or not reflected at all. It would also be consistent with the principle underlying IAS 19 that employers should measure employee benefits at their ***ultimate cost***.

Furthermore, we recommend that the AASB work with the IASB to consider a further related issue which is also subject to divergent interpretation to ensure this issue is not overlooked in any amendments to IAS 19. While most commentators would accept that when an employer sponsor recognises a defined benefit deficit it should recognise the contributions tax which would be incurred on funding the deficit in order to recognise the ultimate cost of reducing the deficit in the plan; the position is less clear when the defined benefit plan is in surplus. While Agenda Paper 8I for the IASB March 2009 meeting addressed the situation when the

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defined benefit plan is in deficit (see point 7) it failed to address the situation when the plan is in surplus. For many years this issue has been the subject of divergent interpretation between both actuaries and accountants and it is not specifically addressed in Interpretation 10XX. We believe the wording in paragraph 11 of Interpretation 10XX is extremely subtle in referring to the ***contributions tax payable*** by the plan and hence will be open to interpretation in the absence of further clarification. We understand that some commentators would continue to interpret this wording as permitting an employer sponsor to gross up a surplus for the contributions tax that would have been incurred on contributions to settle the liability this surplus negates.

If you have any questions concerning our comments, please contact Darryn Rundell on (03) 9208 7916.

Yours sincerely

Darryn Rundell

Darryn Rundell
Partner
Deloitte Touche Tohmatsu