Australian Government

Australian Accounting Standards Board

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Mr Robert Garnett
Chairman – IFRIC
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Bob,

IFRIC Draft Interpretation D19 ***IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements***

The Australian Accounting Standards Board (AASB) has considered the proposals in Draft Interpretation D19, prepared by the International Financial Reporting Interpretations Committee (IFRIC). The AASB is pleased to provide its principal views in respect of the proposals for consideration by IFRIC.

General Comments

An Interpretation on the effect of minimum funding requirements is expected to have limited relevance to Australian entities, other than their foreign subsidiaries or operations in jurisdictions with minimum funding requirements like those in the draft Illustrative Examples. In Australia, statutory minimum funding requirements are specified in terms of the minimum level of contributions relative to employee salary and wages, and are not relative to plan assets or the defined benefit obligations as appears in the Illustrative Examples. The statutory minimum funding requirement in Australia is restricted to the Superannuation Guarantee requirements (currently 9% of an employee's salary/wage) and is unlikely to give rise to a defined benefit asset for employer sponsors.

We recommend that any guidance on the issues addressed in the Draft Interpretation should be referred to the IASB for consideration for inclusion in an appropriate appendix which accompanies but does not form part of IAS 19. The existing Appendices already contain many detailed examples. It would be more useful if the detailed rules on applying the principles in IAS 19, such as are proposed in D19, are located in one place.

Economic Benefits Available as a Refund

It is unclear why paragraph 10 of the Draft Interpretation specifies that professional fees paid by an employee benefit plan would be deducted in measuring the economic benefits available as a refund but such fees paid by the employer entity would not. In each case, the expected professional fees would reduce the net refund available to the entity.

If the distinction is based on whether there is an external obligation rather than a discretion to incur certain exit costs, then the Draft Interpretation should make this clear and should not assume that every plan will be obligated to incur professional fees.

The justification for the approach in paragraph 10 should also apply to paragraph 9, where the amount of a refund is to be calculated net of any refund taxes. This appears to be the case whether the taxes would be payable by the plan or the entity.

Economic Benefits Available as a Contribution Reduction

The Draft Interpretation is unclear concerning whether the economic benefit available as a contribution reduction should be limited in scope to contributions relating to current members of the employee benefit plan or should relate to both current and future members. This needs to be clarified in the Interpretation.

There are conflicting signals in the Draft Interpretation on this issue. Paragraph 13 refers to measuring the present value in relation to the expected life of the plan, not the expected remaining service period of the current plan members, and this is supported by paragraph BC26. However, paragraph 15 states that allowances for expected future changes in the workforce demographics should be consistent with the defined benefit obligation calculation at the balance sheet date – and paragraph BC23 states that expected changes in the size of the workforce should not be taken into account.

Effect of a Minimum Funding Requirement

Paragraph 18 of the Draft Interpretation specifies adjustment of the defined benefit asset or liability to the extent that contributions payable at the balance sheet date will not be available as a refund or reduction in future contributions after they are paid into the plan. This requirement is illustrated in the examples accompanying the Draft Interpretation. However, those examples should be extended to illustrate how the statutory (or contractual) obligations at the balance sheet date should be recognised, as the Draft Interpretation deals with only the "unavailable" contributions payable.

Paragraph IE18 needs to be clarified. The figure of 298 is not well explained – is this not really 300 – 2 = 298, on the basis that 50 of the asset available is already recorded per the IAS 19 surplus, leaving only 2 of the additional contributions available? Alternatively, it may be better to treat the derecognition of the 50 due to the lack of any refund as a separate adjustment. Then the entity has to recognise a defined benefit liability of 248 for the additional contributions that are not fully available (300 – 52), applying paragraph 18.

Substantive Enactment

The second sentence in paragraph 14 states: "However, no allowance shall be made for expected changes in the terms and conditions of the minimum funding requirement that are not substantively enacted at the balance sheet date." As it is presently drafted, this requirement is restricted to an economic benefit that is available as a contribution reduction and excluded for an economic benefit that is available as a refund (although this scenario is acknowledged in paragraph BC16). We believe that this requirement is equally applicable to both types of available economic benefits. Therefore, we suggest that this sentence be moved into paragraph 7 (if retained) so that it is made as a general point and not restricted to one type of economic benefit.

Deletion of Unnecessary Requirements

We believe that the issue set out in paragraph 6(a) is not really an issue. The subject addressed is whether the availability of an economic benefit is affected by any restriction on current realisability. We are not aware of any Standard or Interpretation restricting the recognition of an asset to that which is realisable only at the current reporting date. This would be inconsistent with the *Framework for the Preparation and Presentation of Financial Statements*. Therefore, the related consensus in paragraphs 7 and 8 states the obvious – that current realisability is not a criterion for the recognition of assets. Those paragraphs should be included only in the Basis for Conclusions (if desired) rather than the Interpretation proper.

Paragraph 12 of the Draft Interpretation merely repeats requirements already set out in IAS 1 *Presentation of Financial Statements* concerning the disclosure of key sources of estimation uncertainty and should be deleted.

Editorial Comments

Paragraph IE9 is ambiguous in that it could be interpreted that only the surplus of 50 cannot be refunded instead of any surplus not being able to be refunded (which we believe is the intent). Therefore, we suggest that the first sentence should state "Plan C also has an IAS 19 surplus at the balance sheet date of 50, however any surplus in the plan cannot be refunded …"

Paragraph IE17 – the word "approximately" should be added before "equal": this will not only make it consistent with paragraph IE12, but we believe that the perpetuity factor may be understated and the calculation appears to be closer to 56.

Paragraph BC3, last sentence, should refer to "certain unrecognised amounts", because paragraph 58 of IAS 19 refers to only unrecognised net actuarial losses and past service cost – not any unrecognised amounts.

Please contact me if further information or clarification is required.

Yours sincerely,

David Boymal
Chairman