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Accounting Standards Committee of Germany
IFRS-Fachausschuss

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Wayne Upton
Chairman of the
IFRS Interpretations Committee
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Berlin, 31 July 2012

Dear Wayne,

IAS 19 Employee Benefits – Accounting for contribution-based promises – Impact of the 2011 amendments to IAS 19

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IFRS Interpretations Committee's publication in the May 2012 *IFRIC Update* of the tentative agenda decision not to take onto the IFRSIC's agenda our request for an Interpretation of IAS 19 *Employee Benefits* with respect to providing guidance on the 'Accounting for contribution-based promises – Impact of the 2011 amendments to IAS 19'.

We accept the IFRS IC's decision not to take this item onto its agenda for the reasons set out in the tentative agenda decision. However, we believe the agenda decision should have additional wording to clarify the following terms used in the tentative agenda decision

- 'risk-sharing features' and
- 'elements of risk-sharing arrangements between employees and employers'.

In our view, it would be helpful if the agenda decision included a reference to the wording of IAS 19.BC144 (2011). Specifically we refer to the statement in BC144 that (only) features that share the benefits of a surplus or the cost of a deficit between the entity and the plan participants included in defined benefit plans are risk-sharing features. It is our understanding of BC144 that this refers to situations in which additional payments must be made to eliminate a plan deficit or in which a surplus is distributed by the plan, and where these additional payments or the distributions, respectively, are shared by employer and employee.

We understand that contribution-based promises as we had described them in the *potential agenda item request* do not include risk-sharing features as described above. This is because all assets, including the returns generated by them, will be used to provide employee benefits so that no surplus can arise. Also, there is no risk-sharing in the context of a deficit – should the return generated on the contributions fall short of the guaranteed minimum return, the employer fully covers any balance. Put differently, there is no risk which will be shared between the employer and the plan participants.

In fact, contribution based promises are characterised by a variability relating to the contributions (payments) to be made into the plan on one hand and a variability relating to the amount of employee benefits to be received by plan participants on the other hand – however, the agenda decisions should make clear that these two types of variability do not constitute 'risk-sharing features'.

Because IAS 19 (2011) does not define the term 'risk-sharing features' we see a risk that some constituents may raise the question whether the type of promise on which our *potential agenda item request* is based may be deemed to contain 'risk-sharing features' which might be affected by the amendments to IAS 19. However, in our view, these changes do not affect the accounting for the plans described in our submission for the following reasons:

- The standard measurement procedure of IAS 19 (ie 'project and pro-rate') is likely to lead to the recognition of a DBL which lacks the definition criteria of a 'liability' (cf Conceptual Framework 4.15) and which does not constitute a 'present obligation' (as the entity is at present obliged only to use the current 'surplus' in the plan to provide employee benefits (cf IAS 19.88 (2011)).

- Using the fair value of the plan assets so as to approximate the DBO (IAS 19.8 (2011) 'the present value ... of expected future payments required to settle the obligation') is consistent with the central aim of measurement and the setting of assumptions under IAS 19 (2011) (IAS 19.76 (2011) 'Actuarial assumptions are an entity's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits.').

Based on this analysis, it is appropriate in our view to apply accounting based on the guidance provided by IFRIC D9 to the type of promise on which our *potential agenda item request* is based.

If you would like further clarification of the issues set out in this letter, please do not hesitate to contact me.

With best regards,

Liesel Knorr

President