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Mr Stig Enevoldsen
Chairman
EFRAG Technical Expert Group
13-14, Avenue des Arts
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Berlin, 25 October 2006

Dear Stig,

Comment Letter on EFRAG's draft comment letter concerning IFRIC Interpretation D19 - *The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*

We appreciate the opportunity to comment on EFRAG's draft comment letter concerning IFRIC D19.

We broadly support EFRAG's comment letter. However, we have concerns with regard to the statement in paragraph 5 (b) of the Appendix. EFRAG seems to doubt that there is a general principle which justifies an adjustment in both cases, either an asset exists at the balance sheet date or an asset does not exist at the balance sheet date but will be available after the contributions are paid into the plan. In our opinion it does not seem to be totally consistent to support the solution stated in IFRIC D19.17-19 on the one hand and to challenge the underlying principle on the other hand. Furthermore, it is puzzling us to find such a key statement somewhat hidden in the observations in respect of the illustrative examples.

The main question answered by IFRIC D19 is the effect of a minimum funding requirement on the defined benefit asset or liability. We agree with the solution stated in D19.17.-19. Nevertheless, we consider it as necessary to explain the underlying principle and the conclusions made in a broader way in the Basis for Conclusions.

According to our understanding, the IFRIC's consensus is based on the deliberation that normally a statutory or contractual requirement to pay additional contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, become plan assets and the additional net liability would be nil (paragraph 2 of D19). In other words, if an entity is required to pay contributions in accordance with a minimum funding requirement and some or all of those

contributions would not subsequently be available as an economic benefit, it follows that when the contributions are made the entity would not be able to fully recognise an asset (i.e. to the extent that the contributions would not be available) (BC29 of D19). Considering this, the IFRIC concludes that an entity shall apply an adjustment to reduce the defined benefit asset or increase the defined benefit liability when the obligation arises (paragraph 18 of D19).

In our opinion, this rule can be derived from the recognition criteria of liabilities. According to Paragraph 91 of the Framework a "liability is recognised in the balance sheet when it is probable that an *outflow of resources embodying economic benefits* will result from the *settlement of a present obligation* and the amount at which the settlement will take place can be measured reliably".

Normally, the settlement of the statutory or contractual requirement to pay additional contributions to a plan does not result in an outflow of resources embodying economic benefits because, according to IAS 19.103, the payment of the additional contributions leads to an asset to the extent that the contributions would be available. In other words, if the settlement of the statutory or contractual requirement does not result in an equivalent increase of the defined benefit asset or decrease of the defined benefit liability the difference has to be recognised as an additional liability because all recognition criteria are fulfilled. Assuming this, the IFRIC's conclusion is correct that the resulting loss to the entity does not arise on the payment of the contributions but earlier, at the point at which the obligation to pay arises (BC30 of D19). Therefore, it is our belief that example 2 (IE3 of D19) correctly demonstrates that the entity has to make an adjustment even if the example starts with a deficit of 100 because the settlement of the present obligation of 300 results in an outflow of resources embodying economic benefits of 80 (300-220=80). This is because at the balance sheet date it is not only probable but sure that the payment of 300 does not lead to a defined benefit asset of 200, but only to an asset of 120 (decrease of the deficit of 100 + defined benefit asset of 120 = 220).

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

With best regards,

Prof. Dr. Harald Wiedmann
President