Rechnungslegungs Interpretations
Accounting Interpretations Committee

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Mr Robert P Garnett
Chair of the
International Financial Reporting Interpretations Committee
30 Cannon Street

London EC4M 6XH
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Dear Bob

Comment Letter on IFRIC Interpretation D19 *The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*

We appreciate the opportunity to comment on the draft Interpretation IFRIC D19. We fully endorse IFRIC´s aim to support the IASB in establishing and improving International Financial Reporting Standards.

The majority of the AIC disagrees with IFRIC D19 concerning the *Effect of a minimum funding requirement on the measurement of the defined benefit asset or liability*. We believe that IFRIC D19 goes beyond the objective to clarify the interaction between the minimum funding requirement and the asset ceiling test. It changes IAS 19.58 fundamentally. Although we do not agree with the underlying principle, we consider it absolutely necessary to explain the underlying principle and the conclusions made concerning IFRIC D19.17-19 in a broader way in the Basis for Conclusions. In this respect we wish to draw your attention to the following detailed comments.

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

Stefan Schreiber
AIC, Chairman

Detailed Comments of the AIC to the draft Interpretation IFRIC D19

1. Effect of a minimum funding requirement on the measurement of the defined benefit asset or liability

The main question answered by IFRIC D19 is the effect of a minimum funding requirement on the measurement of the defined benefit asset or liability. Only a minority of the AIC agrees with the solution stated in IFRIC D19.17.-19. The majority argues that IFRIC D19 changes IAS 19.58 fundamentally and doubts that it is correct to take the effects of future asset ceiling tests into account at the balance sheet date.

a) Underlying principle

Although we do not agree with the underlying principle, we consider it absolutely necessary to explain the principle and the conclusions made in a broader way in the Basis for Conclusions. Otherwise, it might be doubted whether there is a general principle which justifies an adjustment in the two cases covered by IFRIC D19:

(1) an asset exists at the balance sheet date,

(2) an asset does not exist at the balance sheet date but will be available after the contributions are paid into the plan.

According to our understanding, the IFRIC's consensus is based on the rationale that normally a statutory or contractual requirement to pay additional contributions into 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 is 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".

Assuming the IFRIC's underlying principle is correct, the settlement of the statutory or contractual requirement to pay additional contributions to a plan normally 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 will 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 *seems to be* fulfilled. Based on this assumption, the IFRIC's conclusion is consequent 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).

b) Arguments against the underlying principle

Assuming our understanding of the IFRIC's underlying principle, the IFRIC's conclusions are based on the premise that besides the payment of an additional contribution into a plan (only) in respect of services received, also the legal consequences of IAS 19.58 have to be taken into consideration to answer the question if a (additional) liability exists. In our opinion this premise might be wrong because paragraph 91 of the Framework states that a liability has to be recognised, if the "outflow of resources embodying economic benefits will *result <u>from</u> the settlement* of a present obligation". Considering the legal consequences of IAS 19.58 an outflow of resources has to be stated. But this outflow is not a result from the settlement. It is a result from the legal consequences based on the settlement (i.e. consequences of IAS 19.58). So in our view, the legal consequences of the asset ceiling test should not be taken into consideration at the balance sheet date.

Furthermore, we believe that die legal consequences of IAS 19.58 should not be taken into account because IAS 19.103 precludes unpaid contributions from plan assets. We are aware that the draft does not suggest recognising a plan asset at the balance sheet date that would then be subject to an asset ceiling test, but rather suggests recognising an additional net liability resulting from a future impairment of an additional plan asset not existing at the balance sheet date. In our opinion, however, this might be an indirect evasion of IAS 19.103 because recognising a net amount is only a short form of a non-offsetting consideration (i.e. fully recognising the obligation resulting from the minimum funding requirement as a liability and recognising the contributions not yet paid at the balance sheet date as a plan asset that would then be subject to an asset ceiling test that takes into account whether or not it would be recoverable through a refund of surplus or a reduction in future contributions).

In addition, a liability is normally defined as a present obligation of the entity arising from past events. Of course on the one hand the "statutory or contractual obligation to pay additional contributions into a plan in respect of services received" as mentioned in paragraph 17 of IFRIC D19 is arsing from a past event. But on the other hand the legal consequences of IAS 19.58 are future-orientated additional events which, in our opinion, can be derived from IAS 19.103. In our view, these events do not meet the definition of liabilities. Otherwise not only the effect of the next asset ceiling test would have to be taken into account, but also the effect of all future asset ceiling tests during the life of the plan. Especially because in practise minimum funding requirements in respect of services received often cover longer periods of time.

2. Effective date

We agree with retrospective application of IFRIC D19 in accordance with the requirements of IAS 8.

3. Illustrative examples

If the IFRIC sticks to the underlying principle we would consider it helpful if the IFRIC could add an practice-orientated example which illustrates in which cases a restriction goes beyond the life of a plan so that an economic benefit, in form of a refund of surplus or a reduction in future contributions, is not available.