THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

27 July 2009

Our ref: ICAEW Rep 79/09

Your ref:

Sir David Tweedie
The International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

By email: commentletters@iasb.org

Dear David

IFRIC 14: PREPAYMENTS OF A MINIMUM FUNDING REQUIREMENT

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the Exposure Draft ED/2009/4 *Prepayments of a Minimum Funding Requirement Proposed amendments to IFRIC 14*, published by the International Accounting Standards Board in May 2009.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

ICAEW REP 79/09

IFRIC 14: PREPAYMENTS OF A MINIMUM FUNDING REQUIREMENT

Memorandum of comment submitted in July 2009 by The Institute of Chartered Accountants in England and Wales, in response to the Exposure Draft ED/2009/4 *Prepayments of a Minimum Funding Requirement - Proposed amendments to IFRIC 14*, published by the International Accounting Standards Board in May 2009.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the Exposure Draft ED/2009/4 *Prepayments of a Minimum Funding Requirement - Proposed amendments to IFRIC 14*, published by the International Accounting Standards Board in May 2009.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 165 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

4. Our members occupy a wide range of roles throughout the economy. This response was developed by the Financial Reporting Committee of the Institute, which includes preparers, analysts, standard-setters and academics as well as senior members of accounting firms and public sector bodies.

COMMENTS ON THE EXPOSURE DRAFT

5. We accept that, for the purposes set out in the exposure draft, an entity that has a pension asset as measured under IAS 19.54 and that has made a prepayment to that plan has an asset.

6. The amendment deals specifically with cash prepayments and is very narrowly drawn. Assets arising from actuarial gains, for example, are excluded. We note that this will have the effect of capturing some circumstances but excluding others that are economically similar. The effect will be that two entities able to benefit from a surplus may nevertheless recognise different levels of asset. For example:

   (a) in some circumstances, such as certain plans in South Africa, 'surplus' funds may be parked in a separate account to be used to reduce future contributions. Our reading of IFRIC 14 as amended is that it may well not allow these funds to be recognised as assets;

   (b) our reading of IFRIC 14 is that, where an entity has agreed a contribution reduction with the trustees, the asset to be recognised would be measured based on the amount by which the contributions to be paid are less than the IAS 19 current service cost. These leads to an anomaly if the normal level of MFR contributions is higher than this. To be consistent with the revised Interpretation, the asset would need be measured based on the amount by which the contributions to be paid were less than the normal MFR contribution level.

7. The current wording is not clear that a prepayment does not lead to recognition of an asset if the overall position in the plan is a liability as measured under IAS 19.54. Paragraph 20 needs to be redrafted to make it absolutely clear that:

(a) any prepayment asset is recognised only in the context of the overall IAS 19.58 restrictions (ie, the lower of the IAS 19.54 pension asset and amounts calculated under IAS 19.58(b)); and

(b) the purpose of this section is simply to arrive at the IAS 19.58(b)(ii) amount (leaving aside refund rights).

8 The transitional provisions are confusing as drafted. The amendment implies that entities should restate at 1 January 2007 even though there will be no 2007 comparatives in the 2009 accounts. The requirement for restatement should presumably be to the beginning of the first comparative period presented in the year in which the amendment is adopted. Referring back to the start of the first comparative period in the first IFRIC 14 accounts is necessary only to 'backstop' retrospective application - ie, to deal with the *measurement* of the restatement. This should be clarified.

9 . As the reference to 'present value' in paragraph 20(b) has been deleted it should be included within paragraph 20(b)(ii), to ensure that IE16 remains consistent with the Interpretation.

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