EFRAG
European Financial Reporting Advisory Group

Jörgen Holmquist
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

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Dear Mr. Holmquist

Adoption of the Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, we are pleased to provide our opinion on the adoption of the Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* (the Amendments), which was published in November 2009. The amendments were proposed in an exposure draft on which EFRAG commented.

The Amendments remove an unintended consequence of IFRIC 14 for entities that are subject to a minimum funding requirement (MFR). IFRIC 14 provides guidance on how an entity accounts for employee benefit plan assets and liabilities that are subject to a MFR, and prior to the Amendments, an entity that prepaid a MFR was required to expense the prepayment under certain circumstances. The Amendments eliminate this unintended consequence and treats this prepayment, like any other prepayment, as an asset (because making such a prepayment should reduce the amount of MFR contributions that would otherwise need to be made in the future).

Entities are required to apply the Amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted but must be disclosed.

EFRAG has carried out an evaluation of Amendments. As part of that process, EFRAG issued a draft assessment of the Amendments against the EU endorsement criteria for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG supports the Amendments and has concluded that they meet the requirements of Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- they are not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

- they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt the Amendments and, accordingly, EFRAG recommends their adoption. EFRAG's reasoning is explained in the attached 'Appendix – Basis for Conclusions'.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman

Appendix
Basis for Conclusions

This appendix sets out the basis for the conclusions reached and for the recommendation made by EFRAG on the Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement*.*

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity as a contributor to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

1 The Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* (the Amendments) eliminates an unintended consequence of IFRIC 14 and treats this type of prepayment, like any other prepayment. When evaluating the Amendments, EFRAG considered whether the accounting that results from their application meets the criteria for EU endorsement, in other words, that the accounting:

(a) is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and in Article 2(3) of Council Directive 78/660/EEC; and

(b) meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG has also considered whether it is in the European interest to adopt the Amendments.

2 Having formed tentative views on these issues and prepared a draft assessment, EFRAG issued that draft assessment on 14 December 2009 and asked for comments on it by 20 January 2010. EFRAG has considered all the comments received, and all were supportive of EFRAG's tentative views.

Does the accounting that results from the application of the Amendments meet the criteria for EU endorsement?

Comparability

3 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

4 Under existing IFRIC 14, an entity may be required to recognise additional expense simply by making a voluntary prepayment of a MFR. If an entity under identical

circumstances chose instead to defer making the contribution until required to do so, its pension expense would be lower in the reporting period. In EFRAG's view, this is indeed an unintended consequence of existing IFRIC 14 because the timing of the payment should not give rise to additional expense recognition. The Amendment will change the accounting for certain prepayments of a MFR to remove the unintended consequence and make the accounting similar to other types of prepayments such as a prepayment of a lease obligation. As a result, EFRAG's assessment is that the Amendments meet the comparability criterion.

Relevance

5 According to the Framework, information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.

6 EFRAG considered whether the Amendments would result in the provision of relevant information; in other words, information that has predictive value, confirmatory value or both. EFRAG's assessment about the Amendments' relevance is very similar to its assessment of comparability; a prepayment either reduces a liability or creates an asset because the entity making the prepayment receives an economic benefit through reduced future contributions. The Amendment eliminates the unintended consequence of existing IFRIC 14 that treated certain prepayments as an expense, thus enhancing the relevance of the financial information. For that reason, EFRAG's overall assessment is that the Amendments meet the relevance criterion.

Reliability

7 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. The Framework explains that information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

8 In EFRAG's view, the Amendments do not raise any issues concerning freedom from material error and bias or completeness. In addition, EFRAG believes a key issue to be considered in the context of faithful representation is whether the Amendment correctly portrays a voluntary prepayment transaction. EFRAG believes the Amendments, by removing an unintended consequence of a voluntary prepayment of a minimum funding requirement, results in an improvement in the representational faithfulness of the accounting treatment of the transactions falling within its scope. As a result, EFRAG's overall assessment is that the Amendments will not give rise to reliability concerns.

Understandability

9 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence. Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most aspects are covered by the discussion above about relevance, reliability and comparability (because, for example,

information that represents something as similar when it is in fact dissimilar is not comparable, and that lack of comparability will mean it is also not understandable). As a result, EFRAG believes that the main additional issue it needs to consider in assessing whether the information resulting from the application of the Amendments is understandable is whether that information will be unduly complex.

10 In EFRAG's view the Amendments do not introduce any new complexities into the financial statements.

True and fair view

11 EFRAG has also concluded that there was no reason to believe that the information resulting from the application of the Amendments would be contrary to the true and fair view principle.

Cost and benefit

12 EFRAG has considered whether the benefits of implementing the Amendments in the EU exceed the cost of doing so. EFRAG's assessment is that the benefits of implementing the Amendments do outweigh the costs involved.

Conclusion

13 After considering all the above arguments, EFRAG has concluded that, on balance, the Amendments satisfies the criteria for EU endorsement and that it is likely to be in the European interest to adopt the Amendments. Accordingly, EFRAG recommends its endorsement in Europe.