Dutch Accounting Standard Board (DASB)

EFRAG
Attn. EFRAG Technical Expert Group
41, Avenue des Arts
B-1040 Brussels
Belgique

Our ref : TvA
Date : 23 October 2006
Re : Comment on your draft comment letter regarding IFRIC D19 *The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your draft comment letter regarding IFRIC Draft Interpretation D19.

We view the (draft) Interpretation as a practical solution of an issue relating to the recognition and measurement of a pension asset. We agree with your decision to support these proposals as they will increase clarity and comparability on this subject. We also agree with the detailed matters you would like to rise to IFRIC. However, we believe that a number of additional issues, which we have set out in the appendix to this letter, could be clarified and/or addressed in the (final) Interpretation.

We recommend to include these issues in your comment letter to IFRIC.

With respect to your question for EFRAG's constituents, we believe that retrospective application would not be an issue because we expect entities concerned will have sufficient documentation available.

Yours sincerely,

Prof.dr. Martin Hoogendoorn RA
Chairman Dutch Accounting Standards Board

Appendix
Issues relating to D19 which we believe should be addressed and/or clarified

Scope and background

It seems that the scope of this interpretation is much wider than its title and background suggests, since it will also have implications for sponsors when there is no minimum funding requirement. We believe it would be better if the interpretation would clearly state so.

Applicability and availability of economic benefits

D19 addresses the extent to which availability of an economic benefit is affected by restrictions on its current realisability. It assumes that the terms and conditions of the plan in question are clear enough with respect to the entitlement of refunds. However, some arrangements between a plan and sponsor do not address the entitlement of refunds.We are uncertain how to account for those plans and therefore ask IFRIC to provide clarification on this issue.

Furthermore, according to IFRIC (BC6) it is not necessary for the economic benefit to be realizable immediately as the framework defines an asset as a resource “from which future economic benefits are expected to the flow to the entity”. It seems that IFRIC has ignored “control”, which is an element of the definition of an asset. Under some plans it might not be possible to control any refund from the plan. We therefore ask IFRIC how to account for plans from which future economic benefits are expected to flow to the entity, but are not controlled by the sponsor.

Refund and management intent

In case of the economic benefit available as a refund, the amount of the economic benefit shall be determined on the basis of the approach that is the most advantageous to the entity. The entity needs to consider the three approaches as described in paragraph 9. In the Basis for conclusions arguments have been provided with respect to the inclusion of these three approaches. However, on what basis has IFRIC come to the conclusion that management intent is not relevant in the determination of the economic benefit available? This has not been made clear enough.

Calculation of the asset available as a refund of surplus

Example 1 of the Illustrative examples seems to suggest that once the MFR paid will flow to the entity sometime in the future, no calculation (of the most advantageous amount) will have to be made. However, this might lead to confusion as paragraph 9 and 10 of the Interpretation seem to indicate that a calculation should be made. We ask IFRIC to provide clarification on this issue.

Under the proposals, we have drawn the conclusion that, if it has been established under the terms and conditions of the plan that any surplus (regardless of the amount available) resulting from the plan after unwinding will fall to the entity, the asset ceiling does not apply. Is this IFRIC’s intention? We believe that the interpretation will be more readable if this issue is clarified.

If the conclusion stated above is correct, it is imaginable that entities will consider changing their plans accordingly once the Interpretation will be applicable. It is not unthinkable that the change in plans will lead to significant amounts of pension assets being recognized with a corresponding amount of profits in the income statement. Although this is to be treated as a new economic circumstance, we feel that the change is primarily the result of the adoption of the Interpretation. Has IFRIC outweighed the benefit of comparability by issuing the (draft) Interpretation to the possible disadvantage of one-time profits as a result of change in plans?

Another matter relates to the difference of the lifecycle of the entity compared to the lifecycle of the plan. The plan normally will exist a further 30/ 40 years compared to the entity in order to provide pension benefits to the former employees. Any amount remaining after the settlement of the plan cannot be refunded to the entity as it will not exist anymore. Under certain circumstances it therefore does not seem logical to include a pension asset solely on the assumption that an economic benefit will be available as part of the gradual settlement of the plan.

Calculation of the asset available as a contribution reduction

In example 3 it is assumed that a clear split can be made between minimum contributions required to make good the shortfall and minimum contributions required to cover future accrual. We question whether this split can be made in practice and therefore whether a calculation of the asset available as contribution reduction can be made.

Because of the MFR an entity will make additional payments to the plan. These will lead to additional return on plan assets in the plan. We assume that this will normally lead to lower contributions to cover future accrual and therefore will increase the economic benefit available. The difference between current service cost under IAS 19 and contributions in example 3 has been maintained at the same level from year 4 onwards. We question whether this example is realistic.