UNICE

THE VOICE OF BUSINESS IN EUROPE

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31 October 2006

International Accounting Standards Board
30 Cannon Street,
London EC4M 6XH
United Kingdom
CommentLetters@iasb.org

Dear Sir,

Re: IFRIC Interpretation D19: IAS 19 – The asset ceiling: Availability of Economic Benefits and Minimum Funding Requirements

UNICE welcomes the opportunity to comment on the draft Interpretation D19 - asset ceiling.

We have some major problems with the drafting of the Interpretation. We would have expected that the Interpretation treats the problem of the application of paragraph 19.58 where a minimum funding requirement exists. However, in paragraph D18.4 it treats the situation of interaction between a minimum funding requirement and the limit placed by paragraph 19.58. If the former is more focused on, then the Interpretation might be more helpful. In other words, D19 is not as clear as it should be on exactly what is being addressed.

Our greatest discomfort with D19, however, is its total disregard for achieving a principle-based solution. We have noticed an increasing tendency for IFRIC consensuses to assume undue size as they build in highly detailed implementation rules which are far from clarifications of principle.
We also refer to this in respect of D20 on customer loyalty programmes. Why are three pages necessary to state the simple principles already clarified in paragraphs 7 and 8? Paragraphs 9 to 19 could much better be consigned to illustrative examples or - even better - dropped where statement of the consensus principle is already sufficient for entities to know how they have to proceed.

We strongly urge IFRIC not to yield to pressure to give detailed application rules but to support and give more credibility to the IASB's avowed preference for principles-based accounting guidance.

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Detailed comments:

Scope and objectives
D19 provides clarifications when economic benefits in the form of a refund or a reduction in future contributions to the plan are to be considered available under the asset ceiling test in IAS19. Further it provides details on measurement of the effect of the minimum funding requirements. We support the view of IFRIC that the issues mentioned in D19 are widespread and that there might be a case for divergence in accounting. This is more the case with the new EC Directive which regulates related issues. Therefore we welcome the development of an interpretation by IFRIC.

Paragraph 18 of D19 proposes that an entity shall apply an adjustment to reduce the defined benefit asset or increase the defined liability if contributions payable will not be available after paid into the plan. They will form part of the assets of the plan. To the extent that these contributions are not available to the entity we agree that an adjustment should be recognised at the point at which the obligation to pay arises. The IFRIC proposes to include that adjustment in the measurement of the defined asset or liability.
The main problem is not the explanation of the requirements in relation to IAS19.58 but its overall implications on IAS19.58. According to IAS an asset ceiling reduction only applies when there is a defined benefit asset, while in a deficit situation no asset ceiling should be applied. According to D19 an asset ceiling might occur even in a deficit situation to account for contributions payable that will not be available after they are paid in the plan. This requirement fundamentally changes the scope of the asset ceiling test in IAS19.58.
By applying D19 the IAS19 becomes impracticable. An assessment as mentioned in IE2 and IE6 interpretation requires the entity to increase the defined benefit liability to the extent that the additional contributions payable are not fully available. We wonder how this assessment could be done in a reliable manner.

Therefore we believe that D19 goes far beyond the objective of clarifying the interaction between minimum funding requirements and the asset ceiling of IAS 19.58. IFRIC should again reconsider these consequences and change D19 accordingly.

Further, we believe that the D19 is much wider in its application than the title covers. Plan sponsors are hit by D19 also in cases where there is no minimum funding.

In some EU jurisdictions there exist detailed pension laws in which the refunds and additional payments are regulated. These can be different from what D19 proposes.

Valuation
In paragraph 9c a discontinuation principle has been introduced which might lead to very unusual accounting: e.g. an entity is entitled to a surplus when all liabilities are settled and that surplus is very minimal (assume not more than 1 euro). Would the entity then still have the ability to recognise any surplus in accordance with paragraph 9 and 10? We are of the opinion that this cannot be the meaning of D19. Further we disagree with the introduction of the notion of closing the pension plans/funds for

calculating the ceiling amounts. Going concern should be respected under normal circumstances.
We believe that D19 will in the end lead to the application of the gradual run-down. This method will not cause an asset ceiling problem if any residual surplus is available to the company after gradual run-down.

Examples
Examples need to clarify that remaining amount fall due to the entity. In case that other organisations will benefit from a remaining surplus after winding down needs to be clarified. In certain EU countries it is not allowed that in case of winding down the company is the ultimate beneficiary.

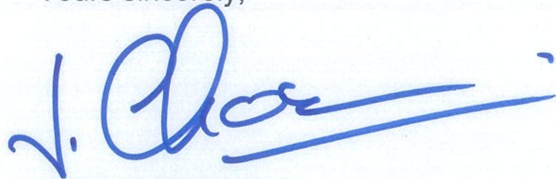
Effective date and application
Furthermore we do not agree with retrospective application of the draft interpretation provides further benefits to users of financial statements, particularly in the light of cost and effort required to comply with the draft interpretation.
From UNICE's point of view the evaluation of future contributions, which are not fully available at the balance sheet date, is ambiguous and challenging. The requirement to apply the draft interpretation retrospectively will increase the confusion even more.

We believe that information required to determine the economic value will be very difficult to be obtained due to the fact that calculations must be performed based on the knowledge level at each preceding balance sheet date.
Furthermore, in most cases the calculation can only be performed by an actuary. This makes it necessary to request new actuarial reports retrospectively demanding an in-depth knowledge of local legislation in various countries and various different schemes. The magnitude of effort necessary to apply the draft interpretation will cause companies to incur significant time, effort and costs and would provide limited benefits. We do not believe that retrospective application passes the cost/benefit test and recommend introducing an impracticability exemption.

This should also have an effect on the effective date in order to cope with the magnitude of actuarial work to be done.

Should you wish to comment on the above further, please do not hesitate to contact us (jpc@unice.be).

Yours sincerely,



(original signed by)
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