

IFRIC Draft Interpretation D19

This Comment Letter was sent by BDO Global Coordination B.V. on behalf of BDO International, to International Accounting Standards Board on 31 October, 2006:

Dear Sir / Madam

IFRIC Draft Interpretation D19 IAS 19 — The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements

Thank you for the opportunity to comment on the above Draft Interpretation ('Draft').

We agree with the proposals but believe there are areas where the guidance could be improved to make it more easily understood, in particular when considering transitional provisions.

Definition of minimum funding requirements

Paragraph 1 of the draft uses the phrase minimum funding requirements as if it is in common use internationally. This is not the case. It would be better to describe the types of requirement that the draft is seeking to address and to give examples from various legislations. It could then be noted that for the purposes of the draft such requirements are termed minimum funding requirements 'MFR'.

Structure of the draft

The draft appears to have two main aims, i.e. to provide guidance on:

1. the measurement of the present value of any economic benefits available in the form of refunds from the plan, or reductions in future contributions to the plan, or the purpose of IAS 19 paragraph 58; and
2. the impact of MFR on any such economic benefits or on the measurement of the defined benefit asset or liability.

At present, the guidance in the draft in these areas is muddled. For example:

- Paragraphs 9 to 12 on refunds make no mention of MFR.
- Paragraphs 13 to 16 on contribution reductions do refer to MFR but also include guidance that is applicable even in the absence of MFR.
- Paragraphs 17 to 19 deal solely with the impact of MFR.

The draft should be more clearly structured to assist users in those jurisdictions that **do not** have MFR to identify relevant parts of the IFRIC which deal with the measurement of the present value of any economic benefits.

Creating or increasing a defined benefit liability

Although the draft is entitled 'The Asset Ceiling', its requirements can, in certain instances, lead to an additional liability being recognised as noted in paragraphs 17 to 19 and shown in example 3. This would appear inconsistent with the title of the draft interpretation.

Such a liability is shown as a defined benefit liability rather than an onerous contract of the sponsor. However the draft does not explain this approach. We presume it is due to the restriction in IAS 19 paragraph 103 from recognising unpaid contributions from the reporting entity as a plan asset. It would be helpful if the basis for conclusions in the final interpretation clarified this point.

Future minimum funding contribution requirements in respect of future accrual of benefits vs. those in respect of services received by the balance sheet date

Paragraphs 13 to 16 address the 'contribution reduction' available after adjusting for the future minimum funding contribution requirement in respect of the future accrual of benefits. Paragraph 16 notes that the amount of the total asset is never less than zero.

Paragraphs 17 to 19 however address the future minimum funding contribution requirements in respect of services received by the balance sheet date. This requirement can lead to the recognition of a scheme liability.

The illustrative examples should include scenarios where the minimum contribution required to cover future accruals exceeds the IAS 19 service cost. At present, only example 3 addresses the future minimum funding contribution requirements in respect of future accrual of benefits.

Transitional provisions

The draft makes no reference to IFRS 1 and it is therefore unclear how it is intended to interact with IFRS 1 paragraph 20. Such a reference should be made, with associated guidance.

Many long term adopters of IFRS using the corridor approach will find full retrospective application of the draft impracticable. Although impracticability is addressed in general in IAS 8, in our view the interpretation should also consider this point specifically.

We would be pleased to discuss our comments and observations with you further if this would be helpful. Please contact Helen Thomson of BDO Global Coordination B.V. on +32 2 778 01 30.

Yours faithfully,

BDO Global Coordination B.V.
