

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH

<http://www.iasb.org>

27 July 2009

Dear Sir or Madam

Prepayments of a Minimum Funding Requirement Proposed amendments to IFRIC 14 (ED/2009/4)

Thank you for offering the Association of Consulting Actuaries (ACA) and The Actuarial Profession the opportunity to comment on the Exposure Draft. This is a joint response from the Association of Consulting Actuaries and The Actuarial Profession. The ACA is the representative body for consulting actuaries; the Actuarial Profession is governed jointly by the Faculty of Actuaries and the Institute of Actuaries, the two professional bodies for actuaries in the United Kingdom.

Overall comments

We welcome the opportunity to comment on the Board's proposals to amend IFRIC 14 ("the interpretation") and we agree with the Board that the interpretation should be amended. We support the objectives of IFRIC 14. However, we are aware that there is diversity in practice regarding the interpretation of the reference to an unconditional right to a refund in IFRIC 14. We suggest the Board and the IFRIC consider whether this issue could also be addressed when IFRIC 14 is amended.

Proposed amendment

As currently worded IFRIC 14 requires that an existing asset (a surplus that can be used to reduce future payments into the pension plan) is set off against a future liability (a minimum funding requirement ("MFR") in respect of future service that would create or increase an irrecoverable surplus). The proposed amendment addresses this anomaly, which arises when the MFR in respect of future service exceeds the service cost determined in accordance with IAS 19.

The proposed amendment distinguishes between surplus that arises as a result of deliberate excess payments and surplus that arises as a result of actuarial gains. We believe that this

distinction is inappropriate. The uses to which a surplus can be put, rather than source of the surplus, should determine the accounting treatment.

To illustrate this distinction consider Example 4 in the Exposure Draft. Change the fact pattern so that the terms of the Minimum Funding Requirement were such that the surplus of 35 in this example would allow the entity a one year contribution holiday. Applying para 20(a) of the proposed amendment would require recognition of the 30 that has been deliberately prepaid. Applying para 20(b)(ii) of the proposed amendment would say that the future MFR, ignoring the 'prepayment', would be 15 a year for 4 years, compared to a service cost of 10 a year for 5 years and therefore no further economic benefit. However the present value of the reduction in future cash flow is 45, being the future MFR that the entity will not be required to pay.

We do not believe there is any difference between a surplus that arises from actuarial gains and a surplus that arises from a voluntary prepayment if they can both be used to reduce the future MFR. In our view it would be consistent with the Board's view, expressed in BC 6-9, to recognise an asset of 45.

The amendment changes wording in the existing IFRIC 14 from referring to "future accrual of benefits" to "future service". It is unclear whether this is intended to change the meaning or not as there is no reference in the Basis for Conclusions to explain this change. We believe it would be helpful to clarify why the wording has been changed.

Diversity in practice – unconditional right to a refund

We understand that there are different views on what is meant by "an unconditional right to a refund" in paragraph 11 of IFRIC 14. This difference of view arises from the expansion in IFRIC 14.12 regarding what is meant in IFRIC 14.11 by an unconditional right. The key question is the extent to which future events outside the entity's control, that might affect the amount of any surplus, mean that the entity does not have an unconditional right to the surplus.

BC 10 states "The existence of the asset at that date is not affected by possible future changes to the amount of the surplus. If future events occur that change the amount of the surplus, their effects are recognised when they occur." BC 10 specifically refers to benefit improvements or actuarial losses. In the UK pension plan trustees would have control of the investment policy (including the ability to apply the assets to buy annuity policies) and may have the ability to trigger an early winding-up of the plan, both actions which could reduce the size of any surplus and would normally be accounted for as actuarial or settlement loss when they happened.

Some take the view that as BC 12 refers to control of the asset trustees' ability to consume the surplus means the entity does not have an unconditional right to the surplus. Others consider that

the trustees' ability to consume the surplus is simply a future event that BC10 says should be accounted for when it happens.

This issue is not addressed by the proposed amendment, but is causing diversity in practice. It also affects the frequency with which potentially irrecoverable surpluses arise and hence how widespread the problem addressed in the proposed amendment may be. It would be helpful if the Board clarified the principle when the interpretation is revised.

We attach some detailed comments on the wording in the Exposure Draft.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to contact us. Should you wish to do so, please contact Richard Davis, Chairman of the ACA Accounting Standards Committee on 0207 212 4565 or Richard.davis@uk.pwc.com or Martin Hewitt, Pensions Practice Manager on 0207 632 2185 or via martin.hewitt@actuaries.org.uk

Yours sincerely,

Richard Davis

Richard Davis

Chairman, Accounting Standards Committee, Association of Consulting Actuaries

A handwritten signature in black ink, appearing to read 'R. Hails', with a horizontal line drawn underneath it.

Robert Hails

Chairman, Consultations Group of the Actuarial Profession's Pensions Practice Executive Committee

Detailed drafting comments

Proposed revisions to paragraph 20:

- The first sentence of the paragraph says “an entity shall recognise an asset comprising”. This does not allow for possible unrecognised gains, losses or past service costs which under IAS 19.58 would impact the asset to be recognised. The calculation specified in para 20 (b) is simply one way of calculating the economic benefit under IAS 19.58(b)(ii) as a component in determining the balance sheet.
- Paragraphs 20(a) and 20A require the recognition of an asset in respect of the “prepayment” even when the calculation required by 20(b) is negative. 20A is intended to apply when the future IAS 19 service cost is less than the future MFR. However, as worded, it would also apply when the defined benefit obligation exceeds plan assets, after deduction of the prepayment. An entity might prepay MFR contributions when there is a deficit on an IAS 19 basis. We do not believe it would be appropriate to recognise a prepayment asset in these circumstances, once paid over prepayments should be treated in the same way as any other plan asset, ie to reduce the deficit.

Should the Board conclude that a prepayment asset should be recognised for advance payment of the MFR, irrespective of the funded status of the plan, our view is that this can best be achieved by excluding such prepayments from the definition of plan assets.

Revised paragraph 20(b) (ii)

The words “the present value of”, deleted from the first sentence of 20(b), should be reinserted at the beginning of this sub-paragraph.

Paragraph 28A:

As drafted the transition provisions appear to require restatement of a period which is unlikely to be included in the accounts for the period when the amendment is adopted. We suggest that the text is modified to say “An entity shall recognise the adjustment arising from the application of those amendments in the earliest comparative period presented”