Institute of Actuaries of Australia

27 February 2007

International Financial Reporting Interpretations Committee
First Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom

By Email: ifric@iasb.org

Dear Sirs/Mesdames

IAS 19 *Employee Benefits*—Special Wages Tax

We are writing in response to IFRIC's tentative agenda decision on this issue.

Our Concerns with the Tentative Decision

We understand IFRIC's reluctance to take this issue onto its agenda given the multitude of tax arrangements that exist around the world and the difficulty in preparing guidance. However we note the following:

- Any guidance need not take into account the specific arrangements of individual countries. Broad principles in respect of the different forms of tax would be sufficient to achieve significant clarification on this issue and would probably be more appropriate than specific guidance.

  We note that this issue relates specifically to taxes levied on the pension vehicle, not taxes levied on the employer (which as noted in the draft determination are covered by IAS 12 and IAS 37) or taxes levied directly on the employee.

  There are a small number of approaches which would cover most forms of those taxes, i.e. taxes can be levied on contributions, investment returns, total assets or benefit payments.

- We would expect there to be no reduction in divergent practice in the absence of any guidance, for the very same reasons that IFRIC has so far declined to provide guidance. There are a wide variety of taxes and some judgment is required in respect of each of those taxes.

  Prior to the introduction of the Australian equivalent of IAS 19, the Institute of Actuaries of Australia undertook some research amongst its members into their practice in respect of treatment of Australian taxes when preparing information for other accounting standards (e.g. FAS 87 or FRS 17 results for companies with US or UK parents or an overseas listing). That research uncovered significantly different treatment within Australia.

  The AASB took some steps to ensure that did not recur with the Australian equivalent to IAS 19. However, the AASB cannot by itself create consistent treatment internationally.
  An enunciated framework from IFRIC or the IASB would help achieve greater consistency in treatment.

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- IFRIC's tentative decision notes that

  "The scope of IAS 19 is not restricted to benefits paid to employees. It includes some costs of employee benefits that are not paid to employees."

  The scope of IAS 19 includes a reference to non-monetary benefits, and includes such benefits in the definition of employee benefits. There is no other reference in the scope that would cover the cost of employee benefits not paid to employees.

  We assume that IFRIC is referring to the inclusion on non-monetary benefits when making the statement above.

  It would probably not be apparent to many people that an employer meeting the cost of a tax levied on a pension fund is a non-monetary benefit, although clearly there is an argument that it is the case.

- Placing an allowance for these taxes in an obligation may not be the best approach.

  To the extent that taxes are levied on future contributions an appropriate allowance for those taxes would be based on the liability recognised in the balance sheet, i.e. the amount, in respect of existing obligations, expected to be funded from future contributions. That amount depends on both the value of the plan assets and obligations.

  Hence placing an allowance based on the liability recognised in the balance sheet into the obligation is

  - circular - i.e. you need to know the difference between the obligation and the assets values in order to calculate the obligation; and
  - introduces asset value impacts into the obligation - e.g. a good asset return that decreases the pension liability would also decrease the pension obligation

  However, alternative approaches (such as a separate line item after the surplus is calculated) may be outside the current standard and hence a matter for the IASB

Possible Next Steps

It would assist interpretation of IAS19 if IFRIC were, in its final decision, to confirm that taxes paid by a pension fund, where the cost is effectively ultimately met by an employer, may be a non-monetary benefit under IAS 19, and providing some examples of where that might be case. We would suggest that may be the case where the costs are met by the employer and paying the tax is a necessary part of providing the benefit.

Given that part of the reasons for IFRIC's tentative decision is the complexity of the issue and the required time to provide appropriate guidance it may be appropriate for IFRIC to raise the issue with the IASB for inclusion in the forthcoming project to review pension accounting. The IASB project may have the time to more fully review this issue and respond to issues such at the last point raised above.

We would be happy to assist with by providing IFRIC with any further information that may assist with its considerations.

Yours Sincerely

Fred Rowley
President

cc Mr David Boymal – Australian Accounting Standards Board