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Ms Tricia O'Malley
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International Accounting Standards Board
30 Cannon Street
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13 October 2008

Dear Ms O'Malley

Tentative agenda decision: IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

We are responding to your invitation to comment on the above Tentative Agenda Decision, published in the September 2008 edition of IFRIC Update, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Tentative Agenda Decision. ‘PricewaterhouseCoopers’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the IFRIC that the issue of a stable population was considered fully during the development of IFRIC 14 and that there is no reason to revisit those deliberations. However, we believe that there is another issue underlying the submission to the IFRIC, which has not been debated and resolved. We suggest that this issue is considered before the Agenda Decision is finalised.

We believe the guidance in paragraphs 16-22 of IFRIC 14 on how to determine the value of a possible future contribution reduction requires, in certain circumstances, an entity to offset a present asset against a future expense.

This can arise when an entity is permitted to reduce its contributions immediately but the future service cost, determined in accordance with IAS 19, will be less than the future minimum funding contributions, calculated in accordance with paragraph 21 of IFRIC 14. The guidance in paragraph 22 requires that the present value of the excess minimum contributions over the service cost in the future reduces the surplus that can be recognised in respect of any contribution reductions. This means that a present asset in the form of a contribution reduction that can be taken immediately is offset by payments that must be made in subsequent periods to fund future benefits.

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For example, an entity might elect to prepay some of its future minimum contributions, which entitles the entity to reduce its future contributions by the amount of the prepayment. It might choose to do this for tax or cash flow reasons. When the minimum funding requirement is expected to exceed the IAS 19 service cost for the foreseeable future, the present value of excess minimum contributions will reduce the surplus that can be recognised, although the entity has the right to reduce its contributions at any time by the amount of the prepayment

There are two situations in which the minimum funding requirement might exceed the IAS 19 service cost for the foreseeable future. Firstly, the minimum funding requirement might be based on cautious assumptions, perhaps including an explicit solvency margin, and thus more pessimistic than IAS19. Secondly the minimum funding requirement might follow a plan benefit formula that attributes a higher level of benefits to later years. The IAS 19 service cost would be attributed on a straight line basis and would therefore be lower than the minimum funding requirement in the later years.

A decision to prepay the minimum contributions, or to defer the use of a surplus to reduce contributions, affects cash flows but has no impact on the benefits provided to employees or the services that will be given in exchange for those benefits. One of the basic principles in IAS 19 is that the measurement of benefit obligations should be independent of funding choices, unless those choices impact the benefits payable. There should be no difference in the reported performance of two companies when one elects to prepay its contributions, or utilise an existing surplus, and the other does not. We do not believe that this was the IFRIC's intention when IFRIC 14 was drafted.

We encourage the IFRIC to consider this issue before the Agenda Decision is finalised and, in particular, consider whether paragraphs 16 and 22 of IFRIC 14 should be amended to be consistent with the principles of IAS 19. We have attached some suggested revisions to the wording of IFRIC 14 which we believe would address this issue.

If you have any questions in relation to this letter please do not hesitate to contact Pauline Wallace (020 7804 1293) or Tony de Bell (020 7213 5336).

Yours sincerely

IFRIC 14

Suggested changes, deletions struck out and insertions in red

The economic benefit available as a contribution reduction

16. If there is no minimum funding requirement, an entity shall determine the economic benefit available as a reduction in future contributions as~~ the lower of~~

> ~~a) the surplus in the plan and~~
> ~~b)~~ the present value of the future service cost to the entity, ie excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan, ~~and~~ the expected life of the entity and the minimum period required to fully utilise the surplus.

17. An entity shall determine the future service costs using assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the balance sheet date as determined by IAS 19. Therefore, an entity shall assume no change to the benefits to be provided by a plan in the future until the plan is amended and shall assume a stable workforce in the future unless the entity is demonstrably committed at the balance sheet date to make a reduction in the number of employees covered by the plan. In the latter case, the assumption about the future workforce shall include the reduction. An entity shall determine the present value of the future service cost using the same discount rate as that used in the calculation of the defined benefit obligation at the balance sheet date.

The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

18. An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover (a) any existing shortfall for past service on the minimum funding basis and (b) the future accrual of benefits.

19. Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service. They may give rise to a liability in accordance with paragraphs 23–26.

20. If there is a minimum funding requirement for contributions relating to the future accrual of benefits, an entity shall determine the economic benefit available as a reduction in future contributions as the present value of:

(a) the estimated future service cost in each year in accordance with paragraphs 16 and 17, however, for this purpose only, the service cost shall be determined based on the benefit formula and ignoring that part of IAS 19.67 which requires straight-line attribution where the benefit formula includes a back-end load, less

(b) the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

21. An entity shall calculate the future minimum funding contributions required in respect of the future accrual of benefits taking into account the effect of any existing surplus on the minimum funding requirement basis. An entity shall use the assumptions required by the minimum funding requirement and, for any factors not specified by the minimum funding requirement, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the balance sheet date as determined by IAS 19. The calculation shall include any changes expected as a result of the entity paying the minimum contributions due. However, the calculation shall not include the effect of expected changes in the terms and conditions of the minimum funding requirement that are not substantively enacted or contractually agreed at the balance sheet date.

22. If the future minimum funding contribution required in respect of the future accrual of benefits exceeds the future IAS 19 service cost in any given year, the present value of that excess reduces the amount of the asset available as a reduction in future contributions at the balance sheet date. However, the amount of the asset available as a reduction in future contributions can never be less than zero.