Ernst & Young

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Dear IFRIC members

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

The Ernst & Young is pleased to comment on the above agenda decision.

We do not agree with the tentative agenda decision in respect of the above issue as set out in the September 2008 Update and would ask the IFRIC to defer a final decision until it has performed a further analysis of IFRIC 14 and its purpose.

The issue on which the IFRIC was asked for guidance was 'How to apply the requirements of paragraph 17 of IFRIC 14 to 'assume no change to the benefits to be provided by a plan in the future until the plan is amended and [to] assume a stable workforce in the future' when the plan assets comprise premium prepayments into the employer's contribution reserve of a pension plan.' The submission demonstrated that the application of the current paragraph 17 of IFRIC 14 may under circumstances lead to counterintuitive (and arbitrary) results, in particular when voluntary prepayments are paid into a plan. In particular, under certain circumstances, any voluntary payment made into the voluntary employer's contribution reserve would be immediately recognised as an expense and any usage of the reserve as a credit to income. The entity can determine when to recognise the income statement effect by the mere timing of the voluntary payment or usage.

The IFRIC issued a rejection note stating that 'the requirements regarding the assumption of a stable workforce are clear. The issue was discussed extensively during the development of IFRIC 14 and the request provides no new information to cause the IFRIC to reconsider. The effect of the timing of voluntary contributions described in the request is an inherent part of the limit on the asset that can be recognised in respect of a surplus in accordance with IAS 19.'

While we acknowledge that IFRIC considers the requirements regarding the assumption of a stable workforce to be clear, we believe that it would be necessary to further investigate other factors affecting the benefit formula and their impact on the determination of the economic benefits available from reductions in future contributions. These would include the following:

- Par. 17 of IFRIC 14 addresses the assumptions used to determine future service costs, and requires the assumption of a stable workforce. However, the same paragraph does not address the assumptions used to determine future minimum funding requirements (MFRs). In its tentative agenda decision IFRIC did not address this issue either. In most plans MFRs are continuously re-assessed based upon actuarial analyses. If, as in the example brought to IFRIC, the situation as per balance sheet date happens to be that service costs are lower than the current MFR, the mechanics of IFRIC 14 would lead to this having to be assumed to remain the case indefinitely in most cases. However, in such a situation the expectation will be that premiums will be lowered in the longer run.

- IASB staff indicated it wanted to explore two other issues with IFRIC 14 in relation to this agenda request that might have an effect on the recognition of the net pension asset.

- The purpose of the pension asset cap in IAS 19.58 is to limit the asset to only those amounts that are recoverable through refund or reduction in future premiums. Given the fact that the employer in the cases brought to the IFRIC, when making the prepayment, receives the right to offset that prepayment against future required premium payments in our view provides the employer with a right to future premium reductions. The fact that the detailed guidance in IFRIC 14 leads to a different conclusion may indicate that IFRIC 14 is inconsistent with the paragraph it is interpreting. Indeed, prior to IFRIC 14, it was generally accepted that pre-paid minimum funding payments relating to future periods were self-evidently reductions in future contributions to the plan

For all the reasons cited above we would ask the IFRIC to reconsider its tentative agenda decision or at least defer its tentative agenda until further analysis has taken place on the interpretation and implementation of IFRIC 14.

Please contact Leo van der Tas at 020 7951 3152 should you have any questions regarding the above.

Yours faithfully

Ernst & Young