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**Deloitte
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9 July 2004

Mr. Kevin Stevenson, Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Stevenson,

Multi-employer Plans

Deloitte Touche Tohmatsu is pleased to comment on the International Financial Reporting Interpretations Committee's (IFRIC) Draft Interpretation 6 - *Multi-employer Plans* (the draft Interpretation or D6). Our responses to the questions raised in the draft Interpretation and comments on specific matters of concern are set out in the Appendix to this letter.

We believe that the current requirements in IAS 19.29-35 are appropriate in accounting for multi-employer plans. Whilst implementation of these requirements often involves judgement, such requirements are sufficiently clear. As a result, we question the need for the draft Interpretation and suggest that IFRIC reconsider the status of any final document that may be issued. In addition, we have concerns about certain aspects of the guidance provided in D6. In particular, we believe that whilst some of the guidance provided may be useful, other guidance proposed may bring more confusion than clarity.

Our experience shows that there will exist many cases where a meaningful allocation of a multi-employer plan defined benefit obligation will not be possible and, therefore, defined contribution accounting may be more appropriate (with appropriate disclosure about the defined benefit plan where possible). We note that the draft Interpretation may result in companies entering into an arbitrary allocation process that we believe would result in less, and not more, meaningful information. We are opposed to such an outcome.

We are concerned about the impact that D6 may have on plans involving several participating employers that each have differing levels of benefit and contribution. In some countries, companies are permitted to negotiate different levels of benefits for their employees and different levels of contributions. In these countries contribution levels are typically set by collective bargaining and both benefit levels and contribution levels can differ among employers in the same plan. If the employers participating in these plans were required to

account for their participation as single employer plans (versus multi-employer plans), as the draft Interpretation implies, the reported results could be quite misleading.

We note that in many cases the outcome of applying D6 would appear contradictory with the conclusions that have been reached by some other standard setters on accounting for multi-employer plans, as well as the IASB's proposed approach for the accounting for group defined benefit plans in the separate or individual financial statements of the entities in the group, in its recently published Exposure Draft *Actuarial Gains and Losses, Group Plans and Disclosures*.

In addition, if IFRIC publishes any final document on multi-employer plans, it may be useful to clarify when information was not previously available but then becomes available so that defined benefit accounting can start to apply for a defined benefit multi-employer plan, whether the change should be treated as either a change in accounting estimate or a change in accounting policy under IAS 8. In the latter case, the Board should consider whether or not a prospective treatment is appropriate given the lack of prior information.

We appreciate the opportunity to provide our comments. If you have any questions concerning our comments, please contact Ken Wild in London at (020) 7007 0907.

Sincerely,

Deloitte Touche Tohmatsu



Appendix
Comments of Deloitte Touche Tohmatsu on
Multi-employer Plans

Question 1

In your experience, are participants in defined benefit multi-employer plans able to obtain the information necessary to apply defined benefit accounting? If not, what causes the information not to be available? How do such entities monitor and manage the risks involved in their participation in the plan?

We note that for many defined benefit multi-employer plans the information necessary to apply defined benefit accounting will not be available. In some countries multi-employer plans involving many companies (e.g., all private sector entities except some specific industries) were not initially set up so that the management of the funding is calculated in such a way so as to cover each participants' future benefits. These multi-employer plans may just have been established with a funding policy determined so as to cover the payment of the current year's benefits (and may be those of next year) but nothing more. These plans are set up to be in a continuing deficit and, on a relative regular basis, negotiations take place between employer and employee representatives (sometimes with the interaction of the government, who may also take decisions that will affect any surplus or deficit in those plans) so as to determine how to cover the (usual) current deficit. Information would not be available for these plans in order to apply defined benefit accounting under IAS 19, although it is acknowledged that the plans are defined benefit plans and that there is a constructive obligation of employers to cover in future years a portion of the structural deficit in the plan. However, employers may or may not end up covering all deficits.

We also are concerned that the proposed guidance in D6 may have a significant change in the definition of a multi-employer plan resulting in many defined benefit plans, which are currently accounted for as multi-employer plans in certain countries under local GAAP, to no longer be considered multi-employer plans under IAS 19.

The definition of a multi-employer plan in IAS 19 is as follows:

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

- (a) pool the assets contributed by various enterprises that are not under common control;
and
- (b) use those assets to provide benefits to employees of more than one enterprise, on the basis that contribution and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned.

D6.6 notes that "contribution and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned" but omits the language that indicates that it is the assets that are used without regard to the enterprise that employs the employees.

The draft Interpretation implies that it is the contributions and benefit levels that are determined without regard to the identity of the enterprise that employs the employees concerned. We believe that the important underlying concept of the multi-employer plan that the proposed interpretation should be focusing on is that the employers in a multi-employer plan share in the actuarial risks and rewards related to the employees/retirees of the other

employers in the plan and in risks and rewards of the assets contributed by the other employers in the plan.

In some countries, companies are permitted to negotiate different levels of benefits for their employees and different levels of contributions. In these countries contribution levels are typically set by collective bargaining and both benefit levels and contribution levels can differ among employers in the same multiemployer plan.

If the employers participating in these plans that under local GAAP are currently accounted for as multi-employer plans (even though benefit and contribution levels vary) were required to account for their participation as single employer plans, the reported results could be quite misleading. For example, if the measurement of the obligation of Employer A focused solely on the obligation related to that employer's employees, the risks and rewards assumed by Employer A that relate to the obligations of the other employers would not be appropriately reflected. In addition, the cost and effort to provide separate valuations for each participating employer could be quite substantial for plans that have thousands of employers participating.

Even if an entity is a dominant participant or one of a few participants in a plan and is able to obtain the necessary information to apply defined benefit accounting to the plan as a whole under IAS 19, this does not mean that an allocation of any surplus or deficit in the plan can necessarily be made on a consistent and reliable basis (see our comments at Question 3). There may be many factors outside the control of an entity that will prevent an entity from doing an estimate of how any surplus or deficit in the plan will affect its future contributions.

Question 2

Does application of defined benefit accounting by participants in multi-employer plans provide useful information compared with the disclosure of substantial information about the plan as required by paragraphs 30(b) and (c) of IAS 19?

We agree that, as long as information is available, it is appropriate to apply defined benefit accounting to multi-employer plans. However, we are aware of many cases where this may not be possible, particularly in the circumstances highlighted at Question 1 (very large number of entities participating to the plan resulting in a lack of information from plan, funding policies of the plan determined to cover cash outflows for the period only, etc.).

We agree that if defined benefit accounting can be applied to the plan, participants to the plan should account for their share of assets or liabilities arising from the plan, if there is a consistent and reliable basis for allocating the obligation. However, as indicated in our cover letter, we would strongly disagree with the issuance of an IFRIC interpretation that may lead to an arbitrary allocation of a surplus or deficit in the plan between participating entities.

We do not believe that D6.14 provides additional guidance on how to assess whether information is available in order to apply defined benefit accounting. We believe that IAS 19.30 is written sufficiently clear and that IFRIC should leave the application of the requirement to the judgement of preparers and the auditors. The same comment applies to the proposed guidance in D6.16-17.

Question 3

The consensus requires a participant in a multi-employer plan to apply defined benefit accounting by, if possible:

- (a) measuring the plan in accordance with IAS 19 using assumptions that apply to the plan as a whole and*
- (b) allocating the plan so that the entity recognises an asset or liability that reflects the extent to which the surplus or deficit in the plan will affect its future contributions.*

Do you agree that this is an appropriate way for a participant in a multi-employer plan to apply defined benefit accounting? If not, how should defined benefit accounting be applied?

We agree with the clarification that the application of defined benefit accounting for a multi-employer plan should consider actuarial assumptions for the plan as whole. However, we have concerns on the proposed guidance on allocating plan assets or liabilities.

We understand that the intent of D6 is that entities should use their best efforts to come up with an allocation of a surplus or deficit when they are involved in a defined benefit multi-employer plan. We believe that the guidance in D6.18 is not supported by sufficient research highlighting an understanding of the various types of multi-employer plans around the world and, as a result, is still insufficient to be really operational. We acknowledge that in some cases, the guidance can be implemented relatively easily. However, we do not believe that this will necessarily be the norm. In our view, D6.18 will give rise to many debates about what are the circumstances where it will be concluded that an entity is not able to determine how a surplus or deficit in a plan will affect its future contributions.

There are more situations than those anticipated by IFRIC where the level of future contributions will not be able to be determined and we would like confirmation that IFRIC D6 would not force entities into arbitrary allocations that would not give a fair representation of an obligation or an asset. In some countries, the level of contributions for a multi-employer plan is dependant on many factors beyond the control of an enterprise such as negotiations with trade unions or governmental actions (e.g. an increase in the required number years of working life and other interventions affecting the negotiations between employers and employees representatives). Those cases will be particularly frequent when the multi-employer defined benefit plans are managed so as to ensure that the level of contributions will cover the benefits to be paid during the year and possibly the following year but nothing more (such as “pay-as-you-go schemes”) rather than being managed so as to ensure that the level of future contributions will be sufficient to cover all the future benefits to be paid to an employee. In those cases, there is often past history that demonstrates that the funding of a continuing deficit is not based just on a proportion of current or initially expected future contributions. Those multi-employer plans are quite specific and it makes it extremely difficult to make any estimate of how any deficit or surplus would affect the level of its future contributions. Therefore, we would expect that IAS 19.32(b) would still apply, hence IAS 19.30.

We are also concerned as to how D6.18 would apply to defined benefit plans that pool the assets contributed by various entities under common control under the proposed changes to IAS 19. It is uncertain whether D6 would force an entity into any arbitrary allocation of a surplus or deficit between entities under common control. If it is IFRIC’s intent, it would

seem at odd with the latest IASB proposals on the accounting for group defined benefit plans in the separate or individual financial statements of the entities in the group, in its recently published Exposure Draft *Actuarial Gains and Losses, Group Plans and Disclosures*.

If guidance is ultimately published including D6.18, we strongly recommend that it is accompanied with illustrations that clarify the intent of IFRIC.

Finally, we note that, depending on the intent behind D6 and the extent to which entities would be forced into arbitrary allocations, D6 may widen the divergence with other current exiting standards that have experience in the accounting for multi-employer plans (such as US GAAP and UK GAAP). We question whether this move would be in the interest of convergence of accounting standards world-wide.

Notwithstanding the above comments, the following aspects of the draft Interpretation provide useful guidance:

- (a) clarification of some of the factors that highlight the existence of a multi-employer plan (first sentence of IFRIC D6.6);
- (b) clarification of the fact that, where it is not possible to analyse the change in the surplus or deficit into the cost components of IAS 19 for single entity plans but the surplus or deficit can be allocated on a consistent and reliable basis, then the entity shall recognise its share of the surplus or deficit with changes in the amount recognised immediately in profit or loss (IFRIC D6.12); and
- (c) clarification that an ability to determine whether any surplus or deficit in the plan can be made on a consistent and reliable basis exists only if it is possible to determine the extent to which the surplus or deficit in the plan will affect an entity's future contributions (IFRIC D6.18).

Question 4

The appendix to the draft Interpretation sets out a proposed amendment to IAS 19, narrowing the scope of the definition of state plans and requiring them to be accounted for as defined contribution plans. Plans that are excluded from the definition of state plans will be multi-employer plans.

Do you agree with the narrowed scope of the definition of state plans?

Do you agree that state plans defined as proposed should be accounted for as defined contribution plans?

We disagree with the proposed amendment of the definition of state plans as IFRIC has not explained why such a change is needed. We believe that further consideration should be given to the necessity for this change.

In addition, while we believe that defined contribution accounting is an appropriate accounting policy for most state plans, we recommend that D6 does not impose a rule on state plans, but rather continue to require the application of a principle. For example, reliable and timely information may be available for some state plans such that an entity could make a meaningful

(not arbitrary) allocation of the defined benefit obligation across companies participating in the plan. In this case, we do not believe defined benefit plan accounting should be prohibited.