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**Deloitte  
Touche  
Tohmatsu**

21 September 2004

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

Dear Mr. Stevenson,

**Employee Benefit Plans—Promised Return on Contributions or Notional Contributions**

Deloitte Touche Tohmatsu is pleased to comment on the International Financial Reporting Interpretations Committee's (IFRIC) Draft Interpretation 9 – *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions* (the draft interpretation or D9).

We note that the IFRIC's conclusions in paragraphs 4(a) and 5 of the draft interpretation are consistent with the tentative decisions of the U.S. Financial Accounting Standards Board (FASB). Given the similarities between International Financial Reporting Standards and U.S. GAAP in the accounting for employee benefits, we encourage the IFRIC to coordinate with the FASB (and other national standard-setters) in the development of guidance on the accounting for employee benefit plans that have a promised return (sometimes referred to as "cash balance plans").

We generally agree that an employee benefit plan with a promised return on contributions or notional contributions is a defined benefit plan under IAS 19 *Employee Benefits* (IAS 19) and that in applying IAS 19 to such benefits the specified changes in the plan liability should be treated as actuarial gains and losses. Consequently, an entity's accounting policy for recognition of actuarial gains or losses would apply. Thus, if an entity's policy is to recognize all actuarial gains and losses, even those outside the corridor it may do so, or it may follow the corridor approach and recognize immediately any actuarial gains or losses that are outside the 10% corridor.

The draft interpretation does not appear to have considered the implications that the proposed accounting would have in the accounting for pension plans themselves under IAS 26 *Accounting and Reporting by Retirement Benefit Plans* (IAS 26). More specifically, the IFRIC should consider the interaction of the required statements and measurements in IAS 26.17 and the proposed guidance in paragraph 9 of the draft interpretation. We note that this has been identified as an issue by the FASB staff who is presently researching the implications of expanding the scope of the FASB project to amend the guidance for discount rates for variable interest crediting plans under U.S. GAAP. We encourage the IFRIC and the IASB staff to work with the FASB staff in addressing this particular issue.

It is unclear whether the guidance in paragraph 6 of the draft interpretation not to project forward benefits and consequently not to discount the benefit plan liability is intended to eliminate the requirement in IAS 19.67 to allocate benefits on a straight line basis over the allocation period where the employee's service in later years will lead to a materially higher level of benefits. Such may be the case in certain benefit plans that promise variable returns and require an increase in contribution levels according to seniority. We suggest that the IFRIC clarify in the final interpretation the guidance on allocation of benefits when the contribution rate increases over time, when there is a fixed and/or variable return guarantee.

We note the requirement to re-set the corridor to zero on adoption of this interpretation. This treatment is consistent with that required by IFRS 1 in respect of first-time adopters that wish to apply the exemption from full retrospective application of IAS 19. Similarly to the option offered under IFRS 1 for first-time adopters, we believe that for existing IFRS users with plans within the scope of the draft interpretation that have already been applying the guidance set forth in the draft interpretation a corridor re-set should not be required. In this situation, the transition provisions in the draft interpretation should permit retrospective application of the draft interpretation consistent with the general requirement in IAS 8.22.

#### **Editorial and other comments**

Paragraph 6—the draft interpretation states “No projection forward of the benefits shall be made, and discounting of the benefits is not therefore required.” This may suggest an entity would be allowed to discount the obligation if it wants to, which we believe is not the intent of IFRIC. Therefore, we suggest the IFRIC clarify this in the final interpretation.

IE8—in the numerical example the IFRIC has assumed for simplicity that the entity's accounting policy is to recognise all actuarial gains and losses immediately. We suggest either changing this assumption to include a “corridor” approach or include an additional example whereby the entity is using a “corridor”. This may better demonstrate the requirement in D9.9 to analyse the change in the plan liability into an expected increase (i.e., the expected return) and an actuarial gain or loss.

We suggest that a numerical example for a plan that only has variable components also be added in the final interpretation.

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

A blue ink horizontal line, likely a signature or a decorative underline.