EFRAG
European Financial Reporting Advisory Group

XX July, 2004

Kevin Stevenson
Chairman IFRIC
30 Cannon Street
London EC4M 6XH
UK

Draft for comments by no later than 8 July 2004

Dear Kevin,

Re: IFRIC Draft Interpretation D6 *Multi-employer Plans*

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the draft of the IFRIC Interpretation D6 *Multi-employer Plans* ("D6"). This letter is submitted in EFRAG's role of contributing to IASB's and IFRIC's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive IFRIC on the issue.

We welcome further guidance on when a plan meets the definition of a multi-employer plan, how defined benefit accounting should be applied to such plans and when necessary information might not be available. However, we have several concerns as expressed in our response to the questions set out in the Exposure Draft.

As explained in our answers, we are concerned about the following two issues:

(i) Although under certain restrictions IFRIC is allowed to change existing standards through interpretations we are concerned that this process requires less time for deliberation with constituents than an amendment of standards by the Board directly;

(ii) we are concerned that although IFRIC D6 paragraph 11 states that for the allocation of amounts to entities particularly the option for deferred recognition of actuarial gains and losses in IAS 19 *Employee Benefits* is available, paragraph 12, which refers to the situations in which the net asset or liability may be allocated to the various participants, although the split of the change in value into the different components of income is not available, prohibits the deferral option and therefore the change in value should be recognised fully in profit or loss.

We would prefer such fundamental changes to existing standards to be dealt with in a comprehensive due process allowing constituents sufficient time to provide comments.

There is not sufficient explanation in the Basis for Conclusions for narrowing down the definition of state plans in IAS 19 paragraph 37 as proposed by IFRIC D6. State plans in accordance with IAS 19 are accounted for as defined contribution plans. This requirement fits many plans which, in certain jurisdictions, are set up legally or at a national level, although their management is entrusted to a separate legal entity. To narrow the definition of state plans would, in EFRAG's view, raise difficult practical issues. In the absence of any basis for conclusions, and because of the practical difficulties that are foreseeable, EFRAG believes that the existing definition of state plans should not be changed.

The Appendix sets out our answers to the questions raised in the exposure draft.

If you would like further clarification of the points raised in this letter, Paul Rutteman or myself would be happy to discuss these further with you.

Yours sincerely,

Stig Enevoldsen
EFRAG, Chairman

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?

EFRAG draft response:

Since such plans are managed as a whole and the risk is managed on the total plan rather than on a company basis, it is very difficult to allocate assets and liabilities to specific entities which are part of the plan. Therefore, we believe it is very difficult to gather information necessary to apply defined benefit accounting. If the application of defined benefit accounting is required we see the risk that the information provided to users of financial statements might not be sufficiently reliable in many cases.

Questions to our commentators:

We ask our constituents to provide us with their views and comments on the following questions particularly based on their national experience:

(a) How are the different plans in your jurisdiction structured? Please provide us with a short description of the different kinds of plans.

(b) Based on how such plans are structured, how difficult is it in practice to gather information necessary to apply defined benefit accounting and what causes the information not to be available?

Thank you for your contribution.

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?

EFRAG draft response:

EFRAG takes the view that disclosure of certain issues is not considered a substitute for their recognition in the accounts. Therefore, if an entity is able to gather information necessary to apply defined benefit accounting to multi-employer plans, we agree that this provides useful information. However, we are generally concerned about the application in cases where entities have difficulties in gathering necessary information.

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?

EFRAG draft response:

(a) We agree.

(b) We disagree because based on paragraph 12 of IFRIC D6 it is our understanding that if there is sufficient information to determine a surplus or deficit on a consistent and reliable basis the entity shall recognize its share in the balance sheet. However, the total change in value of the entity's share shall be recognised immediately in profit or loss. This is different from the general approach in IAS 19 paragraph 54 in connection with paragraphs 92 and 93 where it is allowed to defer actuarial gains and losses to a certain amount. We are concerned that the so-called "corridor" would be abolished in an interpretation of the current version of IAS 19 even though IAS 19 allows use of the "corridor"-approach. We do not support such a change at this point of time because it might pre-empt a possible outcome of the comprehensive review of IAS 19.

Further we believe that D6 should not make use of the term "impossible" and instead should refer to the term "impracticable" as used in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors paragraph 5. According to this definition the application of a requirement is impracticable when the entity "cannot apply it after making every reasonable effort to do so". In our view this would better reflect the real situation and should therefore be incorporated in IFRIC D6 paragraph 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?

EFRAG draft response:

A multi-employer plan is very often based on an agreement with the government and the social partners (employers and employees). These plans and agreements are in many cases like state plans, because the plan is managed by a separate legal entity but the risk can still be with the state. We wonder whether it is necessary to narrow down the scope of the definition of state plans. If it was done we believe that such a change of IAS 19 would require a longer (three months instead of the given two months) comment period.

However, in general we support the proposal to account for state plans as defined contribution plans.

Other comments:

1. In our view there seems to be a circular argumentation in IASB's definition of a multi-employer plan (IAS 19 paragraph 7) and IFRIC D6 paragraph 15 (b), which repeats the main body of IAS 19 paragraph 32. Whilst in the definition multi-employer plans are described as such that the contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned, the assumption in IFRIC D6 (or IAS 19 paragraph 32b) is that an identification of an entity's share of a plan with sufficient reliability is not possible if the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities.
   The conclusion of the latter assumption would be that per definition defined benefit accounting cannot be applied to any multi-employer plan. We recommend IFRIC to clarify the argumentation is this respect.

2. With regard to the transitional provisions in IFRIC D6 paragraph 21 we wonder why it should not be allowed for first-time adopters that certain actuarial gains or losses remain unrecognised (as required by IFRIC D6 paragraph 12) while this is a general option under IFRS 1 *First-time Adoption of IFRSs*?