

September 8, 2004

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

Dear Kevin,

Re: IFRIC Draft Amendment D7 *Scope of SIC-12 Consolidation-Special Purpose Entities*

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the IFRIC draft Amendment to *Scope of SIC-12 Consolidation-Special-Entities* ("IFRIC D7"). This letter is submitted in EFRAG's capacity 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 interpretation.

The first issue addressed in IFRIC D7 is whether SIC-12 should be amended to remove the scope exclusion for equity compensation plans. EFRAG agrees with this amendment. We see no reason why SIC-12 should not be applied, when determining whether for example an Employee Share Ownership Plan Trust (ESOP) should be consolidated into the entity's group accounts.

The second issue addressed concerns the exclusion of post-employment benefit plans from the scope of SIC-12.

- (i) IFRIC has clarified that SIC 12 does not apply to post employment defined benefit plans where the plan assets are required to be included in the measurement of a defined benefit liability in accordance with paragraph 54 of IAS 19.
- (ii) To be consistent, IFRIC has extended the scope exclusion to other long-term employee benefit plans where IAS 19 requires those plans to be accounted for in a manner similar to post-employment benefit plans: i.e. with plan assets that are required to be included in the measurement of a liability for long-term employee benefits in accordance paragraph 128 of IAS 19.

IAS 19 applies to the above post-employment plans whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. IAS 19 does not require consolidation of these types of plans, instead, the sponsoring

entity is required to recognise its net interest in the plans in its balance sheet notwithstanding the establishment of a separate entity. We support the amendment.

Finally we would suggest clarifying the intended treatment of defined contribution plans in relation to IFRIC D7. We believe defined contributions plans are only included in the scope of SIC 12 in the very unusual circumstances that the entity controls the plan provider. In our opinion it would be helpful to set out in the Basis for Conclusions that the intention of this interpretation is to scope out only those post-employment benefit plans for which IAS 19 requires related liabilities to be recognised in the entity's balance sheet.

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