



European Federation of Accountants and Auditors for SMEs

European Financial Reporting Advisory Group (EFRAG)
35 Square de Meeûs
B-1000 BRUSSELS
Attn. Mr. Sanchez-Horneros

Brussels, 18 August 2010

Dear Mr. Sanchez-Horneros

Reaction to EFRAG's draft comment letter on the IASB's Exposure Draft Defined Benefit Plans: Proposed Amendments to IAS 19

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, and tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on EFRAG's own draft comment on the IASB's Exposure Draft Defined Benefit Plans: Proposed Amendments to IAS 19 issued April 2010. Our comments are made in relation to the areas outlined below.

1. Multi-employer plans (EFRAG's questions 10 and 14)

Whilst EFRAG differentiates between types of multi-employer plans we feel that the differentiation should be made in a consistent manner to that made when following the accounting principles of accounting for investments. We therefore suggest that any differentiation is made according to the control that can be exercised over the plans as follows:

- Full control - as with fully controlled subsidiaries;
- Limited control - as with associates;
- Joint control - as with joint ventures; and
- No control - as with other entities.

Full control

Multi-employer plans would not exist in such circumstances.

Limited control

In practise there are limited occasions when an entity would join a plan without obtaining contractual control. In such cases, the reporting entity should account for its share of the plan based on the valuation rules in IAS 19 for Defined Benefit Plans, as far as it is able to get the required information.



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Joint control

A contractual relationship exists in these circumstances and hence the entity should be able to obtain the necessary information to account for its share of the plan and thus be able to follow the valuation rules in IAS 19 for Defined Benefit Plans.

No control

In such circumstances an entity has only an obligation to pay premiums and accordingly has to apply the rules in IAS 19 for Defined Contribution Plans.

We acknowledge that situations can differ. A contract with an insurance company, for instance, creates an obligation to pay premiums for the term of the contract. Less straightforward, for example, are those government imposed pension funds for industries that are widespread in the Netherlands. In these situations the reporting entity has an obligation to pay premiums to the government imposed pension funds regardless of whether the fund is a Defined Benefit or a Defined Contribution fund; the rationale being that the fund has to impose additional premium charges to fund their obligations or otherwise cut benefits.

2. Future salary increases (EFRAG's question 13)

The draft comment supports the idea that all expected salary increases have to be taken into account. This is a major deviation from the position in the 2008 PAAinE discussion paper, The Financial Reporting of Pensions. This paper differentiates between future increases when the entity has the discretion to vary the level of future pensionable salaries.

We believe that the position in the 2008 PAAinE discussion paper was correct; it is consistent with the obligations of IAS 37 requiring that a provision be based upon a legal or constructive obligation, determined by national legislation. It is our opinion that increases that are at the discretion of the entity do not comply with that requirement.

We further note the following other reasons to exclude increases that are at the discretion of the entity:

- Convergence with U.S. GAAP - the wording of FAS 87 is consistent but we have been informed that U.S. companies do not include future salary increases for which there is no obligation. We believe that inclusion of all salary increases is at present only applied in the U.K. and few other EU member states. CESR EECS does not include a decision on this matter and we can conclude from this that many EU countries do not include future salary increases that are at the discretion of the entity;
- Inclusion of salary increases that are at the discretion of the entity make the judgment subjective and are also subject to manipulation with a small change in the percentage of the expected increase potentially having a major impact on the outcome;
- Inclusion of salary increases that are at the discretion of the entity can make profits even more pro-cyclical and therefore not conducive to the European public good, as the IAS regulations require; and
- Inclusion of salary increases that are at the discretion of the entity would violate the matching principle. A salary increase at the discretion of the entity would only happen if the entity expects increased productivity of the employee, to be matched with that salary increase and related pension costs.



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In consideration of the above we urge a return to the position of the PAAinE discussion paper.

3. Materiality

We feel that it is necessary to stipulate whether paragraph 39 of IAS 19 has a materiality threshold. In the aforementioned published enforcement decisions of CESR EECS there was a conclusion that, for determining whether all risks had been transferred to an insurance company, materiality does *not* matter. The conclusion reached was that when transferring the reserve to another fund (because of a change of employment of an employee) there is always some rest risk because both insurers do not use the exact same way of calculating the required reserve.

We believe that this is a nonsensical position. An entity can never avoid a position when an employee seeks additional entitlements and thus can never exclude the possibility that a court will rule against the entity.

Therefore we would like to add our belief that materiality is critical in applying paragraph 39 of IAS 19.

Should you have any questions on our comments, please do not hesitate to contact us.

Yours sincerely,

Federico Diomeda
Chief Executive Officer

This paper has been prepared by the EFAA Accounting Expert Group, chaired by Mr. Jan Achten.