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24 July 2009

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@iasb.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT – *PREPAYMENTS OF A MINIMUM FUNDING REQUIREMENT – PROPOSED AMENDMENTS TO IFRIC 14*

In response to your request for comments on the IASB's exposure draft, *Prepayments of a Minimum Funding Requirement – Proposed amendments to IFRIC 14*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.
Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

SAICA SUBMISSION ON EXPOSURE DRAFT – *PREPAYMENTS OF A MINIMUM FUNDING REQUIREMENT – PROPOSED AMENDMENTS TO IFRIC 14*

GENERAL COMMENTS

We agree with the proposal to amend IFRIC 14 to remove the unintended consequence arising from the treatment of prepayments, in some circumstances, of a minimum funding requirement. However, we do believe that some drafting clarifications are required as noted below. We also note that there may be other circumstances that economically are similar to a prepayment of minimum funding requirement, which we believe should receive similar accounting treatment. An example of one such circumstance would be where the trustees of the plan have given specific approval for the surplus to be utilised to take a contribution holiday.

OTHER COMMENTS

Paragraph 18(b) – replacement of the words "the future accrual of benefits" with "future service"

We note the proposal to change the terminology in paragraph 18(b) and the application of this amendment throughout the exposure draft. However, there is no explanation in the Basis for Conclusions for this proposed amendment.

In our view, it would be useful if the Board provided reasons for the proposed amendment, and an assessment of whether the proposed amendment is expected to have any impact on the application of IFRIC 14.

Paragraph 20(a) – recognition of a prepayment as an asset

It is not clear whether the recognition of an asset in respect of a prepayment would be restricted to a plan in a surplus position or would also extend to a plan in a deficit position. While we do support the proposal in the exposure draft to recognise an asset for a prepayment of a minimum funding requirement, we believe that this should only be done when the net defined benefit obligation is measured under IAS 19 – *Employee Benefits*, paragraph 58(b). For example, if a plan continues to be in a deficit position after the prepayment, we do not believe that a separate asset should be recognised. The net liability measured in accordance with IAS 19 paragraph 54 should be recognised. Similarly, the net asset under IAS 19 paragraph 54 may be lower than the amount determined under IAS 19 paragraph 58(b) and, accordingly, we believe that even if there has been a prepayment in this instance, the net asset to be recognised should be the amount determined under IAS 19 paragraph 54.

Although paragraph 20 is in the section titled "*The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions*", it is not stated explicitly that paragraph 20 (and in particular sub-paragraph (a)) should only be applied when IAS 19 paragraph 58(b) is applicable. In addition, paragraph 20 states, "… *shall recognise an asset comprising*…" Applied in isolation, this paragraph could result in the recognition of a separate asset in all cases where there is a prepayment of a minimum funding requirement, which, as noted above, we do not believe is appropriate.

Consequently, we recommend that paragraph 20 be reworded to state that, "If there are minimum funding requirements for contributions relating to future service, an entity shall measure the amount of any economic benefit available as a reduction in future contributions as the sum of (a) … ; and (b) the lower of (i) … ; and (ii)…".

Paragraph 20(b)(ii) – omission of the words "present value of"

Currently, paragraph 20 of IFRIC 14 refers to the "… present value of: (a) the estimated future service cost … less (b) …". In the exposure draft the words "present value of" have been omitted from paragraph 20(b)(ii). We presume this to be an oversight because example 3, IE 16 still indicates that the economic benefit available as a reduction in future contributions is the "present value of" the difference between the estimated future service cost and the estimated minimum funding requirement contributions. We recommend that paragraph 20 (b)(ii) be amended to clarify this.

Paragraph 22 – deleted

The Board has not provided reasons for deleting this paragraph, either in the content of the proposed amendments or in the Basis for Conclusions. Although paragraph 20A provides guidance on what to do if paragraph 20(b) is less than zero, we believe the guidance in the current paragraph 22 is useful on what to do if in a particular year the minimum funding requirement for future service exceeds the future IAS 19 service cost, and hence is useful in applying paragraph 20(b)(ii). Furthermore, example 3, IE17 of the exposure draft illustrates the application of this guidance. Accordingly, we recommend that the Board retain this guidance.

Paragraph 28A – transition

The last sentence in the transitional provisions appears to be confusing. It states that, "*An entity shall recognise in retained earnings at the beginning of that period any initial adjustment arising from the application of those amendments*." "*…that period…*" refers to the beginning of the earliest comparative period presented in the first financial statements in which the entity applied IFRIC 14. Assuming a calendar financial year, the beginning of the earliest comparative period would have been 1 January 2007. Applying the wording in paragraph 28A, this would mean that any adjustments from applying the amendment would be recognised against retained earnings as at 1 January 2007. Some believe this requirement is confusing because, assuming an entity applies the amended IFRIC 14 in its 2010 financial year, the effect of any adjustments would be recognised against retaining earnings as at 1 January 2009 and not 1 January 2007. Since we believe that the first sentence in paragraph 28A is clear in its requirement that the amended paragraphs only need to be applied from the date from which IFRIC 14 needed to have been applied, in our view, the last sentence should be deleted to remove any possible confusion.

Other economically-similar circumstances

The exposure draft proposes recognition of an asset only in the event of a prepayment of a minimum funding requirement in certain circumstances. In our view, there may be other circumstances which are similar, economically, to a prepayment, which arguably should receive similar treatment.

An example of one such circumstance would be where the trustees of the plan have given specific approval for the surplus to be utilised to take a contribution holiday. Following example 4 in the exposure draft, instead of prepaying the contributions for years 1 and 2, the entity obtains approval to take a contribution holiday for years 1 and 2 of the same amount. In our view, there are economic benefits available to the entity, as the entity will not have to make the otherwise required contributions for the period of the contribution holiday. We therefore suggest that the Board consider whether such a contribution holiday should also be considered in determining the amount available as a reduction in future contributions in these circumstances.

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