

14 May 2019

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision – IAS 19 Employee Benefits: Effect of a Potential Discount on Plan Classification

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2019 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the classification of a specific type of post-employment benefit plan.

While we agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda, we do not believe that the tentative agenda decision adequately identifies the principles applicable to an analysis of the fact pattern. In addition, we do not believe that the terms and conditions of the plan as presented in the tentative agenda decision are sufficiently detailed to permit a conclusion on the classification of the plan as a defined contribution plan or defined benefit plan. In particular, the presence of a potential discount where the ratio of plan assets to plan liabilities exceeds a set level can often imply that the opposite is also true, i.e. if the plan does not hold sufficient assets to pay all employee benefits then further contributions may be required in a subsequent period.

We believe that paragraphs 28 and 30 of IAS 19 establish the principle that the classification of a plan is based on whether the employees bear, in substance, the actuarial and investment risks. Accordingly, reaching a conclusion on the classification of a benefit plan requires a holistic understanding of the substance of the benefit plan and its principal terms and conditions including, among other things, an analysis of the plan benefit formula and the manner in which annual contributions and the discount are determined. Analysis of these factors will lead to a determination of whether the employer bears a meaningful portion of the actuarial or investment risk (defined benefit plan) or all, or substantially all, of such risks is borne by the employees (defined contribution plan). The relevance and analysis of these factors is omitted from the tentative agenda decision.

Further, we are concerned that the tentative agenda decision gives the misleading impression that if a plan specifies a maximum amount, no matter how high, above which an employer would not be obligated to contribute in a given year, this is sufficient to conclude that the employer does not bear the actuarial risk and investment risk (and therefore that the plan is a defined contribution plan). The narrow view of what constitutes downside risk may result in classifying differently plans that expose an employer in substance to the same level of risks simply because of the level at which the contributions are set. In other words, establishing a maximum obligation while there is substantial variability to the entity below the maximum should not mean the entity does not bear risk.

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If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS Leader