



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
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ifric@ifrs.org

International Accounting Standards Board
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Outreach Request: Measurement of minimum funding requirement in pension asset ceiling test

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to the Outreach Request **Measurement of minimum funding requirement in pension asset ceiling test**

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

Background of the issue

When entities with defined benefit pension plans have identified a surplus of pension assets over pension liabilities, paragraph 64 of IAS 19 requires them to perform an asset ceiling test in order to calculate how much of the surplus to recognise as an asset. One of two possible methods of performing the asset ceiling test considers the potential economic benefit of the surplus being available to the company as a reduction in future pension contributions. Using this method, IFRIC 14 limits the amount of pension asset that can be recognised to the cumulative future pension service cost, less any minimum pension funding requirement relating to future service.

Paragraph 17 of IFRIC 14 requires an issuer to determine the cumulative future service costs using assumptions consistent with those used to determine the defined benefit obligation and with the situation existing at the balance sheet date.

Paragraph 21 of IFRIC 14 requires the future minimum funding requirement contributions to be estimated using assumptions consistent with the minimum funding

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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basis and, for any factors not specified by that basis, assumptions consistent with the defined benefit calculation in IAS 19. The estimate must not include the effect of expected changes in the terms of the minimum funding basis that are not substantively enacted or contractually agreed at the end of the reporting period.

When estimating future service costs, paragraph 16 of IFRIC 14 is clear that an entity should estimate them over the shorter of the life of the pension plan and the life of the entity. However, ESMA has identified divergent views with respect to the period for which the future minimum funding requirement contributions should be included in the calculation when these are contractual amounts agreed with pension trustees.

Under such arrangements, minimum funding arrangements are regularly renegotiated with the pension fund trustees, e.g. on an annual or triennial basis. The negotiated amount must then be paid for a fixed period, e.g. five years. There may be a notice period required before an entity can choose to cease future pension funding, however it will not be contractually required to continue with future pension contributions over the life of the plan.

Request

1. ESMA seeks clarification of whether an entity with a contractually agreed future minimum funding requirement should assume that this requirement will exist over the life of the pension plan when performing an asset ceiling test.

The effect of limiting the net defined benefit asset to the asset ceiling also includes any additional liability recognized for minimum funding requirements that relate to past service. Paragraph 21 of IFRIC 14 only requires minimum funding requirements to be included in an asset ceiling test for the period to which an entity has contractually agreed to as at the balance sheet date. For example, if the company is only committed to make minimum contributions for ten years, only ten years of minimum pension contributions would be included in the asset ceiling test.

2. ESMA is aware of examples of this divergent practice that have recently been identified by European jurisdictions. Accordingly, ESMA kindly suggests that the IFRS Interpretations Committee considers clarifying the accounting requirements in this respect.

We agree that it is necessary to clarify that accounting requirements in some specific cases when the estimate includes the effect of expected changes in the terms of the minimum funding basis that are not substantively enacted or contractually agreed at the end of the reporting period.



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As a general comment, we understand that the questions listed above can be already be found in the current IFRS literature, and therefore, we would like to kindly suggest that the Committee incentives the use of proper professional judgment by the consulting party.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S. Takahashi', is written over a faint rectangular box.

Sílvio Takahashi
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)