COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

March 17, 2014

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

Att: Akemi Miura
Email: amiura@ifrs.org

RE: Outreach request- Availability of refunds from a DB plan managed by an independent trustee (IFRIC 14)

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1], the standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies welcomes the opportunity to respond the Outreach request- Availability of refunds from a DB plan managed by an independent trustee (IFRIC 14).

Background of the issue

In certain jurisdictions, defined benefit plans are required to be managed by a trustee that acts on behalf of the plan's members and is independent from the employer. The trustee may, through local law or contract, have discretion in the event of a surplus arising in the plan to make alternative use of that surplus by:

- Augmenting the benefits payable to members; and/or
- Winding up the plan, using its assets to purchase annuities for any remaining members, with resultant use of plan assets to pay insurance premiums and prevention of the gradual settlement of the plan liabilities until all members have left the plan

To the extent that the trustee does not exercise this discretion, the employer has the right to a refund of any excess plan assets.

[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).

Issue

On the basis of the above, does the trustee's unilateral right to augment benefits or to wind up the plan affect the employer's "unconditional right to a refund" and thus restrict recognition of an asset?

* The submitter assumes that there is no economic benefit available as a reduction in future contribution. Accordingly, an asset can only be recognised if the employer has an unconditional right to a refund, in accordance with IFRIC 14.

Divergent views identified by the submitter

The submitter has identified the three views.

View1: Yes, the trustee's unilateral right to make alternative use of a surplus means that the employer does not have an unconditional right to a refund of that surplus, and therefore, recognition of an asset based on that right is restricted.

Those who support this view argue that the paragraph 11 of IFRIC 14 indicates that a refund is available to an entity only if the entity has an unconditional right to a refund. The paragraph 12 of IFRIC 14 clarifies this requirement by stating that "If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset". BC10 of IFRIC 14 states that a future decision of the entity to improve benefits does not affect the existence or measurement of the asset. However, this paragraph deals with future actions "by the entity" and does not apply to future decisions by a trustee that is not controlled by the entity.

View2: No, the trustee's unilateral right to make alternative use of a surplus does not, in itself, mean that the employer does not have an unconditional right. Therefore the employer can recognise an asset.

Those who support this view argue that the fact that any surplus could be extinguished by uncertain future events not controlled by the employer is not relevant to the recognition of an asset as it is the right to a surplus, not its value or existence, which is relevant. They also argue that BC10 of IFRIC 14 should also be seen to apply to future asset allocation decisions by the trustee, ie there is no basis for a different conclusion to be drawn from a possible decision that has not yet been taken by the trustee.

View 3: The employer can make an accounting policy choice to recognise, or not recognise, an asset.

Those who support this view argue that both of View 1 and View 2 are acceptable and therefore either treatment can be applied as a consistent accounting policy choice.

Questions

1. In your jurisdiction, is it common that;

(a) the trustee of a pension plan acts on behalf of the plan's members and is independent from the employer; and

In Brazil, it is common that pension plans be managed by a separate entity. However, they are not fully independent from the employer, since in most cases the chairman of the board of the pension plan is a representative of the employer.

(b) the trustee has discretion in the event of a surplus arising in the plan to use such a surplus to augment the benefits payable to members [and/or wind up the plan through the purchase of annuities for members]? If so, please explain the typical characteristics of pension plans, the power of the trustees and any other relevant facts.

In Brazil, pension plans cannot change benefits payable to members neither purchase annuities without pre-approval from the employer and the federal regulator.

2.If you answered 'yes' to Question 1, what is the predominant interpretation on whether the employer has an unconditional right or not to a refund? In addition, would you please briefly describe the rationale for that interpretation?

N/A.

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3. On the basis of your response to Question 2, to what extent do you observe differences in the accounting between entities? If you observe differences in the accounting between entities, that is caused by a difference in the terms of the contracts or other facts, please explain it, briefly.

In Brazil, pension plans that present relevant surplus already disclose such surplus segregated by employer and plan members, thus, making it clear to the users of the financial statements how much of the total surplus will benefit the employer in the future. In cases when the surplus is not relevant, this amount is held by the plan to compensate future changes in the plan. Therefore, it seems to be a consistency in accounting treatment for most entities in Brazil.

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

Yours sincerely,

Idésio da Silva Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)