Hong Kong Institute of
Certified Public Accountants
香港會計師公會

BY E-MAIL AND BY POST

Our Ref.: C/UII 24 September 2004

The International Financial Reporting Interpretations Committee,
International Accounting Standards Board,
30 Cannon Street,
London EC4M 6XH,
United Kingdom.

Dear Sirs,

International Financial Reporting Interpretations Committee
- IFRIC Draft Interpretation D9

In response to the International Financial Reporting Interpretations Committee's Draft Interpretation D9 *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*, we are pleased to set out below our comments and our response to the question raised in your Invitation to Comment.

We welcome this Interpretation to give guidance on how IAS 19 *Employee Benefits* should be applied to employee benefit plans with a promised return on actual or notional contributions. However, we disagree with the conclusion that all such plans should be defined benefits plans. Under the law of Hong Kong, employers are only obliged to contribute a fixed amount to a retirement scheme for the retirement benefits of each eligible employee. The eligible employee however may choose to use the contribution to invest in a number of retirement funds, some of which may provide a guaranteed return on the amount contributed. We consider that, although this kind of arrangement would provide a promised return on actual contributions, it should only be considered as a defined contribution plan from the point of view of the employer as the obligation of the employer is only limited to the amount contributed. Any return on the amount contributed is dependent on the investment decision of the employee. Accordingly, we are of the view that the extent of the employer's obligation for the employee benefits should be a key determination factor as to whether an employee benefit plan with a promised return on actual or notional contributions should be a defined contribution plan or a defined benefit plan.

Question 1

The draft Interpretation sets out, inter alia, requirements for defined benefit plans when the benefit depends on future returns on assets, with or without an accompanying guarantee of a fixed return. In applying IAS 19 Employee Benefits to the benefits that depend on future returns on assets, the draft Interpretation requires specified changes in the plan liability to be treated as actuarial gains and losses. The entity's accounting policy on the recognition of actuarial gains and losses, therefore, applies. (Paragraph 9)

Do you agree with this approach, or do you believe that changes in the plan liability for benefits that depend on future asset returns should not be treated as actuarial gains and losses, and should therefore be recognised immediately?

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We agree that, once the employee benefit plan is determined to be a defined benefit plan, the changes in the plan liability should be treated as actuarial gains and losses rather than as an expense. This is in line with the requirement under IAS 19. However, we have reservations about requiring the plan liability for a benefit that depends on future asset return to be measured at the fair value at the balance sheet date of assets upon which the benefit is specified. We consider that this is a rule-based requirement and is inconsistent with the defined benefit methodology set out in IAS 19 even though it might be considered a practical way to avoid the problem of estimating the future return on the assets. We are of the view that any exception to the principle set out in IAS 19 should be fixed within IAS 19 rather than in an interpretation to IAS 19.

If you have any questions on our comments, please do not hesitate to contact Mr. Simon Riley, Technical Director (Financial Reporting) at the Institute, in the first instance.

Yours faithfully,

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CHIEF EXECUTIVE & REGISTRAR
HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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