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## IFRIC issues interpretations of IAS 19

On 5 July 2007, the International Financial Reporting Interpretations Committee (IFRIC) issued a new Interpretation entitled **IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**. IFRIC 14 addresses three issues:

- when refunds or reductions in future contributions should be regarded as ‘available’ in the context of paragraph 58 of IAS 19 **Employee Benefits**;
- how a minimum funding requirement might affect the availability of reductions in future contributions; and
- when a minimum funding requirement might give rise to a liability.

The consensus reached by the IFRIC on each of these issues is summarised below.

IFRIC 14 is applicable to annual periods beginning on or after 1 January 2008.

### Background

Paragraph 58 of IAS 19 (the so-called ‘asset-ceiling test’) limits the measurement of a defined benefit asset to the total of any cumulative unrecognised net actuarial losses and past service cost, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

In many countries, entities are required to provide a minimum amount or level of contributions to post-employment benefit plans over a given period to improve the security of the post-employment benefit promise made to the members of such plans. The effect of such ‘minimum funding requirements’ on the recognition of a defined benefit asset has been unclear, and consequently there has been diversity in the treatment.

### Scope

IFRIC 14 applies to all post-employment defined benefits and other long-term employee defined benefits. Minimum funding requirements are defined as “**any requirement to fund** a post-employment or other long-term defined benefit plan” and would therefore include both statutory and contractual requirements.

## The consensus

### General

An economic benefit, in the form of a refund or reduction in future contributions, is 'available' if the entity has an **unconditional right** to realise the benefit at some point during the life of the plan or when the plan is settled, even if the benefit is not realisable immediately at the balance sheet date. An unconditional right would not exist when the availability of the refund or the reduction in future contribution for the purpose of IAS 19.58 would be contingent upon factors beyond the entity's control (e.g. approval by third parties such as plan trustees). To the extent that such a right is conditional, no asset in respect of refunds or reductions in contributions can be recognised.

The economic benefit available in the form of refunds or reductions should be measured, in accordance with the terms of the plan and statutory requirements, at the maximum amount available. The maximum amount available is not affected by the entity's intentions (e.g. an entity may in the future choose to improve benefits rather than obtain a refund or reduce contributions, in which case the improvement in benefits is accounted for when the plan is amended).

### Economic benefits available as a refund

A refund is available to an entity only where the entity has an unconditional right to a refund:

- during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (e.g. in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or
- assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or
- assuming the full settlement of the plan liabilities in a single event (i.e. as a plan wind-up).

The entity should measure the economic benefit available as the amount of the surplus at the balance sheet date (i.e. the fair value of the plan assets less the present value of the defined benefit obligation) that it has a right to receive as a refund, less any associated costs (e.g. taxes).

If the refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, the amount is calculated without further adjustment for the time value of money, even if the refund is realisable only at a future date, as both the defined benefit obligation and the fair value of plan assets are already measured on a present value basis.

### Economic benefits available as a reduction in contributions

In the absence of a minimum funding requirement, the Interpretation requires entities to determine economic benefits available as a reduction in future contributions as the lower of:

- the surplus in the plan; and
- the present value of the future service cost to the entity (i.e. excluding costs borne by employees) over the shorter of the expected life of the plan and the expected life of the entity.

The benefit should be determined using assumptions consistent with those used to determine the defined benefit obligation (including the discount rate) and based on conditions that exist at the balance sheet date.

This means, an entity should assume:

- no change to the benefits provided by a plan in the future until the plan is amended; and
- a stable workforce unless it is demonstrably committed at the balance sheet date to make a reduction in the number of employees covered by the plan.

### The impact of a minimum funding requirement

Should a minimum funding requirement exist, the Interpretation distinguishes between contributions that are required to cover:

- (a) an existing shortfall for past service on the minimum funding basis; and
- (b) the future accrual of benefits.

Under (a) the minimum contribution requirement relates to services already received by an entity. To the extent that the contributions payable will not be available for a refund or reduction in future contributions, an entity recognises a liability when the obligation to provide such contributions arises. The liability recognised will either reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected to result from applying paragraph 58 of IAS 19 when the contributions are paid.

Under (b), an entity should determine the economic benefit available as a reduction in future contributions as the present value of:

- (a) the estimated future service cost in each year less; and
- (b) the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

This calculation should take into account the effect of any existing surplus on the minimum funding requirement basis. Expected changes in the terms and conditions of the minimum funding requirement should only be incorporated to the extent these are either substantively enacted or contractually agreed at the balance sheet date. To the extent that minimum funding contributions required in respect of the future accrual of benefits exceed service costs calculated under IAS 19 in any given year, the present value of that excess reduces the amount of the asset available as a reduction in future contributions. However, that asset can never be less than zero.

The Interpretation contains illustrative examples that outline the accounting treatments under a number of different scenarios.

### Effective date and transition

IFRIC 14 is applicable for annual periods beginning on or after 1 January 2008. Earlier application is encouraged.

The Interpretation is to be applied from the beginning of the first period presented in the financial statements for annual periods beginning on or after the effective date. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The IFRIC had initially proposed full retrospective application, but decided to amend the transitional provisions following concerns expressed by constituents.

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