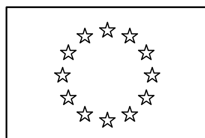

EUROPEAN COMMISSION
Internal Market and Services DG
FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE

Accounting

Brussels, 8 May 2008
MARKT F3 D(2008)

Endorsement of IFRIC 14 *The limit on a Defined Benefit asset, Minimum Funding Requirements and their Interaction*

Introduction, background and conclusions

Attachment 1: Effect study prepared by the European Financial Reporting Advisory Group (EFRAG)

Attachment 2: Endorsement advice prepared by EFRAG

1. INTRODUCTION

The European Commission has agreed with the European Parliament that Effect Studies should be prepared for new accounting standards and interpretations up for endorsement in the European Union. The Commission Services together with European Financial Reporting Advisory Group (EFRAG) prepare these studies containing description of the accounting issues involved, results from stakeholder consultations as well as an analysis of effects of using the new accounting rules in the EU.

EFRAG has prepared an Effect Study for the interpretation IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (attached). As the EFRAG Effect Study refers to the Endorsement Advice, we also included it in attachments. In the light of the size and extent of the issue, the Commission Services asked EFRAG to prepare a short report.

This cover note contains introduction, comments and a conclusion by the Commission Services.

2. BACKGROUND ON IFRIC 14

Post retirement benefits accounting

Companies are providing their employees with pensions and other post employment benefits such as post employment life insurance and medical care, retirement premium etc. The *International Accounting Standard 19* (IAS 19) *Employment benefits* issued by the *International Accounting Standard Board* (IASB) sets out on how to account for these employment benefits and makes a distinction between two types of benefits plans:

- The *defined contribution plans* where the contributions to be paid by the companies are determined in advance and for which the companies' commitment is limited to the payment of these contributions,

- The *defined benefits plans* where the benefits to be paid to the employees after retirement are fixed and for which the companies have to adapt their contributions in order to meet their commitments to pay these benefits. This category is by far the more complex.

In order to be in a position to meet their commitment in a defined benefit plan, it is common that companies entered in some funding structures that invest companies' contributions on the global financial markets to accumulate assets that will then be used to pay the benefits to the employees. These funding structures are governed by many different contractual and legal provisions including for some of them a right under certain conditions for the companies to refund their contributions when the accumulate value of assets exceed the amounts to be paid to the employees or to use this excess to reduce their future contributions. Other binding conditions may include a minimum funding requirement.

IAS 19 paragraph 58 deals with the defined benefit assets reflecting these surplus asset amounts from these funding structures and limit their measurement to the "present value of economic benefits available in the form of a refunds from the plan or reductions in future contributions to the plan". This asset is then presented in the balance sheet net of the employment benefit liability.

Why the issue needed clarification?

The issue described in the previous paragraphs required some clarifications in order to ensure a consistent application of the standard by the companies on the following aspects:

- What is the meaning of "available" in paragraph 58 of IAS19? This paragraph states that the possible surplus on an asset shall be accounted based on the economic benefits "available" either in terms of refund or of diminution in future contribution to the plan. It was unclear whether the availability should be considered at the closing date or at a certain point of time in the future and to what extent the availability assessment should be based on certainty or leave greater room for judgement.

- Shall the existence of a contractual minimum funding requirement by the employer have an impact on the measurement of the asset representing the funding surplus? It remained unclear whether these future minimum funding requirements shall be deducted from the asset relating to the funding surplus and to what extent.

- Under what circumstances should future contractual minimum funding requirements give rise to a liability? Should a liability be booked only when the accumulation of future minimum funding requirements resulting in a funding surplus remains unavailable either in terms of refunds or of diminution in future contribution to the plan?

How does IFRIC 14 suggest dealing with the issue?

IFRIC 14 gives guidance that clarifies the three above mentioned issues:

- *The meaning of "available in paragraph 58*: IFRIC 14 makes it clear that "available" means "an unconditional right" to refund or to reduce future contributions no matter whether the availability is immediate or at a certain point of time in the future.

- *The impact of contractual minimum funding requirements*: IFRIC 14 clarifies that the future minimum funding requirements have to be deducted from the asset corresponding to the funding surplus.

- *The circumstances when the accumulation of future contractual minimum funding requirements gives rise to a liability:* IFRIC 14 clarifies that such a liability shall be recognized only when the accumulation of minimum funding requirements resulting in a funding surplus are unavailable either in terms of refunds or of diminution in future contribution in the plan.

IASB and EFRAG consultations

In their majority, the answers received by the IASB were supportive of the interpretation and welcomed the clarification. The EFRAG consultation as well as the discussions in the EFRAG Users Panel were unanimously supportive of the endorsement of the interpretation.

3. EFFECT ANALYSIS

Main points identified in the EFRAG Effect Analysis

Improvement in consistency and in comparability

EFRAG's analysis concluded that the clarifications set out in IFRIC 14 will reduce the uncertainty as how to implement some aspects of IAS 19. This will reduce divergence in practice and enhance consistency and comparability of the information provided.

In particular, IFRIC 14 makes it clear that "available" means "an unconditional right" to refund or to reduce future contributions no matter whether the availability is immediate or at a certain point of time in the future. Furthermore, IFRIC 14 clarifies that the minimum funding requirements have to be deducted from the asset corresponding to the surplus. Finally, IFRIC 14 clarifies that a liability shall be recognized when the minimum funding requirements will not be available for a refund or a reduction in future contribution in the plan.

The Commission Services agree with the EFRAG analysis and conclude that IFRIC 14 will contribute to a more consistent application of the standard.

Costs for preparers and users

EFRAG's analysis gives an overview of the expected incremental costs for preparers. The implementation costs will consist in the time necessary to read and understand IFRIC 14 and to implement it correctly. In addition to this, some costs will be needed on an ongoing basis to estimate the future service cost and future minimum funding contributions for each year of the expected life of the plan, as well as the split between funding requirements required to cover on the one hand any existing shortfall for past service on the minimum funding basis and on the other hand the future accrual of benefits.

Based on the various answers received in the EFRAG's consultation, it appears that no additional cost is expected for users regarding the application of IFRIC 14. The new interpretation will facilitate the work of the financial analysts.

EFRAG notes that there will be some limited incremental costs for preparers that are not currently applying IAS19 in the way suggested by IFRIC14. No specific additional cost is expected for users. The Commission Services agree with this analysis.

4. OVERALL COST-BENEFIT CONSIDERATIONS AND COMMISSION SERVICES CONCLUSIONS

On the basis of EFRAG's Effect Study, the Commission Services have considered the main costs and benefits of endorsing IFRIC14. The Services conclude that the benefits of the revision outweigh the costs introduced by the revision.

The Commission services believe that IFRIC14 will have positive cost-benefits effects and that it should therefore be endorsed in the EU without delay.

Attachment 1

The costs and benefits of implementing IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* in the EU

Introduction

1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of IFRIC 14, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. (The results of the consultations EFRAG has carried out seem to confirm this.) Therefore, as explained more fully in the main sections of the report, the approach EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing IFRIC 14 in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

EFRAG's endorsement advice

3 EFRAG already carries out a *technical* assessment of all new and revised Standards and Interpretations issued by the IASB and IFRIC against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

Description of IFRIC 14

4 IAS 19 *Employee Benefits* sets out how to account for various types of employee benefits, including pensions and other types of post-employment benefits (such as post-employment life insurance and medical care).

5 IAS 19 categorises post-retirement benefit plans as either:

(a) defined contribution plans, where the contributions to be paid are specified and no one is obliged to pay any more into the plan if the contributions are insufficient to pay the desired level of benefits or

(b) defined benefit plans, where the benefits to be paid are specified and one party, usually the employer, is obliged to pay additional amounts into the plan if the contributions (if any) paid to date are insufficient to pay the specified benefits.

IFRIC 14 clarifies some of the things IAS 19 says about accounting for post-retirement defined benefit plans.

6 Under a defined benefit plan the employer makes a promise as to the post-retirement benefits the employer will receive. At the same time, the employer may 'fund' the plan (wholly or partially) by putting aside monies in a separate fund that will be used later to meet the obligations that arise from the pension promise made.

7 IAS 19 requires an entity to estimate the value of the present obligations it has in respect of the promises it has made and the value of any assets held in the plan to fund the obligations.

8 IAS 19 permits entities some flexibility to make certain specific adjustments to the value of the present defined benefit obligations. It then requires entities to compare the value of the plan assets and the adjusted value of the present defined benefit obligations and:

(a) if the adjusted value of the obligations is higher, recognise the difference on the balance sheet as a liability;

(b) if the value of the plan assets is higher, recognise the difference on the balance sheet as an asset *to the extent that the amount involved is available to the entity in the form of refunds from the plan and/or reductions in future contributions to the plan*.

9 There has been some uncertainty as to how to interpret the italicised text in (b) in certain circumstances and IFRIC 14 provides guidance on the subject.

10 The main uncertainty has been how to apply the requirement when, although a refund or reduction in future contributions of some or all of the difference cannot be realised *immediately*, it can be realised (through a refund or reduction of contributions) at some point during the life of the plan. IFRIC 14 makes it clear that it is sufficient that the amount should be obtainable at some point during the life of the plan. It is not necessary, for example, for the amount to be obtainable at the balance sheet date.

11 In some countries some or all defined benefit plans are subject to minimum funding requirements. The second issue IFRIC 14 clarifies is how the requirements of IAS 19 shall be applied when the defined benefit plan is subject to a minimum funding requirement.

(a) IFRIC 14 explains that the entity first needs to establish whether the minimum funding requirement has the effect of creating an obligation to pay additional amounts into the plan (in circumstances where an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received).

(b) To the extent that those additional amounts payable into the plan will not be available (either as a reduction in future contributions or as a refund) after they are paid into the plan, the entity shall recognise a liability for the amount payable when the obligation arises. That liability shall reduce the defined benefit asset or increase the defined benefit liability that would otherwise be recognised.

EFRAG's initial analysis of the costs and benefits of IFRIC 14 and Stakeholders' views on it

11 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing IFRIC 14, both in year one and in subsequent years.

12 On the basis of that initial assessment, EFRAG tentatively concluded that IFRIC 14 will improve the quality of the financial information provided and, as such, that its implementation will benefit users.

13 EFRAG further tentatively concluded that IFRIC 14 will:

(a) involve preparers incurring some year one costs—in order to read, understand and implement the new requirements—but that those costs will not be significant;

(b) not involve preparers incurring significant incremental ongoing costs; and

(c) not involve users incurring any incremental year one or ongoing costs.

14 Finally, EFRAG tentatively concluded that the benefits expected to arise from applying IFRIC 14 were likely to exceed the costs involved in its implementation.

15 EFRAG published its initial assessment and supporting analysis on 11 February 2008. It invited comments on the material by 14 March 2008 and received 10 letters in response. The results of this consultation can be summarised as follows:

(a) All respondents agreed with EFRAG's assessment of the costs involved for users and preparers.

(b) All respondents agreed with EFRAG's assessment of the benefits associated with implementing the Interpretation .

(c) All respondents agreed with EFRAG's conclusion that the benefits to be derived from IFRIC 14's application will exceed the costs involved.

16 In addition, EFRAG consulted its User Panel in December 2007 on the impact that IFRIC 14 would have on users. Panel members were generally supportive of the Interpretation because it reduces divergence in practice. Additionally, members thought the costs for users arising from the Interpretation would be small.

EFRAG's final analysis of the costs and benefits of IFRIC 14

17 Based on its initial analysis and the stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of IFRIC 14 is presented in the paragraphs below.

18 As explained in the background section above, the first issue that IFRIC 14 clarifies is what exactly is meant by the reference to the amount involved being "available" in the

form of refunds and/or reductions in future contributions. The second issue addressed in IFRIC 14 concerns the implications of minimum funding requirements for the accounting described. EFRAG has considered what the cost and related benefits of these clarifications might be.

19 EFRAG has concluded, for the reasons explained in our Endorsement Advice, that the clarifications set out in IFRIC 14 will reduce uncertainty as to how to implement aspects of IAS 19 and will as a result reduce divergence in practice and enhance consistency and comparability of the information provided, thereby benefiting all stakeholders.

20 EFRAG considered whether the accounting treatments required by IFRIC 14 would involve incremental costs for preparers. Its view is that for those entities not already implementing IAS 19 in the way required:

(a) there will be some incremental costs involved in reading and understanding IFRIC 14 and in ensuring it is implemented correctly. Those costs will include putting in place procedures that will enable entities to estimate:

(i) the future service cost and future minimum funding contributions for each year of the expected life of the plan, and

(ii) the split between minimum funding requirements required to cover on the one hand any existing shortfall for past service on the minimum funding basis and on the other hand the future accrual of benefits.

However, EFRAG's assessment is that those costs will not be significant.

(b) there will also be some incremental costs involved on an ongoing basis, because entities will need to perform the calculations described above in paragraph 2(a) to confirm that no adjustment is required. However, again EFRAG's assessment is that those costs will not be significant.

21 EFRAG considered whether the clarifications in IFRIC 14 in some way increased the burden on users. Its view is that they impose no additional burdens on users.

Conclusion

22 EFRAG's overall assessment is that:

(a) implementing IFRIC 14 will result in some year one costs and some incremental ongoing costs for preparers, but those costs will not be significant. On the other hand, it will not involve users incurring any incremental year one or ongoing costs;

(b) IFRIC 14 will reduce uncertainty as to how to implement aspects of IAS 19 and will as a result reduce divergence in practice and enhance consistency and comparability of the information provided, thereby benefiting all stakeholders; and

(c) The benefits that will result from applying IFRIC 14 are likely to exceed the costs of doing so.

23 During its consultation process, EFRAG did not become aware of any factors other than those mentioned in this report that should be taken into account in assessing the costs and benefits of implementing IFRIC 14 in the EU.

EFRAG
17 April 2008

Attachment 2

Jörgen Holmquist
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

17 April 2008

Dear Mr Holmquist

Adoption of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* —henceforth 'IFRIC 14'. It was issued in draft as D19 and EFRAG commented on this draft.

IFRIC 14 provides guidance on three matters:

- Paragraph 58 of IAS19 limits the measurement of a defined benefit asset to the "present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan". IFRIC 14 sheds light on when such refunds or reductions in future contributions should be regarded as 'available' in accordance with paragraph 58 of IAS 19 (ie the limit on the measurement of the defined benefit asset);
- 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.

IFRIC 14 becomes effective for annual periods beginning on or after 1 January 2008, with earlier application permitted.

EFRAG has carried out an evaluation of IFRIC 14. As part of that process, EFRAG issued a draft version of this letter for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG supports IFRIC 14 and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

- it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt IFRIC 14 and, accordingly, EFRAG recommends its adoption. EFRAG's reasoning is explained in the attached 'Appendix - Basis for Conclusions'.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Stig Enevoldsen

EFRAG, Chairman

Appendix

Basis for Conclusions

This appendix sets out the basis for the conclusions reached and for the recommendation made by EFRAG on IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.*

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity as a contributor to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

1 When evaluating the merits of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*—henceforth IFRIC 14—EFRAG considered the following key questions:

   (a) Is there an issue that needs to be addressed?

   (b) If there is an issue that needs to be addressed, is an Interpretation an appropriate way of addressing it?

   (c) Is IFRIC 14 a correct interpretation of existing IFRS?

   (d) Does the accounting that results from the application of the IFRIC meet the criteria for EU endorsement?

2 Having formed tentative views on the issues and prepared a draft endorsement advice letter, EFRAG issued that draft letter for comment on 20 July 2007 and asked for comments on it by 26 September 2007. EFRAG issued a second consultative paper, mainly on the costs and benefits of implementing IFRIC 14 in the EU, on 11 February 2008 and asked for comments on that paper by 14 March 2008. EFRAG has considered all the comments received in response to the two consultations, and the main comments received are dealt with in the discussion in this appendix.

IS THERE AN ISSUE THAT NEEDS TO BE ADDRESSED?

3 EFRAG understands that questions have been raised in practice with respect to *when* refunds or reductions in future contributions should be regarded as 'available', particularly when a minimum funding requirement exists. EFRAG agrees that there are issues that need to be addressed namely, greater clarification is needed on the interpretation of existing IAS 19 *Employee Benefits* paragraph 58 with respect to when a surplus is available as a refund and a contribution reduction.

4 Additionally, guidance is needed on how a minimum funding requirement might affect the availability of reductions in future contributions as well as when a minimum funding requirement might give rise to a liability, in order to achieve greater consistency in practice.

IS AN INTERPRETATION AN APPROPRIATE WAY OF ADDRESSING THIS ISSUE?

5 EFRAG believes that an interpretation is an appropriate way of addressing the issues identified above since the issues arise from a lack of clarity and/or need for more guidance and an Interpretation is one way of providing that clarity or additional guidance.

IS IFRIC 14 A CORRECT INTERPRETATION OF EXISTING IFRS?

6 EFRAG believes that IFRIC 14 is a correct interpretation of existing IFRS. Set out below is an explanation of the rationale behind this conclusion.

Consensus on the availability of a refund or reduction in future contributions

7 Paragraphs 54-60 of IAS 19 set out the amount that should be recognised on the balance sheet as a defined benefit asset or liability. If there is a surplus in the fund, paragraph 58 limits the amount of the defined benefit asset recognised by reference to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. IFRIC 14 first of all clarifies what is meant by “available in the form of refunds…or reductions”. In particular, in the absence of minimum funding requirements:

(a) IFRIC 14 makes it clear that a refund is ‘available’ to an entity only if the entity has an ‘unconditional right’ to a refund. The IFRIC’s rationale here is that an entity only has the control required by the asset definition if it has an unconditional right, in this case to the refund. EFRAG concurs with the rationale proposed by the IFRIC on this aspect of the Interpretation.

(b) IFRIC 14 requires that an entity should measure the economic benefit available as a refund as the amount of the surplus at the balance sheet date that the entity has a right to receive as a refund less any associated costs. EFRAG concurs with this interpretation of IAS 19; wind up costs can be so significant that a plan with an apparent surplus may not be able to recover any of that surplus on wind up.

(c) IFRIC 14 explains in BC8 that it is not necessary for the economic benefit to be realisable immediately in order for it to be ‘available’ as an economic benefit. EFRAG agrees with this view.

(d) IFRIC 14 clarifies that an entity should determine the economic benefit available as a reduction in future contributions as the lower of (a) the surplus in the plan and (b) the present value of the future service cost to the entity; EFRAG supports the conclusions reached by the IFRIC in this regard since, in the absence of a minimum funding requirement, the amount of a surplus can always be realised through a reduction in contributions if the life of the plan is long enough and the future IAS19 service cost is large enough.

Consensus on the effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

8 IFRIC 14 also clarifies how to assess the impact of minimum funding requirements on the measurement of the defined benefit asset/liability. In particular, it states that, in instances where there is a minimum funding requirement for contributions relating to the future accrual of benefits, an entity shall determine the economic benefit available as a reduction in future contributions as the amount described in the previous section of this appendix less the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

9 EFRAG believes that the IFRIC's reasoning in reaching the above conclusion is correct. Although contribution requirements in respect of future service do not create an additional liability at the balance sheet date—because they do not relate to past services received by an entity—they may reduce the extent to which the entity can benefit from a reduction in future contributions.

Consensus on when a minimum funding requirement gives rise to a liability

10 Paragraphs 23 and 24 of IFRIC 14 state that "if an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan. To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognise a liability when the obligation arises. The liability shall 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."

11 EFRAG believes this is an appropriate interpretation of existing IFRS and of the Framework. Paragraph 91 of the Framework states that a liability shall be recognised when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. In the case described in paragraphs 23 and 24 of IFRIC, if there is a present obligation and the settlement amount will not subsequently be fully available to the entity in form of a refund or a reduction in future contributions, the difference between the settlement amount and the amount available to the entity has to be recognised as a liability because the settlement will partly result in an outflow of resources and this partial amount can be measured reliably.

(a) The limit on the measurement of the defined benefit asset (IAS 19, paragraph 58) may make the funding obligation onerous;

(b) If an entity is obliged to pay contributions and some/all of those contributions will not subsequently be available as an economic benefit, it follows that when the contributions are made the entity will not be able to recognise an asset to that extent (based on the premise that an asset should reflect only its recoverable amount). However, the resulting loss to the entity does not arise on payment of the contributions but earlier, at the point at which the obligation to pay arises;

(c) The principles in IAS37 relating to onerous contracts have been applied within the context of the requirements of IAS 19; in other words, it is equivalent to an

entity having an onerous contract to pay additional contributions to the plan from which no future economic benefits will be received. Onerous contracts are accepted as giving rise to liabilities under IAS 37.

DOES THE ACCOUNTING THAT RESULTS FROM THE APPLICATION OF IFRIC 14 MEET THE ENDORSEMENT CRITERIA?

12 EFRAG has considered whether IFRIC 14 meets the requirements of the European Parliament and of the Council on the application of international accounting standards, in other words whether:

(a) it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

(b) it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

13 EFRAG has also considered whether IFRIC 14's adoption is in the European interest.

Consensus on the availability of a refund or reduction in future contributions

14 IFRIC 14 clarifies paragraph 58 of IAS 19, a paragraph that is currently the subject of some uncertainty, and consequently ought to result in the paragraph being interpreted and applied more consistently. This should enhance comparability.

15 Additionally, the information provided by applying this interpretation ought also to be relevant to users by virtue of the fact that it aids their understanding as to the extent to which a pension asset is available as a refund or a reduction in future contributions, and is therefore useful.

16 EFRAG did not identify any significant reliability concerns from this part of the consensus. The estimates of future service costs needed to determine the reduction in future contributions will be based on assumptions that are broadly in line with IAS19, with the exception of assumptions that need to be made regarding new entrants, where IFRIC 14 provides specific guidance (ie assume a stable work force).

17 Finally, EFRAG believes that the consensus reached on the availability of a refund or reduction in future contributions reinforces, but neither changes nor adds to, the requirements of IAS 19. As EFRAG has previously concluded that IAS 19 is not contrary to the true and fair principle, it believes it follows that IFRIC 14 is also not contrary to the true and fair principle.

Consensus on the effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions and on the recognition of a liability

18 Again, as practice varies with respect to the treatment of the effect of a minimum funding requirement on the limit placed by paragraph 58 of IAS19 on the amount of a defined benefit asset as well as the issue of the interaction between the minimum funding requirement and the limit placed by paragraph 58 of IAS19, the clarifications in IFRIC 14 ought to result in more consistent accounting thereby enhancing comparability.

19 Similarly, by reinforcing the existing requirements of IAS 19, IFRIC 14 ought to help ensure that the information provided for users is relevant and understandable.

20 Similar to the comments in paragraphs 14-17 above, EFRAG did not identify any significant concerns about the reliability of the information resulting from the application of this aspect of the interpretation.

21 Finally, EFRAG believes that the consensus reached on the effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions and on liability recognition reinforces, but neither changes nor adds to, the requirements of IAS 19. As EFRAG has previously concluded that IAS 19 is not contrary to the true and fair principle, it believes it follows that IFRIC 14 is also not contrary to the true and fair principle.

Conclusion

22 For the reasons set out above, EFRAG has concluded that it is in the European interest for the EU to adopt IFRIC 14 and therefore recommends IFRIC 14 for adoption.