

STAFF PAPER

September 2017

IASB Meeting

Project	Availability of a refund (Amendments to IFRIC 14) and Plan amendments, curtailment or settlement (Amendments to IAS 19)		
Paper topic	Effects of IFRIC 14 amendments and finalising IAS 19 amendments		
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Introduction

1. At its April 2017 meeting, the International Accounting Standards Board (Board) agreed to finalise the proposed amendments to IAS 19 *Employee Benefits* (IAS 19 amendments) and IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (IFRIC 14 amendments) subject to drafting changes. The IFRIC 14 amendments and the IAS 19 amendments were included in the [Exposure Draft Remeasurement on a Plan Amendment, Curtailment or Settlement/ Availability of a Refund from a Defined Benefit Plan](#). Appendix B to this paper summarises these amendments for reference.
2. Some stakeholders said proposed paragraph 12A of the IFRIC 14 amendments could have a significant effect on some defined benefit plans, particularly in the United Kingdom (UK). Accordingly, at the Board’s July 2017 meeting, we provided the Board with information about those possible effects on defined benefit plans in the UK—see [Agenda Paper 12C](#) from that meeting.
3. At that meeting, we also informed the Board that before asking for permission to begin the drafting and balloting process, we planned to (a) consult with stakeholders to better understand how the amendments would affect plans in other

jurisdictions; and (b) confirm that the amendments will have the effects that the Board envisaged during their development.

Objective

4. This paper:
- (a) provides the Board with an update on our outreach in respect of the IFRIC 14 amendments;
 - (b) asks the Board if it agrees with our recommendation to (a) further consider the IFRIC 14 amendments, and (b) finalise the IAS 19 amendments separately from the IFRIC 14 amendments; and
 - (c) sets out the due process steps the Board has taken in developing the IAS 19 amendments, and asks the Board to confirm it is satisfied that it has complied with the applicable due process requirements.

Structure of the paper

5. The paper is structured as follows:
- (a) IFRIC 14 amendments;
 - (b) finalising the IAS 19 amendments:
 - (i) re-exposure;
 - (ii) effective date;
 - (iii) intention to dissent;
 - (iv) proposed timetable for balloting and publication; and
 - (v) confirmation of due process steps.
6. There are four appendices to this paper:
- (a) Appendix A summarises the due process steps taken in developing the amendments to IAS 19;

- (b) Appendix B summarises of the proposed amendments to IAS 19 and IFRIC 14;
- (c) Appendix C reproduces paragraphs 11-14 of IFRIC 14 for ease of reference; and
- (d) Appendix D summarises our outreach on the IFRIC 14 amendments.

IFRIC 14 amendments

Background to the proposed amendments

7. Paragraph 64 of IAS 19 requires an entity to measure the net defined benefit asset at the lower of (a) the surplus in the defined benefit plan; and (b) the asset ceiling. Paragraph 8 of IAS 19 defines the asset ceiling as ‘the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan’.
8. Paragraph 11 of IFRIC 14 specifies that an entity has economic benefits available in the form of a refund only if it has an unconditional right to a refund either (a) during the life of the plan without assuming that the plan liabilities must be settled to obtain a refund; (b) assuming gradual settlement of plan liabilities over time; or (c) assuming full settlement of plan liabilities in a single event. Assuming gradual settlement (paragraph 11(b) of IFRIC 14) versus full settlement in single event (paragraph 11(c) of IFRIC 14) affects how an entity measures the economic benefits available in the form of a refund to the entity. The measurement of a net defined benefit asset applying paragraph 14 of IFRIC 14 (assuming full settlement in a single event) could be significantly lower than that determined applying paragraph 13 of IFRIC 14 (assuming gradual settlement)¹.
9. Accordingly, when recognising and measuring a net defined benefit asset, IFRIC 14 distinguishes between situations in which an entity can obtain a refund through full settlement of all plan liabilities in a single event versus through a

¹ The requirements could also affect the recognition and measurement of a liability for an obligation to pay a minimum funding requirement contribution.

gradual settlement of plan liabilities over time. Appendix C to this paper reproduces paragraphs 11-14 of IFRIC 14 for ease of reference.

10. The amendments to IFRIC 14 are narrow in scope. Proposed paragraph 12A would simply clarify that if other parties have the power to wind up a plan (or otherwise fully settle plan liabilities in a single event) without the entity's consent, an entity cannot assume it will get a refund through gradual settlement, ie the entity would generally assume full settlement of plan liabilities in a single event.

Findings from outreach and next steps

11. We have performed further outreach to better understand how proposed paragraph 12A of IFRIC 14 would affect plans in jurisdictions other than the UK. Our outreach has confirmed that the amendments are not expected to have a significant effect on plans in jurisdictions outside the UK—Appendix D summarises the findings from our outreach.
12. Our outreach confirms the amendments would clarify when paragraph 11(c) of IFRIC 14 is applicable and, thus, would lead to consistent outcomes for defined benefit plans with the same terms and conditions—in particular, this would affect defined benefit plans in the UK. Nonetheless, we are not yet certain that these benefits would outweigh the costs that would be placed on all IFRS jurisdictions from finalising the amendments. We understand it might be possible for entities with plans that would otherwise be affected by the amendments to make non-substantive changes to those plans that could eliminate or substantially reduce the effects of the amendments to IFRIC 14. This could, in turn, reduce much of the expected benefits of those amendments.
13. We think amendments to IFRIC 14 would have the potential to provide greater benefits in terms of improved financial reporting if the Board were able to refine and build on the principle in paragraph 11 of IFRIC 14 that, to recognise a net defined benefit asset, an entity must have an unconditional right to a refund of the surplus in the plan. Such an approach might establish a more principle-based approach to the recognition and measurement of net defined benefit assets than currently exists in IFRIC 14. Such an approach would however be broader in

scope than that of the existing proposed IFRIC 14 amendments, and we think any possible amendments that might arise from such a wider project would need to be exposed for comment. In addition, it is not yet clear to us whether the Board could address this matter efficiently.

14. If the Board agrees, we will perform further work to assess whether (a) it is feasible to undertake a project that would build on the principle in paragraph 11 of IFRIC 14, and (b) such a project would be sufficiently narrow in scope to be undertaken efficiently. We would then present our findings to the Board at a future meeting.

Effect on the IAS 19 amendments

15. The IAS 19 amendments address how an entity accounts for defined benefit plans when a plan event (ie a plan amendment, curtailment or settlement) occurs during a reporting period. Although exposed together, the IAS 19 amendments are unrelated to the IFRIC 14 amendments.
16. If the Board agrees with our recommendation to further consider the IFRIC 14 amendments, we see no benefit in delaying the finalisation of the IAS 19 amendments. Accordingly, we recommend that the Board finalise the IAS 19 amendments separately from the IFRIC 14 amendments.

Staff recommendation

17. We recommend that the Board:
 - (a) perform further work to assess whether it can establish a more principles-based approach in IFRIC 14 for an entity to assess and measure its right to a refund of a surplus; and
 - (b) finalise the IAS 19 amendments separately from the IFRIC 14 amendments.

Question 1 for the Board

Does the Board agree with our recommendation to:

- (a) perform further work to assess whether it can establish a more principles-based approach in IFRIC 14 for an entity to assess and measure its right to a refund of a surplus; and
- (b) finalise the IAS 19 amendments separately from the IFRIC 14 amendments?

Finalising the IAS 19 amendments

18. This section of the paper sets out the due process steps that the Board has taken in developing the IAS 19 amendments, and asks the Board to confirm it is satisfied that it has complied with the applicable due process requirements

Re-exposure

19. We recommend that the Board not re-expose the IAS 19 amendments. In making this recommendation, we have considered the requirements in paragraphs 6.25-6.29 of the [IFRS Foundation Due Process Handbook](#).
20. The Board tentatively decided to finalise the IAS 19 amendments, with some drafting changes. The only substantive change to the IAS 19 amendments relates to the transition requirements.
21. The Exposure Draft proposed that an entity apply the IAS 19 amendments retrospectively, subject to providing an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19. Having considered comments on the Exposure Draft, the Board tentatively decided that an entity should apply the IAS 19 amendments prospectively to plan events occurring on or after the effective date. The Board concluded that the benefits of retrospective application in this instance would not outweigh the costs.

Effective date

Analysis

22. Paragraph 6.35 of the Due Process Handbook states:
- ...The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.
23. The amendments are narrow in scope and are expected to reduce diversity in the application of IAS 19. At its meeting in September 2016, the IFRS Interpretations Committee (Committee) recommended that entities apply the IAS 19 amendments to annual reporting periods beginning on or after 1 January 2019. The Committee also recommended that entities be allowed to apply these amendments earlier than the effective date.
24. At the time of our discussion with the Committee (September 2016), we expected to issue the amendments to IAS 19 in mid-2017. Subject to the outcome of our discussions with the Board at this meeting, we now expect to issue the amendments to IAS 19 in December 2017. We think the change in the expected timing of finalising the amendments does not affect the Committee's recommendation. This is because:
- (a) an entity is required to apply the amendments prospectively only to plan events occurring on or after the effective date; and
 - (b) in our view, an effective date of 1 January 2019 still provides:
 - (i) jurisdictions with sufficient time to incorporate the new requirements into their legal systems; and
 - (ii) entities with sufficient time to prepare for the new requirements.
25. We agree with the Committee's recommendation that entities be allowed to apply the IAS 19 amendments earlier than the effective date.

Recommendation

26. We recommend that:
- (a) entities apply the IAS 19 amendments to annual reporting periods beginning on or after 1 January 2019; and
 - (b) entities be allowed to apply these amendments earlier than the effective date.

Intention to dissent

27. In accordance with paragraph 6.23 of [IFRS Foundation Due Process Handbook](#), we are asking whether any Board member intends to dissent from the IAS 19 amendments.

Proposed timetable for balloting and publication

28. We plan to begin the balloting process in October 2017, and expect to issue the IAS 19 amendments in December 2017.

Confirmation of due process steps

29. In Appendix A to this paper, we have summarised the due process steps taken in developing the IAS 19 amendments. We note the applicable due process steps to date for the issuance of narrow-scope amendments have been completed.

Questions 2-5 for the Board

2. **Re-exposure**—does the Board agree with the staff recommendation not to re-expose the IAS 19 amendments?
3. **Effective date**—does the Board agree with the staff recommendation to require entities to apply the IAS 19 amendments to annual reporting periods beginning on or after 1 January 2019, with earlier application permitted?
4. **Dissent**—does any Board member intend to dissent from the issuance of the IAS 19 amendments?
5. **Permission to ballot**—is the Board satisfied it has complied with the applicable due process requirements, and that it has undertaken sufficient consultation and analysis to begin the balloting process for the IAS 19 amendments?

Appendix A—Due process steps

A1. The following table sets out the required due process steps taken by the Board.

<i>Step</i>	<i>Actions</i>
Consideration of information gathered during consultation	
The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	All comment letters received by the Board (78 comment letters) have been posted here .
Board and Interpretation Committee meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	The Interpretations Committee discussed the feedback received at its meetings in July 2016, September 2016 and March 2017. The Board discussed the comment letter analysis and the recommendations of the Interpretations Committee at its meetings in December 2016 and April 2017. The project webpage for the IAS 19 amendments can be accessed here . The webpage contains up-to-date information.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	The amendments are narrow in scope and the likely effect of the amendments is greater consistency in the application of IAS 19. Accordingly, we have not prepared an effects analysis for these amendments.
Finalisation	
Due process steps are reviewed by the Board.	This step will be met by this Agenda Paper.
Need for re-exposure of a Standard is considered.	Analysis of the need to re-expose is included in the main body of this paper.
The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Analysis of the effective date is included in the main body of this paper.
Drafting	
Drafting quality assurance steps are adequate.	The translations, taxonomy and editorial teams will review drafts during the balloting process. We will perform an editorial review of the pre-ballot draft with some external parties, including Committee members. The pre-ballot draft will be made available to members of the International Forum of Accounting Standard Setters.
Publication	
Press release to announce the final Standard.	A press release will be published with the final amendments.
A Feedback Statement is provided which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received.	Not considered necessary because these amendments are narrow in scope.
Standard is published.	The final amendments will be made available on our website when published.

Appendix B—Summary of the proposed amendments

Summary of the IFRIC 14 amendments

Accounting when other parties can wind up a plan or affect benefits for plan members without an entity's consent

Summary of the proposed amendments

A1. The proposed amendments to paragraph 12 of IFRIC 14 would clarify that:

- (a) an entity does not have an unconditional right to a refund of a surplus if other parties can use the surplus to affect the benefits for plan members without the entity's consent (proposed paragraph 12B of IFRIC 14).

When developing the proposed amendments, the Board concluded that the other parties' powers restrict the entity's ability to use the surplus to generate future cash inflows for the entity.

- (b) an entity has a right to a refund of a surplus if other parties can wind up a plan (or otherwise fully settle plan liabilities in a single event) without an entity's consent. However, in recognising and measuring this right, the entity would not be able to assume gradual settlement of the plan liabilities over time as described in paragraph 11(b) of IFRIC 14 (proposed paragraph 12A of IFRIC 14). When developing the proposed amendments, the Board concluded that the other parties can prevent gradual settlement if they can wind up the plan before all members have left the plan.

In many cases, unless paragraph 11(a) of IFRIC 14 applies, this means that an entity would recognise and measure its right to a refund applying paragraph 11(c) of IFRIC 14 (ie assuming full settlement of plan liabilities in a single event). The entity would also apply paragraph 14 of IFRIC 14 in measuring its right to a refund—paragraph 14 of IFRIC 14 requires the entity to include the costs to the plan of settling the plan liabilities and making the refund.

(c) other parties' powers to unilaterally change the asset mix within a plan, without affecting benefits for plan members, does not affect the entity's unconditional right to a refund of a surplus (proposed paragraph 12C of IFRIC 14). When developing the proposed amendments, the Board concluded that, in this case, the other parties' powers relate to the future amount of plan assets but do not relate to the entity's right to a refund.

A2. The proposed amendments would also clarify that other parties do not have the power to wind up the plan, or affect the benefits for plan members, if that power is dependent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the other parties' control.

Statutory requirements that an entity considers in determining the economic benefit available to the entity

Summary of the proposed amendments

A3. The proposed amendments to paragraph 7 of IFRIC 14 would clarify that when an entity determines the availability of a refund or reduction in future contributions, the entity takes into account any statutory requirements that are enacted or substantively enacted, as well as contractually agreed terms and conditions of a plan and any constructive obligations.

A4. The Basis for Conclusions notes that the concept of 'substantively enacted' is already used in paragraph 21 of IFRIC 14 and IAS 12 *Income Taxes*. It also notes that when a legal or constructive obligation to enhance benefits arises, an entity reflects this obligation in the measurement of the defined benefit obligation applying IAS 19.

Summary of the IAS 19 amendments

Accounting when a plan amendment, curtailment or settlement occurs

A5. The proposed amendments to IAS 19 address how an entity accounts for defined benefit plans when a plan event occurs during a reporting period. The proposed amendments specify that:

- (a) when an entity remeasures the net defined benefit liability (asset) applying paragraph 99 of IAS 19 (ie when a plan event occurs), the entity would determine:
 - (i) the current service cost and the net interest for the remainder of the annual reporting period using the assumptions used for the remeasurement; and
 - (ii) the net interest for the remainder of the annual reporting period on the basis of the remeasured net defined benefit liability (asset).
- (b) the current service cost and the net interest in the reporting period before a plan event would not be affected by, or included in, the past service cost or gain (loss) on settlement.

Interaction between the asset ceiling and past service cost or gain or loss on settlement

- A6. The accounting for a plan event may reduce or eliminate a surplus, which may mean that the effect of the asset ceiling also changes. The Board proposed to clarify that, when a plan event occurs, an entity would:
- (a) recognise and measure the past service cost, or a gain or loss on settlement, in profit or loss as required by paragraphs 99–112 of IAS 19, before recognising the changes in the effect of the asset ceiling; and
 - (b) recognise changes in the effect of the asset ceiling in other comprehensive income as required in paragraph 57(d)(iii) of IAS 19.
- A7. The proposed amendments confirm that an entity recognises the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling.

Appendix C—Excerpts from IFRIC 14

C1. This appendix reproduces paragraphs 11-14 of IFRIC 14 for ease of reference.

The right to a refund

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

- (a) during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (eg 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
- (b) assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or
- (c) assuming the full settlement of the plan liabilities in a single event (ie as a plan wind-up).

An unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period.

12 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.

Measurement of the economic benefit

13 An entity shall measure the economic benefit available as a refund as the amount of the surplus at the end of the reporting period (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs. For instance, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.

14 In measuring the amount of a refund available when the plan is wound up (paragraph 11(c)), an entity shall

include the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

Appendix D—Summary of outreach

Summary of outreach

- D1. In order to gather information about the expected effects of the IFRIC 14 amendments, we sent requests to members of the International Forum of Accounting Standard-Setters, securities regulators, the large accounting firms and some pensions experts.
- D2. The request asked those participating whether they expect the IFRIC 14 amendments to have an effect on defined benefit plans in their respective jurisdictions. Respondents were also asked to explain the possible effects and to provide the particular characteristics of defined benefit plans that could lead to those possible effects.
- D3. We received 13 responses—three from national standard-setters, two from organisations representing groups of regulators, five from large accounting firms and three from pensions experts. The views received represent informal opinions, rather than formal views of those responding.

Findings from outreach

- D4. Most respondents said they do not expect any significant effects in jurisdictions other than the UK. One respondent said it was not aware of any significant effect outside the UK—however, it is possible that trustees could have some powers that would only come to light on a closer assessment of the plan agreements.
- D5. Some respondents said amendments might affect plans in some other jurisdictions—the main effects noted were as follows:
- (a) one respondent said the amendments might affect defined benefit plans in Ireland because the terms of those plans are similar to the terms of UK plans;
 - (b) one respondent said the amendments might affect some superannuation plans in Australia but this would be known only after further work;

- (c) one respondent said the amendments might affect defined benefit plans in the Netherlands because an independent Board of Directors might have the power to initiate a wind-up of the plan; and
- (d) one respondent said the amendments might affect defined benefit plans in one province in Canada—although pension laws are currently evolving, in some situations the regulator might have the discretion to direct an entity to wind-up a plan that is closed to future accruals.