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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. It does not represent an official position of the IFRIC. IFRIC positions are set out in Interpretations.

Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **March 2006, London**

Project: **IAS 19 Employee benefits – Minimum Funding Requirements and the asset ceiling (Agenda Paper 4)**

Introduction

1. At the September meeting, the IFRIC continued its discussions in respect of how a statutory minimum funding requirement (MFR) would affect the application of the asset ceiling requirements under paragraph 58 of IAS 19, and the extent to which the MFR could impose an additional liability under IAS 19. The key decisions made at that meeting are set out below:
 - a. If there is an MFR obligation on the entity to pay additional contributions to a plan, an additional liability should be recognised under IAS 19 to the extent that the assets derived from those contributions would not be available to the entity as a refund or reduction in future contributions.
 - b. It is not necessary for the refund or contribution reduction to be immediately available at the balance sheet date, provided that it would be available at some point during the life of the plan or when the plan liability is finally settled.

- c. The amount available as a refund shall be recognised to the extent that any surplus existing on the final settlement of the plan liabilities will revert to the entity, after taking into account all the costs associated with the settlement.
 - d. The amount available as a reduction in future contributions is the present value, using IAS 19 assumptions, of:
 - i. The service cost (if there were no surplus) excluding future employee contributions; less
 - ii. the entity's minimum funding contribution requirement.
2. The staff has prepared a preliminary draft Interpretation which reflects the IFRIC's decisions at that meeting and seeks the IFRIC's views on this.
 3. [This paragraph not included in the Observer Notes]
 4. The staff would also like to clarify the IFRIC's intention in respect of the two outstanding issues set out below.

Outstanding Issues

- Future changes in the workforce

5. At the previous meeting, the IFRIC rejected the view that the entity should make allowances for any future changes in the size and demographics of the workforce consistent with the management's most recent budgets/forecasts in determining the future contribution reduction available. The IFRIC decided that actuarial assumptions, including demographic assumptions, used in computing the net plan asset available should be consistent with the assumptions made to compute the benefit obligation at the balance sheet date.

[Para 6 -12 not included in the Observer Notes]

Staff Recommendation

13 The staff would like to ask the IFRIC to reconsider its decision to exclude the requirement for the entity to make allowance for any future changes in the size and demographics of the workforce consistent with the management's budget forecasts in determining the future contribution reduction available.

- Associated Costs

14 The IFRIC agreed that a refund or contribution reduction may be recognised as an asset at the balance sheet date if it would be available at some point during the life of the plan or when the plan liability is finally settled. The plan liability may be settled by winding up the plan and transferring the liabilities so that the entity has no further legal or constructive obligation for the liabilities. Alternatively, the liability may be settled gradually as members leave the plan until there are no members left in the plan.

15 The IFRIC also agreed that the costs associated with the gradual settlement or the wind-up of the plan should be taken into account when determining the amount of surplus available as a refund.

16 [Paragraphs 16 – 18 not included in the Observer notes]

Staff Recommendation

19 The staff does not recommend that the IFRIC issues guidance on how the present value of the associated cost should be determined. A comment to this effect has been included in the Basis for Conclusions (BC 17).