



30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>

**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: July 2006, London

**Project: IAS 19 Employee benefits – Minimum Funding
Requirements and the asset ceiling (Agenda paper 5)**

Introduction

1. At the May 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 affect the measurement of the net balance sheet asset or liability under IAS 19.
2. The IFRIC reaffirmed the decisions made at previous meeting. In particular, the IFRIC confirmed that:
 - a) An economic benefit does not need to be immediately realisable at the balance sheet date in order for it to be recognised as an available asset under IAS 19.
 - (b) The asset available as a refund should be recognised to the extent that, in the jurisdiction of the plan in question, any surplus existing on the final settlement of the plan liabilities will revert to the entity, after taking into account the costs associated with the settlement.

- (c) The asset available as a reduction in future contributions would be reduced by the present value of future statutory minimum funding requirements.
 - (d) If an entity has an obligation to pay contributions to a plan and those contributions would not be available to the entity (either as a refund of surplus or a reduction in future contributions), the entity shall apply an adjustment to reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss arises when paragraph 58 of IAS 19 is applied after the contributions are paid.
3. The IFRIC considered a preliminary draft of an Interpretation on these issues and asked the staff to make certain changes. The key changes are set out in below.

Summary of key changes and staff recommendation

4. The staff has revised the draft Interpretation to address the concerns raised at the previous meeting. The key changes made are:
- a. Clarification of the treatment of the adjustment to the balance sheet asset or liability
 - b. Consistency in the demographic assumptions used
 - c. Clarification of the transitional provisions
 - d. Including a reference to IAS 1 in the Consensus
 - e. Other editorial changes

The IFRIC will be asked at the meeting to decide whether to publish the revised text as a Draft Interpretation, after amendment to reflect any changes agreed at the meeting and subject to negative clearance by Board members. To facilitate the amendment process, it would be helpful if IFRIC members could advise the staff ahead of the meeting of any remaining concerns they have on the text and any suggested rewordings.

KEY CHANGES

Treatment of the balance sheet asset or liability

5. The IFRIC agreed that any adjustments to the net balance sheet asset or liability, as a result of a minimum funding requirement, should be recognised immediately. This is consistent with the recognition of other adjustments to the net balance sheet asset or liability under paragraph 58 of IAS 19 which are recognised in accordance with paragraph 61(g) or 93C of IAS 19.

Consistency in the demographic assumptions used

6. The IFRIC rejected the view that the entity should adjust the calculation of the net plan asset for any future changes in the size and demographics of the workforce in determining the future contribution reduction available. The IFRIC reasoned that the actuarial assumptions, including demographic assumptions, used in computing the net balance sheet asset should be consistent with the assumptions made to compute the benefit obligation at the balance sheet date and concluded that no adjustment should be made for future changes that have not been taken into account in the computation of the present value of the defined benefit obligation.

Clarification of the transitional provisions

7. The IFRIC noted that immediate recognition, as set out in paragraph 5 of this paper, of all adjustments to the net balance sheet asset or liability in respect of any minimum funding requirement, simplifies retrospective application. Further, the information required in order to calculate any adjustments in respect of the prior year for comparative information should be readily available in most cases. The IFRIC concluded, therefore, that full retrospective application should be required.
8. The staff also notes that, in this case, no specific transitional provisions in respect of first-time adopters would be required.

Including a reference to IAS 1

9. The IFRIC rejected the view that the entity should be required to disclose whether there are any restrictions on the current realisability of the plan assets or the basis used to determine the economic benefit available as a refund (ie

whether the plan liability is assumed to be settled gradually or on wind-up or whether refunds are permitted under the plan rules).

10. The IFRIC noted that IAS 1 *Presentation of Financial Statements* requires the entity to disclose information about the key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of the net balance sheet asset or liability. The IFRIC agreed therefore to include a reference to IAS 1 in the Consensus rather than a disclosure requirement.

Other changes

11. Some additional changes have been made, including re-ordering of certain sections and suggested improvements in the wording.