

## STAFF PAPER

June 2018

## IASB Meeting

<b>Project</b>	<b>Availability of a refund (Amendments to IFRIC 14)</b>		
Paper topic	Update and next steps		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Introduction**

1. The proposed amendments to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* would clarify how an entity assesses its right to a refund of a surplus in a defined benefit plan when other parties (for example, trustees) have particular rights. At its September 2017 meeting, the International Accounting Standards Board (Board) decided that, before proceeding to finalise the proposed amendments to IFRIC 14, it would perform further work to assess whether it can establish a more principles-based approach in IFRIC 14 for an entity to assess the availability of a refund of a surplus.

**Objective**

2. This paper:
  - (a) provides the Board with an update on the work performed; and
  - (b) asks the Board if it agrees with our recommendation (i) not to finalise the proposed amendments to IFRIC 14 at this time; and instead (ii) to consider the direction of the project on IFRIC 14 when the outcome of

its research project on Pension Benefits that Depend on Asset Returns is known.

### Structure of the paper

3. The paper is structured as follows:
  - (a) background;
  - (b) update and next steps; and
  - (c) staff recommendation.
4. There are three appendices to this paper:
  - (a) Appendix A summarises the proposed amendments to IAS 19 and IFRIC 14;
  - (b) Appendix B reproduces paragraphs 11-14 of IFRIC 14 for ease of reference; and
  - (c) Appendix C reproduces paragraphs 11–14 of Agenda Paper 12B of the Board’s September 2017 meeting for ease of reference.

### Background

#### ***Existing requirements in IFRIC 14***

5. Paragraph 64 of IAS 19 *Employee Benefits* 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’.
6. 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.

7. 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)<sup>1</sup>. This is because paragraph 14 of IFRIC 14 requires an entity to include all settlement costs (including, for example, the cost of purchasing annuities to settle plan liabilities).
8. Appendix B to this paper reproduces paragraphs 11-14 of IFRIC 14 for ease of reference.

***Trustees' rights to settle liabilities in a single event (proposed paragraph 12A of IFRIC 14)***

9. The proposed amendments to IFRIC 14 are narrow in scope. Amongst other things, the proposed amendments—in particular paragraph 12A of IFRIC 14—would clarify that if other parties have the right to wind up a plan (or otherwise fully settle all plan liabilities in a single event) without the entity's consent, the entity cannot assume gradual settlement. In this situation, the entity would generally assume full settlement of plan liabilities in a single event. Appendix A to this paper summarises the proposed amendments to IFRIC 14.
10. Some stakeholders said proposed paragraph 12A of IFRIC 14 could have a significant effect on defined benefit plans, particularly in the United Kingdom (UK). 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 for further information.
11. At the Board's September 2017 meeting, we presented our findings from outreach with jurisdictions other than the UK and discussed next steps. As outlined in [Agenda Paper 12B](#) of that meeting, our outreach confirmed that proposed

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

paragraph 12A of IFRIC 14 would not have a significant effect on jurisdictions outside the UK. We also noted our understanding that it might be possible for entities to make non-substantive changes to plans that would otherwise be affected by the proposed amendments, which could eliminate or substantially reduce the effects of those proposed amendments. This could reduce much of the expected benefits of the proposed amendments. Appendix C to this paper reproduces paragraphs 11–14 of [Agenda Paper 12B](#) of the Board’s September 2017 meeting for ease of reference.

12. Accordingly, the Board decided that, before proceeding to finalise the proposed amendments to IFRIC 14, it would perform further work to assess whether it can establish a more principles-based approach in IFRIC 14 for an entity to assess the availability of a refund of a surplus.

## **Update and next steps**

### ***Update***

13. Since the Board’s September 2017 meeting, we have performed further research considering how an entity might assess the availability of a refund of a surplus. We think it is possible for the Board to develop a principles-based approach in an efficient and effective manner. Such an approach would focus on making the distinction between paragraph 11(b) and 11(c) of IFRIC 14 (ie when an entity assumes gradual settlement of plan liabilities over time and when it assumes full settlement of plan liabilities) more principles-based than the existing requirements in IFRIC 14. We intend to present a paper to the Board at a future meeting outlining some possible alternatives the Board could consider in this respect.
14. Such an approach would however be broader in scope than that of the existing proposed amendments to IFRIC 14, and we think any possible amendments that might arise from such a project would need to be exposed for comments.

### **Other Board project on employee benefits**

15. In the light of the research performed and the responses to the Board’s 2015 Agenda Consultation<sup>2</sup>, the Board decided that there was no evidence of problems that were sufficiently widespread and significant to require a comprehensive review of IAS 19 *Employee Benefits*. Accordingly, the Board removed this project from its research programme.
  
16. The Board nonetheless noted that the research performed, together with previous work done by the Board and IFRS Interpretations Committee, showed that there is an inconsistency in the measurement of pension benefits that depend on asset returns. Following the 2015 Agenda Consultation, the Board added to its research pipeline a project to consider whether it would be feasible to eliminate that inconsistency (IAS 19 project). At its meeting in February 2018<sup>3</sup>, the Board decided that in the next few months, the staff should aim to start the research on the IAS 19 project.

### **Next Steps**

17. The IAS 19 project is unrelated to any possible amendment to IFRIC 14. However, in our view, it would be best to consider all possible changes to the accounting for employee benefits at the same time. Accordingly, we think the Board would be better placed to consider the direction of the project on IFRIC 14 when the outcome of the IAS 19 project is known.
  
18. Because the Board intends to start its work on the IAS 19 project within the next few months, we think this would not unduly delay further work on IFRIC 14. Rather, in our view, considering both projects concurrently would:
  - (a) allow the Board to evaluate together the expected benefits and costs of all possible changes to the accounting for employee benefits; and

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<sup>2</sup> See page 30 of the [IASB® Work Plan 2017–2021 Feedback Statement on the 2015 Agenda Consultation](#)

<sup>3</sup> See IASB Update from the Board’s February 2018 meeting [here](#).

- (b) reduce the burden on stakeholders that might otherwise be created by issuing different amendments to the requirements for employee benefits within a relatively short time-period.

**Staff recommendation**

- 19. Based on our analysis, we recommend that the Board (a) not finalise the proposed amendments to IFRIC 14 at this time; and instead (b) consider the direction of the project on IFRIC 14 when the outcome of its research project on Pension Benefits that Depend on Asset Returns is known.
- 20. If the Board agrees with our recommendation, we will monitor the developments on the IAS 19 research project. When the outcome of that research project is known, we will bring a paper to a future Board meeting outlining possible ways forward regarding the project on IFRIC 14.

**Question for the Board**

Does the Board agree with our recommendation (a) not to finalise the proposed amendments to IFRIC 14 at this time; and instead (b) consider the direction of the project on IFRIC 14 when the outcome of its research project on Pension Benefits that Depend on Asset Returns is known?

## Appendix A—Summary of the proposed amendments to IFRIC 14

### 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.



## Appendix B—Excerpts from IFRIC 14

B1. 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 C—Excerpts from Agenda Paper 12B of the Board’s September 2017 meeting<sup>4</sup>

B1. This appendix reproduces paragraphs 11-14 of [Agenda Paper 12B](#) of the Board’s September 2017 meeting for ease of reference.

### ***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

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<sup>4</sup> Agenda Paper 12B of the Board’s September 2017 meeting can be accessed [here](#).

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.