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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting:	**20 June 2007, London**
Project:	**Ratification of IFRIC Interpretation on IAS 19 (Agenda paper 7C)**

This paper asks the Board to ratify an Interpretation on the requirements in IAS 19 on the limit on a defined benefit asset, minimum funding requirements and their interaction.

1 The IFRIC has reached a consensus on:

a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19

b) how a minimum funding requirement might affect the availability of reductions in future contributions and

c) when a minimum funding requirement might give rise to a liability.

2 The IFRIC voted to confirm the consensus at its May meeting. None of the IFRIC members voted against it. The IFRIC now submits the Interpretation (Paper 7D) to the Board for ratification.

The issues

3 Paragraph 58 of IAS 19 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' plus unrecognised gains and losses. Questions have arisen about when refunds or reductions in future contributions should be regarded as available, particularly when a minimum funding requirement exists.

4 Minimum funding requirements exist in many countries to improve the security of the post-employment benefit promise made to members of an employee benefit plan. Such requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.

5 Further, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

The consensus

6 The main conclusions in the Interpretation are:

a) An economic benefit, in the form of a refund of surplus or a reduction in future contributions, is available if the economic benefit will be realisable at some point during the life of the plan or will be realisable when the plan liabilities are finally settled.

b) The economic benefit available as a refund shall be determined on the basis of any of three stated ways of getting a refund.

c) If there is no minimum funding requirement, an entity shall determine the economic benefit available as a reduction in future contributions as the higher of

   i) the surplus in the plan and

   ii) the present value of the future service cost to the entity, ie excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity.

   Guidance is given on the assumptions that should be used.

d) If 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 present value of:

   i) the estimated future service cost in each year in accordance with c) less

   ii) the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

   Guidance is given on the assumptions that should be used.

e) If the limit on a defined benefit asset makes an obligation under a minimum funding requirement onerous, the entity shall recognise a liability when the obligation arises.

7 A draft Interpretation on the issues, D19, was issued in August 2006. The responses were largely supportive. The main changes since D19 are:

a) clarification of when an entity controls an asset arising from the availability of a refund

b) clarification of the requirements relating to the assumptions underlying the measurement of a reduction in future contributions

c) the transitional requirements have been changed from retrospective application to application from the beginning of the first period presented in the first financial statements to which the Interpretation applies.

Questions for the Board

1 Have you any questions about, or comments on, the Interpretation?

2 Are you in favour of ratifying it?