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International Accounting Standards Board

INFORMATION FOR OBSERVERS

IFRIC meeting: **March 2007, London**

Project: **IAS 19: *Employee Benefits***
IFRIC D19: *The Asset Ceiling:*
Availability of Economic Benefits and Minimum Funding Requirements (Agenda Paper 5 (i))

Introduction

1 The IFRIC issued its draft interpretation D19 *Availability of Economic Benefits and Minimum Funding Requirements* on 24 August 2006.

2 The proposals in the draft Interpretation clarify how to determine the limit on the asset that an employer's balance sheet may contain in respect of its pension plan, as well as how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

3 The key requirements of the draft consensus are:

- 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.

- The economic benefit available as a refund shall be determined on the basis of which of three stated ways of getting a refund is the most advantageous to the entity.

- The economic benefit available as a reduction in future contributions shall be determined as the present value of the service cost to the entity less any future minimum funding contribution requirements in respect of the future accrual of benefits.

- When there is a minimum funding contribution requirement, the entity shall apply an adjustment to reduce the defined benefit asset or increase the defined benefit liability to the extent that the contributions payable in respect of past service will not be available after they are paid into the plan.

4 The comment period ended on 30 October 2006 and 47 comment letters were received (see Appendix B). The majority of respondents (more than 80%) were broadly supportive of the consensus reached in the draft Interpretation.

5 However, some further clarification was requested in respect of the title, scope, availability of economic benefits, the illustrative examples, transition requirements and structure of the draft Interpretation.

6 This paper provides a preliminary analysis of the main comments received. The staff has attached an unamended copy of the original draft Interpretation for information as paper 5 (ii).

Staff Recommendations

7 The staff recommends that the IFRIC proceeds with the current proposals with the following changes:

- Consider which of the following options is preferable in order to more clearly communicate the IFRIC's intent:

  - Option 1

    Change the title of the draft Interpretation to IAS 19: *The Asset Ceiling: Calculation of the Defined Benefit Asset or Liability and the effect of Minimum Funding Requirements.*

  - Option 2

    Separate the proposals into two draft Interpretations with the following titles:

    IAS 19*: The Asset Ceiling*

    IAS 19*: The effect of Minimum Funding Requirements on the Defined Benefit Asset or Liability*.

  In either case, the staff notes respondents' requests to revise the drafting of the Interpretation to ensure that the key principles are clarified.

- Include in the Basis for Conclusions a fuller explanation of the rationale for recognising a liability in respect of contributions that have not yet been paid to the plan (and which would subsequently not be available to the entity).

- Clarify that minimum funding requirements do not include benefit-related promises.

- Clarify that the entity shall be assumed to be able to take a refund unless this is specifically precluded in the terms and conditions of the plan rules or in applicable legislation.

- Clarify that, in the cases when the refund is a fixed nominal (or absolute) amount to be paid in the future, the entity should make an allowance for the time value of money using IAS 19 assumptions.

- Clarify that projections of demographic changes should be based on a stable membership, with retirements, deaths and leavers replaced by new entrants. Other assumptions should be consistent with those underlying the DBO calculation. If there are plans to make significant reductions in the workforce or the plan is a closed plan, these planned reductions in plan membership should be incorporated in the calculation of the asset available as a future contribution reduction.

- Clarify that the future minimum funding contributions payable should be determined using the assumptions required by the minimum funding requirement basis. The calculation of the MFR future contribution obligation should incorporate the expected MFR funding level. All other amounts used in applying the Interpretation are derived using the assumptions required in IAS 19.

- Clarify that the economic benefit available as a future contribution reduction should be calculated over the expected life of the plan or the expected life of the entity, whichever is the shorter.

- Clarify in the Illustrative examples that no obligation in respect of contributions payable is recognised on the balance sheet unless they would be unavailable after they are paid and correct the arithmetical error in IE 3.

- Clarify that minimum funding requirements which do not give rise to statutory or contractual contribution obligations are not within the scope of the Interpretation. Give no further guidance in respect of whether an agreement with a Trustee or a similar agreement would constitute a contractual minimum funding requirement.

- Add the following sentence to paragraph 7:

  No allowance shall be made for expected changes in the terms and conditions of the minimum funding requirement that are not substantively enacted at the balance sheet date or that are not yet contractually agreed.

  Delete the corresponding sentence from paragraph 14.

- Give no further guidance in respect of the allocation of minimum funding requirements to past and future service.

- Require application of the Interpretation from the beginning of the first period presented rather than full retrospective application.

8 The staff also proposes to revise the draft Interpretation to incorporate other editorial suggestions.

General support

9 More than 40 of the 47 comment letters agreed with the draft consensus provided some further clarification is given in some areas.

[part of paragraph omitted from Observer notes].

10 One of the key concerns raised by those that opposed the draft Interpretation was that it was too rules-based.

[part of paragraph omitted from Observer notes].

11 The staff notes that the application of paragraph 58, on which the draft Interpretation is based, necessitates an approach that appears to be more rules-based than principles-based. This is because it places a limit on asset recognition that is unique to pensions accounting. Furthermore, as this is a complex area, the consensus is lengthier than might be expected.

12 However the staff thinks that some further work could be done on the drafting structure in order to ensure that the key principles are clear and the application of the principles is, as far as possible, separated from the detail of the consensus.

Two respondents questioned whether the issues raised might be better addressed as an amendment rather than an Interpretation. Two other respondents suggested the Interpretation was unnecessary and should be withdrawn. The staff notes that the draft Interpretation does not change the requirements of IAS 19 or meet the other criteria for an amendment to be considered by the Board. Further, the staff observes that there has been considerable support for the draft Interpretation, provided some of the issues raised below are dealt with. [part of paragraph omitted from Observer notes].

Therefore, the staff recommends that the IFRIC proceeds with the current proposals subject to the changes noted in the following sections.

Drafting

13 Some respondents believed that the consensus was too lengthy and complex in its expression and further consideration should be given to the drafting/structure [part of paragraph omitted from Observer notes].

14 The draft Interpretation's key principle dealing with the Asset Ceiling is that an economic benefit is available if there are no restrictions on the entity's right to that economic benefit. Therefore:

- 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.

- The economic benefit available as a refund shall be determined on the basis of which of three ways of getting a refund is the most advantageous to the entity.

- The economic benefit available as a reduction in future contributions shall be determined as the present value of the service cost to the entity in respect of the future accrual of benefits.

15 The draft Interpretation's key principle dealing with the effect of Minimum Funding Requirements on the Defined Benefit Asset or Liability is that an obligation which gives rise to a limit on the available asset should be recognised when that obligation arises, rather than when the limit becomes effective, therefore when there is a minimum funding contribution requirement, the entity shall apply an adjustment to reduce the defined benefit asset or increase the defined benefit liability to the extent that the contributions payable in respect of past service will not be available after they are paid into the plan.

16 The staff notes respondents' requests to revise the drafting of the Interpretation to ensure that the key principles are clarified and proposes to revise the draft Interpretation to incorporate these and other editorial suggestions.

The Title

17 Some respondents asked for changes to the wording of the title to clarify:

- that the [draft] Interpretation addresses two issues: (i) the availability of an economic benefit; and (ii) the effect of a minimum funding requirement on the measurement of the defined benefit asset or liability.

- that the basis for measuring the available contribution reduction is also applicable in the absence of a minimum funding requirement.

- that the requirements are to be applied even if the entity does not have a surplus or defined benefit asset.

[part of paragraph omitted from Observer notes].

18 There are two possible solutions to this problem. Option 1 proposes that the title is changed to incorporate all the above criteria. Option 2 proposes that the Interpretation is split into two separate Interpretations with cross-references where necessary.

Option 1 – change the title

19 A good title would be succinct and describe the purpose or primary benefit of the draft Interpretation and need not necessarily give a full summary of the details expressed in it.

20 However, IAS 19, in general, and this draft Interpretation, in particular, addresses fairly complex accounting issues. In this case, it would be more helpful to give a longer title with more information, even if it may not fit the other criteria for a good title.

21 An appropriate title could be:

IAS 19: The Asset Ceiling: *Calculation of the Defined Benefit Asset or Liability and the effect of Minimum Funding Requirements.*

22 This approach avoids entities with an MFR and an asset ceiling having to consult two documents. It also shows sensitivity to constituents' requests for a reduction in the number of documents published by the IFRIC.

23 The comments in respect of the drafting may be better addressed by restructuring the paper so that it clearly addresses the two issues separately, but keeps the full discussion on what are closely related issues in the same document.

Option 2- two Interpretations

24 The difficulty with finding an appropriate title highlights a more fundamental issue *viz* the Interpretation addresses two quite complex and separate issues: the first is the availability of an economic benefit and the second is the effect of a minimum funding requirement on the measurement of the defined benefit asset or liability. It may be more useful for the issues addressed in the draft consensus to be split into two Interpretations with appropriate cross-references:

IAS 19: *The Asset Ceiling*
This Interpretation would include the sections of the draft consensus that cover the availability of an economic benefit as a refund and as a

reduction in contributions (paragraphs 7-13a and 15 of the draft consensus).

IAS 19: *The effect of a minimum funding requirement on the measurement of the defined benefit asset or liability*
The relevant sections of the draft consensus are paragraphs 13b, 14 and 16-19.

25 This approach would be responsive to constituents' requests to clarify that the Interpretation also applies to entities with an asset ceiling and no MFR. The approach also mitigates the risk of an entity not recognising that the Interpretation is applicable and therefore being non-compliant.

26 The staff would like the IFRIC to consider which of the following options it would prefer in respect of the structure of the paper:

- Option 1
  Change the title of the draft Interpretation to IAS 19: *The Asset Ceiling: Calculation of the Defined Benefit Asset or Liability and the Effect of Minimum Funding Requirements.*

- Option 2
  For clarity, separate the proposals into two draft Interpretations with the following titles:
  IAS 19*: The Asset Ceiling*
  IAS 19*: The Effect of Minimum Funding Requirements on the Defined Benefit Asset or Liability*.

In either case, the staff would attempt to meet respondents' requests to revise the drafting of the Interpretation to ensure that the key principles are more clearly identified.

The staff would like to seek the IFRIC's guidance in respect of which option should be incorporated in the final Interpretation.

Liability recognition and consistency with the Framework

27 Some respondents disagreed with, or asked for further clarification of the rationale for, the requirement to adjust the defined benefit asset or liability before the contributions are paid into the plan. [part of paragraph omitted from Observer notes].

28 Some of those who disagreed claimed that the requirement to adjust the defined benefit asset or increase the defined benefit liability before the contributions are paid to the plan is inconsistent with the principle of liability recognition in paragraph 91 of the *Framework*. Others argued that while the asset ceiling, and therefore any adjustment to it, should be applied to a defined benefit asset it is not clear that this justifies an adjustment to increase the defined benefit liability because paragraph 58 does not apply when there is no defined benefit asset.

29 The staff disagrees with both points. The adjustment to the defined benefit asset is an adjustment to the recognition limit under paragraph 58 of IAS 19, not the recognition of an additional liability.

30 However, the staff notes that when the adjustment serves to increase the net defined benefit liability, it could appear to be equivalent to the recognition of an additional liability rather than simply an adjustment to the recognition limit. The staff thinks that this case is analogous to an entity having an onerous contract to pay additional contributions to the plan from which no future economic benefits will be received. Onerous contracts are accepted as giving rise to liabilities under IAS 37. Therefore, the staff does not think that there is any inconsistency with the *Framework* or with IAS 19.

However, given the comments received, the staff thinks that it would be helpful to include a fuller explanation of the rationale for the approach in the Basis for Conclusions and also, as discussed in the section above, to ensure that the key principles are more clearly set out in the Consensus.

Clarification of the Scope

31 Some respondents asked for clarification of the scope of the draft Interpretation. In particular, does the scope include short-term and termination benefits? [part of paragraph omitted from Observer notes].

32 The staff notes that short-term and termination benefits are excluded from the scope as the asset ceiling does not apply to these types of plans. Also, the staff is not aware of any minimum funding requirements that apply to short term and termination benefits. Therefore the staff recommends that the scope of the draft Interpretation is left unchanged. However, the staff agrees that more clarity would be achieved if the wording for the categories of benefits within the scope were the same as that used in IAS 19. The staff recommends the following revised wording to the draft Interpretation.

This [draft] Interpretation applies to all post-employment benefit plans and other long-term employee benefit plans that are within the scope of IAS 19.

Contractual Minimum Funding Requirements

33 Some respondents asked for further clarity on the meaning of statutory or contractual minimum funding requirements. According to the draft Interpretation, statutory or contractual minimum funding requirements

normally stipulate a minimum level of contributions to be paid into a plan. [part of paragraph omitted from Observer notes].

34 This prompted some respondents to question whether any obligation to pay amounts that become plan assets is a minimum funding requirement. [part of paragraph omitted from Observer notes].

35 The staff considers that there is a difference between contributions that are part of the benefit promise made to employees (benefit-related promises) and contributions that are set as a requirement to fund that promise (funding requirements) by contract or statute. An employment contract to contribute a specified percentage of the employee's remuneration is a benefit-related promise, not a funding requirement. Benefit-related promises are not being considered by the draft Interpretation. [part of paragraph omitted from Observer notes].

36 For example, an unfunded plan may provide a benefit promise based on notional contributions payable by the entity. The benefit promise may be described as contributions of 5% of salary per year of service increased in line with an equity index. The contribution of 5% of salary is a benefit promise rather than a funding requirement. However, if, in the jurisdiction in question, a new statutory requirement is introduced which requires benefit promises to be fully funded, this would represent a minimum funding requirement.

In light of the responses, however, the staff proposes that the final Interpretation is amended to clarify that minimum funding requirements do not include benefit-related promises.

37 One respondent asked how a statutory or contractual minimum funding requirement is defined.

[part of paragraph omitted from Observer notes].

38 The staff thinks that in many cases, a contribution schedule agreement between the trustees and an entity would not be covered by statute or contract. The trust deed and rules are likely to cover the benefit promises made and the roles and responsibilities of the entity and trustees. They are unlikely to stipulate minimum funding requirements.

39 There are exceptions to this however. For instance, the staff understands that the recently enacted scheme specific funding requirements in the UK require pension scheme trustees to agree with the sponsoring employer a strategy for funding the pension commitments and for correcting any funding deficits in order to meet a statutory funding objective.

40 One respondent asked that clarification be given as to whether the scheme specific funding requirement in the UK is a minimum funding requirement. The staff thinks that this is likely to be the case but notes that the determination of whether any particular agreement to pay contributions is a contractual or statutory obligation is a matter of fact and is outside the scope of the draft Interpretation and IFRSs in general.

41 The draft Interpretation applies when the entity has an obligation under statute or contract to pay additional contributions to the plan.

42 Some of the responses indicate that there is some confusion over whether the minimum funding requirement refers to the theoretical amounts required to achieve a 100% funding level on an MFR basis or the actual amounts contractually or statutorily required.

43 The staff thinks that it is the IFRIC’s intention to include only those contractual or statutory obligations to pay additional contributions to the plan. In particular, if a plan has a minimum funding deficit but no obligation to pay additional contributions to the plan at the balance sheet

date, then there should be no adjustment to the net balance sheet asset or deficit in respect of the MFR.

The staff does not recommend that any further guidance be given in respect of whether an agreement with a Trustee or a similar agreement would constitute a contractual minimum funding requirement. However, the staff thinks it would be helpful to clarify in the Interpretation that only the minimum funding requirements that give rise to statutory or contractual contribution obligations are within the scope of the Interpretation.

44 Some respondents also asked for clarification of the use of the term substantive enactment. [part of paragraph omitted from Observer notes].

45 Some pointed out that the term substantive enactment is normally applied to statutory obligations only and not to contractual obligations.

46 One respondent noted that the requirement for substantive enactment should apply to the economic benefits available as a refund as well as a future contribution reduction. The draft Interpretation applies this requirement to future contribution reductions only

47 The staff agrees both points. Therefore the staff recommends that the following sentence is added to paragraph 7 of the draft Interpretation and the deletion of the corresponding sentence from paragraph 14.

Add to paragraph 7: No allowance shall be made for expected changes in the terms and conditions of the minimum funding requirement that are not substantively enacted at the balance sheet date or not yet contractually agreed.

Availability and Control

48 The draft Interpretation states that 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.

49 Some respondents noted that there are cases when the realisability of the asset is not within the control of the entity. For instance, an entity may be required to make application to the trustees of the fund or a regulatory body in order to access the surplus in accordance with the rules of the fund. Some respondents infer that, in these cases, a refund is not available. [part of paragraph omitted from Observer notes].

50 Some respondents suggested that if access to a refund is neither established nor precluded the entity does not have control over the asset in the form of a refund of surplus. [part of paragraph omitted from Observer notes].

51 The staff disagrees. It should not be necessary to limit recognition of an asset unless the entity would be unable to enjoy the economic benefits from it. Paragraph 59 states that an entity may recognise an asset if it has the ability to use the surplus to generate future benefits and two other criteria are also met. The staff thinks that the entity may have this ability even if access to a refund is not established.

52 The reason for this is that a surplus in the plan implies that there are more than sufficient assets to meet the post-employment benefits. In this case, it is reasonable to assume that the entity has the right to the surplus assets unless it is specifically prohibited. In other words, it is not necessary for the entity to have control of the decision-making. Such a requirement would put the onus of proof on the entity and might preclude the recognition of a defined benefit asset for the majority of funded pension plans. It would also be inconsistent with BC 11 of the draft Interpretation which does not require a surplus to be specifically ring-fenced in order for the surplus assets to be available.

53 Some respondents are concerned that entities may have considerable difficulty determining the amount of a refund that may be available and that entities may prefer to assume that the future economic benefit is nil, based on past experience.

[part of paragraph omitted from Observer notes].

54 The staff notes that, at the extreme, plans could exist in a jurisdiction where the entire surplus is almost always granted to employees rather than the entity. In this case, a presumption that the surplus belongs to the entity unless it is specifically restricted is questionable. However, paragraph 7 of the draft Interpretation states that the available economic benefit shall be determined in accordance with the requirements in the jurisdiction of the plan in question. It does not require measurement of the surplus at the amount of its expected value, (ie after taking into account the range of possible outcomes of court decisions). However, past experience in the jurisdiction would affect whether any of the surplus would be available.

55 The staff acknowledges that a conceptually more robust case can be made for requiring the expected value of the refund to be taken into account, so that in jurisdictions where the refund is highly unlikely, the available asset would be lower than that in jurisdictions where the refund is very likely.

56 However, the introduction of such a requirement would require an amendment to the standard. Given the Board's recent decision to undertake a comprehensive review of pension accounting, it is unlikely that the Board would have the resources available to consider such an amendment in isolation. Furthermore, there is considerable interaction between the concept of an expected value of a refund and the proposed revisions to IAS 37 in respect of 'contingent assets'. The staff thinks that it would be premature to propose the treatment of expected refunds in IAS 19 in advance of the Board's conclusions on IAS 37.

In the meantime, the staff recommends that the draft Interpretation is amended to clarify that the entity shall be assumed to have control of the ability to take a refund unless this is specifically precluded in the terms and conditions of the plan rules or in applicable legislation.

Availability of Economic Benefits

57 Some questions were raised in respect of the determination of the available economic benefit as a refund or future contribution reduction.

Refund of contributions

- *Most advantageous outcome*

58 The draft Interpretation states that the amount of the economic benefit shall be determined on the basis of which of three approaches is the most advantageous to the entity.

59 Some respondents noted that the most advantageous outcome may not be the most likely outcome due to other considerations such as maintaining good employee-employer relationships. [part of paragraph omitted from Observer notes].

60 The staff agrees that the most advantageous outcome may not be highly probable. However, as discussed above, the issue being addressed is the limit on the realisability of the asset rather than the most probable outcome. It is reasonable to assume that the entity has the ability to get the most advantageous outcome unless there is anything that specifically prohibits it. In other words the focus is on whether there is anything that prohibits the realisability of the asset rather than whether it is specifically allowed or likely to occur. The staff recommends that no further changes are made in respect of this.

- *Time value of money*

61 The draft Interpretation noted that the present value of the defined benefit obligation and the market value of assets are measured on a present value basis and therefore include an allowance for the time value of money. Therefore the IFRIC decided that no further adjustment for the time value of money needs to be made when measuring the amount of the refund that is realisable at a future date.

62 However, some respondents pointed out that in some cases, the amount of the refund is an absolute amount realisable at a future date. In this case an adjustment should be made in respect of the time value of money. [part of paragraph omitted from Observer notes].

The staff agrees and proposes to clarify in the revised draft that, in the rare cases, when the refund is a fixed nominal (or absolute) amount to be paid in the future, the entity shall make an allowance for the time value of money using IAS 19 assumptions.

Reduction in future contributions

- *Future demographic changes*

63 The draft Interpretation states that any allowances for expected future changes in the demographic profile of the workforce shall be consistent with the assumptions underlying the calculation of the present value of the defined benefit obligation at the balance sheet date, when determining the amount available as a future contribution reduction.

64 Some respondents requested further clarification of this. For instance, some noted that calculating service costs for future periods requires assumptions that are not required in the calculation of the DBO. In particular, the assumptions underlying the present value of the defined benefit obligation (DBO) calculation do not include an explicit

assumption for new entrants. [part of paragraph omitted from Observer notes].

65 One respondent pointed out that the intention of the IFRIC was to require projections of demographic changes to be *based on a stable membership, with retirements, deaths and leavers replaced by new entrants.* [part of paragraph omitted from Observer notes].

66 The staff thinks that this was the intention of the IFRIC. However, the rationale for this approach was that it was important to have consistency in the assumptions used to calculate the DBO and the available asset. As discussed above, an assumption in respect of new entrants is not required in the calculation of the Defined Benefit Obligation. Therefore it would be possible to determine a specific assumption for new entrants without creating any inconsistencies.

67 Other respondents noted that the assumption in respect of future new entrants can have a significant effect. In particular, it would seem reasonable that when there is an expectation of a declining membership that this should be incorporated in the calculation of the asset available as a reduction in future contributions. This would also be consistent with the requirements in CICA-3461 paragraph 107. [part of paragraph omitted from Observer notes].

68 Another respondent argued that a better approach would be consistent with the UK standard, FRS 17, which requires the calculations to reflect declining membership when appropriate.

[part of paragraph omitted from Observer notes].

69 The staff also notes that when a plan is a closed plan, the assumption of a stable membership, with retirements, deaths and leavers replaced by new entrants would be invalid. In this case, it would seem reasonable to take

account of the declining membership when calculating the available future contribution reduction.

70 In light of the responses, and in particular, the rebuttal of the rationale for excluding expected future changes in the workforce, the staff recommends that the IFRIC reconsiders the calculation of future contribution reductions when there are plans to make significant reductions in the workforce.

The staff proposes that the draft Interpretation is amended in respect of the calculation of the availability of the economic benefit as a future contribution reduction. In making that calculation, projections of demographic changes would be based on a stable membership, with retirements, deaths and leavers replaced by new entrants and with other assumptions consistent with those underlying the DBO calculation, unless there are plans to make significant reductions in the workforce or the plan is a closed plan. In these cases, these planned reductions in plan membership should be incorporated in the calculation of the asset available as a future contribution reduction.

- *Minimum funding contributions*

71 Respondents noted that the attribution of benefits between past and future service, as shown in Illustrative Example 3, may not be straightforward as it is possible to have a minimum funding requirement that does not attempt to identify past and future service. In this case, the staff believes that professional judgement must be applied. [part of paragraph omitted from Observer notes].

The staff recommends that no further guidance is given in respect of the allocation of minimum funding requirements to past and future service.

72 One respondent questioned whether the future minimum funding contributions are to be calculated using the MFR or IAS 19 assumptions.

73 As at each balance sheet date, the effect of the MFR on the defined benefit asset calculated in IAS 19 is limited to the amount of additional contributions payable to the plan. This contribution obligation is calculated using the MFR basis. It follows, therefore that for the purposes of calculating the future minimum funding contributions payable, the MFR assumptions should be used.

74 One respondent questioned whether the future MFR contributions payable should be based on the implicit or explicit MFR service cost, irrespective of the MFR funding level or whether the contributions payable should be based on the estimated amounts expected to be payable given the MFR funding level.

It is not clear to us whether the [MFR] contribution requirement should be [based on] the minimum funding requirements for future accruals, irrespective of the funding level. [part of paragraph omitted from Observer notes].

75 The staff notes that, in the calculation of the available future contribution reduction, the IAS 19 service cost, which acts as a proxy for the contribution payable by the entity, ignoring any surplus at the balance sheet date is used. The reason for this was that it would be circular to include the surplus in the calculation of the amount which is recoverable from that surplus. However, this is not the case for the MFR. The calculation of the MFR contributions is simply the best estimate of the amounts which the entity would have an obligation to pay. Since, an MFR surplus would reduce the entity's MFR future contribution obligation, the staff thinks that it should be taken into account.

Therefore the staff considers that future MFR contribution obligations should be determined based on the MFR assumptions rather than the IAS 19 assumptions and that the calculation of the MFR future contribution obligation should incorporate the expected MFR funding level. All other amounts used in applying the Interpretation are derived using IAS 19 assumptions.

- *Term of the calculation*

76 Other respondents questioned what treatment is required when the expected life of the plan is greater than the expected life of the entity.

77 The staff agrees that when the expected life of the plan exceeds the expected life of the entity, the calculation of the economic benefit available as the expected future contribution reductions should be limited to the life of the entity.

78 The staff also agrees with the suggestion that there is a possible confusion between funding and accounting valuations since D19 necessarily refers to both.

Therefore the staff recommends the Interpretation clarifies that the future minimum funding contributions payable shall be determined using the assumptions required by the minimum funding requirement basis and that all other amounts used in applying the Interpretation are derived using the assumptions required in IAS 19. The economic benefit available as a future contribution reduction should be calculated over the expected life of the plan or the expected life of the entity, whichever is the shorter.

Illustrative Examples

79 Most respondents thought the illustrative examples were very helpful but asked for some further clarification. Some respondents asked for the

illustrative examples to include cases where the entity opts to use the corridor approach to recognise gains and losses. The staff disagrees with the view that the corridor approach is relevant. The draft Interpretation requires any adjustments to the net balance sheet asset or liability, as a result of a minimum funding requirement, to be recognised immediately in accordance with paragraph 61(g) or 93C of IAS 19. This is consistent with the recognition of other adjustments to the net balance sheet asset or liability under paragraph 58 of IAS 19 and does not interact with the corridor. [part of paragraph omitted from Observer notes].

80 Some also asked for the examples to indicate in a footnote that the contributions payable are not recognised on the balance sheet unless they would be unavailable after they are paid. The staff proposes to clarify this in one or more of the Examples.

81 Two respondents noted that there was an arithmetical error in IE 3. The staff proposes to amend this.

The staff proposes to amend the Illustrative Examples to clarify that contributions payable are not recognised on the balance sheet unless they would be unavailable after they are paid. The staff will also correct the arithmetical error in IE 3.

Transitional Provisions

82 Some respondents thought that that the transition requirements would be onerous for entities that opted for the corridor approach for the recognition of actuarial gains and losses. The staff disagrees. Immediate recognition, as proposed in the draft Interpretation, of all adjustments to the net balance sheet asset or liability in respect of any minimum funding requirement would make retrospective application straightforward.

83 However, there are some cases when full retrospective application could be troublesome, as pointed out by one respondent.

[part of paragraph omitted from Observer notes].

84 Paragraph 58 places an upper limit on the defined benefit asset of the sum of unrecognised losses, past service costs and the present value of available economic benefits. The normal application of the asset ceiling in paragraph 58 could mean that a plan which had an actuarial loss during the year and a decrease in the surplus of the same amount (and no other changes) would have a gain during the year even though all that has happened is that the economic benefit not available to the entity has decreased. (see IAS 19 appendix C).

85 Paragraph 58A modifies paragraph 58 so that its application does not result in a gain being recognised solely as a result of an actuarial loss or past service cost in the current period or in a loss being recognised solely as a result of an actuarial gain in the current period. In some cases, this would mean that an actuarial gain or loss arising during the year would need to be recognised immediately, even if the entity has adopted the corridor approach. Therefore, if full retrospective application of the Interpretation were required, some previously recognised gains and losses might need to be adjusted. The staff agrees that this could make retrospective application difficult.

86 Therefore the staff recommends that application of the Interpretation is required from the beginning of the first period presented. This would mean that for entities that have not been affected by paragraph 58A in past years, the result of applying the Interpretation at the beginning of the first year presented would be the same as if full retrospective application were required. For entities that had been affected by paragraph 58A, it would not be necessary to determine the impact in previous years.

87 One respondent disagreed with the transition requirements on the grounds that the determination of availability is ambiguous and requires retrospective actuarial reports and knowledge of governing legislation. As

the entity is required to go back to the start of the comparative year only, the staff does not think that this provides a strong reason for requiring exceptions to the normal transition requirements.

88 The staff also notes that [some respondents] commented on the need for adequate lead time. [part of paragraph omitted from Observer notes].

Therefore the staff recommends that the IFRIC requires application of the Interpretation from the beginning of the first period presented rather than full retrospective application.

Editorial Changes

89 A number of editorial changes were suggested. The staff proposes to amend the draft Interpretation to incorporate the following suggestions:

- The use of the word 'will' in paragraphs 8 and 9 implies a high level of uncertainty. The staff proposes to clarify that this is subject to the actuarial assumptions and an assumption of no change to benefits in the future.'
- Clarification that the economic benefit available as a refund of plan assets includes the repayments that may be made during the life of the plan as well as the remaining assets that revert to the entity at the end of the life of the plan.
- Clarification of the wording in paragraphs 14 and 18. Some respondents noted that the wording in these two paragraphs was unclear.
- Use of the term fair value instead of 'market value of assets'.
- BC3 should refer to 'certain unrecognised amounts'.
- Change or clarification of the term annuity rate.

90 Some other suggestions were made, which the staff proposes should not be incorporated in the revised Interpretation. [part of paragraph omitted from Observer notes].

APPENDIX A

[omitted from Observer notes].

APPENDIX B

Summary of Comment Letters Received

CL	COMPANY
1	South African Institute of Chartered Accountants (SAICA) (South Africa)
2	Grant Thornton Chartered International
3	Conseil National de la Comptabilité (CNC) (France)
4	Group of 100 (Australia)
5	Accounting Standards Board (ASB) *UK*
6	Institute of Chartered Accountants in England & Wales (ICAEW) *UK*
7	Institute of Chartered Accountants in Ireland (ICAI) (Ireland)
8	Ernst & Young (International)
9	Holcim Group Support Switzerland
10	The Swedish Enterprise Accounting Group (SEAG) Sweden
11	Anglo Platinum Limited
12	Korea Accounting Association (KAA)
13	Föreningen Auktoriserade Revisorer FAR (Sweden)
14	Canadian Accounting Standards Board (Canada)
15	Nestlé (Switzerland)
16	Dutch Accounting Standards Board (DASB) (Netherlands)
17	International Financial Reporting Standards Review Committee (IFRSRC) of
18	Barnett Waddingham LLP
19	Aon Consulting (Belgium)
20	British American Tobacco
21	The Dutch Association of Industry-wide Pension Funds (VB) and the Dutch
22	Union of Industrial and Employer's Confederations of Europe (UNICE)
23	Watson Wyatt Limited (UK)
24	Institute of Chartered Accountants of Scotland (ICAS) (UK)
25	UK 100 Group (UK)
26	Mercer Human Resource Consulting (UK)
27	UBS AG (Switzerland)
28	KPMG (International)
29	International Organization of Securities Commissions (IOSCO)
30	CPA Australia (Australia)
31	Institute of Chartered Accountants in Australia (ICAA) (Australia)
32	Australian Accounting Standards Board (AASB) (Australia)
33	Deloitte Touche Tohmatsu (International)
34	BDO Global Coordination B.V.
35	Institute of Actuaries of UK (UK)
36	Hewitt Bacon & Woodrow *UK*
37	Malaysian Accounting Standards Board (MASB) (Malaysia)
38	Association of Consulting Actuaries (UK)
39	Council on Corporate Disclosure and Governance (CCDG)
40	PricewaterhouseCoopers (International)
41	Accounting Interpretations Committee
42	Swiss Holdings
43	CPA Hong Kong
44	Institut der Wirtschaftsprufer

CL	COMPANY
45	European Financial Reporting Advisory Group (EFRAG)
46	Fédération des Experts comptables Européen (FEE)
47	Securities and Exchange Commission of Thailand