Project **Post-employment benefits**

Topic **Incorporating IFRIC 14**

Objective

1. The objective of this paper is to provide the Board with staff analysis of responses to the proposal of the exposure draft Defined Benefit Plans (the ED) to incorporate IFRIC 14 *The requirements in IFRIC 14 IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

2. The ED proposed that:

   (a) IAS 19 incorporate, without substantive change, the requirements of IFRIC 14, as amended in November 2009; and

   (b) 'minimum funding requirement' be defined as 'any enforceable requirement to fund a long-term defined benefit plan'.

3. The staff recommends that the Board withdraw the proposal to incorporate IFRIC 14 into IAS 19.

4. This paper includes:

   (a) Overview of comments received on the ED

   (b) Staff analysis

   (c) Staff recommendation

Overview of comments received on the ED

5. Most agreed with the proposal to:

(a) incorporate IFRIC 14 into IAS 19 without substantive change; and

(b) define 'minimum funding requirements' as 'any enforceable requirement' to fund a post-employment or long-term employee benefit plan.

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6. Some respondents questioned whether paragraphs of the ED imported from or affected by IFRIC 14 keep the current context intact as the Board intended. For example, they argued that the ED deviated from IFRIC 14 in terms of interest cost on an additional liability, noting that:

   (a) There is no explicit guidance as to whether and how interest cost should be recognised on an additional liability in current IFRIC 14, therefore the total change in the additional liability is accounted for in accordance with the entity's adopted policy for recognizing the effect of the limit in paragraph 58 in IAS 19.

   (b) The ED proposed:

      (i) any additional liability should be included in the net defined benefit liability in paragraph 50(b), which states [emphasis added]:

      > determining the amount of the net defined benefit liability (asset) from the amount of deficit or surplus. This involves:
      >
      > (i) assessing the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (see paragraphs 115A–115J).
      >
      > (ii) **assessing whether an additional liability is needed** because of the interaction between a minimum funding requirement and the limit in paragraph 115B (see paragraphs 115A and 115K).

      (ii) interest should be recognised on the additional liability as a part of the net interest on the net defined benefit liability in paragraph 119B, which states:

> Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) throughout the period by the discount rate specified in paragraph 78 as determined at the start of that period, taking account of any material changes in the net liability (asset).

7. Some suggested that a fundamental review of IFRIC 14 precede the incorporation into IAS 19, indicating that there is diversity in current application of IFRIC 14 and any slight change to the words used in IFRIC 14 could be interpreted as a change in requirements.

Further clarification of the definition of minimum funding requirements

8. Some respondents (these respondents were typically from Canada and Japan or from actuarial firms or associations) were concerned that the definition of minimum funding requirements might distort the measurement of net defined benefit liability. They noted that in some jurisdictions the minimum funding requirement is subject to periodic renegotiation such that what is enforceable at one point in time will not necessarily be enforceable in the future. In that situation, they thought that it is undue for the entity to recognise any additional liability[1] under the minimum funding requirement as long as the entity has a right to renegotiate its minimum funding requirement in order to remove the supposed additional liability.

9. To prevent additional liability from being unduly recognised, the respondents suggested that the wording 'any enforceable requirement' in the definition of minimum funding requirement be elaborated to 'any *irrevocably* enforceable requirement'.

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[1] Paragraph 115K of the ED provided for 'additional liability arising from minimum funding arrangement' as follows:

> If an entity has an obligation under a minimum funding requirement to pay contributions for current or past service, the entity determines whether the limit in paragraph 115B will have an effect when the entity pays those contributions. If that limit will have an effect, the entity adjusts the net defined benefit liability (asset) so that no gain or loss is expected to result from applying paragraph 115B when the contributions are paid.

Comments on specific paragraphs of the ED imported from or affected by IFRIC 14

10. Some respondents suggested changing the wording of some paragraphs of the ED for the purpose of clarification, which should not result in substantive change to the context.

11. Others suggested reviewing some paragraphs of the ED, which should result in substantive change to the context.

Staff analysis

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12. Incorporating IFRIC 14 into IAS 19 will require inevitable changes to the drafting. While the changes in drafting are not intended to substantively change the requirements of IFRIC 14, the changes might lead to unintended consequences. This would be particularly relevant where the requirements of IFRIC 14 are currently controversial and have led to diverse interpretations in some jurisdictions. Some might view the changes as confirming or rejecting one of the diverse interpretations of IFRIC 14 which is not the intention of the changes.

13. A review of the requirements of IFRIC 14 is not within the scope of this project. Incorporating IFRIC 14 without review would provide constituents with no benefit except for convenience. That is, it may be better to wait until a future project examines the issues with IFRIC 14 before it is incorporated in IAS 19.

14. Therefore, the staff recommends that the Board withdraw the proposal to incorporate IFRIC 14 into IAS 19.

Analysis of comments

15. The analysis below is relevant if the Board decides to incorporate IFRIC 14 into IAS 19.

16. The staff would have sympathy with respondents' suggestion that a fundamental review of IFRIC 14 precede the incorporation into IAS 19, to the extent that there is diversity in current application of IFRIC 14 as they indicated. However, the staff notes that the proposal to incorporate IFRIC 14 did not aim to review IFRIC 14 and bring substantive changes to the current context. The staff thinks that it should be examined and explored at the later stage that would involve comprehensive review of measurement of defined benefit liability:

    (a) whether there is a significant diversity in current application of IFRIC 14; and

    (b) if so, how the diversity can be eliminated.

    Therefore, the staff does not agree with the suggestion.

17. For the same reason as noted in paragraph 16, the staff does not agree with respondents' suggestion that some paragraphs of the ED should be reviewed with a view to creating substantive change to the context.

18. However, the staff will consider, if applicable, suggestions about the clarification of wordings within the paragraphs that were imported from IFRIC 14 without substantive change to the context, when drafting the final standard.

19. The staff does not agree with respondents' suggestion that the wording 'any enforceable requirement' in the definition of minimum funding requirement be elaborated to 'any *irrevocably* enforceable requirement', because how to interpret 'enforceable requirement' would be a matter of judgement based on the environment of individual jurisdictions.

Staff recommendation

20. The staff recommends that the Board withdraw the proposal to incorporate IFRIC 14 into IAS 19.

Questions

1. Does the Board agree with the staff recommendation that the Board withdraw the proposal to incorporate IFRIC 14 into IAS 19? 2. If not, does the Board wish to maintain the paragraphs in the ED imported from or affected by IFRIC 14 as they were proposed (including the proposed definition of a minimum funding requirement)? If not, what do you propose and why?