

STAFF PAPER

March 2014

IFRS Interpretations Committee Meeting

Project	IFRIC 14—<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>		
Paper topic	Availability of refunds from a defined benefit plan managed by an independent trustee		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Introduction

1. The IFRS Interpretations Committee (the ‘Interpretations Committee’) received a request to clarify whether a trustee’s power to augment benefits or to wind up a plan affect the employer’s unconditional right to a refund and thus restrict recognition of an asset, in accordance with IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
2. The objective of this Agenda Paper is to provide the Interpretations Committee with the summary of the issues and the staff’s research and analysis. This Agenda Paper also contains three questions for the Interpretations Committee.
3. This Agenda Paper is structured as follows:
 - (a) summary of the issue;
 - (b) staff technical analysis;
 - (c) summary of the outreach result;
 - (d) agenda criteria assessment;
 - (e) staff recommendation;
 - (f) questions for the Interpretations Committee;
 - (g) Appendix A—proposed amending;

- (h) Appendix B—assessment of the Interpretations Committee’s agenda criteria and additional criteria for annual improvements; and
- (i) Appendix C—submission.

Summary of the issue

4. Paragraph 64 of IAS 19 *Employee Benefits* limits the measurement of a net defined benefit asset to the lower of the surplus in the defined benefit plan and 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’.
5. IFRIC 14 provides an interpretation of the requirements in IAS 19, addressing when refunds or reductions in future contributions should be regarded as available. Paragraphs 11 and 12 of IFRIC 14 clarify that a refund is available if the entity has ‘an unconditional right’ to a refund.
6. In the submission, the submitter describes circumstances in which:
 - (a) the trustee acts on behalf of the plan’s members and is independent from the employer.
 - (b) the trustee has discretion in the event of a surplus arising in the plan to make alternative use of that surplus by augmenting the benefits payable to members or winding up the plan¹, or both.
 - (c) to the extent that the trustee does not exercise this discretion, the employer receives a refund of any excess plan assets.
7. In practical cases, as described in the summary of the results of the outreach (see paragraph 50 in this Agenda Paper), entities consider economic benefits available as a reduction in future contributions in accordance with IFRIC 14. Paragraph 9 of IFRIC 14 clarifies that:

¹ Winding up the plan means using the plan’s assets to purchase annuities for any remaining members, in this paper.

- (a) the economic benefit available does not depend on how the entity intends to use the surplus, and
 - (b) an entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both.
8. However, the submitter assumes that the plan is closed to accrual of future benefits and that there will be no future service costs. Therefore, no economic benefit is available as a reduction in future contributions. In other words, an asset can only be recognised if the employer has an unconditional right to a refund.
9. In the circumstances mentioned above, the submitter has identified the following different views;
- (a) **View 1: The trustee's unilateral right to make alternative use of a surplus means that the employer does not have an unconditional right to a refund of that surplus, and therefore, recognition of an asset based on that right is restricted.**
 - (b) **View 2: The trustee's unilateral right to make alternative use of a surplus does not, in itself, mean that the employer does not have an unconditional right.**
 - (c) **View 3: Both View 1 and View 2 are acceptable. The employer can make an accounting policy choice.**

View 1

10. Those who support View 1 argue that paragraph 11 of IFRIC 14 indicates that a refund is available to an entity only if the entity has an unconditional right to a refund.
11. They note that paragraph 12 of IFRIC 14 clarifies this requirement by stating that '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'.
12. They also note that paragraph BC10 of IFRIC 14 states that a future decision of the entity to improve benefits does not affect the existence or measurement of the

asset. However, supporters of View 1 argue that this paragraph deals with future actions 'by the entity' and does not apply to future decisions by a trustee that is not controlled by the entity.

View 2

13. Those who support View 2 argue that the fact that any surplus could be extinguished by uncertain future events that are not controlled by the employer is not relevant to the recognition of an asset as it is the right to a surplus, not the surplus amount or its existence, which is relevant. They argue that paragraph BC10 of IFRIC 14 should be interpreted to apply to future asset allocation decisions by the trustee as well as those by the employer.

View 3

14. Those who support View 3 argue that both View 1 and View 2 are acceptable and therefore either treatment can be applied as a consistent accounting policy choice.
15. For further details, please refer to the original submission in **Appendix C** to this Agenda Paper.

Staff technical analysis

The fact that any surplus could be extinguished by uncertain future events is not directly relevant to the recognition of an asset.

16. Paragraph 12 of IFRIC 14 states that:

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.
17. In the staff's view, the intention of paragraph 12 of IFRIC 14 is similar to the intention of the requirements limiting the recognition of contingent assets in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This paragraph was

discussed at the May IFRIC meeting in 2007. Agenda Paper 5 of that meeting stated the following:

The staff understands that the IFRIC intended refunds that are dependent on the actions of others, for example trustees or court cases, would not be recognised. The staff agrees that conclusion is **consistent with the treatment of contingent assets under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Under IAS 37, contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the entity.**

[Emphasis added and extracted from the Agenda Paper 5 for May IFRIC 2007]

18. Because of this, the statements in paragraph 12 of IFRIC 14 are very similar to those in paragraphs 10 and 31 of IAS 37, which state that:

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. [Extracted from paragraph 10 of IAS 37]

An entity shall not recognise a contingent asset. [Paragraph 31 of IAS 37]

19. Therefore, we think that the intention of paragraph 12 of IFRIC 14 is to address a similar issue for the recognition of right to a refund. Its intention is not to address issues relating to the measurement or the amount of the surplus. Therefore, the relevant fact is whether the right itself exists.
20. Moreover, the last sentence of paragraph 11 of IFRIC 14 implies that the amount of surplus (the funding level) is not relevant to the existence of a right to refund. Paragraph 11 of IFRIC 14 states that:

An unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period. [Extracted from paragraph 11 of IFRIC 14]

21. Therefore, we think that the fact that any surplus could be extinguished by uncertain future events is not relevant to the existence and recognition of an asset. This fact affects the amount of right but does not affect the existence of the right.
22. Paragraph BC10 of IFRIC 14 explains this intention, however the statement in paragraph BC10 is directly discussing an entity's future decision only. Paragraph BC10 states that:

In the responses to D19, some argued that an entity may expect to use the surplus to give improved benefits. Others noted that future actuarial losses might reduce or eliminate the surplus. In either case there would be no refund or reduction in future contributions. The IFRIC noted that the existence of an asset at the end of the reporting period depends on whether the entity has the right to obtain a refund or reduction in future contributions. **The existence of the asset at that date is not affected by possible future changes to the amount of the surplus. If future events occur that change the amount of the surplus, their effects are recognised when they occur. Accordingly, if the entity decides to improve benefits, or future losses in the plan reduce the surplus, the consequences are recognised when the decision is made or the losses occur.** The IFRIC noted that **such events of future periods do not affect the existence or measurement of the asset at the end of the reporting period.** [Emphasis added]

When an entity measures the amount of a refund available assuming a plan wind-up, an entity should consider the costs of any insurance premiums

23. Paragraph 11 of IFRIC 14 states that:

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**
- (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. [Emphasis added]

24. Paragraph 11 requires the entity to have an unconditional right under at least one of three scenarios listed. For example, if an entity has no right in the scenario in paragraph 11(a) but if it has a right in the scenario in paragraph 11(b) or (c), then it has a right to a refund.

25. When an entity has an unconditional right, it needs to measure the available surplus at the amount that the entity could receive in accordance with paragraphs

13-15 of IFRIC 14. Paragraph BC14 of IFRIC 14 explains the accounting for the costs associated with a settlement or refund.

The IFRIC noted that the available surplus should be measured at the amount that the entity could receive from the plan. The IFRIC decided that in determining the amount of the refund available on wind-up of the plan, the amount of the costs associated with the settlement and refund should be deducted if paid by the plan.

26. For example, in measuring the amount of a refund available assuming a case of paragraph 11(c), an entity should deduct ‘costs of any insurance premiums’. Paragraph 14 of IFRIC 14 states that:

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.
[Emphasis added]

27. As a result of the requirement to deduct expenses, in some cases, amounts of assets to be recognised are significantly lower than amounts of surpluses (or even zero). Paragraph BC13 of IFRIC 14 states that:

If the plan liability is settled by an immediate wind-up, the costs associated with the wind-up may be significant. One reason for this may be that the cost of annuities available on the market is expected to be significantly higher than that implied by the IAS 19 basis. Other costs include the legal and other professional fees expected to be incurred during the winding-up process. Accordingly, a plan with an apparent surplus may not be able to recover any surplus on wind-up.

Even if a fact seems relevant to recognition, an entity needs a careful assessment whether the power is substantive

28. In the staff’s view, as described already, the trustee’s power to wind up a plan or to purchase annuities or both is not relevant to recognition. The trustee’s power to augment benefits is not directly relevant to recognition either. However, if the trustee has the power to reject a request from the employer for a refund of a surplus, this might be relevant to recognition.

29. Paragraph BC 12 of IFRIC 14 states:

The IFRIC concluded that all three ways should be considered in determining whether an economic benefit was available to the entity. Some respondents to D19 raised the question of when an entity controls an asset that arises from the availability of a refund, **in particular if a refund would be available only if a third party (for example the plan trustees) gave its approval.** The IFRIC concluded that an entity controlled the asset only if the entity has an unconditional right to the refund. **If that right depends on actions by a third party, the entity does not have an unconditional right.** [Emphasis added]

31. Our outreach indicates that this question has been common for pension plans in the United Kingdom. However, according to the governmental website in the UK, the trustee's power may be diversified among each plan. A trustee may also need to consider the employer's interest. For example, an employer can be included in a list of beneficiaries, in addition to plan members, according to the website of the UK pension regulator's website.

(Source) The website of *The Pensions Regulator*, a partnership with government and regulatory bodies including the Department for Work and Pensions in the UK (<http://www.thepensionsregulator.gov.uk/>)

32. We note that the issue has a significant impact only if a trustee has the unilateral power. Even if a fact seems relevant to recognition, an entity needs a careful assessment whether the power is substantial, because the trustee's power may vary among each plan.

Staff conclusions

33. The fact that any surplus could be decreased or extinguished by uncertain future events is not relevant to the recognition of an asset, because this fact affects the amount of the right but not its existence in accordance with paragraphs 11, 12 and BC 10 of IFRIC 14.
34. We note that some of the trustee's powers may enable the trustee to refuse an entity's request of a refund of surplus. If a trustee can refuse an entity's request for a refund of surplus, we think that it is relevant to recognition, in accordance with paragraph 12 of IFRIC 14.

35. We noted that the following requirements in IFRIC 14 are also relevant to the circumstances in the submission :
- (a) paragraph 11 of IFRIC 14 clarifies that a refund is available if an entity can realise it at some point during the life of the plan. (An entity is not required to have an unconditional right under all of the scenarios described in paragraph 11.)
 - (b) paragraphs 13-15 of IFRIC 14 clarify measurement of the economic benefit available as a refund. When an entity measures economic benefits available assuming a plan wind-up in paragraph 11(c) of IFRIC 14, an entity should consider the costs of any insurance premiums that may be required to secure the liability. This may result in recognition of an asset at the amount of zero.
36. In conclusion, View 1, View 2 and View 3 did not accurately reflect our view.

Summary of the results of outreach

37. In order to gather information about the issue described in the submission, we sent requests to the International Forum of Accounting Standard-Setters (IFASS). Specifically, we asked:
- (a) *In your jurisdiction, is it common that:*
 - (i) *the trustee of a pension plan acts on behalf of the plan's members and is independent from the employer; and*
 - (ii) *the trustee has discretion in the event of a surplus arising in the plan to use such a surplus to augment the benefits payable to members [and/or wind up the plan through the purchase of annuities for members]?*

If so, please explain the typical characteristics of pension plans, the power of the trustees and any other relevant facts.
 - (b) *If you answered 'yes' to Question 1, what is the predominant interpretation on whether the employer has an unconditional right or*

not to a refund? In addition, would you please briefly describe the rationale for that interpretation?

- (c) *On the basis of your response to Question 2, to what extent do you observe differences in the accounting between entities? If you observe differences in the accounting between entities, that is caused by a difference in the terms of the contracts or other facts, please explain it, briefly.*

Responses from national standard-setters

38. The geographical breakdown for the responses received from the national standard-setters is as follows:

Geographical region	Number of respondents
Asia	5
Europe	5
Americas	2
Oceania	1
Africa	1
Total respondents	14

39. **All but two of the respondents reported that the issue raised by the submitter is not common.** Most of the respondents reported that **the trustees do not have such a unilateral power to wind up a plan or to augment benefits or that the employer's consent is required to wind up a plan or to augment benefits.** One respondent reported that it is impossible to refund a surplus in any cases in its jurisdiction. One respondent reported that defined benefit plans are not common in its jurisdiction.
40. **One respondent observed this issue in its jurisdiction, which is not the UK. It reported that it is difficult to tell if there is a predominant treatment because each case is potentially different. In addition, surpluses are not common in its jurisdiction.** Employers in the jurisdiction try to avoid surpluses because of the contribution tax in its jurisdiction. (Even if employers can recoup

the contributions, they lose the contributions tax.) In practice, when they recognise an asset for a defined benefit plan, they usually rely on economic benefits available in a reduction of future contributions.

41. **Another respondent observed this issue. However, they do not see diversity in practice regarding the issue, because there is a guide for IFRIC 14 to be applied to each type of plan in its own jurisdiction.** There are different accounting treatments, only because there are the different fund rules for each plan.

Additional outreach to employee benefits specialists

42. We also obtained comments from experts (mainly accounting firms and actuarial consultants) and surveyed published literature by accounting firms.
43. The accounting specialists indicated that there were diversified views among accounting firms, as the submission implied and that the question has arisen in the UK. The diversified views exist mainly because of paragraph BC10 of IFRIC 14, as described in this Agenda Paper.
44. They also implied that careful judgement for each case is required, because of differences among plans, as described in the Staff Conclusions in this Agenda Paper. Some also mentioned that trustees usually need to consider the sponsor's interests, in addition to plan members' benefits.
45. Two accounting specialists stated that **such a unilateral power by the trustee to wind up a plan or to augment benefits was not common including the UK.** (A trustee's decision usually depends on the entity (as sponsor).) However, they stated that **it was common that a trustee had a power to decide investment policies or to buy annuities contracts.**
46. Some of the accounting specialists stated that entities in practices should consider economic benefits available as a reduction in future contributions rather than as a refund. (In accordance with IFRIC 14, an entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. However, as described in paragraphs 7-8 in this Agenda

Paper, the submitter assumes that the plan is closed to accrual of future benefits and that there will be no future service costs.)

47. According to comments from some actuarial consultants, many countries require by law (or relevant court rulings) the managers of a plan to act on behalf of the plan's members but the plan may not be constituted under trust law. The sponsor may be represented on the plan's management body and in a position to influence decisions but it may not have control of decisions. They also stated that this issue is common in the UK and the circumstances in the UK are typically as follows.
- (a) **the power of trustees to augment benefits without employer consent is unusual but does exist in some plans.** (In the large majority, employer consent is required.)
 - (b) the power of trustees to amend certain terms of the plan (for example, the rate of exchange of pension for cash at retirement) which can affect an amount of a surplus, without employer consent is widespread.
 - (c) **the power of trustees to wind-up a plan varies.** In some cases, the trustees do have the unilateral power for a plan wind-up. **In the most plans, it requires a series of events or causes to be triggered (for example, the employer does not pay contributions).**
 - (d) **the power of trustees to purchase annuities (even if not in a plan wind-up) applies to all UK pension plans**
 - (e) in the actual event of a plan wind-up, refunds to employers are only typically available after members' benefits have been augmented. There are still a large number of plans in which refunds to employers are permitted on a wind-up if they have been fully settled.
 - (f) in practice, the first step is considering economic benefits available as a reduction in future contributions. Because many defined benefit plans have closed in the UK, some entities need to consider economic benefits available as a refund, as described in this issue.
48. One accounting specialist stated that there is a local interpretation on IFRIC 14 in South Africa. The employer only has an unconditional right to a refund to the extent of the amount of the surplus that has been allocated to the employer, referred to the Employer Surplus Account under plans in the jurisdiction. The allocation between the entity and the plan members may be specified in the rules (i.e. there is no discretion) in some plans. If the rules are silent, it means that it is

up to the trustees to determine the allocation between the employer and the plan members.

(Source) The website of South African Institute of Chartered Accountants (SAICA):
FINANCIAL REPORTING GUIDE 3 (Revised and Issued August 2013)
<https://www.saica.co.za/Technical/FinancialReporting/MembersHandbook/Guides/tabid/2720/language/en-ZA/Default.aspx>

Agenda criteria assessment

49. We have assessed the issues against the agenda criteria of the Interpretations Committee described in paragraphs 5.16–5.17 of the *Due Process Handbook*.
50. Moreover, we have assessed the issue against the additional criteria for annual improvements as described in paragraphs 6.11–6.14 of the *Due Process Handbook*.
51. Please refer to **Appendix B** of this Agenda Paper for the details of the agenda criteria and the assessment of the issue against the agenda criteria.
52. As the result of the agenda criteria assessment, the staff thinks that the Interpretations Committees should add this issue to its agenda and this issue is appropriate as an agenda item for annual improvements.

Staff recommendation

53. On the basis of our assessment of the Interpretations Committee's agenda criteria, and also on our analysis in this paper, we think that our proposed amendment meets the criteria for inclusion in the **Annual Improvements cycle for 2013-2015**.
54. We think that the diversified views are caused by the application of paragraphs 11, 12 and BC10 of IFRIC 14. (Paragraph BC10 of IFRIC 14 explains the basis for conclusions of paragraph 11 of IFRIC 14.) We think that it is clear that the existence of the asset is not affected if an entity's future decision causes possible future changes to the amount of the surplus. However, it is not clear whether the

existence of the asset is not affected, if such possible future changes are caused by trustees' or any third party's future decision that is not controlled by the entity.

55. We think that the fact that any surplus could be decreased or extinguished by uncertain future events is not relevant to the recognition of an asset, because this fact may affect the amount of the right but does not affect the existence of the right. Paragraphs 11 and BC10 of IFRIC 14 imply this. Therefore, the trustee's power to augment benefits, to wind up the plan or to buy annuities is not directly relevant to recognition of an asset.

56. Consequently, we recommend adding the following statement after paragraph 12 of IFRIC 14 to clarify the principle:

The fact that any surplus could be decreased or extinguished by uncertain future events not within the entity's control is not directly relevant to the existence of the entity's right to a refund of a surplus.

57. We note that some of the trustee's powers may enable the trustee to refuse an entity's request for a refund of surplus. If a trustee can refuse an entity's request for a refund of surplus utilising the power when an entity requests a refund, we think that it is clearly relevant to recognition, in accordance with paragraph 12 of IFRIC 14.

58. We also note that the current IFRIC 14 is providing the following clear guidance as described in this paper:

- (a) paragraph 11 of IFRIC 14 clarifies that a refund is available if an entity can realise it at some point during the life of the plan. (An entity is not required to have an unconditional right under all of the scenarios described in paragraph 11.)
- (b) paragraphs 13-15 of IFRIC 14 clarify measurement of the economic benefit available as a refund. When an entity measures economic benefits available assuming a plan wind-up in paragraph 11(c) of IFRIC 14, an entity should consider the costs of any insurance premiums that may be required to secure the liability. This may result in recognition of an asset at the amount of zero.

- (c) an entity should determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both, in accordance with paragraph 9 of IFRIC 14.

59. Consequently, we propose the amendment to IFRIC 14, shown in Appendix A of this Agenda Paper.

Transition provisions and effective date

60. We propose that an entity should apply the amendment retrospectively. Earlier application should be permitted.

First-time adopters

61. We think that a first-time adopter should apply the amendment to IFRIC 14. In this respect we think that an amendment to IFRS 1 *First-time adoption of International Financial Reporting Standards* is unnecessary.

Consequential amendments

62. We have reviewed the other Standards for potential consequential amendments triggered by this proposed amendment. As a result of this review, we do not propose any consequential amendments.

Proposed amendment

63. The proposed amendment to IFRIC 14 is shown in **Appendix A** of this agenda paper.

Questions for the Interpretations Committee

Questions

1. Does the Interpretations Committee agree with the staff's technical analysis in paragraphs 16-36 of this paper?
2. Does the Interpretations Committee agree with the staff's recommendation to add this issue to its agenda for annual improvements?
3. If the answer to Question 2 is 'yes', does the Interpretations Committee agree with the staff's recommendation to amend IFRIC 14 as shown in Appendix A of this paper?

Appendix A—Proposed amending

Proposed amendment to IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Paragraph 12 is amended and paragraph 27D is added. New text is underlined. Paragraph 11 has not been amended but has been included 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
 - (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).
- 12 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. The fact that any surplus could be decreased or extinguished by uncertain future events that are not within the entity's control is not directly relevant to the existence of the entity's right to a refund of a surplus.

Effective date

27D *Annual Improvements to IFRSs [2013–2015] Cycle* issued in [date] amended paragraph 12. An entity shall apply that amendment retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on the proposed amendments to IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Form and content of interim financial statements

- BC1 The IASB received a request to clarify the application of the requirements regarding the availability of refunds from a defined benefit plan managed by an independent trustee according to IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
- BC2 The IASB observed that there are divergent views on the application of the requirements in paragraph 12 of IFRIC 14 regarding future decisions by a trustee that is not controlled by the entity. One view was that the trustee's unilateral right to make alternative use of a surplus meant that the employer did not have an unconditional right to a refund of that surplus and, therefore, recognition of an asset based on that right was restricted. Another view was that the trustee's unilateral right to make alternative use of a surplus did not, in itself, mean that the employer did not have an unconditional right.
- BC3 The IASB observed that the fact that a surplus could be decreased or extinguished by uncertain future events that are not within the entity's control may affect the measurement of the surplus but not its existence in accordance with paragraphs 11,12 and BC 10 of IFRIC 14.
- BC4 The IASB also observed that some of the trustee's powers might enable the trustee to refuse an entity's request for a refund of surplus. If a trustee can refuse an entity's request for a refund of surplus, it is clearly relevant to recognition, in accordance with paragraph 12 of IFRIC 14.
- BC5 The IASB also observed the current IFRIC 14 was providing the following clear guidance.
- (a) paragraph 11 of IFRIC 14 clarifies that a refund is available if an entity can realise it at some point during the life of the plan. (An entity is not required to have an unconditional right under all of the scenarios described in paragraph 11.)
 - (b) paragraphs 13-15 of IFRIC 14 clarify measurement of the economic benefit available as a refund. When an entity measures economic benefits available assuming a plan wind-up in paragraph 11(c) of IFRIC 14, an entity should consider the costs of any insurance premiums that may be required to secure the liability. This may result in recognition of an asset at the amount of zero.
 - (c) an entity should determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both, in accordance with paragraph 9 of IFRIC 14.
- BC6 To clarify the principle in IFRIC 14, the IASB proposes to add the statement that the fact that any surplus could be decreased or extinguished by uncertain future events that are not within the entity's control is not directly relevant to the

existence of the entity's right to a refund of a surplus to paragraph 12 of IFRIC 14.

Appendix B—Assessment against the Interpretations Committee’s agenda criteria and additional criteria for annual improvements

B1. In the following table, we have assessed the issue against the agenda criteria of the Interpretations Committee as described in paragraphs 5.14–5.22 of the *Due Process Handbook*.

Agenda criteria of the Interpretations Committee	
We should address issues (see paragraph 5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected;	Yes. The result of outreach implies that this issue exists in certain jurisdictions and potentially has a material impact.
in which financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and	Yes. Clarifying the principle would improve comparability, eliminating diversity of interpretation.
that can be resolved efficiently within the confines of existing Standards and the <i>Conceptual Framework for Financial Reporting</i> .	Yes. It can be resolved within the confines of IFRIC 14.
In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRSs (see paragraph 5.17)?	Met. The issue is narrow, within IFRIC 14.
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (see paragraph 5.21)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified).	Met. The issue is not being addressed in any forthcoming Standard.

B2. In the following table, we have assessed the issue against the additional criteria for annual improvements as described in paragraphs 6.11–6.14 of the *Due Process Handbook*.

Additional criteria for annual improvements	
In addition to the implementation and maintenance criteria, an annual improvement should (see paragraphs 6.11-6.14)	
(a) replace unclear wording; (b) provide missing guidance; or (c) correct minor unintended consequences, oversights or conflict.	Met. The solution would correct minor unintended consequences, oversights or conflict.
not change an existing principle or propose a new principle ; and	Met. This is clarifying the existing principle. This does not change an existing principle or propose a new principle.
not be so fundamental that the IASB will have to meet several times to conclude.	Met. This is a clarification of the principle. It is not so fundamental.

Appendix C—Submission

C1. We received the following request. We have deleted details that would identify the submitter of this request.

Suggested agenda item – Availability of refunds from a defined benefit plan managed by an independent trustee

It has come to our attention that there are diverse views on the effect of an independent trustee's ability to augment the benefits paid to members of a defined benefit plan (or to wind up that plan) on the assessment of whether the entity has "an unconditional right to a refund" that permits recognition of a net defined benefit asset under IAS 19 *Employee benefits* and IFRIC 14 *IAS 19 – The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. We are seeking clarification of the issue detailed below by the Committee.

The issue

In certain jurisdictions, defined benefit plans are required to be managed by a trustee that acts on behalf of the plan's members and is independent of the sponsoring employer. That trustee may, through local law or contract, have discretion in the event of a surplus arising in the plan to make alternative use of that surplus by:

- augmenting the benefits payable to members; and/or
- winding up the plan (using its assets to purchase annuities for any remaining members, with resultant use of plan assets to pay insurance premiums and prevention of the gradual settlement of the plan liabilities until all members have left the plan).

To the extent that the trustee does not exercise this discretion, the employer has the right to a refund of any excess plan assets.

In a scheme that is closed to accrual of future benefits, there will be no future service cost and therefore no economic benefit available as a reduction in future contributions. Accordingly, an asset can only be recognised if the employer has an unconditional right to a refund.

Does the trustee's unilateral right to augment benefits or to wind up the plan affect the employer's "unconditional right to a refund" and, thus, restrict recognition of an asset based on that right?

Alternative views

Yes, the trustee's unilateral right to make alternative use of a surplus means that the employer does not have an unconditional right to a refund of that surplus and, therefore, recognition of an asset based on that right is restricted

IFRIC 14.11 indicates that a refund is available to an entity only if the entity has an unconditional right to a refund. IFRIC 14.12 clarifies this requirement by stating that:

"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."

The trustee's future decision on whether to allow the return of excess assets to the employer, or to exercise its right to augment benefits or to wind up the plan is an uncertain future event and is not within the control of the entity because the trustee is not controlled by the entity. Thus, the entity does not have an unconditional right and should not recognise the surplus as an asset.

Paragraph BC10 of the Basis for Conclusions on IFRIC 14 states that a future decision of the entity to improve benefits does not affect the existence or measurement of the asset. However, this paragraph deals with future actions by the entity and does not apply to future decisions by a trustee that is not controlled by the entity.

Under this view, recognition of an asset is restricted only to the extent of the trustee's discretion. If, for example, the trustee's ability to augment benefits is restricted to a level that would still leave a surplus in the plan an asset should be recognised to that extent.

No, the trustee's unilateral right to make alternative use of a surplus does not, in itself, mean that the employer does not have an unconditional right to a refund

The fact that any surplus could be extinguished by uncertain future events not controlled by the employer is not relevant to the recognition of an asset as it is the right to a surplus, not its value or existence, which is relevant.

Specifically, and contrary to the view above, the statement in paragraph BC10 of the Basis for Conclusions on IFRIC 14 should also be seen to apply to future asset allocation decisions by the trustee.

The employer can make an accounting policy choice to recognise, or not recognise, an asset

Both of the above arguments have merit and therefore either treatment can be applied as a consistent accounting policy choice.

Reasons for the Committee to address the issue

Currently, divergent views can be demonstrated to exist as each of the three views above is expressed in the published literature of at least one large accounting firm.

In jurisdictions that require an independent trustee to be appointed this issue arises relatively frequently – particularly as it is also relevant to an assessment of whether an additional liability should be recognised when a minimum funding requirement applies. When this issue does arise, due to the nature of the balances involved the effects on an entity's net asset position can be very significant.

In addition, the issue is not related to a Board project that is expected to be completed in the near future.

For these reasons, we believe that this issue meets the criteria for acceptance onto the Committee's agenda.