IFRS

STAFF PAPER

September 2014

IFRS Interpretations Committee Meeting

Project	**IFRIC 14 *IAS19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction***
Paper topic	Availability of refunds from a defined benefit plan managed by an independent trustee

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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 affects the employer's unconditional right to a refund and thus restricts recognition of an asset, in accordance with IFRIC 14 *IAS19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

2. The Interpretations Committee discussed this issue in May 2014. The question is whether the trustee's unilateral power to use a surplus is relevant to the existence of a right to a refund of a surplus in the following circumstances:

   (a) the trustee acts on behalf of the plan's members and is independent of the employer;

   (b) the trustee has discretion, in the event of a surplus arising in the plan, to make alternative use of that surplus:

      (i) by augmenting the benefits payable to members; or

      (ii) by winding up the plan through purchase of annuities, or both; and

   (c) the trustee has not exercised such a power at the end of the reporting date.

3. The issue discussed relates to 'closed plans' that are closed to accrual of future benefits, with the result that there will be no future service costs (ie economic benefits are available only through a refund of a surplus).

4. As explained in paragraph 5 of Agenda Paper 6 for the July 2014 meeting, we have added the following additional facts to be considered in this issue, following a discussion with the submitter:

   (a) the entity does not have a right to a refund of a surplus during the life of the plan, because the plan liabilities must be settled in order to obtain the refund; but

   (b) it has a right to a refund of a surplus assuming the gradual settlement of the plan liabilities over time, until all members have left the plan and if a surplus exists after the end of the life of the plan; and

   (c) it has a right to a surplus assuming the full settlement as a plan wind-up through purchase of annuities, if a surplus exists after the settlement;

5. At its May meeting[1], the Interpretations Committee tentatively decided to develop either an amendment or an interpretation on this issue. At the meeting, the Interpretations Committee noted that the fact that an existing surplus at the balance sheet date could be decreased or extinguished by uncertain future events that are beyond the control of the entity is not relevant to the existence of the right to a refund but it also noted that it would affect the measurement of the asset recognised.

6. The staff reported the Interpretations Committee's tentative decision at its May meeting to IASB members in informal meetings. Many IASB members expressed concern over recognising and measuring the asset, if it does not reflect the possibility of changes to future cash inflows as a consequence of the trustee's power. Some thought that such an accounting treatment is not consistent with descriptions of an asset in the *Conceptual Framework*, because the entity does not

[1]For further detail, see Agenda Paper 14 for the May 2014 meeting and IFRIC Update May 2014.

http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2014/May/AP14_-_IFRIC_14_Availability_of_refunds_from_DP_plans%5b1%5d.pdf

http://media.ifrs.org/2014/IFRIC/May/IFRIC-Update-May-2014.html have control over the surplus, in so far as the trustee can prevent the entity's access to the surplus by utilising the surplus to enhance the benefits.

7. At its July meeting[2], the Interpretations Committee considered this informal feedback received from the IASB members and discussed this matter further. The Interpretations Committee noted the difficulty associated with assessing the consequences of the trustee's future actions and its effect on the entity's ability to estimate reliably the amount to be received from the plan. Consequently, a majority of the Interpretations Committee members tentatively decided that no economic benefits through a refund would be available;

   (a) if the entity is not able to obtain an immediate refund; and

   (b) if the trustee can use or eliminate a surplus by the trustee's unilateral power to wind up the plan or to enhance benefits, or both.

8. However, some Interpretations Committee members were concerned about the consequences that this conclusion could have on the accounting for a minimum funding requirement and about the consistency of this conclusion with the recognition and measurement requirements of IAS 19 *Employee Benefits*.

9. Consequently, the Interpretations Committee requested the staff to perform further analyses on:

   (a) the relationship between the general requirement of IAS 19 and the tentative decision at the July 2014 meeting; and

   (b) the interaction of this tentative decision with the requirement to recognise an additional liability when a minimum funding requirement applies.

10. The purpose of this paper is to present these analyses and additional analysis on the power to wind up the plan, together with a new proposal.

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[2] For further detail, see Agenda Paper 6 for the July 2014 meeting and IFRIC Update July 2014.

http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2014/July/AP06%20-%20IFRIC%2014%20Availability%20of%20refunds%20from%20DP%20plans.pdf

http://media.ifrs.org/2014/IFRIC/July/IFRIC-Update-July-2014.html

Objective and structure of this paper

11. The objective of this paper is:

    (a) to present analysis on:

        (i) the power to wind up the plan (to settle plan liabilities)

        (ii) the relationship between the general requirement of IAS 19 and the tentative decision at the July meeting; and

        (iii) the interaction of this tentative decision with the requirement to recognise an additional liability when a minimum funding requirement applies; and

    (b) to propose an amendment to IFRIC 14.

12. This Agenda Paper is structured as follows:

    (a) staff technical analysis;

    (b) staff recommendation;

    (c) questions for the Interpretations Committee;

    (d) Appendix A—Illustration on requirements of IAS 19 and the tentative decision at the July meeting;

    (e) Appendix B—Illustration on minimum funding requirement; and

    (f) Appendix C—Proposed amendment to IFRIC 14.

Staff technical analysis

The power to wind up the plan (to settle plan liabilities)

13. We think that the nature of the power to decide to wind up the plan (or to settle plan liabilities) is different from the power to use a surplus to augment benefits. We think that the power to settle plan liabilities is not the power “to use the surplus”, although the power to settle the plan liabilities could reduce the amount of surplus in the future as a consequence of measurement in IAS 19 because the cost of annuities on the market is expected to be significantly higher than the value of the DBO in IAS 19.

14. Instead, we think that an entity's ability to realise an economic benefit through 'a gradual settlement' is restricted if a trustee can decide at any time to make a full settlement (ie wind up the plan), even though the assumption of a gradual settlement over time until all members have left the plan is allowed in paragraph 11 of IFRIC 14. Paragraph 11 of IFRIC 14 states (extracted):

> 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).

15. We think that an entity cannot unconditionally realise economic benefits assuming 'the gradual settlement' described in paragraph 11(b) of IFRIC 14 if a trustee has the unilateral power to wind up the plan and if the entity has no way to prevent that from happening. This is because a trustee can decide to wind up the plan at any time before 'all members have left the plan'. (In this analysis, we have assumed that an entity does not have a right to a refund in the case of paragraph 11(a) of IFRIC 14, as explained in paragraph 4 above. If an entity has an unconditional right in the case of paragraph 11(a) of IFRIC 14, we think that an entity can unconditionally realise economic benefits regardless of the trustee's power, because an entity can unconditionally obtain a refund at any time during the life of the plan before a trustee decides to wind up the plan.)

16. Consequently, we think that an entity does not have an unconditional right to a refund assuming the gradual settlement, if the trustee has unilateral power to decide a plan wind-up or to settle obligations.

17. We note that the power to buy annuities is neither the power to use a surplus nor the power to decide a plan wind-up.

The relationship between the general requirement of IAS 19 and the tentative decision at the July meeting

18. In this section, we assess whether the tentative decision at the July meeting conflicts with the general principles in IAS 19 and IFRIC 14.

19. First of all, we think that there are ‘two distinct steps’ for this issue:

    (a) measuring the surplus (deficit) that exists at the end of a reporting period; and

    (b) assessing the entity’s ability to recover any surplus that exists (ie assessing the asset ceiling).

20. Step (a) to calculate the surplus (deficit) is performed in accordance with the existing guidance in IAS 19. (Step1-2 in the section of the staff technical analysis of Agenda Paper 6 for the July meeting is Step (a) of this paper.)

21. Step (b) to assess economic benefits available is performed in accordance with IFRIC 14. (Step 3-4 in the section of the staff technical analysis of Agenda Paper 6 for the July meeting is Step (b) of this paper.)

22. At the July meeting, the Interpretations Committee tentatively decided to restrict recognition of assets in the specific circumstance in the submission. We think that this decision relates to Step (b) to assess the asset ceiling and does not conflict with the requirement that relates to Step (a) to measure the surplus (deficit). **See paragraphs A1-A2 and their illustration in Appendix A.**

23. For further analysis, the staff assess whether this tentative decision conflicts with the general guidance in IAS 19 and IFRIC 14, including the guidance on:

    (a) past service cost;

    (b) a gain or loss on settlement;

    (c) change in fair value of plan assets (buying annuities);

    (d) plan features to be reflected in assumptions for calculation of the obligation; and

    (e) governmental powers.

Past service cost

24. If we restrict recognition of an asset, as was tentatively decided in July, some may be concerned that it would introduce redundant accounting and might cause a conflict with the guidance on past service cost, because past service cost should be measured and recognised in profit or loss in accordance with paragraphs 103-104 of IAS 19, if a plan amendment occurs (eg a trustee or an entity changes the benefit payable under an existing defined benefit plan.).

25. However, we do not think that there would be such a conflict between IAS 19 and the tentative decision, because we think instead that a calculation of past service cost should relate to Step (a) above, while the tentative decision in July relates to Step (b) above. These are distinct steps.

26. The change in the present value of the defined benefit obligation (DBO) resulting from a plan amendment is past service cost, as required by paragraph 102. We think that past service cost should be measured and recognised in profit or loss in accordance with the existing guidance in IAS 19, to arrive at the appropriate amount in profit or loss irrespective of our proposal. The accounting for past service cost could cause the reduction or elimination of a surplus, because the present value of the DBO would reflect the amended terms of the plan.

27. We also think that the assessment of the asset ceiling (Step (b)) should be performed. The reduction or elimination of a surplus means that the effect of the asset ceiling also changes: the ceiling is applied to a different amount of surplus. The previous effect of the asset ceiling will have been recognised as a remeasurement of the net defined benefit liability (asset) in other comprehensive income (see paragraph 57(d) of IAS 19). As a result, we think that an entity would naturally ‘reverse’ the effect of the previous asset ceiling, when recognising the effect of the revised asset ceiling. **(See paragraph A3 and its illustration in Appendix A.)**

28. Consequently, we do not think that the existing guidance on past service cost conflicts with the tentative decision at the July meeting.

A gain or loss on settlement

29. A gain or loss on settlement should be recognised in profit or loss in accordance with paragraphs 110-112 of IAS 19, when an entity enters into a transaction that eliminates its legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, eg a one-time transfer of significant employer obligation under the plan to an insurance company through buying annuities. (Paragraph 112 of IAS 19 explains that, in some cases, an entity acquires an insurance policy to fund some or all of the employee benefits, but the acquisition of such a policy is not a settlement if an entity retains a legal or constructive obligation. Such a transaction would instead be an investment decision to buy and hold annuities as plan assets[3]. See paragraphs 33-35 in the following section for detailed analysis on this point.)

30. Paragraph 109 of IAS 19 explains that the gain or loss on a settlement is the difference between the present value of the DBO being settled and the settlement price. As noted in the last meeting, the cost of annuities on the market is expected to be significantly higher than the value of the DBO in IAS 19. Hence, an entity often recognises a loss on settlement, when it settles plan liabilities through buying annuities.

31. Similarly to the analysis on past service cost, we think that a calculation of a settlement loss should relate to Step (a), while the tentative decision in July relates to Step (b). They are distinct steps. In addition, we think that the existing guidance in IFRIC 14 (relating to Step (b)) already requires accounting that is consistent with the tentative decision at the July meeting: when measuring the economic benefits available assuming a plan wind-up (paragraph 11(c) of IFRIC 14), paragraph 14 of IFRIC 14 requires that the entity considers the cost of any insurance premiums (ie 'future settlement loss').

32. Consequently, we think that the existing guidance on a gain or loss on settlement does not conflict with the tentative decision at the July meeting.

[3] If the insurance policy does not meet the definition of plan assets, it could be treated as reimbursement rights, as explained in paragraphs 116-119. We do not discuss this further, because it is not relevant to our issue.

Change in fair value of plan assets (buying annuities)

33. In many plans (most plans in the UK and some plans in other jurisdictions), trustees have a unilateral power to buy and hold annuities as plan assets, as the power of investment decision. We think that this power to buy annuities is different from the power to settle plan liabilities or to wind up a plan or both.

34. We think that future investment actions and future changes in fair values of plan assets should not affect either recognition or measurement of a current surplus (deficit), because paragraph 8 of IAS 19 explains that 'fair value' of plan assets should be the price at the measurement date.

35. We also think that the power to make investment decisions, including buying annuities, should not restrict recognition of an asset, because this power does not itself mean the trustee has a power to use the surplus. Such a unilateral power to buy annuities only means that trustees can make investment decisions without an entity's approval. We understand that the cost of annuities on the market is expected to be significantly higher than the value of the DBO in IAS 19. However, this only means that a measurement of DBO in IAS 19 is different from measurement of plan assets (ie fair value[4]). The last sentence of paragraph 11 of IFRIC 14 state that:

> An unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period.

Paragraph BC10 of IFRIC 14 also states that (extracted):

> [T]he 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.

We think that these statements in paragraphs 11 and BC10 of IFRIC 14 implies that the future actuarial losses or future change in fair value of plan assets should not affect the amounts recognised in either Step (a) or Step (b).

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[4] Paragraph 115 of IAS 19 provides an exemption and it states that:

> Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

We do not discuss this further, because it is not relevant to our issue.

Plan features to be reflected in assumptions for calculation of the obligation

36. Some might think that the tentative decision in July would cause redundancy when compared with the guidance for assumptions in paragraph 88 of IAS 19, namely to reflect plans' features in assumptions to calculate the obligation. For example, paragraph BC144 of IAS 19 states that (emphasis added):

> **Some defined benefit plans include features that share the benefits of a surplus** or the cost of a deficit **between the employer and the plan participants**. Similarly, some defined benefit plans provide benefits that are conditional to some extent on whether there are sufficient assets in the plan to fund them. Such features share risk between the entity and the plan participants and affect the ultimate cost of the benefits. Hence, the 2010 ED proposed to clarify that **the present value of the defined benefit obligation should reflect the best estimate of the effect of risk-sharing and conditional indexation features**. Many respondents agreed with that proposal.

37. However, we think that our proposal would not cause a conflict, because the calculation of the obligation should be performed in Step (a). If an entity's legal or constructive obligation to enhance benefits has arisen in accordance with paragraph 61 of IAS 19, an entity should reflect it in measurement in accordance with paragraph 88 of IAS 19. (It could increase the amount of DBO and result in a surplus in the amount of zero, as noted at the May meeting.)

38. We think that the relevant principles of IAS 19 in Step (a) are distinct from the tentative decision, which relates to Step (b). In addition, the tentative decision at the July meeting is relevant to the circumstance in which a trustee has not used the power (ie an entity does not have an obligation to enhance benefits at the end of the period). In contrast, an entity reflects a plan feature only if an entity has a legal or constructive obligation to enhance benefits. The steps are distinct from each other.

39. Consequently, we do not think that there is a conflict between the tentative decision at the July meeting and the principles in IAS 19.

Governmental powers

40. Governments in many jurisdictions have a power to use any surplus by introduction of new tax schemes (even with a 100 per cent tax on refunds).

41. Paragraph 13 of IFRIC 14 states (extract):

> For instance, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.

42. We do not think that an entity should take account of such a general power when it is not substantially enacted. Ignoring such a general power is consistent with the accounting under IAS 12. Although we understand these tax schemes are not within the scope of IAS 12 *Income Tax*, taking account of such tax or rules only if they are substantively enacted would be consistent with the accounting under IAS 12.

43. In addition, paragraph BC30 of IFRIC 14 also explains that future changes to regulations on minimum funding requirements should not be considered. It implies that future change to regulations by a general governmental power is ignored in accounting under IFRIC 14 too.

44. Consequently, we think that an entity should take account of the governmental decision only if it has been substantively enacted.

Minimum funding requirement (MFR)

45. In this section, we analyse the interaction between the tentative decision at the July meeting and minimum funding requirements.

46. MFRs exist among some UK plans[5] and other plans in some jurisdictions.

47. Paragraph 2 of IFRIC 14 states that (emphasis added):

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[5] An MFR was also included in the Pensions Act 1995 in the UK.
http://www.legislation.gov.uk/ukpga/1995/26/section/56/enacted

The Pensions Act 2004 replaced the MFR with new statutory guidance.
http://www.legislation.gov.uk/ukpga/2004/35/contents

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

48. MFRs could reduce an amount of an asset to be recognised or could require recognition of an additional liability in some cases. (See **Appendix B** for the Illustration. Note that the contributions payable should be determined under the pension regulation, which will often emphasise prudence, and the calculation of the obligation under pension regulations is often different from the calculation under IAS 19.)

49. Paragraph 3 of IFRIC 14 states (emphasis added):

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

50. IFRIC 14 provides guidance to assess whether an entity should recognise a liability when an entity has an obligation under a minimum funding requirement.

51. Paragraph 23 of IFRIC 14 states (emphasis added):

> If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received**, the entity shall determine whether the contributions payable will be available as a refund** or reduction in future contributions after they are paid into the plan.

52. Paragraph 24 of IFRIC 14 states (emphasis added):

> **To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognise a liability when the obligation arises.** The liability shall reduce the net defined

benefit asset or increase the net defined benefit liability so that no gain or loss is expected to result from applying paragraph 64 of IAS 19 when the contributions are paid.

53. We found no justification to introduce exceptions from our proposal when an MFR exists.

54. As described in paragraph 7 of this paper, at the July meeting, the Interpretations Committee noted the difficulty associated with assessing the consequences of the trustee's future actions and its effect on the entity's ability to estimate reliably the amount to be received from the plan. Hence, the Interpretations Committee thought that no economic benefits through a refund would be available;

(a) if the entity is not able to obtain an immediate refund; and

(b) if the trustee can use or eliminate a surplus by the trustee's unilateral power to wind up the plan or to enhance benefits or both.

We think that this is also the case even if an MFR exists.

55. Under IFRIC 14, we think that an entity refers to paragraphs 11-15 of IFRIC 14 to determine whether the contributions payable will be available as a refund, when an entity has an obligation under an MFR to pay contributions.

56. This could lead to the entity recognising an additional liability, if no refunds are available. However, it is important to remember that our discussion relates to a closed plan with no future accrual of benefits.

57. Hence, any minimum funding requirement must relate to funding a deficit measured on a funding basis. If such a deficit exists and such payments are required, without the entity having a right to benefit from any refund, then they should be recognised as a liability.

Staff conclusions

58. We do not think that the general requirement of IAS 19 and the tentative decision at the July 2014 meeting would conflict with each other, because there two distinct steps in this issue. The step to calculate a surplus (deficit) is distinct from the step to assess the asset ceiling. The tentative decision only relates to the step to assess the asset ceiling.

59. Consequently, in accordance with the tentative decision at the July 2014 meeting, we think that the amount of the surplus that the entity recognises an asset for as a refund should not include amounts for which the entity is not able to obtain an immediate refund and which the trustees have the unilateral right to decide to use for other purposes, eg to enhance benefits for plan members.

60. We think that the trustee's power to wind up a plan through buying annuities is not the same as the trustee's right 'to use a surplus'. However, we think that an entity's ability to realise an economic benefit through 'a gradual settlement' is restricted if a trustee can decide at any time to make a full settlement (ie a plan wind-up), even though assuming a gradual settlement over time until all members have left the plan is allowed in paragraph 11 of IFRIC 14.

61. As a result of the analysis, we also noted the following points.

(a) If an entity's legal or constructive obligation to enhance benefits has arisen in accordance with paragraph 61 of IAS 19, an entity should reflect it in measurement of the DBO, in accordance with paragraph 88 of IAS 19.

(b) When a trustee decides to enhance benefits and a plan amendment occurs, an entity should recognise and measure past service cost in profit or loss, in accordance with the existing guidance in IAS 19. Similarly, when a trustee decides a plan wind-up and a settlement occurs, an entity should recognise and measure a gain or loss on settlement in profit or loss, in accordance with the existing guidance in IAS 19. The entity should not anticipate a plan amendment or settlement that has not yet occurred.

(c) When such an event occurs, the entity will reassess the asset ceiling. If a irrecoverable surplus had be recognised previously, the adjustment to the asset ceiling (increase or decrease) will be recognised in other comprehensive income as required in paragraph 57(d)(iii) of IAS 19. This reassessment of the asset ceiling is a separate process from the recalculation of a surplus (deficit) following the plan amendment or settlement.

(d) Future investment actions and future changes in the fair values of plan assets should not affect either the recognition or measurement of a current surplus (deficit); paragraph 8 of IAS 19 requires that fair value of plan assets should be the price at the measurement date. The power to make investments or to buy annuities is not the right to use the surplus and is different from the power to settle plan liabilities and to wind up a plan. Hence, the power to make investments or to buy annuities does not restrict a right to a refund of a surplus either.

(e) An entity should not take account of the future changes in regulations or tax by general governmental powers, if they are not substantively enacted.

62. At the July meeting, on this specific issue, the Interpretations Committee noted the difficulty associated with assessing the consequences of the trustee's future actions and its effect on the entity's ability to estimate reliably the amount to be received from the plan. A majority of the Interpretations Committee members tentatively decided that no economic benefits through a refund would be available;

(a) if the entity is not able to obtain an immediate refund; and

(b) if the trustee can use or eliminate a surplus by the trustee's unilateral power to wind up the plan or to enhance benefits, or both.

This is also the case if an MFR exists.

63. Consequently, we found no justification to introduce exceptions from our proposal when an MFR exists and an entity has an obligation under an MFR to pay contributions.

Staff recommendation

64. Consistently with the tentative decision at the July meeting and the staff analysis of this paper, we suggest amending IFRIC 14, as proposed in Appendix C.

65. In the Basis for Conclusions for this proposal, we suggest describing the points noted in the staff analysis, as summarised in the section on the Staff conclusions.

66. We have assessed the issues against the agenda criteria of the Interpretations Committee and against the additional criteria for annual improvements.[6]

67. We think that this issue could be still appropriate as an agenda item for annual improvements, because our current proposal in Appendix C would provide missing guidance for the specific case but would not add or change fundamental principles in IAS 19 and IFRIC 14. However, we understand that there is a concern that our proposal may affect fundamental principles in IAS 19.

68. Consequently, we do not recommend adding this item as an item for annual improvements. We recommend proposing an amendment to the interpretation (IFRIC 14) separate from annual improvements.

Transition provisions and effective date

69. We propose that an entity should apply the amendment retrospectively to achieve comparability between periods. We think that the cost of applying the amendment does not depend on whether an entity was to apply it retrospectively or not, because we do not expect that either circumstances or judgements related to this issue would change materially every period. Earlier application should be permitted.

First-time adopters

70. The basic principle in IFRS 1 *First-time Adoption of International Financial Reporting Standards* is full retrospective application. For IAS 19 and IFRIC 14, there are no exemptions or exceptions other than those for the changes in employee benefit costs that were included in the carrying amount of assets outside the scope of IAS 19 (for example, those within the scope of IAS 2 *Inventories*) and for disclosure about the sensitivity (see paragraph E5 of IFRS1). Because we did not identify any justification for additional exemptions, we think that an amendment to IFRS 1 is unnecessary.

[6] . For details of the assessments, see Appendix A in the paper for the Interpretations Committee in May: http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2014/May/AP14_-_IFRIC_14_Availability_of_refunds_from_DP_plans[1].pdf.

Consequential amendments

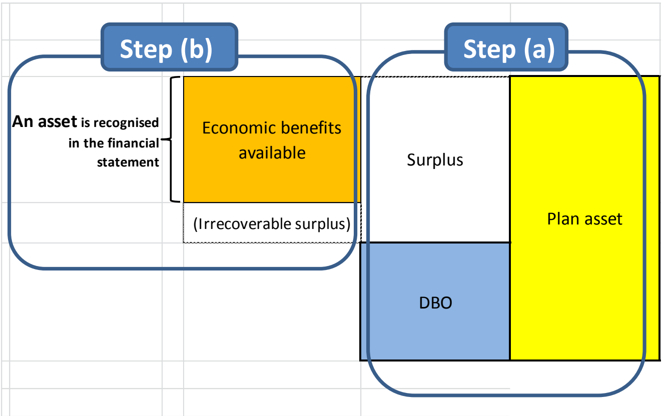
71. We have reviewed other Standards for potential consequential amendments triggered by this proposed amendment. As a result of this review, we do not propose any consequential amendments.

Questions for the Interpretations Committee

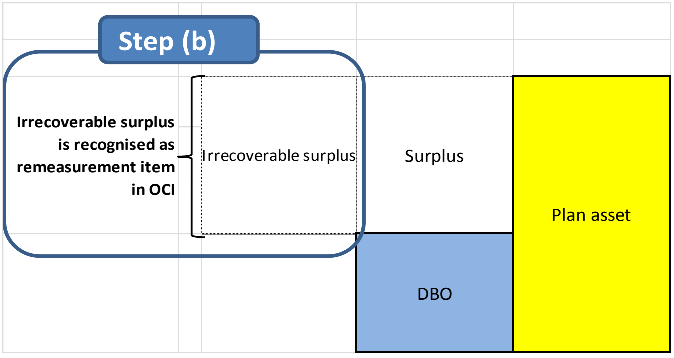
Questions
1. Does the Interpretations Committee agree with the staff's technical analysis in paragraphs 13-63 of this paper?
2. Does the Interpretations Committee agree with the proposed amendment in Appendix C of this paper, as an amendment to the interpretation (IFRIC 14) separate from annual improvements?

Appendix A—Illustration on requirements of IAS 19 and the tentative decision at the July meeting

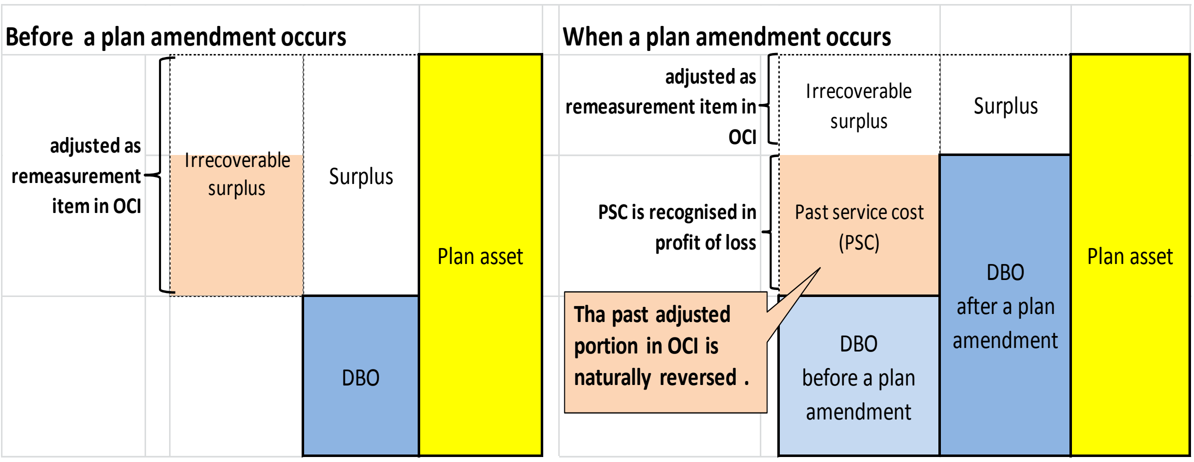
A1 There are two the distinct steps, as illustrated below.



A2 The tentative decision at the July meeting only affects Step (b).

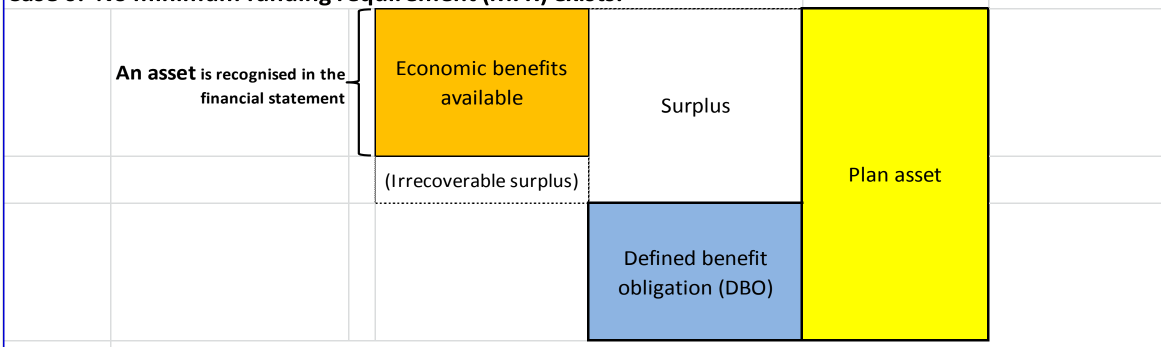


A3 If a plan amendment to enhance benefits occurs, the DBO would increase, reflecting an amended term, and a surplus would be reduced. Past service cost is recognised in profit or loss, in accordance with the existing guidance in IAS 19. Irrecoverable surplus would be reduced and this would result in "a natural reversal" of the past adjusted portion in OCI, when a plan amendment occurs.



Appendix B—Illustration on Minimum Funding Requirements

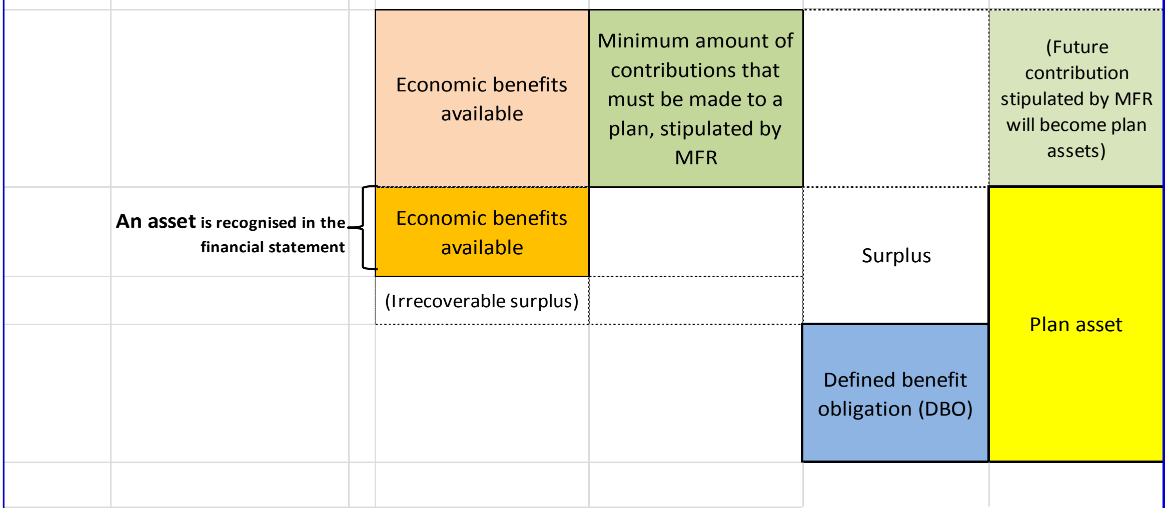
Case 0: No minimum funding requirement (MFR) exists.



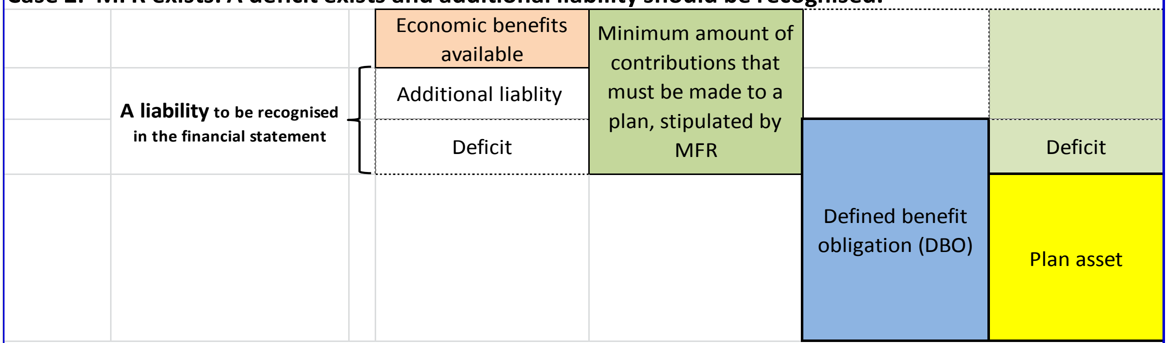
If an entity has no economic benefits available, no asset should be recognised.

If an amount of a surplus is fully available, an asset is recognised at the amount of a surplus.

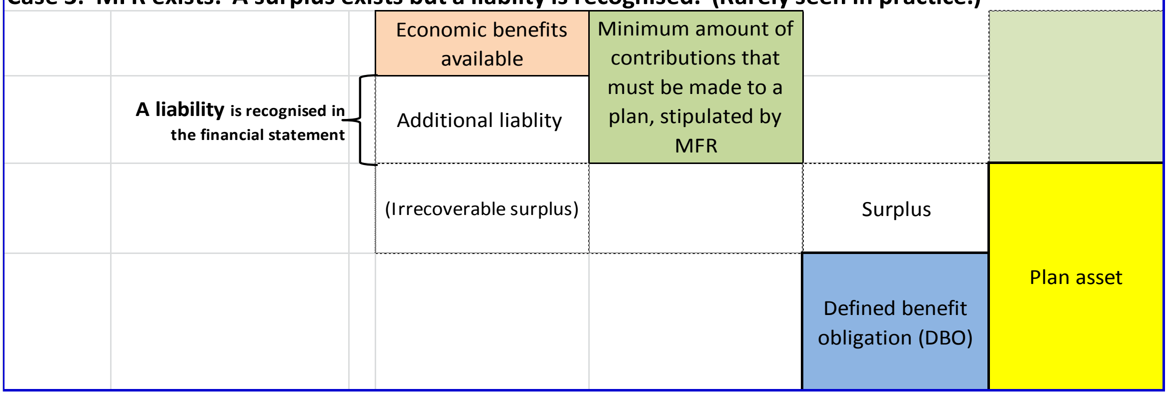
Case 1: MFR exists. A surplus exists and an asset is recognised.



Case 2: MFR exists. A deficit exists and additional liability should be recognised.



Case 3: MFR exists. A surplus exists but a liablity is recognised. (Rarely seen in practice.)



Appendix C—Proposed amendment to IFRIC 14

Paragraphs12 and 13 were amended. New text is underlined. Paragraphs 9–11 and 14–15 have not been amended but have been included for ease of reference.

9 The economic benefit available does not depend on how the entity intends to use the surplus. An entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. An entity shall not recognise economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.

10 In accordance with IAS 1, the entity shall disclose information about the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the statement of financial position. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

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).

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. <u>An entity has an unconditional right to a refund of a surplus if no third parties can refuse an entity’s request for a refund of a surplus in one or more of the three cases described in paragraph 11. An entity does not have an unconditional right to a refund of a surplus assuming the gradual settlement described in paragraph 11 (b) if other parties (for example, the plan trustees) can unilaterally decide a plan wind-up and prevent the gradual settlement.</u>

Measurement of the economic benefit

13 An entity shall measure the economic benefit available as a refund as the amount of the surplus at the end of the reporting period (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a

right to receive as a refund, less any associated costs. For instance, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax. The amount of the surplus that the entity recognises an asset as a refund should not include amounts that other parties (for example, the plan trustees) have the unilateral right to decide to use for other purposes, for example by enhancing benefits for plan members.

14 In measuring the amount of a refund available when the plan is wound up (paragraph 11(c)), an entity shall include the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

15 If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, an entity shall make no adjustment for the time value of money, even if the refund is realisable only at a future date.

…

Effective date

…

27D *Availability of a refund when trustees has unilateral powers* (Amendments to IFRIC 14) issued in [date], amended paragraphs 12–13. 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.