

STAFF PAPER

December 2016

IASB Meeting

Project	Proposed amendments to IAS 19 and IFRIC 14		
Paper topic	Analysis of comments on IFRIC 14 amendments		
CONTACT(S)	Kan Hara Jawaid Dossani	khara@ifrs.org jdossani@ifrs.org	+44 (0)20 7246 6968 +44 (0)20 7332 2742

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Introduction

1. This paper outlines the IFRS Interpretations Committee's (the Interpretations Committee) recommendations on the proposed amendments to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* included in the [Exposure Draft](#) *Remeasurement on a Plan Amendment, Curtailment or Settlement/ Availability of a Refund from a Defined Benefit Plan* (the Exposure Draft).
2. In particular, this paper outlines the Interpretations Committee's recommendations on the following aspects of the proposed amendments to IFRIC 14:
 - (a) the accounting when other parties can wind up a plan or affect benefits for plan members without an entity's consent (Question 1 of the Exposure Draft (Q1)); and
 - (b) the statutory requirements that an entity considers in determining the economic benefit available to the entity (Question 2 of the Exposure Draft (Q2)).

Structure of the paper

3. This paper is structured as follows:
 - (a) summary of the Interpretations Committee's recommendations;

- (b) summary of the proposed amendments to IFRIC 14;
- (c) the main issues identified by respondents, and the Interpretations Committee’s discussion and recommendations;
- (d) Appendix A—other issues identified by respondents; and
- (e) Appendix B—Extract from the Exposure Draft: Proposed amendments to IFRIC 14.

Summary of the Interpretations Committee’s recommendations

- 4. The Interpretations Committee recommends that the Board finalise the proposed amendments to IFRIC 14, subject to some drafting changes.

Summary of the proposed amendments to IFRIC 14

Q1—Accounting when other parties can wind up a plan or affect benefits for plan members without an entity’s consent

Summary of the proposed amendments

- 5. The proposed amendments to paragraph 12 of IFRIC 14 would clarify that:
 - (a) an entity does not have an unconditional right to a refund of a surplus if other parties can use the surplus to affect the benefits for plan members without the entity’s consent (proposed paragraph 12B of IFRIC 14). When developing the proposed amendments, the Board concluded that the other parties’ powers restrict the entity’s ability to use the surplus to generate future cash inflows for the entity.
 - (b) an entity has a right to a refund of a surplus if other parties can wind up a plan without an entity’s consent. However, in recognising and measuring this right, the entity would not be able to assume a gradual settlement of the plan liabilities over time as described in paragraph 11(b) of IFRIC 14 (proposed paragraph 12A of IFRIC 14). When developing the proposed amendments, the Board concluded that the other parties can prevent gradual

settlement if they can wind up the plan before all members have left the plan.

In many cases, unless paragraph 11(a) of IFRIC 14 applies, this means that an entity would recognise and measure its right to a refund applying paragraph 11(c) of IFRIC 14 (ie assuming the full settlement of plan liabilities in a single event). The entity would also apply paragraph 14 of IFRIC 14 in measuring its right to a refund – paragraph 14 requires the entity to include the costs to the plan of settling the plan liabilities and making the refund.

- (c) other parties’ powers to unilaterally change the asset mix within a plan, without affecting the benefits for plan members, does not affect the entity’s unconditional right to a refund of a surplus (proposed paragraph 12C of IFRIC 14). When developing the proposed amendments, the Board concluded that, in this case, the other parties’ powers relate to the future amount of plan assets but do not relate to the entity’s right to a refund.
6. The proposed amendments would also clarify that other parties do not have the power to wind up the plan, or affect the benefits for plan members, if that power is dependent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the other parties’ control.
 7. For ease of reference, Appendix B to this paper reproduces paragraphs 9 and 11-15 of IFRIC 14, and the proposed amendments to paragraph 12 of IFRIC 14.

Q2—Statutory requirements that an entity considers in determining the economic benefit available to the entity

Summary of the proposed amendments

8. The proposed amendments to paragraph 7 of IFRIC 14 would clarify that when an entity determines the availability of a refund or reduction in future contributions, the entity takes into account any statutory requirements that are enacted or substantively enacted, as well as contractually agreed terms and conditions of a plan and any constructive obligations.

9. The Basis for Conclusions notes that the concept of ‘substantively enacted’ is already used in paragraph 21 of IFRIC 14 and IAS 12 *Income Taxes*. It also notes that when a legal or constructive obligation to enhance benefits arises, an entity reflects this obligation in the measurement of the defined benefit obligation applying IAS 19 *Employee Benefits*.

The main issues identified by respondents, and the Interpretations Committee’s discussion and recommendations

10. The main issues identified by respondents relate to Q1 (ie the proposed amendments that would clarify how to account for a surplus when other parties can wind up a plan, or affect benefits for plan members, without an entity’s consent). Accordingly, the following analysis focuses on Q1.
11. Seventy-five respondents commented on Q1. Approximately half of the respondents agree with the principles underlying the proposed amendments. Other respondents either disagree with the proposed amendments or express concerns about particular aspects of these proposed amendments.
12. Respondents who agree with the principles underlying the proposed amendments say the proposed amendments would:
- (a) result in more useful information; and
 - (b) help reduce diversity in practice.
13. The main issues identified by respondents are:
- (a) potential inconsistencies with principles in IAS 19 and IFRIC 14 (*Issue I*)—see paragraphs 14–44 of this paper;
 - (b) the economic substance of defined benefit plans (*Issue II*)—see paragraphs 45–52 of this paper;
 - (c) purchase of annuities as part of a plan wind-up or as part of plan assets (*Issue III*)—see paragraphs 53–63 of this paper; and
 - (d) other substantive issues (*Issue IV*)—see paragraphs 64– 68 of this paper.

Issue I—Potential inconsistencies with principles in IAS 19 and IFRIC 14

14. Some respondents say the proposed amendments may not be consistent with existing principles in IAS 19 and IFRIC 14. These respondents identify the following:
- (a) the effect of uncertain future events on the existence of a right to a refund (*Issue I-1*);
 - (b) powers affecting plan liabilities and powers affecting plan assets (*Issue I-2*);
 - (c) powers to wind-up a plan and powers to change the asset mix (*Issue I-3*); and
 - (d) other inconsistencies (*Issue I-4*).
15. The Interpretations Committee’s discussion at its September 2016 meeting largely focussed on Issue I, and in particular Issue I-1–Issue I-3.

The effect of uncertain future events on the existence of a right to a refund (Issue I-1)

Overview of feedback

16. Some respondents say that the possible extinguishment of a surplus, as a result of other parties exercising their powers in the future, should not affect the existence of an entity’s unconditional right to a refund of the surplus. These respondents say the proposed amendments are inconsistent with IFRIC 14. This is because IFRIC 14 requires an entity not to anticipate possible future changes to the benefits provided by the plan, to the workforce, or arising from market-driven events (eg paragraphs 9 and 17 of IFRIC 14).

Interpretations Committee’s discussion and analysis

17. Paragraph 11 of IFRIC 14 states (emphasis added):
- A refund is available to an entity only if the entity has an *unconditional right to a refund*...
18. Paragraph BC12 of IFRIC 14 states (emphasis added):
- Some respondents to D19 [the draft interpretation leading to IFRIC 14] 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.*

19. Some Interpretations Committee members agree with respondents who say that the proposed amendments are inconsistent with existing principles in IFRIC 14. These members disagree with the proposed amendments to paragraph 12 of IFRIC 14. They observe that the asset recognised by an entity is its *right* to a refund of a surplus, and is not the surplus itself. In their view, even if other parties can enhance benefits or wind up a plan without an entity’s consent, those other parties generally cannot extinguish an entity’s right to obtain a refund of any surplus that remains. Accordingly, these members think the powers of other parties to enhance benefits or wind up a plan should not affect the existence of an entity’s unconditional right to a refund of a surplus.

20. However, a majority of the Interpretations Committee agree with the proposed amendments. These members think that, if other parties have the power to enhance benefits without an entity’s consent, the entity does not have an unconditional right to a refund of a surplus. This is because, in such situations, the entity’s right to a refund depends on actions by other parties. In effect, the other parties can prevent an entity from exercising its right to receive a refund by using the surplus to enhance benefits for plan members. Similarly, if other parties can wind up a plan without an entity’s consent, the entity can be restricted from realising economic benefits through a gradual settlement.

21. These members also think that the proposed amendments do not create inconsistencies with paragraphs 9 and 17 of IFRIC 14. This is because:
 - (a) paragraph 9 of IFRIC 14 clarifies that the economic benefit available to an entity does not depend on how the entity intends to use the surplus. Paragraph BC10 explains the rationale for this requirement and clarifies that an entity’s intended use of a surplus does not affect the existence or measurement of the asset at the end of the reporting period. Paragraph 9 of

IFRIC 14 addresses the consequences of an entity's own actions on a surplus, and not the consequences of other parties' powers to enhance benefits or wind-up a plan. Consequently, there is no reason for the amendments to be consistent with paragraph 9 of IFRIC 14.

- (b) paragraph 17 of IFRIC 14 specifies that in determining the economic benefit available in the form of a contribution reduction, an entity assumes no change to the benefits provided by a plan and assumes a stable workforce in the future. The proposed amendments address only how an entity assesses the economic benefit available in the form of a refund, and not those available in the form of a contribution reduction. Similarly, therefore, there is no reason for the amendments to be consistent with paragraph 17 of IFRIC 14.

22. In developing the proposals in the Exposure Draft, the Interpretations Committee and the Board had extensive discussions on this issue. Both bodies concluded that other parties' powers to wind up a plan or enhance benefits without the entity's consent affect the existence of an entity's unconditional right to a refund at the reporting date.
23. At its September 2016 meeting, the Interpretations Committee again concluded that these powers affect the existence of an entity's unconditional right to a refund.

Interpretations Committee's recommendation

24. The Interpretations Committee recommends no change to the proposed amendments to IFRIC 14 in this respect.

Powers affecting plan liabilities and powers affecting plan assets (Issue I-2)

Overview of feedback

25. Some respondents say there is no basis for treating other parties' powers to purchase annuities as plan assets or to make other investment decisions differently from their powers to enhance benefits.

Interpretations Committee's discussion and analysis

26. Some Interpretations Committee members agreed with respondents' concerns, noting that a surplus is affected by changes to both plan assets and plan liabilities. Therefore,

in their view, an entity should treat other parties' powers to affect plan benefits (and thereby change the plan liabilities) and other parties' powers to affect plan assets (by making investment decisions) in the same way. However, for reasons outlined in the following paragraphs, a majority of Interpretations Committee members agreed with the proposed amendments.

27. Paragraph BC4 of the Exposure Draft states that other parties' powers to enhance benefits without an entity's consent restricts the entity's ability to use the surplus to generate future cash inflows to the entity. Paragraph BC6 of the Exposure Draft states:

The IASB concluded that a trustee's power to buy annuities as plan assets or make other investment decisions is different from a trustee's power to use a surplus to enhance benefits or to wind up the plan; the latter two actions result in a change in the benefits for plan members. The IASB concluded that the power to buy annuities as plan assets or make other investment decisions relates to the future amount of plan assets but does not relate to the right to a refund of a surplus. Consequently, the IASB concluded that the power to buy annuities as plan assets or make other investment decisions, on its own, would not prevent the entity from recognising a surplus as an asset...

28. The majority of the Interpretations Committee members think that other parties' powers to enhance benefits without an entity's consent allows the other parties to unilaterally change the level of benefits promised to plan participants. In that case, they concluded that an entity does not have an unconditional right to a refund of a surplus because the existence of the right is affected by actions of a third party. In contrast, other parties' powers to purchase annuities as plan assets or make other investment decisions affect the future amount of plan assets, but do not affect the existence of an entity's unconditional right to a refund.

Interpretations Committee's recommendation

29. The Interpretations Committee recommends no change to the proposed amendments to IFRIC 14 in this respect.

*Powers to wind-up a plan and powers to change the asset mix (Issue I-3)****Overview of feedback***

30. Some respondents say the proposed amendments would lead to different conclusions for situations in which other parties have the power to wind up a plan and situations in which other parties have the power to change the asset mix within a plan. This is because, applying the proposed amendments, when other parties have the power to wind up a plan without an entity's consent, the entity would generally apply paragraph 14 of IFRIC 14. This paragraph requires the entity to anticipate the costs of winding up a plan (such as costs of any insurance premiums that may be required to secure the liability on wind-up) when measuring the surplus. However, an entity does not anticipate any losses that may arise when other parties exercise their powers to purchase annuities or make other investment decisions.

Interpretations Committee's discussion and analysis

31. In both situations described in paragraph 30 above, the Interpretations Committee thinks that the entity continues to have an unconditional right to a refund of a surplus. The amendments simply clarify that, when other parties have the power to wind up a plan without an entity's consent, the entity cannot assume a gradual settlement of plan liabilities over time.
32. In some cases, IAS 19 requires different accounting for routine transactions and other significant events such as plan amendments, curtailments or settlements. For instance, when a plan settlement occurs (ie a payment of benefits not set out in the terms of the plan), IAS 19 requires an entity to recognise a gain or loss for any difference between the estimated and actual benefit payments. However, when an entity makes payments of benefits that are set out in the terms of a plan (a routine settlement), any resulting difference between the estimated and actual benefit payment is an actuarial gain or loss, which is recognised in other comprehensive income.
33. Similarly, the purchase of annuities as plan assets is a routine transaction and IFRIC 14 generally does not allow an entity to anticipate losses resulting from these transactions when it measures its right to a refund. Nonetheless, if an entity assumes a plan wind-up, this would be a significant event. Accordingly, paragraph 14 of IFRIC

14 requires the entity to include the costs of winding up the plan when it measures its right to a refund.

34. The Interpretations Committee acknowledged that the conclusions could be different for situations in which other parties have the power to wind up a plan and situations in which other parties have the power to change the asset mix within a plan. However, any difference does not result from the amendments. Rather, it is a consequence of existing requirements in IAS 19 and IFRIC 14.

Interpretations Committee’s recommendation

35. The Interpretations Committee recommends no change to the proposed amendments to IFRIC 14 in this respect.

Other inconsistencies (Issue I-4)

Events that result from actions of other parties and market-driven events

36. One respondent says that there is no basis for treating events resulting from the actions of other parties differently from events resulting from market fluctuations.
37. The Interpretations Committee thinks it is appropriate to treat events that result from the actions of other parties differently from market-driven events. Paragraph BC10 of IFRIC 14 states the following regarding market-driven events: ‘...the existence of the asset at that date is not affected by possible future changes to the amount of the surplus...’. Market-driven events might affect the amount of the surplus an entity receives in the future, but do not affect the existence of the entity’s right to receive that surplus at the reporting date. However, other parties’ powers to enhance benefits without an entity’s consent mean that the entity does not have an unconditional right to a refund at the reporting date.

Use of control

38. Some respondents say the proposed amendments arise from concerns that existing requirements permit an entity to recognise a surplus that is not controlled by the entity. These respondents think that this rationale is inconsistent with paragraph BC176 of IAS 19, which explains that control is not relevant when assessing plan assets.

39. The Interpretations Committee concluded that it is appropriate for the amendments to IFRIC 14, which address the recognition of a right to a refund, to be based on control. Paragraph BC176 of IAS 19 discusses the relevance of control in determining whether plan assets reduce an entity’s defined benefit obligation, and states that control is not relevant in that context. The recognition of an asset representing a right to a refund of a surplus is different. Paragraph BC12 of IFRIC 14 explains that control is relevant in assessing the availability of a refund, and states that an entity controls the asset only if it has an unconditional right to a refund.

Mixed measurement model

40. Some respondents say that, applying the proposed amendments, a minimum funding requirement in respect of past service costs could give rise to a liability if other parties have the right to enhance benefits or otherwise restrict the entity’s ability to realise the economic benefits of the surplus. These respondents are concerned that the recognition of such a commitment as a liability would result in a mixed measurement basis. This is because an entity recognises an asset or liability applying IAS 19, and would recognise a further liability based on a minimum funding requirement.
41. In addition, some respondents say that introducing a reference to other parties’ powers in IFRIC 14 would be inconsistent with some paragraphs of IAS 19 (such as paragraphs 87 and 88 of IAS 19) that do not require an entity to consider such powers in the measurement of the net defined benefit liability (asset).
42. Paragraph 24 of IFRIC 14 requires an entity to recognise a liability for a minimum funding requirement to the extent that the contributions payable will not be available as a refund or reduction in future contributions after they are paid into the plan. This liability reduces the net defined benefit asset or increases the net defined benefit liability. The proposed amendments do not change this requirement, but simply clarify the application of the asset ceiling requirements in particular situations. Accordingly, the Interpretations Committee concluded that the ‘mixed measurement’ referred to by respondents would not be a consequence of the amendments, but is a consequence of existing requirements in IAS 19 and IFRIC 14.
43. In developing the proposed amendments, the Board noted that the factors affecting the application of the asset ceiling requirements are different from the factors affecting

the measurement of a net defined benefit liability (asset). Paragraphs 87–88 of IAS 19 (and other paragraphs in IAS 19 identified by respondents) relate to the measurement of the net defined benefit liability (asset), and not to the application of the asset ceiling requirements. The amendments to IFRIC 14 clarify only the application of the asset ceiling requirements; they do not relate to the measurement of the net defined benefit liability (asset). Consequently, the Interpretations Committee sees no reason for the amendments to include the same requirements as in paragraphs 87–88 of IAS 19.

Interpretations Committee’s recommendation

44. The Interpretations Committee recommends no change to the proposed amendments to IFRIC 14 in this respect.

Question 1 for the Board

Does the Board agree with the Interpretations Committee’s recommendation not to change the proposed amendments to IFRIC 14 in respect of Issues I–1—Issues I–4?

Issue II—The economic substance of defined benefit plans

Overview of feedback

45. Some respondents say that the application of the proposed amendments would not reflect the economic substance of defined benefit plans. In particular, these respondents say:
- (a) *the proposed amendments are too prescriptive and do not permit an entity to exercise its own judgement (Issue II–1)—some respondents say IFRIC 14 allows an entity to apply judgement in assessing whether it has an unconditional right to a refund, and the exercise of this judgement is necessary because of the specific terms and conditions of each defined benefit plan.*
 - (b) *an entity would consider other parties’ powers only when the power is substantive or more likely than not to be exercised (Issue II–2)—Some*

respondents say the mere existence of other parties' powers to wind up a plan or to affect the benefits for plan members should not be sufficient to reduce or eliminate any surplus. They say considering theoretical powers would not faithfully represent the economic substance of defined benefit plans. Some of these respondents suggest that, in assessing other parties' powers, an entity should consider the probability of exercise of these powers.

- (c) *the proposed restrictions on the right to a refund may not be relevant given the practical reality of how decisions are made (Issue II-3)*—Some respondents say, in practice, many of the other parties' powers are contingent on future events outside their control (eg regulatory approval, regulatory deficit/surplus, bankruptcy of the employer sponsor). In such cases, applying the proposed amendments to IFRIC 14, other parties would not be deemed to have the power to wind up the plan or enhance the benefits, and an entity would be able to recognise any surplus as an asset. Consequently, these respondents say that the proposed restrictions on the right to a refund are likely to be meaningless for many defined benefit plans.

Interpretations Committee's discussion and analysis

46. The Interpretations Committee thinks the proposed amendments are not overly prescriptive (Issue II-1). It agrees that defined benefit plans can be complex, and an entity needs to assess the specific terms and conditions of each defined benefit plan to determine the application of the asset ceiling requirements. The proposed amendments clarify the application of the asset ceiling requirements when other parties have particular powers (such as the power to wind up a plan, or to enhance benefits without an entity's consent). These proposed amendments were developed to improve financial reporting through the elimination, or reduction, of diverse reporting methods (see paragraph 51(a) of this paper for further information).
47. With respect to Issue II-2, the Interpretations Committee thinks that considering the probability that other parties will exercise their powers is not relevant when assessing whether an entity has an unconditional right to a refund of a surplus.

48. Paragraph BC10 of IFRIC 14 states:
- ...The IFRIC noted that the existence of an asset at the end of the reporting period balance sheet date depends on whether the entity has the right to obtain a refund or reduction in future contributions...
49. When applying the asset ceiling requirements, an entity first assesses whether it has an unconditional right to a refund of a surplus. If this right exists, the entity then measures the economic benefit available as a refund.
50. The amendments would clarify how an entity assesses whether it has an unconditional right to a refund in particular situations; they do not change the principles underlying this assessment. Accordingly, it would not be appropriate for an entity to consider the probability or likelihood that other parties would exercise their powers when the entity assesses whether it has an unconditional right to a refund of a surplus.
51. With respect to Issue II–3, the Interpretations Committee thinks that the amendments are relevant given the practical reality of how decisions are made. This is because:
- (a) the amendments were developed in response to a submission to the Interpretations Committee. The submission said that the situations addressed in the amendments arise frequently in jurisdictions that require the appointment of an independent trustee. Consultation with the International Forum of Accounting Standard-Setters, regulators and employee benefit specialists confirmed that the situations described in the submission exist in some jurisdictions, such as the UK. It also confirmed that there is some diversity in applying the asset ceiling requirements to these situations.
 - (b) contrary to the views of some respondents, the Interpretations Committee thinks that the amendments are helpful in situations in which other parties' powers are dependent on the occurrence or non-occurrence of uncertain future events not wholly within the other parties' control. This is because the amendments clarify that, in those situations, such powers would not be taken into consideration when applying the asset ceiling requirements.

Interpretations Committee's recommendation

52. The Interpretations Committee recommends no change to the proposed amendments to IFRIC 14 in this respect.

Question 2 for the Board

Does the Board agree with the Interpretations Committee's recommendation not to change the proposed amendments to IFRIC 14 in respect of Issues II-1—Issues II-3?

Issue III—Purchase of annuities as part of a plan wind up or as part of plan assets***Overview of feedback***

53. Proposed paragraph 12C of IFRIC 14 states that other parties' powers to purchase annuities as plan assets do not affect the availability of a refund. Some respondents say it is unclear how to distinguish the power that other parties might have to purchase annuities to settle liabilities (ie a plan buy-out) from the power to purchase annuities as plan assets.
54. We also understand from informal discussions with some employee-benefit specialists that, in some cases, a plan buy-out can precede the legal wind-up of that plan. Respondents say it is unclear whether the wording in proposed paragraph 12A of IFRIC 14 was intended to apply only to other parties' powers to legally wind-up a plan, or also to other parties' powers to buy-out a plan. In some situations, trustees might have the unilateral power to buy-out a plan, but a decision on legally winding-up a plan might require joint consensus of the trustees and the employer/plan sponsor.

Interpretations Committee's discussion and analysis

55. The Interpretations Committee agrees with respondents' concerns and suggests that the wording of the amendments distinguish other parties' powers to buy-out a plan from their powers to purchase annuities as plan assets.

56. Proposed paragraph 12C of IFRIC 14 states:
- Other parties' power to buy annuities as plan assets or make other investment decisions without affecting the benefits for plan members shall not affect the availability of a refund.
57. Proposed paragraph 12C of IFRIC 14 is intended to cover situations in which other parties have the power to purchase annuities as plan assets and not as part of settling the plan liabilities.
58. Proposed paragraph 12A of IFRIC 14 states:
- An entity does not have an unconditional right to a refund of a surplus on the basis of assuming the gradual settlement described in paragraph 11(b) if other parties (for example, the plan trustees) can wind up the plan without the entity's consent.
59. Proposed paragraph 12A of IFRIC 14 was intended to apply to situations in which other parties have the unilateral power to use a plan's surplus to settle in full the plan's liabilities in a single event. It is the other parties' powers to settle in full the plan liabilities in a single event that can effectively prevent an entity from obtaining a refund of a surplus through the gradual settlement described in paragraph 11(b) of IFRIC 14.
60. Further, paragraph 6(b) of [Agenda Paper 14](#) from the Interpretations Committee's meeting in May 2014 states that 'winding up a plan means using the plan's assets to purchase annuities for the remaining members...' This is also consistent with paragraph 11(c) of IFRIC 14 which states:
- ...assuming the full settlement of the plan liabilities in a single event (ie as a plan wind-up)...
61. Paragraph 8 of IAS 19 defines a settlement as:
- ... a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

62. This defined term in IAS 19 is well understood in practice. Accordingly, the Interpretations Committee thinks the Board can clarify the intention and scope of proposed paragraph 12A of IFRIC 14 by using wording that is consistent with paragraph 11(c) of IFRIC 14. This paragraph notes that a wind up is a ‘full settlement of the plan liabilities in a single event’. Accordingly, the Interpretations Committee recommends amending proposed paragraph 12A of IFRIC 14 to refer to other parties’ powers to use a surplus to settle in full the plan liabilities in a single event (ie a wind up), rather than referring to other parties’ powers to wind-up a plan.

Interpretations Committee’s recommendation

63. The Interpretations Committee recommends amending the wording in proposed paragraph 12A of IFRIC 14 to refer to other parties’ powers to use a surplus to settle in full the plan liabilities in a single event, rather than referring to their powers to wind-up a plan.

Question 3 for the Board

Does the Board agree with the Interpretations Committee’s recommendation outlined in paragraph 63 above in respect of Issue III?

Issue IV—Other substantive issues

An entity’s right to a refund if decisions must be made jointly between the entity and other parties

64. Some respondents say, in practice, an entity and other parties jointly make decisions about defined benefit plans. These respondents request that the Board address whether the proposed amendments would also apply to such situations.
65. In situations in which an entity makes decisions jointly with another party (such as the plan trustee), the Interpretations Committee thinks it is clear that the entity does not have an unconditional right to a refund of a surplus. This is because the entity’s right is affected by decisions of the other party. Accordingly, the Interpretations Committee concluded that a clarification or an amendment to IFRIC 14 is not required to address situations in which an entity makes decisions jointly with another party.

How the proposals affect the economic benefit available as a reduction in future contributions

- 66. An economic benefit may be available in the form of a refund or reductions in future contributions, or a combination of both. One respondent says the proposed amendments do not clarify how other parties’ powers affect the availability of an economic benefit in the form of a reduction in future contributions.

- 67. The amendments clarify how an entity assesses the availability of a refund of a surplus in particular situations. The Interpretations Committee noted that the principles underlying how an entity assesses the economic benefit available in the form of a refund are different from those underlying how an entity assesses the economic benefit available in the form of a reduction in future contributions. An entity is required to have an unconditional right to a refund of a surplus. However, this does not apply in assessing the economic benefit available in the form of a reduction in future contributions. The Interpretations Committee is also not aware of any application issues in assessing the economic benefit available in the form of a reduction in future contributions.

Interpretations Committee’s recommendation

- 68. The Interpretations Committee recommends no change to the proposed amendments to IFRIC 14 in this respect.

Question 4 for the Board

Does the Board agree with the Interpretations Committee’s recommendation not to change the proposed amendments to IFRIC 14 in respect of Issue IV?

Other issues identified by respondents

69. Some respondents raised other concerns regarding the proposed amendments to IFRIC 14. Appendix A to this paper summarises these other concerns, together with the staff analysis and recommendations that was presented to the Interpretations Committee at its meeting in September 2016. The Interpretations Committee agreed with the staff recommendations in Appendix A.

Question 4 for the Board

Does the Board agree with the Interpretations Committee's recommendations on the other issues outlined in Appendix A to this paper?

Appendix A

Other issues identified by respondents

Q1—Accounting when other parties can wind up a plan or affect benefits for plan members without an entity’s consent

Issue	Staff analysis and recommendation
<i>Definition of the term ‘power’ and how an entity assesses other parties’ powers</i>	
<p>One respondent requests that the Board define the term ‘power’ as used in proposed paragraphs 12A–12C of IFRIC 14.</p> <p>Some respondents also request that the Board clarify how an entity assesses other parties’ powers to affect the benefits without the entity’s consent (eg based on legal requirements, the plan’s deed or legislation). These respondents think that such clarifications would help direct entities on how to look for such rights and would reinforce that these rights need to be substantive.</p>	<p>The term ‘power’ is not used in IAS 19 or IFRIC 14. Appendix A of IFRS 10 <i>Consolidated Financial Statements</i> defines power as ‘existing rights that give the current ability to direct the relevant activities’. However, the term is used in a different context in IFRS 10 and therefore we think it would be inappropriate to apply the IFRS 10 definition in the proposed amendments.</p> <p>We suggest replacing the term ‘power’ with ‘right’. This (ie ‘right’) is a term that is already used in IFRIC 14 (paragraph 11 of IFRIC 14 requires an entity to assess if it has an unconditional right to a refund). We also think the use of the term ‘right’ would clarify that in situations in which other parties have a particular right (such as the right to enhance benefits without an entity’s consent), the entity would not have an unconditional right to a refund of a surplus.</p>

<i>How an entity distinguishes between the existence of a right to a refund of a surplus and the measurement of the refund asset</i>	
<p>Some respondents request that the Board clarify the distinction between the existence of a right to a refund (recognition) and the measurement of the refund asset.</p> <p>These respondents say that proposed paragraph 12B of IFRIC 14 relates to the effect of other parties' powers on the measurement (rather than the existence) of the refund, whereas proposed paragraphs 12A and 12C of IFRIC 14 relate to the existence of an entity's right to a refund.</p> <p>See paragraph A5 of Agenda Paper 3D [of the Interpretations Committees September 2016 meeting] for further information.</p>	<p>We agree that the wording of proposed paragraph 12B of IFRIC 14, as currently drafted, could be read as relating to the effect of other parties' powers on the measurement (rather than the existence) of the right to a refund.</p> <p>However, paragraph BC4 of the Exposure Draft states (emphasis added):</p> <p style="padding-left: 40px;">The IASB observed that the amount of the surplus that the entity <i>recognises</i> as an asset on the basis of a future refund should not include amounts that other parties can use for other purposes that change the benefits for plan members...</p> <p>We recommend changing the wording of proposed paragraph 12B of IFRIC 14 to clarify that other parties' powers to use a surplus (or a portion of the surplus) to affect benefits for plan members would preclude an entity from recognising the surplus (or that portion) as an asset.</p>
<i>The lack of reference in proposed paragraph 12A of IFRIC 14 to an entity's right to a refund during the life of the plan</i>	
<p>Proposed paragraph 12A of IFRIC 14 specifies that an entity does not have an unconditional right to a refund by assuming gradual settlement of the plan liabilities over time if other parties can wind up the plan. One respondent questions why a similar restriction does not apply to an unconditional right to a refund during the life of the plan.</p>	<p>This issue was discussed at the Interpretations Committee's meeting in September 2014. Agenda Paper 5 of that meeting explains the rationale:</p> <p style="padding-left: 40px;">If an entity has an unconditional right in the case of paragraph 11(a) of IFRIC 14 [ie during the life of a plan], 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.</p> <p>We recommend including this rationale in the Basis for Conclusions.</p>

<i>Other request for clarification</i>	
Some respondents request that the Board clarify who is included in ‘other parties’ in addition to the trustees of the plan.	When drafting the final amendments, we will consider including examples of other parties that an entity might consider (such as the government and a regulator) in assessing its right to a refund.
Some respondents suggest that the Board provide examples to clarify the application of the proposed amendments	The application of the proposed amendments depends on the rights that other parties have in a defined benefit plan. We think examples would not be useful given the complexities and nuances of each defined benefit plan.
<i>Other editorial suggestions</i>	
<p>Some respondents suggest a number of editorial changes to the draft amendments to make the requirements easier to understand.</p> <p>Some respondents specifically suggest amending proposed paragraph 12C of IFRIC 14 to focus on the principle that the power to make investment decisions does not affect the availability of a refund.</p> <p>See paragraphs A7-A9 of Agenda Paper 3D [of the Interpretations Committee’s September 201 meeting] for further information.</p>	<p>We will consider all editorial suggestions when drafting the final amendments. In particular, we agree with the suggestion to amend the wording of proposed paragraph 12C to focus on the principle that the power to make investment decisions does not affect the availability of a refund. We will clarify this when drafting the final amendments.</p>

Q2—Statutory requirements that an entity considers in determining the economic benefit available to the entity

Issue	Staff analysis and recommendation
<i>Potential inconsistencies between the proposed amendments to paragraph 7 of IFRIC 14 and other requirements</i>	
<p>Some respondents say the proposed amendments to paragraph 7 of IFRIC 14 may be inconsistent with paragraph 21 of IFRIC 14 and/or paragraph 88 of IAS 19.</p> <p><i>Consistency with paragraph 88 of IAS 19</i></p> <p>Some respondents say that one purpose of the proposed amendment to paragraph 7 of IFRIC 14 is to achieve consistency with the requirements of paragraph 88 of IAS 19. These respondents recommend that the Board amend paragraph 88 of IAS 19 and align the wording with the proposed amendments to paragraph 7 of IFRIC 14 (ie by adding the phrase ‘that are substantively enacted’). These respondents say that doing so would clarify that actuarial assumptions reflect future benefit changes that are enacted, or substantively enacted, at the end of the reporting period.</p> <p><i>Consistency with paragraph 21 of IFRIC 14</i></p> <p>One respondent says that paragraph 21 of IFRIC 14 might be interpreted as excluding ‘constructive obligations’ because the last</p>	<p><i>Consistency with paragraph 88 of IAS 19</i></p> <p>Paragraph 88 of IAS 19 states:</p> <p style="padding-left: 40px;">Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:</p> <ul style="list-style-type: none"> (a) the entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future; (b) the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 108(c)); or (c) benefits vary in response to a performance target or other criteria. <p>For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.</p> <p>Paragraph BC8 of the Exposure Draft states (<i>emphasis added</i>):</p> <p style="padding-left: 40px;">The IASB also noted that, when an entity’s <i>legal or constructive obligation</i> to enhance benefits has arisen in accordance with paragraph 61 of IAS 19 <i>Employee Benefits</i>, the entity should reflect this obligation in the measurement of the defined benefit obligation, in accordance with</p>

<p>sentence says ‘...the estimate shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed...’ Consequently, the respondent recommends that the Board consider amending paragraph 21 of IFRIC 14 to prevent any contradiction with the proposed amendments to paragraph 7 of IFRIC 14, which requires an entity to consider constructive obligations.</p> <p>Another respondent comments that paragraph 21 of IFRIC 14 appears to cover only ‘agreements’ on minimum funding because the last sentence of this paragraph states that ‘...terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed ...’ That respondent questions why the paragraph does not refer to ‘statutory requirements’.</p>	<p>paragraph 88 of IAS 19. The IASB concluded that no amendment to IAS 19 was needed in respect of this matter. However, it proposed an amendment to paragraph 7 of IFRIC 14 to clarify the conclusions.</p> <p>One of the purposes of the proposed amendments to paragraph 7 of IFRIC 14 was to achieve consistency with the requirements of paragraph 88 of IAS 19 for an entity’s legal or constructive obligation to enhance benefits. However, as explained in paragraph BC7 of the Exposure Draft, the phrase ‘substantively enacted’ in the proposed amendments to paragraph 7 of IFRIC 14 is intended to refer to statutory requirements (ie regulations or tax requirements) and not to legal and constructive obligations.</p> <p>Accordingly, we think the proposed amendments to paragraph 7 of IFRIC 14 are consistent with paragraph 88 of IAS 19. We recommend no change to paragraph 88 of IAS 19 in this respect.</p> <p><i>Consistency with paragraph 21 of IFRIC 14</i></p> <p>Paragraph 21 of IFRIC 14 contains requirements that enable an entity to estimate the future minimum funding requirement contributions for future service. It states:</p> <p style="padding-left: 40px;">...The estimate shall include any changes expected as a result of the entity paying the minimum contributions when they are due. However, the estimate shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed at the end of the reporting period.</p> <p>Paragraph 5 of IFRIC 14 states (emphasis added):</p> <p style="padding-left: 40px;">For the purpose of this Interpretation, minimum funding requirements are <i>any requirements</i> to fund a post-employment or other long-term defined benefit plan.</p> <p>We think paragraph 5 of IFRIC 14 requires an entity to consider constructive obligations that give rise to future minimum funding requirement contributions. We think the wording in paragraph 21 of IFRIC 14 does not imply that an entity excludes minimum funding contribution requirements arising from constructive obligations. We recommend no change</p>
--	--

to paragraph 21 of IFRIC 14 in this respect.

We agree that paragraph 21 of IFRIC 14 does not refer to statutory requirements. Accordingly, we understand how the wording in paragraph 21 of IFRIC 14 might be read to imply that an entity takes into account any terms and conditions of a plan that are substantively enacted, in addition to those terms and conditions of the plan that are contractually agreed at the end of the reporting period.

Paragraph BC30 of IFRIC 14 states:

The IFRIC noted that future changes to regulations on minimum funding requirements might affect the available surplus. However, the IFRIC decided that, just as the future service cost was determined on the basis of the situation existing at the end of the reporting period, so should the effect of a minimum funding requirement.

We think the Board intended an entity to take into account the effect of regulations in estimating future minimum funding requirement contributions. We recommend amending paragraph 21 of IFRIC 14 to clarify that an entity's estimate of its future minimum funding requirement contribution does not include the effect of expected changes in:

- (a) the terms and conditions of the minimum funding basis that are not contractually agreed at the end of the reporting period; and
- (b) statutory requirements that are not enacted or substantively enacted at the end of the reporting period.

<i>Clarification of the meaning of ‘substantively enacted’</i>	
<p>Some respondents request that the Board clarify the meaning of ‘substantively enacted’, and whether the phrase applies only to ‘statutory requirements’ or also to the contractual terms and conditions of a plan.</p> <p>See paragraphs A16-A18 of Agenda Paper 3D [of the Interpretations Committee’s September 2016 meeting] for further information.</p>	<p>Paragraph BC7 of the Exposure Draft states:</p> <p style="padding-left: 40px;">The IASB noted that the concept of ‘substantively enacted’ is used in paragraph 21 of IFRIC 14. It also noted that IAS 12 <i>Income Taxes</i> uses a similar concept.</p> <p>Because this concept is already used in IFRIC 14 and IAS 12 and we are not aware of any particular application issues related to its use, we recommend no change in this respect.</p> <p>We will clarify that the phrase ‘substantively enacted’ applies only to statutory requirements, and does not apply to the contractual terms and conditions of a plan.</p>
<i>Other clarifications</i>	
<p>One respondent says that in many cases in which an entity is required to make minimum contributions, there is a requirement to reassess (through a negotiation) these contributions at specified points in time. This respondent suggests that the Board clarify that in determining any onerous obligation, an entity considers only the statutory requirements up to the point at which the minimum contribution requirements are reassessed.</p>	<p>We think a clarification is not needed. In 2015, the Interpretations Committee discussed a similar issue and concluded that the requirements in IFRS Standards are sufficient to enable an entity to determine the appropriate accounting in a similar case (see agenda decision included in the July 2015 IFRIC Update). Accordingly, the Interpretations Committee decided not to add this issue to its agenda.</p> <p>In particular, the agenda decision states that:</p> <p style="padding-left: 40px;">...when the entity estimates the future minimum funding requirement contributions, it should (i) include the amounts in the schedule of contributions for the fixed period specified by the schedule; and (ii) beyond that period, make an estimate that assumes a continuation of those factors establishing the minimum funding basis...</p>

<p>One respondent says that the proposed deletion of ‘in the jurisdiction of the plan’ in relation to the consideration of ‘statutory requirements’ in paragraph 7 of IFRIC 14 has the potential to create confusion as to which ‘substantively enacted statutory requirements’ an entity is required to consider.</p>	<p>We think that an entity considers relevant statutory requirements that are enacted or substantively enacted. We think the phrase ‘in the jurisdiction of the plan’ is not required and continue to support the proposed deletion of this phrase.</p>
<p>Some respondents suggest that the Board clarify that an entity cannot recognise an asset based on constructive obligations, but that such obligations can prevent the recognition of an asset or a larger asset. This is because a future contribution requirement may reduce the extent to which the entity can benefit from a reduction in future contributions. In addition, one respondent suggests adding a cross-reference to paragraph 61 of IAS 19 to clarify what constitutes a ‘constructive obligation’.</p>	<p>Paragraph BC8 of the Exposure Draft already refers to paragraph 61 of IAS 19 and we do not think a further cross-reference is necessary.</p>

Appendix B

Extract from the Exposure Draft: Proposed amendments to paragraph 12 of IFRIC 14

[Draft] Amendments to IFRIC 14 IAS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Paragraphs 12A–12C are added. Paragraphs 9 and 11–15 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.

...

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 (eg in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or
 - 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.

12A An entity does not have an unconditional right to a refund of a surplus on the basis of assuming the gradual settlement described in paragraph 11(b) if other parties (for example, the plan trustees) can wind up the plan without the entity's consent. Other parties do not have the power to wind up the plan without the entity's consent, if the power is dependent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the other parties' control.

12B The amount of the surplus that the entity recognises as an asset on the basis of a future refund shall not include amounts that other parties can use for other purposes that

affect the benefits for plan members, for example, by enhancing those benefits, without the entity's consent. Other parties do not have the power to affect the benefits for plan members without the entity's consent, if the power is dependent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the other parties' control.

12C Other parties' power to buy annuities as plan assets or make other investment decisions without affecting the benefits for plan members shall not affect the availability of a refund.

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.
- 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.

...