

STAFF PAPER

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IFRS® Interpretations Committee Meeting

Project	Exposure Draft of proposed amendments to IAS 19 and IFRIC 14		
Paper topic	Analysis of feedback on proposed amendments to IFRIC 14		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (the Interpretations Committee). Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Interpretations Committee or the International Accounting Standards Board (the Board) can make such a determination. Decisions made by the Interpretations Committee are reported in IFRIC® *Update*. The approval of a final Interpretation by the Board is reported in IASB® *Update*.

Purpose

1. This paper analyses the feedback 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 ED).
2. In particular, this paper analyses the feedback 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 ED (Q1)); and
 - (b) the statutory requirements that an entity considers in determining the economic benefit available to the entity (Question 2 of the ED (Q2)).

Structure of the paper

3. This paper is structured as follows:
 - (a) summary of staff recommendations;

- (b) summary of the proposed amendments to IFRIC 14;
- (c) the main issues identified by respondents; and
- (d) Appendix A—analysis of other issues.

Summary of staff recommendations

4. We recommend that the Interpretations Committee recommend to the Board that the Board finalises the proposed amendments to IFRIC 14 subject to 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) if other parties (for example, the plan trustees) can wind up the plan without the entity’s consent, an entity does not have an unconditional right to a refund of a surplus on the basis of assuming the gradual settlement of the plan liabilities described in paragraph 11(b) of IFRIC 14 (proposed paragraph 12A of IFRIC 14);
 - (b) the surplus that the entity recognises as an asset on the basis of a future refund does not include amounts that other parties can use for other purposes without the entity’s consent (proposed paragraph 12B of IFRIC 14); and
 - (c) other parties’ power to buy annuities as plan assets or make other investment decisions without affecting the benefits for plan members does not affect the availability of a refund (proposed paragraph 12C of IFRIC 14).
6. The proposed amendments would also clarify that other parties do not have the power to wind up the plan, or to affect the benefits for plan members, without an 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.

7. Appendix B of Agenda Paper 3D includes the proposed amendments to paragraph 12 of IFRIC 14 together with the Basis for Conclusions, which summarises the rationale for these proposed amendments.

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 a reduction in future contributions, the entity takes into account the statutory requirements that are 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 an entity's legal or constructive obligation to enhance benefits arises, the entity reflects this obligation in the measurement of the defined benefit obligation applying IAS 19 *Employee Benefits*.

The main issues identified by respondents

10. As outlined in Agenda Paper 3D of this meeting, the main issues identified by respondents relate to Q1 of the ED (ie the proposed amendments that would clarify the accounting 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 of the ED.
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 the 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 existing principles in IAS 19 and IFRIC 14 (Issue I)—see paragraphs 14–50 of this paper;
 - (b) reflection of the economic substance of defined benefit plans (Issue II)—see paragraphs 51–59 of this paper; and
 - (c) other substantive issues (Issue III)—see paragraphs 60–80 of this paper.

Issue I—Potential inconsistencies with existing 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. In particular, these respondents identify the following:
 - (a) the effect of uncertain future events as a result of decisions by other parties on the existence of a right to a refund (Issue I-1);
 - (b) inconsistent treatment of events that could affect the surplus (Issue I-2);
 - (c) appropriateness of the use of control (Issue I-3);
 - (d) mixed measurement basis (Issue I-4); and
 - (e) inconsistency between the proposed amendments and the measurement of the defined benefit obligation (Issue I-5).

15. Each of these issues is discussed in more detail below.

The effect of uncertain future events as a result of decisions by other parties on the existence of a right to a refund (Issue I–1)

Overview of feedback

16. Some respondents say the possibility that a surplus could be extinguished by uncertain future events as a result of decisions by other parties is not relevant in assessing the existence of an entity’s unconditional right to a refund of the surplus at the reporting date. These respondents say the proposed amendments are inconsistent with IFRIC 14. This is because IFRIC 14 requires an entity not to anticipate increases or improvements in the benefits provided by the plan (for example, paragraph BC10 and paragraph 17 of IFRIC 14) and to assume a stable workforce (for example, paragraph 17 of IFRIC 14).
17. See paragraphs 23–24 of Agenda Paper 3D for further details on the feedback on Issue I–1.

Staff analysis

Are other parties’ powers relevant when an entity assesses the existence of its right to a refund of a surplus?

18. 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...*
19. 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.*

20. In our view, if other parties have the power to wind up a plan or to enhance benefits without the entity’s consent, the entity does not have an unconditional right to a refund of the surplus. In such situations, the entity’s right to a refund depends on actions by other parties (ie exercise of their powers). Accordingly, we think that considering these powers is relevant in assessing the *existence* of an entity’s unconditional right to a refund at the reporting date.
21. In developing the proposals in the ED, the Interpretations Committee and the Board had extensive discussions on this issue. They concluded that other parties’ powers to wind up a plan or enhance benefits without the entity’s consent are relevant in assessing the existence of an entity’s unconditional right to a refund at the reporting date.

Are the proposed amendments inconsistent with paragraph BC10 and paragraph 17 of IFRIC 14?

22. We think that there is no inconsistency between the proposed amendments and paragraph BC10 and paragraph 17 of IFRIC 14.

Consistency with paragraph BC10

23. Paragraph BC10 explains the rationale for the requirements in paragraph 9 of IFRIC 14. Paragraph 9 of IFRIC 14 states (emphasis added):

The economic benefit available does not depend on how the *entity intends to use* the surplus.

24. Paragraph BC10 of IFRIC 14 states (emphasis added):

...The existence of the asset at that date is not affected by possible future changes to the amount of the surplus. If future events occur that change the amount of the surplus, their effects are recognised when they occur. Accordingly, if the *entity decides* to improve benefits, or future losses in the plan reduce the surplus, the consequences are recognised when the decision is made or the losses occur. The IFRIC noted that such events of future periods do not affect the existence or measurement of the asset at the end of the reporting period balance sheet date.

25. Paragraph 9 and paragraph BC10 of IFRIC 14 do not address the consequences of other parties' powers to wind up a plan or enhance benefits. These paragraphs address the consequences of the *entity's* own intentions about how it will use a surplus (and the effect of other market-driven events on the amount of a surplus).
26. In developing the proposals in the ED, the Interpretations Committee and the Board discussed this issue (ie consistency with paragraph BC10 of IFRIC 14). They concluded that the proposed amendments are not inconsistent with paragraph BC10 of IFRIC 14. Paragraph BC3 of the ED states:

The IASB noted that paragraph BC10 of IFRIC 14 had not addressed the circumstances in which trustees have such a power.

Consistency with paragraph 17

27. Paragraph 17 of IFRIC 14 contains requirements that enable an entity to determine the economic benefit available in the form of a contribution reduction. Paragraph 17 of IFRIC 14 states:

...an entity shall assume no change to the benefits to be provided by a plan in the future until the plan is amended and shall assume a stable workforce in the future unless the entity makes a reduction in the number of employees covered by the plan. In the latter case, the assumption about the future workforce shall include the reduction.

28. As explained in paragraph BC2 of the ED, the proposed amendments address only how an entity assesses the economic benefit available in the form of a refund and do not address how an entity assesses the economic benefit available in the form of a contribution reduction. Accordingly, we think the requirements of paragraph 17 of IFRIC 14 are not relevant in considering the proposed amendments. Consideration of the effect of the powers held by other parties on the assessment of the economic benefit available in the form of a contribution reduction is discussed further in paragraphs 76–80 of this paper.

Staff recommendation

29. On the basis of our analysis, we recommend no change to the proposed amendments to IFRIC 14 in this respect.

Inconsistent treatment of events that could affect the surplus (Issue I–2)

Overview of feedback

30. Some respondents say there is no conceptual justification for treating other parties’ powers to purchase annuities as plan assets or to make other investment decisions differently from their powers to enhance benefits. In addition, one respondent also says that there is no conceptual justification for treating events resulting from the actions of other parties differently from events resulting from market fluctuations.
31. See paragraphs 25–27 of Agenda Paper 3D for further details on the feedback on Issue I–2.

Staff analysis

32. Paragraph BC4 of the ED states that other parties’ powers to enhance benefits without an entity’s consent restricts that entity’s ability to use the surplus to generate future cash inflows to the entity. When developing the proposed amendments in the ED, the Interpretations Committee and the Board considered whether other parties’ powers to purchase annuities as plan assets or make other investment decisions similarly restricts the entity’s ability to use the surplus to generate future cash inflows to the entity. Paragraph BC6 of the ED 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...

33. Notwithstanding the concerns raised by respondents, for the reasons outlined in paragraph 32 of this paper, we think the conclusions reached by the Interpretations Committee and the Board when developing the proposed amendments are appropriate.
34. Other parties' powers to enhance benefits without the entity's consent allow the other parties to unilaterally change the level of benefits promised to plan participants. In our view, this means that an entity does not have an unconditional right to a refund because this right is affected by actions of a third party (ie other parties changing benefits unilaterally). In contrast, other parties' powers to purchase annuities as plan assets or make other investment decisions without affecting the benefits for plan members affects the future *amount* of plan assets but do not affect the *existence* of an entity's unconditional right to a refund.
35. We also think that 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 that '...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 refund 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.

Staff recommendation

36. On the basis of our analysis, we recommend no change to the proposed amendments to IFRIC 14 in this respect.

Appropriateness of the use of control (Issue 1–3)

Overview of feedback

37. 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 and that, therefore, does not meet the definition of an asset in the *Conceptual Framework*. These respondents think that this reasoning would be inconsistent with

paragraph BC176 of IAS 19, which explains that control is not relevant when assessing plan assets.

38. In contrast, another respondent suggests that the Board consider introducing a control principle to help an entity assess the availability of a refund. This respondent says that such a principle could assist in interpreting a broad range of complex contractual terms and conditions.

Staff analysis

39. Paragraph BC176 of IAS 19 discusses control by an entity of plan assets. It states:
- ...IASB concluded that control is not relevant in determining whether the assets in a fund reduce an entity's own obligation.
40. An entity's assessment of the relevance of control of plan assets is different from its assessment of the right to a refund of a surplus in IFRIC 14. An entity's assessment of the right to a refund of the surplus is based on a control principle. Paragraph BC12 of IFRIC 14 explains how the control principle applies when an entity assesses the availability of a refund and states (emphasis added):
- ...The IFRIC concluded that an entity *controlled* the asset only if the entity has an unconditional right to the refund...
41. Accordingly, we think it is appropriate for the proposed amendments to IFRIC 14 to be based on the control principle, notwithstanding paragraph BC176 of IAS 19. Further, we think that the Board should not introduce a new control principle to help an entity assess the availability of a refund of a surplus. This is because the requirement in IFRIC 14 for an entity to assess whether it has an 'unconditional right to a refund' is already based on a control principle as outlined in paragraph 40 above.

Staff recommendation

42. On the basis of our analysis, we recommend no change to the proposed amendments to IFRIC 14 in this respect.

Mixed measurement basis (Issue I–4)

Overview of feedback

43. 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 unilateral 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 would recognise an asset or a liability applying IAS 19 and recognise a further liability based on a minimum funding requirement. These respondents think that this is inconsistent with the approach otherwise required by IAS 19.

Staff analysis

44. We do not agree that the proposed amendments cause a ‘mixed measurement basis’. 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 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 ‘mixed measurement’ referred to by respondents would not be a consequence of the proposed amendments, but is a consequence of existing requirements in IAS 19 and IFRIC 14.

Staff recommendation

45. On the basis of our analysis, we recommend no change to the proposed amendments to IFRIC 14 in this respect.

Inconsistency between the proposed amendments and the measurement of the defined benefit obligation (Issue I–5)

Overview of feedback

46. Some respondents say that introducing a reference to other parties’ powers in IFRIC 14 would be inconsistent with paragraphs 87–88 of IAS 19. These paragraphs do not

require an entity to consider such powers in the measurement of the net defined benefit obligation. Similarly, some respondents have also identified other paragraphs in IAS 19 for determining the surplus (deficit) of a defined benefit plan. They question the consistency of the proposed amendments with those paragraphs. See paragraph 31 of Agenda Paper 3D for further details on the feedback on this issue.

Staff analysis

47. In developing the proposed amendments, the Board concluded that the application of the asset ceiling requirements is separate from the determination of the plan surplus (deficit). Paragraph BC10 of the ED states:

The IASB also analysed the consistency between these conclusions and the requirements of IAS 19. It noted that there would be no conflict, because the application of the asset ceiling requirement is separate from the determination of a surplus (deficit)...

48. Accordingly, the factors affecting the application of the asset ceiling requirements are also different from the factors affecting the determination of a plan surplus (deficit). Paragraphs 87–88 of IAS 19 (and other paragraphs identified by respondents to the ED) relate to the measurement of plan liabilities and not to the application of the asset ceiling requirements in IFRIC 14. For example, an entity applies paragraphs 87 and 88 of IAS 19 when determining the actuarial assumptions it uses in measuring its defined benefit obligation. These paragraphs are not relevant when that entity assesses the asset ceiling requirements applying IFRIC 14.
49. The proposed amendments to IFRIC 14 clarify only the application of the asset ceiling requirements; they do not relate to the determination of a plan surplus (deficit). Consequently, we see no reason for the proposed amendments to have the same requirements as in paragraphs 87–88 of IAS 19.

Staff recommendation

50. On the basis of our analysis, we recommend no change to the proposed amendments to IFRIC 14 in this respect.

Question 1 for the Interpretations Committee

Does the Interpretations Committee agree with the staff recommendation not to change the proposed amendments in respect of Issues I–1—Issues I–5?

Issue II—Reflection of the economic substance of defined benefit plans**Overview of feedback**

51. 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 complexity and 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 executed (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 say that, in assessing other parties' powers, an entity should consider the probability that the other parties will exercise their powers in the foreseeable future.
 - (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.

52. See paragraphs 32–41 of Agenda Paper 3D for further details on the feedback on Issue II–1—Issues II–3.

Staff analysis

53. In our view, the proposed amendments are not overly prescriptive (Issue II–1). We agree that defined benefit plans are 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). They were developed to improve financial reporting through the elimination, or reduction, of diverse reporting methods (see paragraph 58(a) of this paper for further information).
54. With respect to Issue II–2, we think that considering the probability that the other party will exercise its powers is not relevant when assessing whether an entity has an unconditional right to a refund of a surplus.
55. 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...
56. 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.
57. The proposed amendments would simply clarify how an entity assesses whether it has an unconditional right to a refund of a surplus 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.

58. With respect to Issue II-3, we think that the proposed amendments are relevant given the practical reality of how decisions are made. This is because:
- (a) the proposed amendments were developed in response to a submission to the Interpretations Committee. The submission states that the situations addressed in the proposed 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. A copy of the submission, together with the results of our outreach is included in [Agenda Paper 14](#) of the Interpretations Committee’s meeting in May 2014.
 - (b) contrary to the views of some respondents, we think that the proposed amendments are helpful in situations in which other parties’ powers are dependent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the other parties’ control. This is because the proposed amendments clarify that, in those situations, such powers would not be taken into consideration when applying the asset ceiling requirements.

Staff recommendation

59. On the basis of our analysis, we recommend no change to the proposed amendments to IFRIC 14 in this respect.

Question 2 for the Interpretations Committee

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

Issue III—Other substantive issues

60. Some respondents express other substantive concerns. In particular, these respondents say that the proposed amendments to IFRIC 14 do not clarify:
- (a) the distinction between the purchase of annuities as plan assets and the purchase of annuities as part of a wind-up of a plan (*Issue III-1*);
 - (b) an entity’s right to a refund if decisions must be made jointly between the entity and other parties (*Issue III-2*); and
 - (c) how the proposals affect the economic benefit available as a refund in future contributions (*Issue III-3*).
61. Each of these issues is analysed below.

Issue III-1—The distinction between the purchase of annuities as plan assets and the purchase of annuities as part of a wind-up of a plan

Overview of feedback

62. 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.
63. We also understand from informal discussions with some employee-benefit specialists that a plan buy-out can in some cases 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.

Staff analysis

64. We agree with respondents' concerns and suggest that the wording of the amendments distinguish other parties' powers to buy-out a plan from their powers to purchase annuities as plan assets.
65. 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.
66. In our view, 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. We will clarify this distinction when drafting the final amendments.
67. 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.
68. We think the Interpretations Committee and the Board intended proposed paragraph 12A of IFRIC 14 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. 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 (emphasis added):

...assuming the *full settlement* of the plan liabilities in a single event (ie as a plan wind-up)...

69. Paragraph 8 of IAS 19 defines a settlement as:

A *settlement* is 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.

70. ‘*Settlement*’ is a defined term in IAS 19 and is well understood in practice. Accordingly, in our view, we can clarify the intention and scope of proposed paragraph 12A of IFRIC 14 by changing the wording to refer to other parties’ powers to use a surplus to settle in full the plan’s liabilities, rather than referring to their powers to wind-up a plan.

Staff recommendation

71. We recommend 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’s liabilities, rather than referring to their powers to wind-up a plan. When drafting the final amendments, we will clarify that proposed paragraph 12A of IFRIC 14 (and not proposed paragraph 12C of IFRIC 14) would apply to other parties’ powers to purchase annuities to settle in full the plan’s liabilities.

Issue III–2—An entity’s right to a refund if decisions must be made jointly between the entity and other parties

Overview of feedback

72. 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.

Staff analysis

73. Paragraph BC12 of IFRIC 14 states (emphasis added):

...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.

74. In situations in which an entity makes decisions jointly with another party (such as the plan trustee), we think 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 the decisions of the other party. Accordingly, we do not think a clarification or an amendment to IFRIC 14 is required to address situations in which an entity makes decisions jointly with another party.

Staff recommendation

75. On the basis of our analysis, we recommend no change to the proposed amendments to IFRIC 14 in this respect.

Issue III–3—How the proposals affect the economic benefit available as a refund in future contributions

Overview of feedback

76. 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. See paragraphs 46–47 of Agenda Paper 3D for further details on the feedback on Issue III–3.

Staff analysis

77. The proposed amendments clarify how an entity assesses the availability of a refund of a surplus in particular situations. Paragraph BC2 of the ED states (emphasis added):

An economic benefit may be available in the form of a refund or reductions in future contributions or a combination of both.

The issue raised [in the original submission] is related solely to the availability of a refund.

78. The principles underlying how an entity assesses the economic benefit available in the form of a refund of a surplus are different from the principles underlying how an entity assesses the economic benefit available in the form of a reduction in future contributions. The requirement for an entity to have an unconditional right is relevant

in assessing an entity’s right to a refund of a surplus and is not applicable when an entity assesses the economic benefit available in the form of a contribution reduction. Accordingly, other parties’ powers are not relevant when an entity assesses the economic benefit available in the form of a contribution reduction

79. We are also not aware of any application issues in assessing the economic benefit available in the form of a reduction of future contributions in this respect. Accordingly, we do not recommend clarifying how other parties’ powers affect the availability of an economic benefit in the form of a reduction in future contributions.

Staff recommendation

80. We recommend that the proposed amendments do not address how other parties’ powers affect the availability of an economic benefit in the form of a reduction in future contributions.

Questions 3 and 4 for the Interpretations Committee

Question 3

3a. Does the Interpretations Committee agree with the staff recommendation to change the wording in proposed paragraph 12A of IFRIC 14 as described in paragraph 71 in respect of Issue III–1?

3b. Does the Interpretations Committee agree with the staff recommendation in paragraph 75 and paragraph 80 not to change the proposed amendments to IFRIC 14 in respect of Issues III–2 and Issue III–3?

Question 4

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

Appendix A

Analysis of other issues

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 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 ED 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 for further information.</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.

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>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 ED states (<i>emphasis added</i>):</p> <p>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 ED, 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>
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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 for further information.</p>	<p>Paragraph BC7 of the ED states:</p> <p>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>...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 ED already refers to paragraph 61 of IAS 19 and we do not think a further cross-reference is necessary.</p>