

STAFF PAPER

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IFRS® Interpretations Committee Meeting

Project	Exposure Draft of proposed amendments to IAS 19 and IFRIC 14		
Paper topic	Comment letter summary of 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*.

For ease of reference, this paper reproduces Agenda Paper 6A of the IFRS Interpretations Committee's July 2016 meeting and is provided for information purposes only. No changes have been made.

Purpose

1. The objective of this paper is to provide a summary of the feedback received 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)¹. In particular, this paper addresses the following issues:
 - (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));
 - (b) the statutory requirements that an entity considers to determine the economic benefit available to the entity (Question 2 of the ED (Q2)); and

¹ Agenda Paper 6B summarises the feedback received on the proposed amendments to IAS 19 *Employee Benefits*.

- (c) the transition requirements for the proposed amendments to IFRIC 14 (Question 5 of the ED (Q5)).

Structure of the paper

2. Within this paper, we have split the feedback into that which relates to what we view as the main issues for redeliberation (outlined in the main body of this paper), and that which relates to other issues (outlined in Appendix A to this paper). Accordingly, this paper is organised as follows:
 - (a) summary of the proposed amendments and an overview of the feedback received;
 - (b) summary of the main issues identified by respondents;
 - (c) Appendix A—summary of other feedback received on the proposed amendments to IFRIC 14; and
 - (d) Appendix B—Extract from the ED: Proposed amendment to paragraph 12 of IFRIC 14 and the related Basis for Conclusions

3. The purpose of this paper is to provide information only. At this meeting, we will explain and discuss the feedback on the main issues but we are not asking the Interpretations Committee to make decisions. Interpretations Committee members are not required to read the feedback in Appendix A to this paper for the July meeting. However, all of the feedback will be relevant when redeliberating the proposed amendments to IFRIC 14, and accordingly we thought it would be helpful to provide members with all of the feedback at this stage.

Summary of the proposed amendments and an overview of the feedback received

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

4. The proposed amendments to 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 amount of 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).
5. 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.
6. Appendix B to this paper includes the proposed amendments to paragraph 12 of IFRIC 14 together with the Basis for Conclusions, which summarises the rationale for these proposed amendments.

Overview of the feedback received

7. Seventy-five respondents commented on these proposed amendments to IFRIC 14. Approximately half of the respondents agreed with the principles underlying the proposed amendments. Other respondents either disagreed with the proposed amendments or expressed concerns about particular aspects of the proposed amendments.
8. Respondents who generally agree with the principles underlying the proposed amendments say that the proposed amendments would:
- (a) result in more useful information; and
 - (b) help reduce diversity in practice.

9. The main issues identified by respondents are:
 - (a) potential inconsistencies with existing principles in IAS 19 *Employee Benefits* and IFRIC 14 (Issue I);
 - (b) reflection of the economic substance of defined benefit plans (Issue II); and
 - (c) other substantive issues (Issue III).
10. Further information on these issues is included in the section on ‘Summary of the main issues identified by respondents’ in paragraphs 20-47 of this paper. Appendix A provides a summary of other issues that respondents have identified on these proposed amendments.

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

Summary of the proposed amendments

11. The Board proposes amending paragraph 7 of IFRIC 14 to 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 the terms and conditions of a plan that are contractually agreed and any constructive obligations.
12. 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.

Overview of the feedback received

13. Sixty-eight respondents commented on the proposed amendments to paragraph 7 of IFRIC 14. Almost all respondents agreed with the principles underlying the proposed amendments. However, some of these respondents expressed concerns about specific aspects of the proposed amendments.

14. Respondents who generally agreed with the proposed amendments say that they:
 - (a) provide a helpful clarification of existing requirements; and
 - (b) enhance consistency with other IFRS Standards (ie IAS 12 and IAS 19).
15. Appendix A provides a summary of the issues that respondents have identified on these proposed amendments.

Q5—Transition requirements

Summary of the proposed amendments

16. The Board proposes that an entity would apply the amendments retrospectively. Nonetheless, the Board proposes providing an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit costs that are included in inventories). This exemption is similar to the exemption granted in respect of the amendments to IAS 19 in 2011.

Overview of the feedback received

17. A large number of respondents agreed with the proposed transition requirements. Although a number of respondents expressed concerns about the proposed transition requirements outlined in the ED, most of these issues relate to the proposed amendments to IAS 19 (see agenda paper 6B).
18. Respondents who generally agreed with the transition requirements for the proposed amendments to IFRIC 14 state that they:
 - (a) enhance the comparability and clarity of financial information provided; and
 - (b) are justified, because, in their view, the benefits outweigh the costs.
19. Nonetheless, some respondents disagree with, or express reservations about the proposed transition requirements. These respondents say that retrospective application would be complex, and the cost of retrospective application is likely to exceed any benefits. This is because entities will incur significant costs in performing additional calculations and applying judgements which are, in their view, not particularly meaningful.

Summary of the main issues identified by respondents

20. The main issues identified by respondents relate to Q1 of the ED (ie the proposed amendments that address the accounting for a surplus when other parties can wind up a plan or affect benefits for plan members without an entity's consent). In particular, respondents identified the following issues:
- (a) potential inconsistencies with existing principles in IAS 19 and IFRIC 14 (Issue I);
 - (b) reflection of the economic substance of defined benefit plans (Issue II); and
 - (c) other substantive issues (Issue III).

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

21. Some respondents say that the proposed amendments may not be consistent with existing principles in IAS 19 and IFRIC 14. In particular, these respondents identify the following issues:
- (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 to recognise any surplus as an asset (Issue I-3);
 - (d) the mixed measurement approach resulting from the proposed amendments (Issue I-4); and
 - (e) potential inconsistency between the proposed amendments and the measurement of defined benefit obligations (Issue I-5).

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

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

23. Some respondents do not support the proposed amendments. This is because they think that 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 the surplus at the reporting date. These respondents note that paragraph 17 of IFRIC 14 states that '...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...'. These respondents think that taking other parties powers into consideration in determining the existence of a surplus at the reporting date would be inconsistent with existing requirements in IFRIC 14 not to anticipate potential future changes to the amount of the surplus.

24. For example, one respondent said:

We do not support the proposed amendment because we believe that the fact that a surplus that exists at the reporting date could be extinguished by uncertain future events as a result of decisions by other parties, is not relevant when assessing the existence of an entity's unconditional right to a surplus at the reporting date. ...

Although it could be argued that a surplus cannot be recognised as an asset if the employer does not control its use (as this would conceptually seem to contradict the definition of an asset as a resource controlled by the entity), we believe that considering future events in assessing whether and how to recognise a surplus at the reporting date would be inconsistent with the calculation of the net defined benefit obligation at the reporting date. We note that this is also supported by BC10, BC22 and BC23 of IFRIC 14 which state that, when developing IFRIC 14, the IFRIC agreed that increases or improvements in the benefits provided by the plan should not be anticipated.
[Ernst & Young Global Limited]

Issue 1–2—Inconsistent treatment of events that could affect the surplus

25. Some respondents think that the proposed amendments would lead to inconsistent treatment of events that could affect the surplus. For example, these respondents note that an entity could not recognise a surplus if other parties can wind up the plan without the entity's consent (proposed paragraph 12A of IFRIC 14) or can use the surplus for other purposes that affect the benefits for plan members without the

entity's consent (proposed paragraph 12B of IFRIC 14). In contrast, they note that an entity can recognise a surplus when other parties have the power to use that surplus to buy annuities as plan assets without affecting the benefits for plan members (proposed paragraph 12C of IFRIC 14). However, they note that if other parties exercise such power to buy annuities, then the amount of the surplus could be materially reduced and, therefore, affect the availability of a refund to the entity.

26. For example, one respondent said:

...Overall then, we conclude that:

- powers that affect the asset value are economically equivalent to powers that affect the liability value and should be accounted for equivalently.
- IASB has not given any justification in the ED or its Basis for Conclusions for treating the powers differently. ...

More fundamentally... from the perspective of the entity, a buy in (ie purchase of annuities as an investment decision) and a buy out (purchase of annuities to settle liabilities) are economically equivalent, so the accounting for them should be consistent. We would argue that, if the existing wording of IAS 19 does not facilitate this, the wording of IAS 19 should be revised accordingly. [Aon Hewitt Limited]

27. In addition, one respondent does not see a conceptual justification to apply a different treatment to events that result from the actions of a third party compared with events that result from market fluctuations.²

Issue 1–3— Appropriateness of the use of control to recognise any surplus as an asset

28. Some respondents think that the proposed amendments arise from concerns that the existing requirements permit an entity to recognise a surplus that is not controlled by the entity and, therefore, does not meet the definition of an asset in the *Conceptual*

² PricewaterhouseCoopers International Limited (CL54).

Framework. However, these respondents think that this reasoning is inconsistent with paragraph BC176 of IAS 19, which explains that the Board concluded that control is not a relevant consideration in the definition of plan assets.

29. In contrast, another respondent thinks that the notion of control would provide a higher-level principle and could assist in interpreting a broad range of complex contractual terms and conditions. Accordingly, that respondent recommends that the Board consider introducing such a notion to help an entity assess the availability of a refund.³

Issue I-4—The mixed measurement approach resulting from the proposed amendments

30. 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 the trustee has 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 results 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.

Issue I-5—Potential inconsistency between the proposed amendments and the measurement of defined benefit obligations

31. Paragraphs 87 and 88 of IAS 19 contain requirements that help an entity assess the benefit levels it uses in the calculation of defined benefit obligations. Two actuarial firms/bodies comment that these paragraphs do not require an entity to consider third party powers in the measurement of defined benefit obligations. These respondents say that introducing a reference to third party powers within IFRIC 14 is inconsistent with these paragraphs of IAS 19. These respondents think that if IFRIC 14 is amended to include reference to third party powers, then the Board should consider

³ The Australian Accounting Standards Board (CL22).

whether third party powers are also reflected in the measurement of the defined benefit obligation in IAS 19.⁴

Issue II—Reflection of the economic substance of defined benefit plans

32. Some respondents think that the proposed amendments do not reflect the economic substance of defined benefit plans. In particular, these respondents think that:
- (a) the proposed amendments are too prescriptive and do not permit an entity to exercise its own judgement (Issue II–1);
 - (b) an entity should consider other parties’ powers only when the power is substantive or more likely than not to be executed (Issue II–2); and
 - (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).
33. Each of these issues is discussed in more detail below.

Issue II–1—The proposed amendments are too prescriptive and do not permit an entity to exercise its own judgement

34. Some respondents think that the proposed amendments are overly prescriptive and would diminish, rather than enhance, the quality of IAS 19 and IFRIC 14. These respondents are concerned that the proposed amendments would lead to increased costs and effort to interpret and analyse complex legal agreements, and would result in differences in reporting between employers who sponsor similar defined benefit plans.
35. In the view of these respondents, 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.

⁴ Aon Hewitt Limited (CL41) and The Institute and Faculty of Actuaries (CL75).

Issue II-2—An entity should consider other parties’ powers only when the power is substantive or more likely than not to be executed

36. Several respondents think that 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 think that considering powers that only in theory provide power would not faithfully represent the economic substance of defined benefit plans.
37. Some of these respondents think that the proposed amendments would not faithfully represent situations in which other parties have, in theory, unilateral powers, but they have rarely, if ever, used them. In such situations, the entity's reasonable expectation would be that the other party will not unilaterally exercise the power.
38. One respondent comments that:
- These additional clauses are designed to provide guidance, however they do not envisage all scenarios that may arise. For example, an entity could seek to challenge the power of the trustees to enhance member's benefits which could take a significant period of time to resolve. These situations can arise specifically when, in the entity's view, the power of the trustees is not wide enough to allow the proposed enhancements and/or the exercise of the power is unreasonable and does not benefit both the entity and the scheme in the long run. Were an entity to successfully challenge this right it would lead to a significant reversal and a reinstatement of the surplus and could lead to very large fluctuations on the balance sheet year on year. [British Airways Plc]
39. Some of these respondents think that an entity should, in its assessment of other parties’ powers, consider the probability that the other party will exercise its powers in the foreseeable future.
40. For example, one respondent said:
- (a) PensionsEurope supports the idea that
- 1) if a trustee or similar party has the unconditional power to reduce a surplus of a pension plan by using it for other

purposes and

2) if it is likely that the power will be executed

a surplus should not be recognised as a plan asset. We do not believe that the power by itself should be sufficient to reduce or eliminate any surplus. We recommend that the recognition as an asset is linked to a probability that the power will be executed during the next accounting period being lower than e.g. 50%.

We acknowledge that this may trigger an accounting asymmetry compared to the recognition of a plan deficit as a liability but do believe that this would be reasonable for that purpose. [PensionsEurope]

Issue II–3—The proposed restrictions on the right to a refund may not be relevant given the practical reality of how decisions are made

41. Some respondents say that, in practice, many of the plan trustees’ powers are contingent on the occurrence of future events outside their control (eg regulatory approval, regulatory deficit/surplus, bankruptcy of the employer sponsor). In such cases, applying the proposals, other parties would not be deemed to have the power to wind up the plan or enhance the benefits. Consequently, these respondents think that the proposed restrictions on the right to a refund are likely to be meaningless for many defined benefit plans.

Issue III—Other substantive issues

42. Some respondents express other substantive concerns. In particular, these respondents say that the proposed amendments 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 others (Issue III–2); and
 - (c) how the proposals affect the availability of a refund in future contributions (Issue III–3).

43. Each of these issues is discussed in more detail 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

44. Paragraph 12C of IFRIC 14 states that a power to buy annuities as plan assets does not affect the availability of a refund. Some respondents think that it is not clear how to distinguish the power that a plan trustee might have to purchase annuities as part of a wind-up of a plan (or to settle benefits) from the power to purchase annuities as plan assets.

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

45. Some respondents comment that, in practice, defined benefit plans are often jointly controlled by the entity and other parties. Therefore, these respondents request that the Board address whether the proposed amendments would also apply to such situations.

Issue III–3—How the proposals affect the availability of a refund in future contributions

46. One respondent says that the proposed amendments clarify the effect of other parties’ powers on the availability of an economic benefit through an entity’s right to a refund of the surplus. However, they do not clarify how these powers affect the availability of an economic benefit through a reduction in future contributions.

47. The respondent said:

Paragraph 23 requires an entity to determine whether the contributions payable to reduce a funding deficit (on an MFR basis) will be 'available' as a refund or reduction in future contributions after they are paid into the plan. It would seem that a refund would not be available if the trustees have the power to use any existing or future IAS 19-basis surplus for other purposes. It is not entirely clear if the power would affect availability on the basis of a reduction in future contributions. Either way we think that the interaction between the proposed amendments and paragraph 23 and 24 of IFRIC 14 should be

explained, perhaps in the final Basis for Conclusions. [Grant Thornton International Ltd]

Question for the Interpretations Committee

Does the Interpretations Committee have any comments or questions on the feedback received on the proposed amendments to IFRIC 14?

Appendix A

Summary of other feedback received on the proposed amendments to IFRIC 14

A1. This section provides a summary of the other feedback received on 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

A2. Some respondents request other clarifications to the proposed amendments and provide some editorial suggestions. In particular, these respondents request clarification on:

- a. the definition of the word ‘power’ and how an entity assesses other parties’ powers—see paragraphs A3-A4;
- b. how an entity distinguishes between the existence of a right to a refund and the measurement of the refund asset—see paragraph A5;
- c. 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—see paragraph A6;
- d. who is included in ‘other parties’ in addition to the trustees of the plan; and
- e. the proposed amendments through the provision of examples.

Definition of the word ‘power’ and how an entity assesses other parties’ powers

A3. One respondent requests that the Board define the word ‘power’ as used in proposed paragraphs 12A–12C of IFRIC 14 because it might not always be understood in a consistent manner.⁵

A4. Some respondents also request that the Board clarify how an entity assesses other parties’ powers (eg based on legal requirements, the plan’s deed or legislation). These respondents think that clarifications will help direct entities on where to look for such rights and will reinforce that these rights need to be substantive.

⁵ The Japanese Institute of Certified Public Accountants (CL28).

How an entity distinguishes between the existence of a right to a refund and the measurement of the refund asset

- A5. 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. These respondents think that proposed paragraph 12B of IFRIC 14 relates to the effect of other parties' power on the measurement (rather than the existence) of the refund, while proposed paragraphs 12A and 12C of IFRIC 14 relate to the existence of an entity's right to a refund. These respondents think that all three conditions could potentially influence the existence of the surplus that will be available to the entity at a future date, and encourage the Board to be more explicit as to how an entity assesses the distinction between the existence of a right to a refund (recognition) and the measurement of the refund asset.

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

- A6. 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. However, one respondent questions why a similar restriction does not apply to an unconditional right to a refund during the life of the plan.⁶

Other editorial suggestions

- A7. Several respondents suggest a number of editorial changes to the draft amendments to make the requirements easier to understand.
- A8. 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. These respondents think that the power to buy annuities is only an example of an investment decision.
- A9. One respondent thinks that the principle of the proposed amendment in proposed paragraph 12C of IFRIC 14 would be clear if it is explained as 'cases in which other

⁶ Ernst & Young Global Limited (CL43).

parties can take actions that relate solely to the future amount of plan assets without the entity’s consent’, instead of ‘investment decisions without affecting the benefits for plan members’. This respondent thinks that the two examples specified in proposed paragraph 12C of IFRIC 14 should be included in the Basis for Conclusion as supplementary examples to assist the understanding of the revised principle.⁷

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

A10. The issues identified by respondents on Q2 of the ED are:

- a. potential inconsistencies between proposed amendments to paragraph 7 of IFRIC 14 and other requirements;
- b. clarification of the meaning of ‘substantively enacted’; and
- c. other clarifications.

A11. Each of these issues is discussed in more detail below.

Potential inconsistencies between proposed amendments to paragraph 7 of IFRIC 14 and other requirements

A12. Some respondents comment that the proposed amendments to paragraph 7 of IFRIC 14 may not be consistent with paragraph 21 of IFRIC 14 and/or paragraph 88 of IAS 19.

A13. Some respondents comment that one of the purposes 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 therefore 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 think 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.

⁷ The Japanese Institute of Certified Public Accountants (CL28).

- A14. In addition, one respondent says that paragraph 21 of IFRIC 14 might be interpreted as excluding ‘constructive obligations’ because the last sentence says (emphasis added) ‘...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 proposed paragraph 7 of IFRIC 14, which requires an entity to consider constructive obligations.⁸
- A15. 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’.⁹

Clarification of the meaning of ‘substantively enacted’

- A16. 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.
- A17. Some respondents say that although the term ‘substantively enacted’ is used in a number of contexts in IFRS Standards (including IAS 12 and IFRIC 14), it is possible that different interpretations might exist as to what constitutes a ‘substantively enacted statutory requirement’ without a definition or additional requirements.
- A18. In addition, one respondent comments that it is not clear whether the phrase ‘that are substantively enacted’ applies only to ‘statutory requirements’ or also applies to ‘the terms and conditions of the plan that are contractually agreed, as well as constructive obligations’. The respondent comments that in the UK, for example, a pension plan’s ‘Schedule of Contributions’ is a *contractual* document that dictates the contributions payable by the entity to the pension plan. There can be situations in which a new

⁸ The Korean Institute of Certified Public Accountants (CL30)

⁹ The International Actuarial Association (CL40)

‘Schedule of Contributions’ is agreed in principle (which can, in its view, be interpreted as substantively enacted) at a reporting date but is not yet signed by all parties.¹⁰

Other clarifications

- A19. Some respondents request other clarifications about the proposed amendments.
- A20. One respondent comments that the proposed deletion of ‘in the jurisdiction of the plan’ in relation to the consideration of ‘statutory requirements’ in paragraph 7 has the potential to create confusion as to which ‘substantively enacted statutory requirements’ an entity is required to consider.¹¹
- A21. Some respondents suggest that the Board clarify that the existence of a constructive obligation can prevent the recognition of an asset or a larger asset. In addition, one respondent suggests adding a cross-reference to paragraph 61 of IAS 19, to clarify what constitutes a ‘constructive obligation’.¹²

¹⁰ JLT Benefit Solutions Limited (CL25)

¹¹ The Australian Accounting Standards Board (CL22)

¹² Deloitte Touche Tohmatsu Limited (CL51)

Appendix B

Extract from the ED: Proposed amendment to paragraph 12 of IFRIC 14 and the related Basis for Conclusions

[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. Deleted text is struck through and new text is underlined. 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.

...

Basis for Conclusions on the Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (Proposed amendments to IAS 19 and IFRIC 14)

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

Availability of a refund when other parties can wind up a plan or affect benefits for plan members, without an entity’s consent (paragraphs 7–15 of IFRIC 14)

- BC1 The IASB received a request to clarify the application of the requirements of IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in relation to the availability of refunds from a defined benefit plan with an independent trustee. It discussed a question about whether an entity has an unconditional right to a refund of a surplus in the following circumstances:
- (a) the trustee acts on behalf of the plan members and is independent of the employer;
 - (b) the trustee has a power to enhance the benefits payable to the plan members or wind up the plan, or both; and
 - (c) the trustee can use these powers at any time, regardless of the entity’s consent or intent, but the trustee has not exercised such a power at the end of the reporting date.
- BC2 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 is related solely to the availability of a refund.
- BC3 The IASB noted that paragraph BC10 of IFRIC 14 had not addressed the circumstances in which trustees have such a power.
- BC4 The IASB observed that the amount of the surplus that the entity recognises 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, for example, by enhancing those benefits, without the entity’s consent. This is because this power restricts an entity’s ability to use the surplus to generate future cash inflow to the entity.
- BC5 The IASB also noted that an entity’s ability to realise economic benefits through a ‘gradual settlement’ is restricted if a trustee can wind up the plan, without the entity’s consent. This is because the assumption in paragraph 11 of IFRIC 14 of a gradual settlement over time until all members have left the plan would not be valid if the other party can decide to wind up the plan before ‘all members have left the plan’ and thus the gradual settlement can be prevented.
- BC6 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. The IASB also decided that other parties' power should not affect the availability of a refund, if the power is dependent on uncertain future events (for example, if pension trustees can wind up the plan only when an entity does not pay benefits as scheduled or in a bankruptcy), similarly to paragraph 12 of IFRIC 14.