STAFF PAPER

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IASB Meeting

Project	**Amendments to IAS 19 and IFRIC 14**
Paper topic	Possible effects of amendments to IFRIC 14

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Introduction

1. At its April 2017 meeting, the International Accounting Standards Board (Board) tentatively decided to finalise 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* (Exposure Draft), subject to drafting changes (IFRIC 14 amendments).

2. Some stakeholders said that proposed paragraph 12A of the IFRIC 14 amendments could have a significant effect on some defined benefit plans, particularly in the United Kingdom (UK). Accordingly, in April 2017 we informed the Board that we would provide it with information about the possible effects of proposed paragraph 12A of IFRIC 14 at a future meeting.

3. This paper provides information about those possible effects and asks the Board if it has any questions on our assessment of the effects. The Board is not asked to make any decisions.

Structure of the paper

4. This paper is structured as follows:

    (a) background;

(b) analysis of the possible effects of proposed paragraph 12A of IFRIC 14;

(c) staff recommendation;

(d) question for the Board; and

(e) next steps.

5. There are 3 appendices to this paper:

(a) Appendix A—illustrative examples;

(b) Appendix B—interaction of asset ceiling requirements and minimum funding requirements in IAS 19 and IFRIC 14; and

(c) Appendix C—selected excerpts from IFRIC 14.

Background

Existing requirements

6. Paragraph 64 of IAS 19 requires an entity to measure the net defined benefit asset at the lower of (a) the surplus in the defined benefit plan; and (b) the asset ceiling. Paragraph 8 of IAS 19 defines the asset ceiling as ‘the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan’.

7. Paragraph 11 of IFRIC 14 states:

> 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.

8. Paragraph 13 of IFRIC 14 specifies how an entity measures the economic benefit available as a refund when the entity has an unconditional right to a refund applying either paragraph 11(a) or 11(b) of IFRIC 14 (ie during the life of a plan without assuming settlement of plan liabilities; or assuming gradual settlement of plan liabilities over time). Paragraph 14 of IFRIC 14 specifies how an entity measures the economic benefit available as a refund when the entity has an unconditional right to a refund applying paragraph 11(c) of IFRIC 14 (ie assuming full settlement of plan liabilities in a single event). These paragraphs are reproduced in Appendix C to this paper for reference.

9. In applying paragraph 14 of IFRIC 14, an entity includes costs to the plan of settling the plan liabilities and making the refund—this would include costs of purchasing annuities to settle plan liabilities, which can in some situations be significantly in excess of plan assets. In applying paragraph 13 of IFRIC 14, an entity would not include anticipated costs of settling plan liabilities. Accordingly, the measurement of the net defined benefit asset applying paragraph 14 of IFRIC 14 could be significantly lower than that determined applying paragraph 13 of IFRIC 14.

Proposed amendment to IFRIC 14

10. The proposed amendments to IFRIC 14 clarify, amongst other things, an entity's right to a refund of a surplus when other parties have the right to wind-up a plan without an entity's consent. Proposed paragraph 12A of IFRIC 14 in the Exposure Draft stated:

> 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.

11. This paragraph would clarify that an entity may have a right to a refund of a surplus even if other parties can wind up a plan without an entity's consent. However, in measuring this right, the entity would not be able to assume a refund based on gradual settlement as described in paragraph 11(b) of IFRIC 14. When developing the proposed amendments, the Board concluded that other parties can prevent gradual settlement if they can wind up the plan before all members have left the plan.

12. In many cases, unless paragraph 11(a) of IFRIC 14 applies, this means that an entity would recognise its right to a refund applying paragraph 11(c) of IFRIC 14 (ie assuming full settlement of plan liabilities in a single event). The entity would then apply paragraph 14 of IFRIC 14 in measuring this right.

13. Accordingly, an entity that, as a result of the amendments, would recognise its right to a refund assuming full settlement of plan liabilities in a single event, instead of gradual settlement, might be required to measure the net defined benefit asset at a significantly lower amount—as explained in paragraph 9 above. In some situations, an entity may have an obligation to pay contributions under a minimum funding requirement to cover an existing shortfall in respect of services already received (MFR contribution). The reduction in the asset ceiling caused by the application of paragraph 11(c) of IFRIC 14 (instead of paragraph 11(b)) might also result in some portion of the MFR contribution not being recoverable once paid. If this is the case, the entity may have to recognise an additional liability for the portion of the MFR contribution that it cannot recover. Appendix B summarises the interaction of the asset ceiling requirements and the MFR contribution requirements in IAS 19 and IFRIC 14.

Drafting change to proposed paragraph 12A of IFRIC 14

14. Proposed paragraph 12A of the amendments to IFRIC 14 states:

> …if other parties (for example, the plan trustees) can wind up the plan without the entity's consent…

15. Paragraph 11 of IFRIC 14 states:

> A refund is available to an entity only if the entity has an unconditional right to a refund:
>
> …
>
> (c) assuming the full settlement of the plan liabilities in a single event (ie as a plan wind-up).

16. Paragraph 14 of IFRIC 14 states:

> In measuring the amount of a refund available when the plan is wound up (paragraph 11(c))…

17. Some respondents to the Exposure Draft suggested that the Board clarify the meaning of the term 'wind-up' used in proposed paragraph 12A of IFRIC 14. In response to these concerns, the Board tentatively decided to replace the reference to other parties' powers to 'wind-up the plan' with other parties' powers to 'settle in full the plan liabilities in a single event (ie as a plan wind-up)'. As explained in Agenda Paper 12B of the Board's December 2016 meeting, this drafting change would ensure consistency with paragraphs 11(c) and 14 of IFRIC 14, and reflects the Board's intention in developing the amendments to IFRIC 14.

Matter raised by stakeholders

18. Some stakeholders said that proposed paragraph 12A of the IFRIC 14 amendments could have a significant effect on some defined benefit plans, particularly in the UK[1]. The drafting change to proposed paragraph 12A of the IFRIC 14 amendments described above in paragraphs 14-17 highlighted this possible effect.

19. We understand that in the UK, trustees generally do not have the right to legally wind-up a defined benefit plan without an entity's consent. A legal wind-up (also referred to as a Section 75 wind-up) would trigger a requirement for the entity to fund any deficit that may exist on wind-up.

[1] We have not heard of concerns from other jurisdictions on the matter. We understand from informal discussions with some pensions specialists that the matter is not prevalent in other jurisdictions.

20. Nonetheless, trustees generally have the right to settle plan liabilities for individual plan members or groups of individual plan members without an entity's consent if the settlement is 'reasonable'. Although 'reasonable' is not defined in the applicable legislation, we understand that trustees can initiate this type of partial settlement if plan members would not be worse off as a result of the settlement. We also understand that trustees generally do not need to obtain consent from plan members to initiate a settlement. Accordingly, trustees could exercise this right to settle plan liabilities for all plan members in a single event. However, in the current economic environment the plans do not usually have sufficient funding to allow trustees to settle all plan liabilities in a single event.

21. Stakeholders asked if the Board intended proposed paragraph 12A to apply to plans with these characteristics. In particular, they asked if proposed paragraph 12A would apply to such plans even when the plans would not have sufficient funding to allow the trustees to initiate a full settlement. These stakeholders say the characteristics noted in paragraphs 19-20 of this paper are common in many defined benefit plans in the UK.

22. We understand entities that have plans with the characteristics described in paragraphs 19-20 of this paper (UK DB plans) have generally measured the economic benefit available as a refund on a gradual settlement basis (ie applying paragraph 13 of IFRIC 14). Applying proposed paragraph 12A of IFRIC 14 to UK DB plans could result in significantly lower net defined benefit assets in some situations. Entities may also have to recognise an additional liability for any portion of a MFR contribution that would not be recoverable when paid because of the lower asset ceiling.

Staff analysis

Are UK DB plans in the scope of proposed paragraph 12A of IFRIC 14?

23. Paragraph BC5 of the Exposure Draft explains the Board's rationale for proposed paragraph 12A of the IFRIC 14 amendments. It states (emphasis added):

> 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.*

24. Proposed paragraph 12A of IFRIC 14 is intended to capture situations in which other parties can prevent the entity from realising a refund through gradual settlement. Trustees of UK DB plans can settle liabilities for individual plan members without an entity's consent. As explained in paragraph 20 of this paper, trustees could exercise this right to settle plan liabilities for all plan members in a single event—accordingly, they can prevent the entity from realising a refund through gradual settlement.

25. We considered whether the funding level of the plan, ie whether the plan has enough assets to allow trustees to settle all liabilities in a single event, would affect an entity's assessment of its unconditional right to a refund of a surplus. In our view, the funding level of the plan should not factor into this assessment. This is because paragraph 11 of IFRIC 14 requires an entity to ignore the effect of the funding level of a plan when assessing its right to a refund of a surplus. It states '…an unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period'. Accordingly, the entity should ignore the funding level of the plan when it assesses whether other parties can prevent it from realising a refund through gradual settlement.

26. Proposed paragraph 12A of IFRIC 14 states that other parties do not have the power to wind-up a plan if that power is dependent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the other parties' control. Some say that the trustees' rights are dependent on the plan's funding level and asked whether the funding level of a plan can be considered to be an 'uncertain future event' that is not wholly within the control of the trustees.

27. Paragraph 12 of IFRIC 14 states:

> 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.

28. However, as explained in paragraph 25 of this paper, paragraph 11 of IFRIC 14 requires an entity to ignore the effect of the funding level of a plan when assessing its right to a refund of a surplus. Accordingly, it is clear that the reference to 'uncertain future events' in paragraph 12 of IFRIC 14 is not intended to capture the funding status of a plan. The reference to 'uncertain future events' in proposed paragraph 12A is intended to be consistent with the wording in paragraph 12 of IFRIC 14. Paragraph BC6 of the Exposure Draft states (emphasis added):

> The [Board] 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.*

29. As discussed at the Board's December 2016 meeting, if trustees required the consent of each individual plan member to settle the liabilities, we think the trustees do not have the right to settle all liabilities *in a single event*. We will clarify this in the final amendments. However, we understand that trustees of UK DB plans do not generally require plan members' consent to settle liabilities.

Conclusion

30. Based on the characteristics described in paragraphs 19 and 20 of this paper, UK DB plans are within the scope of proposed paragraph 12A of IFRIC 14. Accordingly, entities with such plans would not be able to assume a refund of a surplus based on gradual settlement. This reflects the Board's intent in developing the amendments.

Possible effects on UK DB plans

Measurement of the surplus

31. As outlined in paragraph 30 of this paper, UK DB plans to which proposed paragraph 12A of IFRIC 14 applies would not be able to assume a refund of a surplus based on gradual settlement (ie paragraph 11(b) of IFRIC 14 does not apply). We also

understand that entities in the UK are not generally entitled to a refund of a surplus during the life of a plan, without assuming the settlement of plan liabilities (ie paragraph 11(a) of IFRIC 14 does not apply).

32. Accordingly, such plans would generally have to assume the availability of a refund of a surplus based on full settlement of plan liabilities in a single event—ie applying paragraph 11(c) of IFRIC 14. Entities would apply the requirements in paragraph 14 of IFRIC 14 when measuring the asset ceiling. This could result in plans that currently report a surplus as an asset measuring the net defined benefit asset at a significantly lower amount. This is because entities will have to include the costs of settling liabilities when applying the asset ceiling test.

33. In some situations, an entity with a UK DB plan may also have to recognise a liability for MFR contributions if the entity cannot recover these contributions once paid into the plan—this is the case, regardless of whether the plan has a surplus or deficit before paying the MFR contribution.

Effect of MFR Contributions

34. Appendix B to this paper summarises the interaction of the asset ceiling requirements and the MFR contribution requirements in IAS 19 and IFRIC 14. As explained in Appendix B, IFRIC 14 requires an entity to assess whether it can recover a MFR contribution if that contribution would create a surplus or would increase an existing surplus—ie the entity anticipates any non-recoverability of a future asset that would result from paying the MFR contribution. However, to the extent a future contribution would not create a surplus, the entity is not required to consider the effect of any restrictions on its ability to reduce an existing deficit by making the contribution. This is because IAS 19 and IFRIC 14 are not symmetrical in their treatment of assets and liabilities—there is an asset impairment test (the asset ceiling), but no liability adequacy test.

35. Appendix A to this paper analyses four situations to assess whether, and to what extent, entities that have UK DB plans would be required to recognise a liability for MFR contributions. The four situations analysed are:

    (a) Example I—applying IAS 19, the plan is in a surplus position and this surplus is sufficient to cover any additional costs of settling plan liabilities;

(b) Example II—applying IAS 19, the plan is in a surplus position, but the surplus is not sufficient to cover the additional costs of settling plan liabilities;

(c) Example III—applying IAS 19, the plan is in a deficit position and the MFR contribution when paid would create a surplus; and

(d) Example IV—applying IAS 19, the plan is in a deficit position and the MFR contribution when paid would not create a surplus.

36. In all the examples in Appendix A:

(a) before applying the IFRIC 14 amendments, the entity assesses that it has an unconditional right to a refund of a surplus based on gradual settlement (ie paragraph 11(b) of IFRIC 14 applies). Accordingly, it measures the asset ceiling applying paragraph 13 of IFRIC 14, and does not include the costs of settling the plan liabilities in this measurement. The entity determines that the entire IAS 19 surplus is recoverable. It also determines that it can recover the MFR contribution once paid and, thus, does not recognise an additional liability for the MFR contribution.

(b) applying proposed paragraph 12A of IFRIC 14, the entity now determines it has an unconditional right to a refund of a surplus assuming full settlement of plan liabilities in a single event (ie it cannot assume a right to a refund based on gradual settlement). This is because the trustees have the right to settle in full all plan liabilities in a single event. The entity now applies paragraph 14 of IFRIC 14 in measuring the asset ceiling and includes the additional cost of settling liabilities in this measurement. In some situations, this might also lead to the entity recognising an additional liability for a portion of the MFR contribution.

37. The following table summarises the possible effects of applying proposed paragraph 12A of IFRIC 14 in the four examples discussed in Appendix A to this paper—for further details, please refer to Appendix A[2].

	Example I	**Example II**	**Example III**	**Example IV**
Defined benefit obligation	(10,000)	(10,000)	(10,000)	(10,000)
Plan assets	15,000	15,000	2,000	2,000
IAS 19 Surplus/(Deficit)	**5,000**	**5,000**	**(8,000)**	**(8,000)**
MFR contribution in respect of services already received	6,000	10,000	14,000	6,000
Additional costs to settle in full all liabilities in a single event	3,000	9,000	4,000	N/A
Application of existing requirements				
Net defined benefit asset (liability)	**5,000**	**5,000**	**(8,000)**	**(8,000)**
Application of proposed amendments				
Net defined benefit asset (liability) before amendments	5,000	5,000	(8,000)	(8,000)
Adjustments:				
- Additional costs of settling liabilities[3]	(3,000)	(5,000)[5]	(0)	(0)
- Liability for MFR contribution[4]	(0)	(4,000)	(4,000)	(0)
Net defined benefit asset (liability) after amendments	**2,000**	**(4,000)**	**(12,000)**	**(8,000)**
Effect of the amendments (change in net defined benefit asset/(liability))	**(3,000)**	**(9,000)**	**(4,000)**	**(0)**

[2] All amounts are in Currency Units (CU).

[3] Applying paragraph 14 of IFRIC 14, the entity includes the additional costs of settling plan liabilities in measuring the asset ceiling.

[4] The liability for MFR contribution reflects the portion of the contribution that will not be recoverable once paid. This is due to the inclusion of additional costs in measuring the asset ceiling which limits the economic benefits the entity can realise in the form of a refund—see Appendix A for further details.

[5] The additional costs of settling plan liabilities is CU9,000. However, the entity does not reduce the asset ceiling below zero, ie it does not recognise a negative asset (liability). Accordingly, it adjusts for only CU5,000 of the costs.

38. The examples illustrate that applying proposed paragraph 12A of IFRIC 14 to UK DB plans could result in entities with such plans (a) not only measuring the net defined benefit asset at a lower amount because of the additional costs of settling plan liabilities, but (b) also in some situations recognising a liability for some portion of a MFR contribution. This is because the entity would have to test the recoverability of any surplus that would be created by paying a MFR contribution assuming that paragraph 11(c) of IFRIC 14 applies.

39. This is evident in Examples II and III—in these situations, a portion of the surplus that would result from paying the MFR contribution would not be recoverable by the entity. This is because those payments would be absorbed by the costs of settling plan liabilities, which the entity would take into account in measuring its right to a refund.

Conclusion

40. Based on the characteristics described in paragraphs 19 and 20 of this paper, the application of proposed paragraph 12A of IFRIC 14 to UK DB could, in some situations, result in:

(a) entities measuring the net defined benefit asset at a significantly lower amount—this is because of having to include costs of settling liabilities when measuring the asset ceiling; and

(b) the recognition of an additional liability for any portion of a MFR contribution that an entity cannot recover once paid—this is the case, regardless of whether the plan has a surplus or deficit before paying the MFR contribution.

Question for the Board
Does the Board have any questions on the possible effects of proposed paragraph 12A of IFRIC 14 on UK DB plans?

Next steps

41. The IFRIC 14 amendments are particularly relevant to UK defined benefit plans, as discussed in this paper. Nonetheless, before asking for permission to begin the drafting and balloting process, we plan to (a) consult with stakeholders to better understand how the amendments will affect plans in other jurisdictions; and (b) confirm that the amendments will have the effects that the Board envisaged during their development. We will inform the Board of the outcome of our consultations at a future meeting.

Appendix A – Illustrative Examples[6]

Example I—plan in a surplus position and surplus is sufficient to cover additional costs of settling plan liabilities

A1. Applying IAS 19, a defined benefit plan has a defined benefit obligation of CU10,000 and plan assets of CU15,000. Accordingly, the plan has a surplus of CU5,000. The entity is obliged to pay a MFR contribution of CU6,000.

Application of existing requirements

A2. Before applying the IFRIC 14 amendments, the entity assesses that it has an unconditional right to a refund of the surplus based on gradual settlement (ie paragraph 11(b) of IFRIC 14 applies). Accordingly, it does not take account of the costs of settling the plan liabilities in measuring the asset ceiling. It determines that it can recover the entire surplus of CU5,000 and thus measures the net defined benefit asset at CU5,000.

A3. The entity also assesses whether it can recover the MFR contribution once paid. The MFR contribution, once paid, would result in a surplus of CU11,000 (CU5,000 surplus plus MFR contribution of CU6,000). The entity determines the asset ceiling is CU11,000 (applying paragraph 11(b) of IFRIC 14) and therefore the entire MFR contribution is recoverable. Accordingly, the entity does not recognise any additional liability in respect of the MFR contribution.

Application of proposed amendments

A4. The trustees have the right to settle in full all plan liabilities in a single event. Applying proposed paragraph 12A of IFRIC 14, the entity now determines that it has an unconditional right to a refund assuming full settlement of plan liabilities in a single event (ie it cannot assume a right to a refund based on gradual settlement).

A5. The entity also determines that it would cost an additional CU3,000 to purchase annuities to settle all liabilities in full.

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[6] All examples assume that:

(a) an economic benefit is not available to the entity through a reduction in future contributions; and

(b) the MFR contributions cover an existing shortfall in respect of services already received.

Effect of the asset ceiling requirements

A6. The entity applies paragraph 14 of IFRIC 14 in measuring the asset ceiling. Accordingly, it includes the additional cost of settling liabilities of CU3,000 in this measurement. The entity measures the asset ceiling at CU2,000—the surplus of CU5,000 less the additional costs of CU3,000.

A7. Paragraph 64 of IAS 19 requires the entity to measure the net defined benefit asset at the lower of the surplus or the asset ceiling. Therefore, without considering the MFR contribution, the entity would measure the net defined benefit asset at CU2,000.

Effect of a minimum funding requirement

A8. The entity assesses whether it recognises any additional liability for the MFR contribution of CU6,000.

A9. This contribution when paid would increase the IAS 19 surplus to CU11,000—existing surplus of CU5,000 plus MFR contribution of CU6,000. Applying paragraph 14 of IFRIC 14, the entity would take account of the additional cost of settling plan liabilities of CU3,000 in measuring the asset ceiling. Accordingly, the asset ceiling after the MFR contribution is paid would be CU8,000—surplus of CU11,000 less costs of CU3,000.

A10. The MFR contribution of CU6,000 would result in an increase in the asset ceiling by CU6,000 (ie from CU2,000 to CU8,000), and thus the entity can recover the entire MFR contribution once paid. The entity would, therefore, not recognise any liability for the MFR contribution[7].

Overall effect of the amendments

A11. Before applying the amendments to IFRIC 14, the entity recognises a net defined benefit asset of CU5,000. After applying the amendments, the entity would recognise a net defined benefit liability of CU2,000—the change reflects the additional costs of

[7] Paragraph A8-A10 of this paper applies the asset ceiling requirements after determining the effects of the MFR contribution. The result would be similar if the entity applies the asset ceiling requirement before determining the effect of the MFR contribution. In that situation, the entity would add the MFR contribution of CU6,000 to the net defined benefit asset of CU2,000 (determined after applying the asset ceiling requirements—see paragraph A7). This would result in an asset of CU8,000 once the MFR contribution is paid. The entity has already deducted the costs of settling plan liabilities in determining this amount and, therefore, the entire CU8,000 would be available in the form of a refund after the MFR contribution is paid.

settling plan liabilities of CU3,000 that the entity takes account of in measuring the asset ceiling.

A12. In this situation the entity does not recognise any additional liability in respect of the MFR contribution.

Example II—plan in a surplus position and surplus is not sufficient to cover additional costs of settling plan liabilities

A13. Applying IAS 19, a defined benefit plan has a defined benefit obligation of CU10,000 and plan assets of CU15,000. Accordingly, the plan has a surplus of CU5,000. The entity is obliged to pay a MFR contribution of CU10,000.

Application of existing requirements

A14. Before applying the IFRIC 14 amendments, the entity assesses that it has an unconditional right to a refund of the surplus based on gradual settlement. Accordingly, it does not take account of the costs of settling the plan liabilities in measuring the asset ceiling. It determines that it can recover the entire surplus of CU5,000 and thus measures the net defined benefit asset at CU5,000.

A15. The entity also assesses whether it can recover the MFR contribution once paid. The MFR contribution, once paid, would result in a surplus of CU15,000 (CU5,000 surplus plus MFR contribution of CU10,000). The entity determines the asset ceiling is CU15,000 (applying paragraph 11(b) of IFRIC 14) and therefore the entire MFR contribution is recoverable. Accordingly, the entity does not recognise any additional liability in respect of the MFR contribution.

Application of proposed amendments

A16. The trustees have the right to settle in full all plan liabilities in a single event. Applying proposed paragraph 12A of IFRIC 14, the entity now determines that it has an unconditional right to a refund assuming full settlement (ie it cannot assume a right to a refund based on gradual settlement).

A17. The entity also determines that it would cost an additional CU9,000 to purchase annuities to settle all liabilities in full.

Effect of the asset ceiling requirements

A18. The entity applies paragraph 14 of IFRIC 14 in measuring the asset ceiling. Accordingly, it includes the additional cost of CU9,000 in measuring the asset ceiling. The asset ceiling is CU0—the surplus of CU5,000 less the additional costs of CU9,000[8].

A19. Therefore, without considering the MFR contribution, the entity would measure the net defined benefit asset at CU0.

Effect of a minimum funding requirement

A20. The entity assesses whether it recognises any additional liability for the MFR contribution of CU10,000.

A21. The MFR contribution when paid would increase the IAS 19 surplus to CU15,000—CU5,000 surplus plus the MFR contribution of CU10,000. Applying paragraph 14 of IFRIC 14, the entity would take account of the additional cost of settling plan liabilities of CU9,000 in measuring the asset ceiling. Accordingly, the asset ceiling after the MFR contribution is paid would be CU6,000—surplus of CU15,000 less costs of CU9,000.

A22. The MFR contribution of CU10,000 would result in an increase in the asset ceiling by CU6,000 (ie from CU0 to CU6,000). In other words, the entity can recover only CU6,000 of the MFR contribution once paid—it cannot recover the other CU4,000. Therefore, the entity would recognise CU4,000 as a liability for the MFR contribution. Applying paragraph 24 of IFRIC 14, the entity would recognise a net defined benefit liability of CU4,000.

Overall effect of the amendments

A23. Before applying the amendments to IFRIC 14, the entity recognises a net defined benefit asset of CU5,000. After applying the amendments, the entity would recognise a net defined benefit liability of (CU4,000).

[8] In these situations, the entity does not reduce the asset ceiling below zero, ie it does not recognise a negative asset/liability of (CU4,000).

A24. The change of CU9,000 that results from applying the amendments reflects the additional cost of settling the plan liabilities that the entity takes into account in measuring the asset ceiling. CU5,000 of these additional costs are covered by the existing surplus and the remaining CU4,000 will be covered by a portion of the MFR contribution the entity is obliged to pay.

A25. If the entity did not have to pay the MFR contribution, it would measure the net defined benefit asset at zero. It would not recognise a liability for the additional CU4,000 of costs that are not covered by the existing surplus of CU5,000.

Example III—plan in a deficit position and a MFR contribution would create a surplus

A26. Applying IAS 19, a defined benefit plan has a defined benefit obligation of CU10,000 and plan assets of CU2,000. Accordingly, the plan has a deficit of CU8,000. The entity is obliged to pay a MFR contribution of CU14,000.

Application of existing requirements

A27. The plan is in a deficit position. Because the MFR contribution of CU14,000 would result in the plan being in a surplus position of CU6,000 once the MFR contribution is paid, the entity assesses whether it can recover that surplus.

A28. Before applying the IFRIC 14 amendments, the entity assesses that it has an unconditional right to a refund of the surplus based on gradual settlement. Accordingly, it does not take account of the costs of settling the plan liabilities in measuring the asset ceiling. It determines that it can recover the entire surplus of CU6,000 once it pays the MFR contributions, and thus measures the net defined benefit liability at CU8,000.

Application of proposed amendments

A29. The plan is in a deficit position. Because the MFR contribution of CU14,000 would result in the plan being in a surplus position of CU6,000 once the MFR contribution is paid, the entity assesses whether it can recover that surplus.

A30. The trustees have the right to settle in full all plan liabilities in a single event. Applying proposed paragraph 12A of IFRIC 14, the entity now determines that it would have an unconditional right to a refund assuming full settlement (ie it cannot assume a right to a refund based on gradual settlement).

A31. The entity also determines that it would cost an additional CU4,000 to purchase annuities to settle all liabilities in full.

Effect of the asset ceiling requirements

A32. The MFR contribution when paid would result in a surplus of CU6,000. The entity applies paragraph 14 of IFRIC 14 in measuring the asset ceiling. Accordingly, it takes account of the additional cost of CU4,000 in measuring the asset ceiling. The asset ceiling after the MFR contributions are paid would be CU2,000 (surplus of CU6,000 less additional costs of settling liabilities of CU4,000).

A33. Because the entity would not be able to recover CU4,000 of the surplus (ie surplus of CU6,000 less asset ceiling of CU2,000), it recognises an additional liability of CU4,000 in relation to the MFR contribution.

A34. Accordingly, the entity would recognise a net defined benefit liability of CU12,000 (IAS 19 deficit of CU8,000 plus additional liability of CU4,000 for the portion of the MFR contribution that the entity will not recover).

Overall effect of the amendments

A35. Before applying the amendments to IFRIC 14, the entity recognises a net defined benefit liability of CU8,000. After applying the amendments, the entity would recognise a net defined benefit liability of CU12,000—the increase of CU4,000 reflects the additional costs of settling plan liabilities of CU4,000 that the entity takes account of in measuring the asset ceiling.

Example IV—plan in a deficit position and a MFR contribution would not create in a surplus

A36. Applying IAS 19, a defined benefit plan has a defined benefit obligation of CU10,000 and plan assets of CU2,000. Accordingly, the plan has a deficit of CU8,000. The entity is obliged to pay a MFR contribution of CU6,000.

Application of existing and proposed requirements

A37. The plan is in a deficit position. The MFR contribution of CU6,000 would result in the plan being in a deficit position of CU2,000 once the contribution is paid. Because the MFR contribution would not create a surplus once paid, the entity does not recognise any additional liability for the MFR contribution.

Overall effect of the amendments

A38. The amendments do not affect plans in this situation.

Appendix B—Interaction of asset ceiling requirements and MFR contribution requirements in IAS 19 and IFRIC 14

B1. MFR contributions do not generally affect the measurement of a defined benefit asset or liability. This is because the MFR contributions, once paid, will become plan assets and so the additional net liability is nil (explained in paragraph 3 of IFRIC 14). However, the requirement to make MFR contributions could give rise to a liability if the IAS 19 surplus generated by those contributions will not be available to the entity once paid.

B2. If the plan is in a surplus position applying IAS 19 (ie if the fair value of plan assets is more than the defined benefit obligation), or would be once the entity has paid any MFR contribution, the entity assesses whether it can recognise an asset for its right to a refund or its right to a reduction in future contributions. To the extent the surplus arising from an MFR contribution will not be available after it is paid into the plan, the entity recognises a liability for that portion of the contribution—this is because that portion represents an onerous obligation for past services received.

B3. To illustrate, assume a plan—applying IAS 19—has a surplus of CU5,000. The entity is required to make an MFR contribution of CU3,000. This contribution, once paid, would increase the surplus to CU8,000. If any portion of that additional CU3,000 would not be available to the entity once paid, the entity recognises an additional liability for that portion.

B4. Similarly, assume a plan has a deficit—applying IAS 19—of CU3,000. The entity would not generally consider the asset ceiling requirements in IFRIC 14 because the plan does not have a surplus. However, if the entity were required to make an MFR contribution of CU5,000, this contribution, once paid, would result in a surplus of CU2,000. The entity is required to assess whether any portion of that anticipated surplus of CU2,000 would not be available to the entity once paid. If this is the case, then the entity would recognise that portion as an additional liability.

B5. However, assume a plan has a deficit—applying IAS 19—of CU3,000. The entity is required to make an MFR contribution of CU2,000. This contribution would result in a deficit of CU1,000 once paid. Because the contribution would not create a surplus, the entity is not required to consider the effect of the asset ceiling. It would not recognise any additional liability for the MFR contribution.

B6. In other words, IFRIC 14 requires an entity to determine whether any MFR contribution would be available to the entity if that MFR contribution would create a surplus or would increase an existing surplus—ie the entity anticipates any non-recoverability of a future asset that would result from paying the MFR contribution. However, to the extent the payment of a future contribution would not create a surplus, the entity is not required to consider the effect of any restrictions on the entity's ability to reduce an existing deficit by making the MFR contribution. This is because IAS 19 and IFRIC 14 are not symmetrical in their treatment of assets and liabilities—there is an asset impairment test (the asset ceiling), but no liability adequacy test.

Appendix C—Selected excerpts from IFRIC 14

The economic benefit available as a refund

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.

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.

When a minimum funding requirement may give rise to a liability

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

24 To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognise a liability when the obligation arises. The liability shall reduce the net defined benefit asset or increase the net defined benefit liability so that no gain or loss is expected to result from applying paragraph 64 of IAS 19 when the contributions are paid.