STAFF PAPER

February 2022

IASB Meeting

| Project | Availability of a Refund (Amendments to IFRIC 14) | | |
|---|---|---|---|
| Paper topic | Project review | | |
| CONTACT(S) | Jawaid Dossani | jdossani@ifrs.org | +44(0) 20 7332 2742 |
| | Patrina Buchanan | pbuchanan@ifrs.org | +44(0) 20 7246 6468 |



## Introduction and purpose

1. The International Accounting Standards Board (IASB) proposed narrow-scope amendments to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. Those proposals would have clarified how an entity assesses its right to a refund of a surplus in a defined benefit plan when other parties (for example, trustees) have particular rights. At a previous meeting, the IASB decided not to finalise those proposed amendments and, instead, perform further work. That work was intended to help the IASB decide whether to develop a more principles-based approach than that currently in IFRIC 14 for an entity to assess and measure its right to a refund of a surplus.
2. The IASB has not discussed this project for some time. The purpose of this meeting is to review the project's prospects for progress and decide whether to keep the project on the IASB's work plan.
3. The staff recommend that the IASB withdraw the project from its work plan.

## Structure of the paper

4. This paper is structured as follows:
   (a) background:
      (i) IFRIC 14 requirements (paragraphs 6–14);

(ii) the matter and prior discussions (paragraphs 15–24);

(b) prospects for progress (paragraphs 25–35);

(c) staff recommendation (paragraph 36); and

(d) question for the IASB.

5. This paper includes three appendices:

(a) Appendix A—excerpts from IFRIC 14;

(b) Appendix B—interaction of asset ceiling requirements and MFR contribution requirements; and

(c) Appendix C—illustrative examples.

## Background

### *IFRIC 14 requirements*

#### *Asset ceiling requirements*

6. Paragraph 64 of IAS 19 *Employee Benefits* requires an entity to measure a 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'[1].

7. Paragraph 11 of IFRIC 14 specifies that a refund is available to an entity only if the entity has an unconditional right to a refund either:

(a) during the life of the plan, without assuming that plan liabilities must be settled to obtain a refund;

(b) assuming gradual settlement of plan liabilities over time until all members have left the plan (which we refer to in this paper as 'gradual settlement' or 'run-off'); or

[1] The matter relates to the assessment of economic benefits available in the form of refunds from a plan and not in the form of reductions in future contributions to a plan. Accordingly, the rest of the background section (and this paper) discusses only the requirements relating to economic benefits available in the form of refunds from a plan.

(c) assuming full settlement of plan liabilities in a single event—ie as a plan wind-up (which we refer to in this paper as 'full settlement in a single event').

8. If an entity assumes gradual settlement—paragraph 11(b) of IFRIC 14—it measures the economic benefits available in the form of a refund (right to a refund) applying paragraph 13 of IFRIC 14. If an entity assumes full settlement in a single event—paragraph 11(c) of IFRIC 14—it measures its right to a refund applying paragraph 14.

9. The measurement of a right to a refund applying paragraph 14 (assuming full settlement in a single event) could be significantly lower than that measured applying paragraph 13 (assuming gradual settlement). This is because paragraph 14 requires an entity to include costs to the plan of settling plan liabilities, which would include, for example, the cost of purchasing annuities to settle plan liabilities.

10. Appendix A to this paper reproduces paragraphs 11–14 of IFRIC 14.

### *The effect of a minimum funding requirement*

11. 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 contributions).

12. MFR contributions generally have no effect on the measurement of a defined benefit asset or liability. This is because an MFR contribution, once paid, will become plan assets; therefore the additional net liability resulting from an MFR contribution is nil (explained in paragraph 3 of IFRIC 14). However, the requirement to make MFR contributions could give rise to a liability to the extent that any IAS 19 surplus generated by that MFR contribution will be unavailable to the entity once paid.

13. If a 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 is in a deficit position but would be in a surplus position once the entity pays 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 any surplus arising from an MFR contribution will be unavailable after it is paid into the plan, an entity recognises a liability for that portion of the contribution. That portion represents an obligation for past services received.

14. Appendix B to this paper explains the interaction of the asset ceiling requirements and the MFR contribution requirements.

### *The matter and prior discussions*

15. The IASB proposed amending IFRIC 14 in response to an application question submitted to the IFRS Interpretations Committee. That question asked whether an entity could recognise and measure its right to a refund assuming gradual settlement if other parties can wind-up a plan (ie fully settle plan liabilities in a single event) without the entity's consent.

16. The proposed amendment would have specified that, in this situation, the entity would be unable to assume gradual settlement. If other parties (such as trustees) could decide to fully settle plan liabilities in a single event, those other parties could prevent gradual settlement.

17. Accordingly, unless paragraph 11(a) of IFRIC 14 applies—ie the entity has a right to a refund during the life of a plan without assuming the settlement of plan liabilities—an entity in this situation would measure its right to a refund assuming full settlement in a single event. As explained in paragraph 8, that measurement would include settlement costs, which could result in measuring the right to a refund at a significantly lower amount than if measured assuming gradual settlement.

18. Such an entity might also be required to make MFR contributions. The potentially lower measurement of the right to a refund could also result in some or all of any MFR contributions being unavailable once paid and, consequently, the entity recognising a liability for that unavailable portion.

19. Appendix C to this paper illustrates the effect of including settlement costs in the measurement of an entity's right to a refund.

20. Outreach on this matter indicated the proposed amendment would mainly affect defined benefit plans in the UK. Plans in the UK often contain terms that allow trustees to fully settle plan liabilities in a single event but entities with these plans have generally recognised and measured their right to a refund assuming gradual settlement.

21. From that outreach, we also understood that it would be possible—and potentially desirable—for entities affected by the proposed amendment to make non-substantive changes to plan agreements to *avoid* those effects. This would be possible because of the bright-line nature of the existing requirements in paragraphs 11–14 of IFRIC 14 (which would not be changed by the amendment). Those requirements create a somewhat arbitrary bright-line between substantively different measurements of an entity's right to a refund—ie if the entity is required to assume *full* settlement in a *single* event, then the measurement of the right to a refund *includes* settlement costs; in any other situation, that measurement *excludes* settlement costs.

22. For example, assume a situation in which a defined benefit plan has both active and retired members. If the entity has an unconditional right to a refund assuming full settlement of plan liabilities for all members (active and retired) in a single event, it includes settlement costs in measuring its right to a refund. However, if the entity has a right to a refund only assuming full settlement of plan liabilities in a single event for all retired members but has a right to a refund assuming gradual settlement for active members, it assumes gradual settlement for all members (active and retired). The entity does so because it is not required to fully settle plan liabilities in a single event as specified in paragraph 11(c) of IFRIC 14. Consequently, the entity excludes all settlement costs from the measurement of its right to a refund even though it could be required to settle plan liabilities for retired members.

23. This somewhat arbitrary line means that non-substantive differences in plan agreements could result in very different outcomes. For example, an entity that has a right to a refund on (a) fully settling plan liabilities but *not in a single event*; or (b) settling *most but not all* plan liabilities in a single event could measure its defined benefit asset (or liability) very differently from another entity that has a similar right to a refund but only by fully settling plan liabilities in a single event. In the former situations, the entity is not required to fully settle plan liabilities in a single event—the entity would therefore assume gradual settlement (and exclude settlement costs in measuring its right to a refund). In the latter situation, the entity would be required to assume full settlement in a single event (and therefore include settlement costs in measuring its right to a refund).

24. For this reason, the IASB decided not to finalise the proposed amendment and instead asked us to consider whether a more principles-based approach could be developed with respect to the availability of a refund.

## Prospects for progress

### *Developing a more principles-based approach*

25. Based on initial staff research and as explained in Agenda Paper 12A of the IASB's February 2020 meeting, we think it is possible to develop a more principles-based approach to address the measurement of a right to a refund, without reconsidering more broadly the measurement requirements in IAS 19. Such an approach could focus on removing the bright-line distinction between paragraph 11(b) and 11(c) of IFRIC 14 (ie when an entity assumes gradual settlement of plan liabilities over time and when it assumes full settlement of plan liabilities in a single event).

26. We think this could be done by specifying that in measuring its right to a refund, an entity assumes gradual settlement of plan liabilities over time only *to the extent* it has a right to gradually settle those plan liabilities over time. Unless paragraph 11(a) of IFRIC 14 applies, an entity would otherwise assume full settlement of any remaining plan liabilities.

27. Using the example in paragraph 22 of this paper to illustrate, if the entity could be required to settle plan liabilities for all retired members but not active members, an entity would:

    (a) assume full settlement of plan liabilities for retired members—the entity would then include settlement costs related to plan liabilities for retired members in measuring its right to a refund; and

    (b) assume gradual settlement of plan liabilities over time only for active members.

### *Should the IASB proceed with such an approach?*

28. The approach described in paragraphs 25–27 would be principles-based. It would remove the arbitrary bright-line distinction between paragraph 11(b) and 11(c) of

IFRIC 14, without making significant changes to the principles in IAS 19 and IFRIC 14.

29. The approach would also reduce (a) the risk of entities making non-substantive changes to plan agreements to achieve particular accounting outcomes; and (b) diversity in accounting for plans with similar terms.

30. However, for the reasons explained below the prospects for progress on such a project are in our view limited.

### *Narrow-scope nature of any possible amendments*

31. Any possible amendments resulting from the approach described in paragraphs 25–27 would be narrow in scope and affect only a small subset of the requirements in IAS 19 and IFRIC 14 that apply to defined benefit plans—ie those possible amendments would address only the measurement of the economic benefit available in the form of a refund of a surplus. The IASB's previous discussions on this topic and feedback on the proposed amendment highlight that there are other aspects of IFRIC 14 that this approach would not address but which stakeholders are likely to view as requiring amendment at the same time. We think considering these aspects would result in the project no longer being narrow in scope. For example:

    (a) *appropriateness of including settlement costs:* IAS 19 and IFRIC 14 require an entity to include settlement costs in the measurement of defined benefit assets and liabilities *only* when measuring its right to a refund of a surplus.

    (b) *symmetry in the requirements for plans in a surplus position versus those in a deficit position:* as explained in Appendix B to this paper, IFRIC 14 has an asset impairment test but no liability adequacy test.

    (c) *difference in accounting for a 'buy-out' of plan liabilities and a 'buy-in' of plan assets:* many stakeholders view a buy-out—ie a situation in which an entity could be required to settle plan liabilities (and would therefore include settlement costs in measuring its right to a refund)—as economically equivalent to a situation in which an entity could be required to purchase annuities as plan assets (buy-in). A buy-in could give rise to costs similar to those of a buy-out—however, IFRIC 14 does not require an entity to account for the costs of purchasing annuities in a buy-in situation.

32. We note that a few respondents to the IASB's *Third Agenda Consultation* suggested that the IASB reassess the project to consider whether it should be discontinued.[2] Many respondents also rated even a wider potential project on employee benefits as low priority.[3]

*Time and effort*

33. We expect that developing requirements to reflect the approach set out in paragraphs 25–27 would require quite some time and effort. That time and effort would relate not only to developing, exposing and finalising the amendments but also to stakeholder engagement. We know the effect of any such amendments would be lower defined benefit assets for some plans, and possibly increased defined benefit liabilities for entities with MFR contribution obligations. Because the approach outlined would be broader in scope than the amendments previously proposed, it would be likely to affect more defined benefit plans than the previous IFRIC 14 project.

34. As highlighted by previous discussions, we would expect stakeholders to raise concerns that the requirement to include all settlement costs would *not* reflect economic reality in many situations, in addition to the matters noted in paragraph 31 of this paper. Although an entity could theoretically be required to settle plan liabilities (and would therefore be required to include settlement costs in measuring its right to a refund), we have been informed that the current funding levels of many defined benefit plans mean those entities could not, in reality, be made to settle plan liabilities before those liabilities have been 'run-off'. However, the approach in paragraphs 25–27 would require the inclusion of settlement costs assuming settlement of plan liabilities, regardless of the funding status.

35. We considered whether the IASB could require entities to include *expected* settlement costs when measuring its right to a refund. This would be a more significant change to IFRIC 14 than the approach proposed in paragraphs 25–27. Such an amendment would also affect entities currently including settlement costs in measuring their right to a refund and could result in an increase in the asset ceiling (and, consequently, the

[2] See Appendix A to Agenda Paper 24A for this month's IASB meeting.

[3] See paragraph B23–B26 of the IASB's *Request for Information: Third Agenda Consultation* for the description of a potential project on employee benefits and paragraphs 38–41 of Agenda Paper 24D to the IASB's November 2021 meeting for a summary of feedback on this potential project.

recognition of larger defined benefit assets). This is because entities would include expected, and not all, settlement costs. Determining *expected* settlement costs would also be subjective.

## Staff recommendation

36. For the reasons described in paragraphs 28–35, we conclude that prospects for progress on the project *Availability of a Refund* are limited. We therefore recommend that the IASB withdraw the project from its workplan.

| **Question for the IASB** |
|---|
| Does the IASB agree with our recommendation to withdraw the project *Availability of a Refund* from its workplan? |

## Appendix A—Excerpts from IFRIC 14

A1. This appendix reproduces paragraphs 11–14 of IFRIC 14 for ease of reference.

**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.

## Appendix B—Interaction of asset ceiling requirements and MFR contribution requirements

B1. To illustrate the interaction of the asset ceiling requirements and the MFR contribution requirements, 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 be unavailable to the entity once paid, the entity recognises an additional liability for that portion.

B2. 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 has no 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 therefore required to assess whether any portion of that anticipated surplus of CU2,000 would be unavailable to the entity once paid. If this is the case, then the entity would recognise that portion as an additional liability.

B3. 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 recognise no additional liability for the MFR contribution.

B4. In other words, IFRIC 14 requires an entity to determine whether an MFR contribution would be available to the entity if that MFR contribution would create or increase a 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, an entity is not required to consider the effect of any restrictions on its ability to reduce an existing deficit by making the MFR contribution. This is because IAS 19 and IFRIC 14 do not treat assets and liabilities symmetrically—there is an asset impairment test (the asset ceiling), but no liability adequacy test.

## Appendix C—Illustrative Examples[4]

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

C1. 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.

C2. The entity determines that it would cost an additional CU3,000 to purchase annuities to settle all liabilities in full.

#### *Application of IFRIC 14*

*Measurement assuming gradual settlement*

C3. If the entity assumes gradual settlement in measuring its right to a refund, it excludes settlement costs in measuring that right. It determines it can recover the entire surplus of CU5,000 and thus measures the net defined benefit asset at CU5,000.

C4. 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 recognises no additional liability in respect of the MFR contribution.

*Measurement assuming full settlement in a single event*

C5. If the entity assumes full settlement in a single event in measuring its right to a refund, it includes settlement costs of CU3,000 in this measurement. The entity measures the asset ceiling at CU2,000—the surplus of CU5,000 less settlement costs of CU3,000.

C6. Paragraph 64 of IAS 19 requires the entity to measure the net defined benefit asset at the lower of the surplus (CU5,000) or the asset ceiling (CU2,000). Therefore, without

[4] 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.

considering the MFR contribution, the entity would measure the net defined benefit asset at CU2,000.

### MFR effect

C7. The entity assesses whether it recognises an additional liability for the MFR contribution of CU6,000.

C8. 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 include settlement costs 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.

C9. 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, recognise no liability for the MFR contribution[5].

## *Summary*

C10. If assuming gradual settlement, the entity recognises a net defined benefit asset of CU5,000. If assuming full settlement in a single event, the entity recognises a net defined benefit liability of CU2,000—the difference reflects the settlement costs of CU3,000 that the entity takes account of in measuring the asset ceiling.

C11. In both situations, the entity recognises no additional liability in respect of the MFR contribution of CU6,000.

[5] Paragraphs C7-C9 of this paper apply 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 C6). 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.

### *Example II—plan in a surplus position and surplus is insufficient to cover additional costs of settling plan liabilities*

C12. 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.

C13. The entity determines that it would cost an additional CU9,000 to purchase annuities to settle all liabilities in full.

#### *Application of IFRIC 14*

##### *Measurement assuming gradual settlement*

C14. If the entity assumes gradual settlement in measuring its right to a refund, it excludes settlement costs in measuring that right. It determines it can recover the entire surplus of CU5,000 and thus measures the net defined benefit asset at CU5,000.

C15. 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 recognises no additional liability in respect of the MFR contribution.

##### *Measurement assuming full settlement in a single event*

C16. If the entity assumes full settlement in a single event in measuring its right to a refund, it includes settlement costs of CU9,000 in measuring that right. The entity measures the asset ceiling at CU0—the surplus of CU5,000 less settlement costs of CU9,000[6].

C17. Therefore, without considering the MFR contribution, the entity would measure the net defined benefit asset at CU0.

##### MFR effect

C18. The entity assesses whether it recognises an additional liability for the MFR contribution of CU10,000.

[6] 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).

C19. 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 include settlement costs 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 settlement costs of CU9,000.

C20. 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 IFRIC 14, the entity would recognise a net defined benefit liability of CU4,000.

#### Summary

C21. If assuming gradual settlement, the entity recognises a net defined benefit asset of CU5,000. If assuming full settlement in a single event, the entity recognises a net defined benefit liability of (CU4,000).

C22. The difference of CU9,000 reflects settlement costs the entity includes 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.

C23. If, in assuming full settlement in a single event, the entity did not have to pay the MFR contribution, it would measure the net defined benefit asset at zero. It would recognise no 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 MFR contribution would create a surplus*

C24. 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.

C25. The entity determines it would cost an additional CU4,000 to purchase annuities to settle all liabilities in full.

*Application of IFRIC 14*

C26. 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.

### *Measurement assuming gradual settlement*

C27. If the entity assumes gradual settlement in measuring its right to a refund, it excludes settlement costs in measuring that right. 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.

### *Measurement assuming full settlement in a single event*

C28. The MFR contribution when paid would result in a surplus of CU6,000. If the entity assumes full settlement in a single event in measuring its right to a refund, it includes settlement costs of CU4,000 in measuring that right. The asset ceiling after the MFR contributions are paid would be CU2,000 (surplus of CU6,000 after MFR contributions are paid less settlement costs of CU4,000).

C29. Because the entity would be unable 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.

C30. 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 the entity will not recover).

### Summary

C31. In assuming gradual settlement, the entity recognises a net defined benefit liability of CU8,000. In assuming full settlement, the entity would recognise a net defined benefit liability of CU12,000—the increase of CU4,000 reflects the settlement costs of CU4,000 that the entity includes in measuring the asset ceiling.

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

C32. 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 IFRIC 14*

C33. 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 need not consider the asset ceiling requirements in IFRIC 14. The entity recognises no additional liability for the MFR contribution.