

STAFF PAPER

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IASB Meeting

Project	Proposed amendments to IAS 19 and IFRIC 14		
Paper topic	Transition requirements, first-time adoption and effective date		
CONTACT(S)	Kan Hara	khara@ifrs.org	+44 (0)20 7246 6968
	Jawaid Dossani	jdossani@ifrs.org	+44 (0)20 7332 2742

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Introduction

1. This paper outlines the IFRS Interpretations Committee's (the Interpretations Committee) recommendations on the transition requirements for the amendments to IAS 19 *Employee Benefits* and IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. This paper also presents the Interpretations Committee's recommendations on the transition requirements for first-time adopters and the effective date of the amendments.

Structure of the paper

2. This paper is structured as follows:
 - (a) summary of the Interpretations Committee's recommendations;
 - (b) transition requirements;
 - (c) transition requirements for first-time adopters; and
 - (d) effective date.

Summary of the Interpretations Committee’s recommendations

3. The Interpretations Committee recommends that:
- (a) an entity should apply the amendments to IFRIC 14 retrospectively (with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19);
 - (b) an entity should apply the amendments to IAS 19 prospectively;
 - (c) no transition relief should be provided for first-time adopters; and
 - (d) an entity should apply the amendments for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

Transition requirements

Summary of the proposed transition requirements

4. The Board proposed that an entity apply the amendments to IFRIC 14 and IAS 19 retrospectively, but proposed 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 provided in respect of amendments made to IAS 19 in 2011.

Transition requirements for the amendments to IFRIC 14

Overview of feedback

5. A large number of respondents agree with the proposed transition requirements for the amendments to IFRIC 14. Respondents who agree with those proposed transition requirements say 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.

6. Nonetheless, some respondents disagree with, or express concerns 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 benefit.

Interpretations Committee's discussion and analysis

7. The Interpretations Committee thinks that entities should apply the amendments to IFRIC 14 retrospectively (with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19). The Interpretations Committee thinks that the benefit of retrospective application, in the form of greater comparability between reporting periods and across entities, outweighs the cost of retrospective application.
8. The Interpretations Committee noted that an entity would be required to assess other parties' powers over its defined benefit plans when it applies the amendments to IFRIC 14. The Interpretations Committee does not expect these powers to change significantly each period and, accordingly, does not expect preparers to incur significant additional costs in applying the amendments retrospectively.

Interpretations Committee's recommendation

9. The Interpretations Committee recommends confirming that an entity would apply the amendments to IFRIC 14 retrospectively (with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19).

Transition requirements for the amendments to IAS 19

Overview of feedback

10. Sixty-seven respondents commented on the transition requirements for the proposed amendments to IAS 19. More than half of respondents agree with the proposed transition requirements. Of the remaining respondents, approximately half disagree and the remainder express concerns about specific aspects of the proposed transition requirements.

11. Respondents who agree say that the proposed transition requirements:
 - (a) would enhance the comparability and clarity of financial information provided; and
 - (b) are justified because, in their view, the benefits outweigh the costs.

12. Respondents who disagree with retrospective application raise the following concerns:
 - (a) *cost versus benefit considerations*—some respondents say that the benefits do not outweigh the costs. These respondents say that retrospective application would require new calculations that may be costly to obtain and the benefits would be limited. This is because, for plan events that occurred in a prior reporting period, the proposed amendments would affect only the amounts recognised in profit or loss and other comprehensive income in those prior periods. There would be no effect in the statement of financial position.
 - (b) *nature of a plan event as a one-off event*—some respondents think that retrospective application is particularly useful for recurring and ongoing items/events. These respondents say that a plan event is a unique/one-off event, and retrospective application would not necessarily provide significant benefit.
 - (c) *separate presentation of cumulative remeasurements as a component of equity*—some respondents say that entities that chose to present the cumulative amount of remeasurements recognised in OCI as a separate component of equity would have to revisit transactions that potentially occurred several years ago, and will incur significant costs. These respondents ask the Board to provide relief from retrospective application for these equity components.

Interpretations Committee’s discussion and analysis

13. The Interpretations Committee members agreed with the feedback provided by respondents. They thought that retrospective application of the amendments to IAS 19 could be complex, and concluded that the benefits would not outweigh the costs.

14. Agenda Paper 12C explains the Interpretations Committee’s discussions on minor plan events. If minor plan events were to be excluded from the scope of the amendments to IAS 19, then we would recommend retrospective application of the amendments to IAS 19, with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19¹.

Interpretations Committee’s recommendation

15. The Interpretations Committee recommends that entities apply the amendments to IAS 19 prospectively to plan events occurring on or after the effective date.

Question 1 for the Board

Does the Board agree with the Interpretations Committee’s recommendation that an entity:

- a. apply the amendments to IFRIC 14 retrospectively (with an exemption for adjustments to the carrying amount of assets outside the scope of IAS 19)?
- b. apply the amendments to IAS 19 prospectively to plan events occurring on or after the effective date?

Transition requirements for first-time adopters

Interpretations Committee’s discussion and analysis

16. Paragraphs BC21 and BC22 of the Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (the Exposure Draft) state:

[BC21] Consequently, the IASB proposes that an entity should apply the amendments to IFRIC 14 and IAS 19 retrospectively. However, it also decided that it should provide an exemption that would be similar to the exemption granted in respect of the amendments to IAS 19 issued in 2011 (see paragraph 173 of

¹ Please see paragraphs 16 to 22 of [Agenda Paper 3C](#) of the Interpretations Committee’s September 2016 meeting for the reasons for our recommendation.

IAS 19), taking account of the costs and benefits. Consequently, the IASB proposed the exemption for adjustments of the carrying amount of assets outside the scope of IAS 19 (for example, economic benefit expenses that were included in inventories). Because the amendments do not affect the defined benefit obligation, the IASB did not propose the exemption for disclosure requirements about the sensitivity of the defined benefit obligation.

[BC22] A similar relief is already provided for first-time adopters of IFRS in paragraph E5 of IFRS 1 *First time Adoption of International Financial Reporting Standards*. The IASB concluded that no additional exemption to the requirements of IFRS 1 would be required.

17. We did not receive any comments on the transition requirements for first-time adopters. However, paragraph BC22 of the Exposure Draft was incorrect. This is because paragraph E5 of IFRS 1 states that a first-time adopter may apply the transition provisions in paragraph 173(b) of IAS 19. Paragraph 173(b) of IAS 19 provides an entity with relief only from presenting comparative information for some sensitivity related disclosures, and that relief was available only for reporting periods that have already passed.
18. Accordingly, IFRS 1 does not provide entities with an exemption from the requirement to adjust the carrying amount of assets outside the scope of IAS 19. When finalising the amendments to IAS 19 in 2011, the Board specifically discussed whether first-time adopters should be exempt from the requirement to adjust the carrying amount of assets outside the scope of IAS 19. The Board decided against providing this exemption.
19. The Interpretations Committee thinks that an exemption from the requirement to adjust the carrying amount of assets outside the scope of IAS 19 is not needed for first-time adopters. This is because:
 - (a) a first-time adopter applies the relevant Standards (such as IAS 16 *Property, Plant & Equipment*, IAS 40 *Investment Property*, etc) and any related exceptions and exemptions in IFRS 1 (such as the use of fair value

as deemed cost) to determine the appropriate carrying amount of assets on the date of transition to IFRSs. Accordingly, an exemption from applying the requirements of one particular aspect of IAS 19 is not particularly helpful when an entity is required to apply the requirements in all other IFRS Standards.

- (b) a first-time adopter applies all other requirements in IAS 19 to the carrying amount of assets outside the scope of IAS 19. Accordingly, there is no particular benefit in creating an exemption solely for these amendments.

Interpretations Committee’s recommendation

- 20. The Interpretations Committee recommends not providing transition relief for first-time adopters.

Question 2 for the Board

Does the Board agree with the Interpretations Committee’s recommendation not to provide transition relief for first-time adopters?

Effective date

Interpretations Committee’s discussion and analysis

- 21. We plan to issue the amendments to IFRIC 14 together with the amendments to IAS 19. The Interpretations Committee recommends that the Board align the effective dates of the IFRIC 14 and IAS 19 amendments to allow preparers to apply both sets of amendments at the same time.
- 22. Paragraph 6.35 of the *Due Process Handbook* states:
 - ...The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

23. Subject to the outcome of our discussions with the Board, we expect to issue the final amendments to IFRIC 14 and IAS 19 in the second quarter of 2017. The amendments are narrow in scope and are expected to reduce diversity in the application of IFRIC 14 and IAS 19.
24. The Interpretations Committee thinks that entities should apply the amendments to IFRIC 14 and IAS 19 to annual reporting periods beginning on or after 1 January 2019. Entities should also be allowed to apply these amendments earlier, provided that they apply the amendments to both IFRIC 14 and IAS 19 at the same time. The Interpretations Committee concluded that an effective date of 1 January 2019 would provide jurisdictions with sufficient time to incorporate the new requirements into their legal systems. It would also provide entities with sufficient time to prepare for the new requirements.

Interpretations Committee's recommendation

25. The Interpretations Committee recommends that entities apply the amendments to IFRIC 14 and IAS 19 to annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

Question 3 for the Board

Does the Board agree with the Interpretations Committee's recommendation to require entities to apply the amendments to IFRIC 14 and IAS 19 to annual reporting periods beginning on or after 1 January 2019, with earlier application permitted?