

IFRS Briefing Sheet

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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This IFRS Briefing Sheet summarises the International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, which was published on 5 July 2007.

This interpretation clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability.

Background and Issue

An entity may be required to fund its post-employment or other long-term defined benefit plan, i.e., the entity has a MFR, and at the same time the entity expects an economic benefit from refunds or planned reductions in future contributions to its plan. IAS 19 *Employee Benefits* limits the measurement of a defined benefit asset to the "present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus unrecognised gains and losses

(the "asset ceiling"). The interpretation addresses when such an economic benefit is considered available and how a MFR affects the calculation of available economic benefits.

The interpretation applies to all post-employment and other long-term employee defined benefit plans. The interpretation also may be applicable for entities that have plan deficits.

Consensus

It is not necessary for a refund or a reduction in future contributions to be immediately realisable for the economic benefit to be considered available. An economic benefit is available to an entity if, in accordance with the terms of the plan and applicable statutory requirements, it is realisable during the life of the plan or on the settlement of the plan liabilities.

The economic benefit available as a refund of plan surplus is measured as the amount of the surplus at the balance sheet date (i.e., the fair value of the plan assets less the present value of the defined benefit obligation) less any associated costs, and is available if an entity has an unconditional right to such a refund:

- during the life of the plan
- upon the gradual settlement of the plan liabilities
- upon plan wind-up.

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The economic benefit available as a reduction in future contribution is measured:

- if there is no MFR, as the lower of the surplus in the plan, and the present value of the future service cost to the entity for each year over the shorter of the expected life of the plan and the expected life of the entity
- if there is a MFR, as equal to the present value of the estimated future service cost to the entity in each year less any estimated minimum funding contribution required in respect of the future accrual of benefits in the given year.

A liability is recognised for MFR contributions to cover existing plan shortfalls in respect of services already received if the contribution payable is not expected to be available after it is paid into a plan.

Summary of Changes from IFRIC Draft Interpretation D19 IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements

In finalising IFRIC 14, the IFRIC clarified in response to the comments received on the proposals included in the draft interpretation (published on 24 August 2006; see *IFRS Briefing Sheet*, Issue 54):

- the determination of when an entity controls an asset arising from the availability of a refund
- the requirements relating to the assumptions used in the measurement of a reduction in future contributions.

In addition, the draft interpretation required retrospective application whereas the final interpretation requires application from the beginning

of the first period presented in the first financial statements to which the interpretation applies.

Effective Date and Transition

IFRIC 14 is effective for annual periods beginning on or after 1 January 2008. Earlier application is permitted. The interpretation is applied from the beginning of the first period presented in the financial statements to which the interpretation applies. Any initial adjustment arising from the application of the interpretation is recognised in retained earnings at the beginning of that period.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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