

IAS Plus Update.

IASB amends IFRIC 14

The International Accounting Standards Board (IASB) has issued *Prepayments of a Minimum Funding Requirement*, amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendments have been made to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise as an asset prepayments of minimum funding contributions.

Background

IFRIC 14 was issued in July 2007 to address three issues:

- when refunds or reductions in future contributions should be regarded as 'available' in accordance with paragraph 58 of IAS 19 *Employee Benefits*;
- how minimum funding requirements might affect the availability of reductions in future contributions; and
- when minimum funding requirements might give rise to a liability.

The issue

IFRIC 14 (as originally issued) unintentionally reduced the economic benefits available in accordance with IAS 19.58 arising from voluntary prepayments of minimum funding contributions.

If an entity is subject to minimum funding requirements for contributions relating to future benefits, IFRIC 14.20 (as originally issued) limited the economic benefit available in the form of reductions in future contributions to the present value of:

- (a) the estimated future service cost in each year; less
- (b) the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

IFRIC 14 (as originally issued) did not consider that a plan surplus may result from a prepayment of future minimum funding contributions and, in some situations, entities may have been prevented from recognising as an asset the economic benefit arising from the prepayment. This is because, to the extent that minimum funding contributions required in respect of the future accrual of benefits exceed service costs calculated under IAS 19 in any given year, IFRIC 14 specifies that the present value of that excess reduces the amount of the asset available as a reduction in future contributions.

IAS Plus website

We have had almost 10 million visits to our www.iasplus.com website. Our goal is to be the most comprehensive source of news about international financial reporting on the Internet. Please check in regularly.

IFRS global office
Global IFRS leader
Ken Wild
kwild@deloitte.co.uk

IFRS centres of excellence

Americas

New York
Montreal

Robert Uhl
Robert Lefrancois

iasplusamericas@deloitte.com
iasplus@deloitte.ca

Asia-Pacific

Hong Kong
Melbourne

Stephen Taylor
Bruce Porter

iasplus@deloitte.com.hk
iasplus@deloitte.com.au

Europe-Africa

Copenhagen
Frankfurt
Johannesburg
London
Madrid
Paris

Jan Peter Larsen
Andreas Barckow
Graeme Berry
Veronica Poole
Cleber Custodio
Laurence Rivat

dk_iasplus@deloitte.dk
iasplus@deloitte.de
iasplus@deloitte.co.za
iasplus@deloitte.co.uk
iasplus@deloitte.es
iasplus@deloitte.fr

The amendment

Under the amended IFRIC 14.20, if there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions (and, therefore, the surplus that should be recognised as an asset) is comprised of:

- (a) any amount that reduces future minimum funding requirement contributions for future services because the entity made a prepayment (i.e. any amount that the entity has paid before being required to do so); and
- (b) the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service in that period if there were no prepayment of those contributions as described in (a).

Further, IFRIC 14.22 clarifies that while the amount calculated under IFRIC 14.20 (b) may be negative for a given period (i.e. the estimated minimum funding requirement contribution for that period exceeds the estimated future service cost for that same period), the total amount calculated under IFRIC 14.20 (b) can never be less than zero. Accordingly, the economic benefit available as a reduction in future contributions will correspond, as a minimum, to the amount of the prepayment, if any.

Illustration

Entity A is required to pay minimum funding contributions to cover the service cost in each period determined in accordance with the minimum funding requirement. Entity A currently has an IAS 19 surplus of CU35 that cannot be refunded in any circumstances, but that could be used to reduce future contributions. The minimum funding contributions required to cover future service are CU15 each year for the next five years. The expected service cost in each year is CU10.

For simplicity, this example assumes that the discount rate and expected return on assets are 0 per cent, and there is no unrecognised amount. This example also assumes that the plan does not continue after five years.

Entity A makes a prepayment of CU30 in respect of years 20X1 and 20X2, increasing its surplus at the beginning of 20X1 to CU65. That prepayment reduces the future contributions Entity A expects to make in the following two years, as follows:

Year	20X1	20X2	20X3	20X4	20X5
Service cost (in CU)	10	10	10	10	10
Minimum funding requirement contribution (in CU)	0*	0*	15	15	15
Excess of minimum funding requirement over service cost (in CU)	10	10	(5)	(5)	(5)

* In the absence of prepayment, the minimum funding contribution for each of these years would have been CU15.

Prior to the amendments, Entity A would have recognised a plan asset of CU5 (i.e. the CU20 available from years 20X1 and 20X2 reduced by the excess minimum funding requirements in years 20X3 to 20X5), even though the total prepayment is CU30. The difference of CU25 would have been recognised immediately as an expense at the beginning of 20X1.

Following the amendments, Entity A will recognise a recoverable plan asset of CU30 comprising:

- (a) CU30, being the amount of the prepayment of the minimum funding requirement contribution; and
- (b) CU0, since the estimated minimum funding requirement contributions (CU75) that would be required for future service, if there were no prepayment, exceeds the estimated future service cost (CU50). No liability or reduction in the prepayment asset would be recognised for this excess since it relates to future services.

Effective date and transition

The amendments are effective for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period, it should disclose that fact.

The amendments must be applied from the beginning of the earliest comparative period presented in the first annual financial statements in which the entity applied IFRIC 14 (mandatory for annual periods beginning on or after 1 January 2008, but may have been adopted for an earlier accounting period). Any initial adjustment arising from the application of the amendments by an entity that had previously applied IFRIC 14 shall be recognised as an adjustment to retained earnings at the beginning of the earliest comparative period presented.

For more information on Deloitte Touche Tohmatsu, please access our website at www.deloitte.com

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 150,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

This publication contains general information only and is not intended to be comprehensive nor to provide specific accounting, business, financial, investment, legal, tax or other professional advice or services. This publication is not a substitute for such professional advice or services, and it should not be acted on or relied upon or used as a basis for any decision or action that may affect you or your business. Before making any decision or taking any action that may affect you or your business, you should consult a qualified professional advisor.

Whilst every effort has been made to ensure the accuracy of the information contained in this publication, this cannot be guaranteed, and neither Deloitte Touche Tohmatsu nor any related entity shall have any liability to any person or entity that relies on the information contained in this publication. Any such reliance is solely at the user's risk.

© Deloitte Touche Tohmatsu 2009. All rights reserved.

Designed and produced by The Creative Studio at Deloitte, London. 1364A