



IFRS AT A GLANCE
IFRIC 14 IAS 19: *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*



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ISSUES

The issues addressed in IFRIC 14 are:

- ▶ When refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19 *Employee Benefits* (asset ceiling)
- ▶ How a minimum funding requirement might affect the availability of reductions in future contributions
- ▶ When a minimum funding requirement might give rise to a liability.

SCOPE

IFRIC 14 applies to all post-employment defined benefits and other long-term employee defined benefits.

CONSENSUS

Availability of a refund or reduction in future contributions

- ▶ An entity determines the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan
- ▶ An economic benefit, in the form of a refund or a reduction in future contributions, is available if the entity can realise it at some point during the life of the plan or when the plan liabilities are settled.

The economic benefit available as a refund - The right to a refund

- ▶ A refund is available to an entity only if the entity has an unconditional right to a refund, either:
 - During the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund
 - Assuming the gradual settlement of the plan liabilities over time until all members have left the plan
 - Assuming the full settlement of the plan liabilities in a single event (i.e. as a plan wind-up).
- ▶ An unconditional right to a refund can exist whatever the funding level of a plan at the reporting date.

The economic benefit available as a contribution reduction

- ▶ If there is no minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity. The future service cost to the entity excludes amounts that will be borne by employees.

The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

- ▶ An entity analyses any minimum funding requirement at a given date into contributions that are required to cover any existing shortfall for past service on the minimum funding basis and future service
- ▶ Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service
- ▶ If there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of:
 - Any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (i.e. paid the amount before being required to do so)
 - The estimated future service cost in each period, less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described above.
- ▶ An entity estimates the future minimum funding requirement contributions for service taking into account the effect of any existing surplus determined using the minimum funding basis but excluding the prepayment described in paragraph 20(a). An entity uses assumptions consistent with the minimum funding basis and, for any factors not specified by that basis, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the reporting date as determined by IAS 19
- ▶ If the future minimum funding requirement contributions for future service exceeds the future IAS 19 service cost in any given period that excess reduces the amount of the economic benefit available as a reduction in future contributions. However, the amount described per paragraph 20(b) can never be less than zero.

When a minimum funding requirement may give rise to a liability

- ▶ 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 determines whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan
- ▶ To the extent that the contributions payable will not be available after they are paid into the plan, the entity recognises a liability when the obligation arises

Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

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