IFRS in Focus
IASB proposes amendments to IAS 19 and IFRIC 14 to clarify two issues

Contents

This edition of IFRS in Focus outlines the proposed amendments to IAS 19 *Employee Benefits* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* set out in the recent exposure draft ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/ Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)* (the "ED") which was issued in June 2015 for public comment.

The Bottom Line

- The IASB proposes amendments to IAS 19 and IFRIC 14 that, if finalised, will clarify that:
  - when an entity determines the availability of a refund from a defined benefit plan:
    - the amount of the surplus an entity recognises as an asset on the basis of a future refund should not include amounts that other parties, such as pension trustees, can use for other purposes (for example, to enhance pension benefits), without the entity's consent; and
    - an entity should not assume a right to a refund on the basis of gradual settlement of the plan if other parties can wind up the plan without the entity's consent
  - when a significant event, such as a plan amendment, curtailment or settlement occurs; the current service cost and net interest for the period following the significant event should be determined using the assumptions used in remeasuring the net defined benefit liability (asset); and
  - the current service cost and the net interest in the current reporting period prior to a plan amendment, curtailment or settlement should not be included in the past service cost or gain or loss on settlement.
- The IASB did not propose an effective date for the proposed amendments. However, early application is proposed to be permitted.
- Comments on the proposals are due by 19 October 2015.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Why are the amendments being proposed?

The amendments proposed in the ED result from two separate requests received by the IFRS Interpretations Committee.

Availability of a refund from a defined benefit plan

The first request was to clarify whether an independent trustee's power to enhance the benefits payable to the plan members or wind up the plan (or both), which can be used at any time, and without the entity's consent; affects the employer's right to a refund and therefore, restricts recognition of an asset in accordance with IFRIC 14.

Remeasurement on a plan amendment, curtailment or settlement

The second request received was to clarify the calculation of current service cost and net interest when a plan amendment, curtailment or settlement occurs and an entity remeasures the net defined benefit liability (asset) in accordance with paragraph 99 of IAS 19. It was observed that subsequent to the amendments to IAS 19 in 2011, paragraphs 123 and BC 64 imply that in these circumstances an entity should not revise any assumptions for the calculation of current service cost and net interest during the period.

After discussing these issues, the IFRS Interpretations Committee members recommended that the IASB address the issues in narrow-scope amendments to IAS 19 and IFRIC 14.

What are the changes proposed by the ED?

Availability of a refund from a defined benefit plan

IAS 19 requires an entity to determine a surplus as the fair value of any plan assets minus the present value of the defined benefit obligation. The net defined benefit asset to be recognised in the financial statements is the lower of the surplus and the asset ceiling (the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan). IFRIC 14 interprets how the asset ceiling requirement should be applied.

The IASB proposes to amend IFRIC 14 to clarify that when an entity determines the availability of a refund from a defined benefit plan:

a) the amount of the surplus that the entity recognises as an asset on the basis of a future refund should not include amounts that other parties (for example, pension trustees) can use for other purposes that change the benefits for plan members, for example, by enhancing those benefits; without the entity's consent. This is because the other parties' power restricts an entity's ability to use the surplus to generate future cash inflows to the entity;

b) if other parties have the power to wind up the plan without the entity's consent, the entity should not recognise an asset on the basis of gradual settlement of the plan; and

c) the availability of a refund is not affected by other parties' power to purchase annuities as plan assets or make other investment decisions without changing the benefits for plan members. This is because investment decisions relate to the future amount of a surplus, rather than the right to a refund of a surplus.

The IASB also proposes that IFRIC 14 should be amended to clarify that an entity should take into account the contractually agreed terms and conditions of the plan, as well as constructive obligations and any statutory requirements that are substantively enacted, when determining the availability of a refund or a reduction in future contributions.

> **Observation**
> The availability of a refund would not be affected by other parties' power if that power was dependent on uncertain future events, for example, if trustees could only wind the plan up if an entity did not pay benefits as scheduled or in the case of bankruptcy.

Interaction between the asset ceiling and past service cost or a gain or loss on settlement

The IASB also analysed the interaction between the asset ceiling and past service cost or a gain or loss on settlement, because a plan amendment or settlement occurs if a trustee (or other party) decides to enhance benefits or wind up a plan, using their unilateral power.

The IASB proposes to clarify that if a plan amendment, curtailment or settlement occurs, the past service cost or gain or loss on settlement, would be measured and recognised in profit or loss excluding the effect of the asset ceiling. Changes in the effect of the asset ceiling would be recognised in other comprehensive income, as a result of the effect of the asset ceiling on the updated surplus.

Remeasurement on a plan amendment, curtailment or settlement

When a plan amendment, curtailment or settlement occurs during a reporting period, IAS 19 requires an entity to remeasure the net defined benefit liability (asset) using updated assumptions.

The IASB proposes to amend the requirements in IAS 19 to require entities to use the updated assumptions and take account of the changes in the net defined benefit liability (asset) that could arise as a result of the remeasurements, when determining current service cost and net interest for the period following the event. The IASB is proposing this clarification due to concerns that ignoring the effects of material events during the period when calculating the current service cost and net interest would not result in useful information.

The IASB also proposes to clarify that the current service cost and the net interest in the current reporting period prior to a plan amendment, curtailment or settlement should not be included in the past service cost or gain or loss on settlement.

Observation

The proposed amendments do not change the requirements in IAS 19 on whether and when an entity should remeasure the net defined liability (asset); but confirm that an entity should determine the current service cost and net interest for the period following a significant event (plan amendment, curtailment, settlement) using the updated assumptions used in the remeasurement of the defined benefit liability (asset).

When would the proposed amendments apply?

The ED does not include an effective date for the proposed amendments. However, if finalised, earlier adoption is proposed to be permitted.

The proposed amendments would be applied retrospectively; and an exemption is proposed from adjusting the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit expenses included in inventories) for changes in employee benefit costs that were included in the carrying amount of those assets before the date of initial application of the amendments.

The comment period for the ED ends on 19 October 2015.

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