

## IASB proposes amendments to IAS 19 and IFRIC 14 to clarify two issues



### 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 recognize 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.

### **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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