



30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>

**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. It does not represent an official position of the IFRIC. IFRIC positions are set out in Interpretations.

Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: May 2006, London

**Project: Minimum Funding Requirements and the Asset Ceiling
(Agenda Paper 4)**

Introduction

1. At the March meeting, the IFRIC continued its discussions in respect of how a statutory minimum funding requirement (MFR) would affect the application of the asset ceiling requirements under paragraph 58 of IAS 19, and the extent to which the MFR could impose an additional liability under IAS 19.
2. The IFRIC reaffirmed the decisions made at previous meetings. In particular, the IFRIC confirmed that:
 - a) An economic benefit does not need to be immediately realisable at the balance sheet date in order for it to be recognised as an available asset under IAS 19.
 - (b) The asset available as a refund should be recognised to the extent that, in the jurisdiction of the plan in question, any surplus existing on the final settlement of the plan liabilities will revert to the entity, after taking into account all the costs associated with the settlement.

(c) The asset available as a reduction in future contributions would be reduced by the present value of future statutory minimum funding requirements.

(d) If an entity has an obligation to pay contributions to a plan that exceeds the amount of any pension deficit measured under IAS 19 and the assets derived from those contributions would not be available to the entity (either as a refund of surplus or a reduction in future contributions), that obligation would give rise to an additional liability under IAS 19.

3. The IFRIC also considered a preliminary draft of an Interpretation on these issues and asked the staff to revise the draft to consider the following issues: the presentation of the results in the financial statements, the treatment of future minimum funding contributions payable and transitional provisions. The staff has also included a short discussion on other statutory funding requirements for information purposes only. The staff does not recommend that the scope of the draft Interpretation should be changed to include other statutory funding requirements.

Summary

4. The staff has prepared a revised draft Interpretation to address the concerns raised at the previous meeting and has set out in this paper some further consideration of the rationale for the staff recommendations.
5. The staff has also included, in the revised draft, details of the proposed transition requirements and seeks the IFRIC's comments on this.

Presentation of results

6. At the previous meeting, the IFRIC questioned how the additional liability resulting from a minimum funding contribution requirement should be presented in the financial statements.
7. [Paragraph not included in the Observer Notes].
8. [Paragraph not included in the Observer Notes].

9. Further, the staff notes that the additional liability in respect of a minimum funding requirement arises only because of the limit on the measurement of the balance sheet asset in IAS 19.58. [Part of paragraph not included in the Observer Notes].
10. [Paragraph not included in the Observer Notes].
11. Moreover, IAS 19.58 governs the presentation of the net balance sheet position in the pension plan rather than the gross liability. Therefore the staff proposes that the adjustment which results from the impact of the limit in that paragraph should be recognised and presented in the financial statement on a net basis.
12. [Paragraphs 12 - 15 not included in the Observer Notes].

Treatment of future minimum funding contributions payable

16. Some members of the IFRIC asked for further clarification of the treatment of future minimum funding contribution requirements. The staff notes that it is necessary to make a distinction between a present obligation to pay minimum contributions in the future and a future obligation to pay minimum contributions in the future. The former gives rise to a present obligation and, potentially, an additional liability, while the latter does not. The staff has set out a brief summary of the issues below and has amended the wording in the draft interpretation to clarify the points raised.
17. Minimum funding requirements usually stipulate the minimum level of contributions payable in order to make good a deficit on the minimum funding basis. These contributions may be payable as a lump sum at a fixed date or they may be payable in instalments over a given period.
18. The staff recommends that the additional liability to be recognised in respect of such a minimum funding requirement is equal to the present value, using IAS 19 assumptions of the contributions payable in accordance with the minimum funding requirement.
19. In addition, in some circumstances, a minimum funding requirement may also stipulate a schedule of future minimum contributions payable

in order to cover the future accrual of benefits over the period during which the contributions are payable .

20. In this case, the staff notes that the contributions payable in respect of future accrual do not generate an additional liability at the balance sheet date as they represent a future rather than a present obligation.

21. [Paragraph not included in the Observer Notes].

22. [Paragraph not included in the Observer Notes].

23. [Paragraph not included in the Observer Notes]

24. The future minimum funding contribution requirements, in respect of future accrual, reduce the extent to which the entity can take a future contribution reduction. Therefore the available asset from a contribution reduction should be calculated as the present value of the IAS 19 service cost less the future minimum funding contribution requirement in respect of future accrual in each year.

Other statutory funding requirements

25. [Paragraph not included in the Observer Notes].

26. The staff does not believe that maximum or other statutory funding requirements need to be explicitly addressed in this Interpretation. [Part of paragraph not included in the Observer Notes]

27. [Paragraph not included in the Observer Notes].

Transitional provisions

28. The staff considered the transition requirements for two categories of entities separately: those who opt to recognise all actuarial gains and losses immediately and those who opt for the 'corridor' approach, in which the recognition of a portion of gains and losses is deferred to future periods.

Entities who opt to recognise actuarial gains and losses immediately

29. For entities that have opted to recognise gains and losses immediately, any adjustment to the defined benefit asset or liability in respect of a minimum funding requirement at the balance sheet date will be recognised as an adjustment to equity. Subsequent changes to the amount of the adjustment will be recognised in accordance with the entity's accounting policy for recognising actuarial gains and losses.

30. Further, if an entity recognises actuarial gains and losses immediately, it would be possible to apply the requirements of the draft Interpretation retrospectively. Therefore, no additional specific transitional provisions are required.

31. [Paragraph not included in the Observer Notes]

Entities who opt for the 'corridor' approach

32. [Paragraph not included in the Observer Notes]

33. The staff suggests that entities who use the corridor approach should be permitted to recognise all cumulative actuarial gains and losses in respect of the statutory minimum funding requirement immediately as an adjustment to equity at the date of implementation. Subsequent changes in the additional liability would be recognised in accordance with the entity's policy on recognising actuarial gains and losses [Part of paragraph not included in the Observer Notes].

34. [Paragraph not included in the Observer Notes]

35. The staff would like to ask the IFRIC whether they agree with the suggested approach.