

# IFRS Briefing Sheet

IFRIC Draft Interpretation D19 *IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*

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This IFRS Briefing Sheet summarises the International Financial Reporting Interpretations Committee's (IFRIC) Draft Interpretation D19 *IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*, which was published on 24 August 2006.

reductions in future contributions to the plan"<sup>1</sup>, which commonly is known as the "asset ceiling". A statutory or contractual minimum funding requirement (MFR) may specify minimum contributions payable into the plan and may limit availability of these contributions to the plan sponsor in the form of a refund of a surplus or reductions in future contributions.

The issues are whether an economic benefit is considered "available" if it is not realisable currently, and how a MFR affects the calculation of the available economic benefit and the measurement of the defined benefit asset or liability.

## **Proposed Consensus** **Availability of an Economic Benefit**

The draft interpretation proposes that an economic benefit in the form of a refund or reductions in future contributions need not be immediately realisable at the balance sheet date in order for the economic benefit to be considered "available". Under the proposals an economic benefit is available if, in accordance with the terms of the plan and applicable statutory requirements, it will be realisable at some point during the life of the plan or on settlement of the plan liabilities.

This draft interpretation clarifies when economic benefits in the form of a refund or reductions in future contributions to the plan may be considered "available"; and provides guidance on the effect of minimum funding requirements on the measurement of the defined benefit asset or liability.

## **Background and Issue**

IAS 19 *Employee Benefits* requires a recognised defined benefit asset to be limited to the "present value of any economic benefits available in the form of refunds from the plan or

<sup>1</sup> The limit in IAS 19 also includes any cumulative unrecognised net actuarial losses and past service costs.

**A supplement to KPMG's  
publication IFRS in Brief**

### Measurement of the Economic Benefit Available as a Refund

The economic benefit available as a refund of surplus would be measured assuming that it will be realised in the most advantageous of the following ways:

- during the life of a plan, without settlement of the plan liabilities
- upon gradual settlement of the plan liabilities until no members are left in the plan
- upon plan wind-up and full settlement of the plan liabilities.

The refund would be calculated net of any costs associated with the assumed method of realising the benefit. For example, if the refund was calculated assuming plan wind-up, then any insurance premiums to settle plan liabilities and any other plan settlement costs would be deducted from the refundable surplus.

### Measurement of the Economic Benefit Available as a Contribution Reduction

The economic benefit available as a reduction in future contributions

would be determined, for each year of the expected plan life, as the present value of the service cost to the entity less any future minimum funding contributions associated with the benefits accrued. If the MFR exceeded the service costs in any given year, then the economic benefit available at the balance sheet date would be reduced by the present value of this excess, until it is reduced to nil.

### Effect of a MFR on the Measurement of the Defined Benefit Asset or Liability

The draft interpretation proposes that if the entity is required to make additional contributions into a plan in respect of services already received, and these contributions will not be available as a refund of a surplus or a future contribution reduction, then the entity should reduce the defined benefit asset or increase the defined benefit liability such that no gain or loss is recognised from calculation of the asset ceiling when contributions are paid. This adjustment and its subsequent remeasurement would be recognised immediately in profit or loss or in equity, consistent with

the entity's accounting policy choice for recognising the effect of the asset ceiling.

### Effective Date and Transition

The draft interpretation proposes retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but no effective date has been proposed.

### Response to the IFRIC

The IFRIC has invited comments on this draft interpretation by 31 October 2006.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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