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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

Comments to be received by 19 October 2015

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**Remeasurement on a Plan Amendment,
Curtailement or Settlement/Availability of
a Refund from a Defined Benefit Plan**

**(Proposed amendments to IAS 19 and
IFRIC 14)**

Comments to be received by 19 October 2015

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) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form. Comments need to be received by **19 October 2015** and should be submitted in writing to the address below or electronically using our 'Comment on a proposal' page.

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Introduction

The International Accounting Standards Board (IASB) has published this Exposure Draft of 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*. The proposed amendments are in response to two requests to the IFRS Interpretations Committee (the ‘Interpretations Committee’).

Availability of a refund from a defined benefit plan

IAS 19 requires an entity to determine a surplus as the fair value of the plan asset minus the present value of the defined benefit obligation. The net defined benefit asset to be recognised in the financial statement is the lower of the surplus and the asset ceiling (ie the economic benefits available in the form of refunds or reductions in future contributions or a combination of both, in accordance with IFRIC 14).

The proposals address whether other parties’ (for example, pension trustees) power to enhance benefits for plan members or wind up a plan affects the availability of a refund.

The IASB also proposes to address the interaction between the asset ceiling and the past service cost or a gain or loss on settlement.

Remeasurement on a plan amendment, curtailment or settlement

The proposals address the accounting when a plan amendment, curtailment or settlement occurs during a period with the following proposed guidance:

- (a) when the net defined benefit liability (asset) is remeasured in accordance with paragraph 99 of IAS 19 (ie when a plan amendment, curtailment or settlement occurs):
 - (i) the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement; and
 - (ii) an entity determines the net interest for the remaining period based on the remeasured net defined benefit liability (asset).
- (b) the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement are not affected by, or included in, the past service cost or a gain or loss on settlement.

The IASB proposes that these amendments should be applied retrospectively, but proposes providing an exemption that would be similar to the exemption granted in respect of the amendments to IAS 19 in 2011. The exemption is for adjustments of the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit expenses that were included in inventories) (see paragraph 173(a) of IAS 19).

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph or group of paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative that the IASB should consider, if applicable.

The IASB is not requesting comments on matters either in IAS 19 or in IFRIC 14 that are not addressed in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than **19 October 2015**.

Questions for respondents

Question 1—Accounting when other parties can wind up a plan or affect benefits for plan members without an entity's consent

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

- (a) the amount of the surplus that an entity recognises as an asset on the basis of a future refund should not include amounts that other parties (for example, the plan trustees) can use for other purposes (for example, to enhance benefits for plan members) without the entity's consent.
- (b) an entity should not assume a gradual settlement of the plan as the justification for the recognition of an asset, if other parties can wind up the plan without the entity's consent.
- (c) other parties' power to buy annuities as plan assets or make other investment decisions without changing the benefits for plan members does not affect the availability of a refund.

Do you agree with the proposed amendments? Why or why not?

Question 2—Statutory requirements that an entity should consider to determine the economic benefit available

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

Do you agree with that proposal? Why or why not?

Question 3—Interaction between the asset ceiling and past service cost or a gain or loss on settlement

The IASB proposes amending IAS 19 to clarify that:

- (a) the past service cost or the gain or loss on settlement is measured and recognised in profit or loss in accordance with the existing requirements in IAS 19; and
- (b) changes in the effect of the asset ceiling are recognised in other comprehensive income as required by paragraph 57(d)(iii) of IAS 19, as a result of the reassessment of the asset ceiling based on the updated surplus, which is itself determined after the recognition of the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

Question 4—Accounting when a plan amendment, curtailment or settlement occurs

The IASB proposes amending IAS 19 to specify that:

- (a) when the net defined benefit liability (asset) is remeasured in accordance with paragraph 99 of IAS 19:
 - (i) the current service cost and the net interest after the remeasurement are determined using the assumptions applied to the remeasurement; and
 - (ii) an entity determines the net interest after the remeasurement based on the remeasured net defined benefit liability (asset).
- (b) the current service cost and the net interest in the current reporting period before a plan amendment, curtailment or settlement are not affected by, or included in, the past service cost or the gain or loss on settlement.

Do you agree with that proposal? Why or why not?

Question 5—Transition requirements

The IASB proposes that these amendments should be applied retrospectively, but proposes providing an exemption that would be similar to that granted in respect of the amendments to IAS 19 in 2011. The exemption is for adjustments of the carrying amount of assets outside the scope of IAS 19 (for example, employee benefit expenses that are included in inventories) (see paragraph 173(a) of IAS 19).

Do you agree with that proposal? Why or why not?

How to comment

Comments should be submitted using one of the following methods.

Electronically Visit the ‘Comment on a proposal page’, which can be found at:
(our preferred method) go.ifrs.org/comment

Email Email comments can be sent to: commentletters@ifrs.org

Postal IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

All comments will be on the public record and posted on our website unless confidentiality is requested. Such requests will not normally be granted unless supported by good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

**[Draft] Amendments to
IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum
Funding Requirements and their Interaction**

Paragraph 7 is amended and paragraphs 12A–12C and 27D are added. Deleted text is struck through and new text is underlined. Paragraphs 9 and 11–15 have not been amended but have been included for ease of reference.

Availability of a refund or reduction in future contributions

- 7 An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan that are contractually agreed, as well as constructive obligations, and any statutory requirements in the jurisdiction of the plan that are substantively enacted, at the end of the reporting period. When a plan amendment, curtailment or settlement occurs and an entity determines changes in the effect of the asset ceiling as required by paragraph 64A of IAS 19, it shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan that are contractually agreed, as well as constructive obligations, and any statutory requirements that are substantively enacted, at the date of this determination.

...

- 9 The economic benefit available does not depend on how the entity intends to use the surplus. An entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. An entity shall not recognise economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.

...

The right to a refund

- 11 A refund is available to an entity only if the entity has an unconditional right to a refund:
- (a) during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (eg in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or
 - (b) assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or
 - (c) assuming the full settlement of the plan liabilities in a single event (ie as a plan wind-up).

An unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period.

12 If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset.

12A An entity does not have an unconditional right to a refund of a surplus on the basis of assuming the gradual settlement described in paragraph 11(b) if other parties (for example, the plan trustees) can wind up the plan without the entity's consent. Other parties do not have the power to wind up the plan without the entity's consent, if the power is dependent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the other parties' control.

12B The amount of the surplus that the entity recognises as an asset on the basis of a future refund shall not include amounts that other parties can use for other purposes that affect the benefits for plan members, for example, by enhancing those benefits, without the entity's consent. Other parties do not have the power to affect the benefits for plan members without the entity's consent, if the power is dependent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the other parties' control.

12C Other parties' power to buy annuities as plan assets or make other investment decisions without affecting the benefits for plan members shall not affect the availability of a refund.

Measurement of the economic benefit

13 An entity shall measure the economic benefit available as a refund as the amount of the surplus at the end of the reporting period (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs. For instance, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.

14 In measuring the amount of a refund available when the plan is wound up (paragraph 11(c)), an entity shall include the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

15 If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, an entity shall make no adjustment for the time value of money, even if the refund is realisable only at a future date.

...

Transition and effective date

...

27D [Draft] Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Amendments to IAS 19 and IFRIC 14), issued in

[date], amended paragraph 7 and added paragraphs 12A–12C. An entity shall apply those amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after [date], except that an entity need not adjust the carrying amount of assets outside the scope of IAS 19 for changes in employee benefit costs that were included in the carrying amount of those assets before the beginning of the earliest comparative period presented in the financial statements in which these amendments are first applied. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

**[Draft] Amendments to the Basis for Conclusions on
IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum
Funding Requirements and their Interaction**

The following footnote is added to paragraph BC10. New text is underlined. Paragraphs BC11–BC15 have not been amended but have been included for ease of reference.

BC10 In the responses to D19, some argued that an entity may expect to use the surplus to give improved benefits. Others noted that future actuarial losses might reduce or eliminate the surplus. In either case there would be no refund or reduction in future contributions. The IFRIC noted that the existence of an asset at the end of the reporting period depends on whether the entity has the right to obtain a refund or reduction in future contributions. The existence of the asset at that date is not affected by possible future changes to the amount of the surplus. If future events occur that change the amount of the surplus, their effects are recognised when they occur. Accordingly, if the entity decides to improve benefits, or future losses in the plan reduce the surplus, the consequences are recognised when the decision is made or the losses occur. The IFRIC noted that such events of future periods do not affect the existence or measurement of the asset at the end of the reporting period.¹

The asset available as a refund of a surplus

BC11 The IFRIC noted that a refund of a surplus could potentially be obtained in three ways:

- (a) during the life of the plan, without assuming that the plan liabilities have to be settled in order to get the refund (eg in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or
- (b) assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or
- (c) assuming the full settlement of the plan liabilities in a single event (ie as a plan wind-up).

BC12 The IFRIC concluded that all three ways should be considered in determining whether an economic benefit was available to the entity. Some respondents to D19 raised the question of when an entity controls an asset that arises from the availability of a refund, in particular if a refund would be available only if other parties (for example the plan trustees) gave its approval. The IFRIC concluded that an entity controlled the asset only if the entity has an unconditional right to the refund. If that right depends on actions by other parties, the entity does not have an unconditional right.

BC13 If the plan liability is settled by an immediate wind-up, the costs associated with the wind-up may be significant. One reason for this may be that the cost of

¹ [Draft] Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Amendments to IAS 19 and IFRIC 14), issued in [date], added guidance for when other parties (for example, trustees) have a power to change benefits for plan members without the entity's consent. Paragraph BC10 was not intended to address the circumstances covered by these amendments. Refer to paragraphs BC1–10 [to be determined if finalised], for further details.

annuities available on the market is expected to be significantly higher than that implied by the IAS 19 basis. Other costs include the legal and other professional fees expected to be incurred during the winding-up process. Accordingly, a plan with an apparent surplus may not be able to recover any of that surplus on wind-up.

- BC14 The IFRIC noted that the available surplus should be measured at the amount that the entity could receive from the plan. The IFRIC decided that in determining the amount of the refund available on wind-up of the plan, the amount of the costs associated with the settlement and refund should be deducted if paid by the plan.
- BC15 The IFRIC noted that the costs of settling the plan liability would be dependent on the facts and circumstances of the plan and it decided not to issue any specific guidance in this respect.

[Draft] Amendments to IAS 19 *Employee Benefits*

Paragraphs 99, 123 and 125–126 are amended and paragraphs 64A, 67A, 99A and 178 are added. New text is underlined and deleted text is struck through. Paragraphs 64, 67 and 124 have not been amended but have been included for ease of reference.

Statement of financial position

...

64 When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

- (a) the surplus in the defined benefit plan; and
- (b) the asset ceiling, determined using the discount rate specified in paragraph 83.

64A When a plan amendment, curtailment or settlement occurs, past service cost or a gain or loss on settlement shall be measured and recognised in profit or loss as required by paragraphs 99–112 and the asset ceiling shall affect neither this measurement nor this recognition. After the recognition of the past service cost or a gain or loss on settlement, an entity shall determine changes in the effect of the asset ceiling based on the updated surplus, using the fair value of the plan assets and the discount rate used to remeasure the net defined benefit liability (asset) after the plan amendment, curtailment or settlement, as required by paragraph 99. Remeasurements of the net defined benefit liability (asset) includes changes in the effect of the asset ceiling and shall be recognised in other comprehensive income as required by paragraph 57(d)(iii).

...

Recognition and measurement: present value of defined benefit obligations and current service cost

...

Actuarial valuation method

67 An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

67A Ordinarily, the current service cost shall be determined using the assumptions at the start of the annual reporting period. However, if the net defined benefit liability (asset) is remeasured as required by paragraph 99, the current service cost for the remaining portion of the annual reporting period after the remeasurement shall be determined using the assumptions used to measure the defined benefit obligation that reflects the benefits offered after the plan amendment, curtailment or settlement. The remeasurement that is required by paragraph 99 shall not affect the current service cost for the period before this remeasurement.

...

Past service cost and gains and losses on settlement

99 Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement. An entity also shall remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan after the plan amendment, curtailment or settlement.

99A An entity shall determine the current service cost and net interest in accordance with paragraphs 67A and 123. The current service cost and net interest shall be excluded from the past service cost and from the gain or loss on settlement.

...

Net interest on the net defined benefit liability (asset)

123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, ~~both as unless the net defined benefit liability (asset) is remeasured as required by paragraph 99. Ordinarily, both the net defined benefit liability (asset) and the discount rate are determined at the start of the annual reporting period. , taking~~ However, an entity takes account of any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments and as a result of any remeasurement that is required by paragraph 99. If the net defined benefit liability (asset) is remeasured as required by paragraph 99, the net interest for the remaining portion of the annual reporting period shall be determined by applying the discount rate used to remeasure the net defined benefit liability (asset) that reflects the benefits offered after the plan amendment, curtailment or settlement. The remeasurement that is required by paragraph 99 shall not affect net interest for the period before this remeasurement.

124 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 64.

125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate ~~specified in paragraph 83, both as, Ordinarily, the fair value of the plan assets is~~ determined at the start of the annual reporting period. ~~, taking~~ However, an entity takes account of any changes in the plan assets held during the period as a result of contributions and benefit payments and as a result of any remeasurement of the plan assets that is required by paragraph 99. An entity shall use the discount rate(s) that were applied in accordance with paragraph 123. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

- 126 Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate ~~specified in paragraph 83, both as~~. Ordinarily, the effect of the asset ceiling is determined at the start of the annual reporting period, however, an entity takes account of any changes in the effect of the asset ceiling as a result of the accounting that is required by paragraph 64A. An entity shall use the discount rate(s) that were applied in accordance with paragraph 123. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

...

Transition and effective date

...

- 178 [Draft] Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Amendments to IAS 19 and IFRIC 14), issued in [date], amended paragraphs 99, 123 and 125–126 and added paragraphs 64A, 67A and 99A. An entity shall apply those amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods beginning on or after [date], except that an entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount of those assets before the beginning of the earliest comparative period presented in the financial statements in which these amendments are first applied. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

**[Draft] Amendments to the Basis for Conclusions on
IAS 19 *Employee Benefits***

The following footnote is added to paragraph BC64. New text is underlined>. Paragraphs BC58–63 have not been amended but have been included for ease of reference.

Interim reporting: effects of the amendments issued in 2011

- BC58 The 2010 ED did not propose any substantial amendments to the requirements in IAS 34 *Interim Financial Reporting*. Respondents to the 2010 ED were concerned that the requirements for the immediate recognition of changes in the net defined benefit liability (asset) would imply that entities should remeasure the net defined benefit liability (asset) at each interim reporting date.
- BC59 The Board noted that an entity is not always required to remeasure a net defined benefit liability (asset) for interim reporting purposes under IAS 19 and IAS 34. Both indicate that the entity needs to exercise judgement in determining whether it needs to remeasure the net defined benefit liability (asset) at the end of the (interim or annual) reporting period.
- BC60 The amendments made in 2011 require an entity to recognise remeasurements in the period in which they arise. Thus, remeasurements are now more likely to have a material effect on the amount recognised in the financial statements than would have been the case before those amendments if an entity elected to defer recognition of actuarial gains and losses. It follows that entities previously deferring recognition of some gains and losses are now more likely to judge that remeasurement is required for interim reporting.
- BC61 The Board considered setting out explicitly whether an entity should remeasure a net defined benefit liability (asset) at interim dates. However, in the Board's view, such a change would be an exemption from the general requirements of IAS 34 and consequently it decided against such an amendment. The Board is not aware of concerns with the application of these interim reporting requirements for entities that applied the immediate recognition option under the previous version of IAS 19.
- BC62 Some respondents to the 2010 ED asked the Board to clarify whether the assumptions used to determine defined benefit cost for subsequent interim periods should reflect the assumptions used at the end of the prior financial year or for the most recent measurement of the defined benefit obligation (for example, in an earlier interim period or in determining the effect of a plan amendment or settlement).
- BC63 The Board noted that if assumptions for each interim reporting period were updated to the most recent interim date, the measurement of the entity's annual amounts would be affected by how frequently the entity reports, ie whether the entity reports quarterly, half-yearly or with no interim period. In the Board's view this would not be consistent with the requirements of paragraphs 28 and 29 of IAS 34.
- BC64 Similarly, in the Board's view there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in

determining current service cost and net interest, ie determining how much service the employee has rendered to date and the effect of the time value of money to date. The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement. In accordance with paragraph B9 of IAS 34 the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year.²

² [Draft] Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Amendments to IAS 19 and IFRIC 14), issued in [date], amended IAS 19. These amendments provide guidance on the calculation of the current service cost and net interest if an entity remeasures the net defined benefit liability (asset) as required in paragraph 99. The accounting required by these amendments is different from the accounting described in paragraph BC64. Paragraph BC64 does not provide either principles or guidance.

Approval by the Board of *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) published in June 2015

The Exposure Draft *Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan* was approved for publication by the fourteen members of the International Accounting Standards Board.

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Ian Mackintosh	Vice-Chairman
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**Basis for Conclusions on the Exposure Draft
*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)***

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

**Availability of a refund when other parties can wind up a plan or
affect benefits for plan members, without an entity's consent
(paragraphs 7–15 of IFRIC 14)**

- BC1 The IASB received a request to clarify the application of the requirements of IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* in relation to the availability of refunds from a defined benefit plan with an independent trustee. It discussed a question about whether an entity has an unconditional right to a refund of a surplus in the following circumstances:
- (a) the trustee acts on behalf of the plan members and is independent of the employer;
 - (b) the trustee has a power to enhance the benefits payable to the plan members or wind up the plan, or both; and
 - (c) the trustee can use these powers at any time, regardless of the entity's consent or intent, but the trustee has not exercised such a power at the end of the reporting date.
- BC2 An economic benefit may be available in the form of a refund or reductions in future contributions or a combination of both. The issue raised is related solely to the availability of a refund.
- BC3 The IASB noted that paragraph BC10 of IFRIC 14 had not addressed the circumstances in which trustees have such a power.
- BC4 The IASB observed that 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 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 this power restricts an entity's ability to use the surplus to generate future cash inflow to the entity.
- BC5 The IASB also noted that an entity's ability to realise economic benefits through a 'gradual settlement' is restricted if a trustee can wind up the plan, without the entity's consent. This is because the assumption in paragraph 11 of IFRIC 14 of a gradual settlement over time until all members have left the plan would not be valid if the other party can decide to wind up the plan before 'all members have left the plan' and thus the gradual settlement can be prevented.
- BC6 The IASB concluded that a trustee's power to buy annuities as plan assets or make other investment decisions is different from a trustee's power to use a surplus to enhance benefits or to wind up the plan; the latter two actions result in a change in the benefits for plan members. The IASB concluded that the

power to buy annuities as plan assets or make other investment decisions relates to the future amount of plan assets but does not relate to the right to a refund of a surplus. Consequently, the IASB concluded that the power to buy annuities as plan assets or make other investment decisions, on its own, would not prevent the entity from recognising a surplus as an asset. The IASB also decided that other parties' power should not affect the availability of a refund, if the power is dependent on uncertain future events (for example, if pension trustees can wind up the plan only when an entity does not pay benefits as scheduled or in a bankruptcy), similarly to paragraph 12 of IFRIC 14.

- BC7 The IASB noted that when an entity determines the availability of a refund, it should take into account regulations or tax to the extent that the changes are substantively enacted at the end of the reporting period. (In other words, it noted that an entity should not take into account future possible changes of regulations or tax by the government.) The IASB noted that the concept of 'substantively enacted' is used in paragraph 21 of IFRIC 14. It also noted that IAS 12 *Income Taxes* uses a similar concept.
- BC8 The IASB also noted that, when an entity's legal or constructive obligation to enhance benefits has arisen in accordance with paragraph 61 of IAS 19 *Employee Benefits*, the entity should reflect this obligation in the measurement of the defined benefit obligation, in accordance with paragraph 88 of IAS 19. The IASB concluded that no amendment to IAS 19 was needed in respect of this matter. However, it proposed an amendment to paragraph 7 of IFRIC 14 to clarify the conclusions.
- BC9 The IASB analysed the consequences that these conclusions could have on the accounting for a minimum funding requirement and noted that the conclusion should lead to consistent results when a minimum funding requirement exists.
- BC10 The IASB also analysed the consistency between these conclusions and the requirements of IAS 19. It noted that there would be no conflict, because the application of the asset ceiling requirement is separate from the determination of a surplus (deficit). The IASB also decided to amend IAS 19 to clarify the accounting for the asset ceiling and past service cost or a gain or loss on settlement, when a plan amendment, curtailment or settlement occurs.

Interaction between the asset ceiling and past service cost or a gain or loss on settlement (paragraph 64A of IAS 19)

- BC11 The IASB analysed the interaction between IAS 19 and the conclusion to amend IFRIC 14 in the discussion in paragraphs BC1–10. It noted that the accounting for a plan amendment, curtailment or settlement may cause a reduction or elimination of a surplus, which may mean that the effect of the asset ceiling also changes. It concluded that, when a plan amendment, curtailment or settlement occurs:
- (a) past service cost or a gain or loss on settlement should be measured and recognised in profit or loss as required by paragraphs 99–112 of IAS 19, before recognising the changes in the effect of the asset ceiling; and

- (b) changes in the effect of the asset ceiling should be recognised in other comprehensive income as required in paragraph 57(d)(iii) of IAS 19, as a result of the effect of the asset ceiling on the updated surplus, which is itself determined after the recognition of the past service cost or a gain or loss on settlement.

BC12 Paragraph 122 of IAS 19 explains that remeasurement of the net defined benefit liability (asset) recognised in other comprehensive income should not be reclassified to profit or loss in a subsequent period. The IASB noted that this paragraph does not conflict with this proposed amendment. This is because the accounting in this proposed amendment is not a 'reclassification'—the accounting in the proposed amendment confirms that recognising past service cost or a gain or loss on settlement and assessing the asset ceiling are two distinct steps.

Remeasurement on a plan amendment, curtailment or settlement (paragraphs 67–126 of IAS 19)

- BC13 The IASB received a request to address the accounting treatment in accordance with IAS 19 for issues related to the remeasurement of the net defined benefit liability (asset) in the event of a plan amendment, curtailment or settlement. The IASB noted that, after the amendments issued in 2011, paragraphs 123 and BC64 of IAS 19 imply that an entity should not revise any assumptions for the calculation of the current service cost and net interest during the period, even if an entity remeasures the net defined benefit liability (asset) as required by paragraph 99 of IAS 19. The IASB is concerned that ignoring the effects of such an event (ie a plan amendment, curtailment or settlement) in the period following the event when calculating the current service cost and net interest would not result in useful information.
- BC14 Consequently, the IASB concluded that an entity should 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 for a plan amendment, curtailment or settlement during a period, when determining the current service cost and net interest for the period following the event. It proposed adding paragraph 67A of IAS 19 and amending paragraphs 123 and 125–126 of IAS 19 to address this point.
- BC15 The IASB also decided to address the classification of the current service cost and past service, when a plan amendment or curtailment occurs during a reporting period, because practical questions were raised. The IASB observed that paragraph 102 of IAS 19 explains that the past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. Paragraph 8 of IAS 19 defines the current service cost as the increase in the present value of the defined benefit obligation resulting from employee service in the current period and the IASB noted that the current period means the current reporting period. Consequently, the IASB concluded that the current service cost in the current reporting period before a plan amendment or curtailment should not be included in the past service cost.

- BC16 During its deliberations, the IASB also noted that the requirement to remeasure the net defined benefit liability (asset) is determined on a plan-by-plan basis (not on a country basis or an overall entity basis). The last sentence of paragraph 57 of IAS 19 implies that the unit of account for post-employment benefits should be a plan-by-plan basis and paragraph 99 of IAS 19 implies that the calculation reflects the benefits offered under 'each plan'. The IASB concluded that no amendment was needed to IAS 19 in respect of this matter.
- BC17 The IASB identified that the expected benefits from the amendments include providing more relevant information, enhanced understandability and eliminating diversity in accounting when a plan amendment, curtailment or settlement occurs. The IASB considered concerns about the costs of implementing the proposed amendments. However, the IASB concluded that the expected benefits would outweigh any additional costs from the amendments, because paragraph 99 of IAS 19 already requires the net defined benefit liability (asset) to be remeasured. The IASB observed that the requirement to apply IFRS only to material items as described in paragraph 8 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* would continue to apply.
- BC18 The IASB also discussed whether it should address the accounting in IAS 19 when 'significant market fluctuations', which are referred to in paragraph B9 of IAS 34 *Interim Financial Reporting*, occur during the annual reporting period. The IASB decided not to address this issue, because it observed that addressing this issue is too broad to be included in this proposal.
- BC19 Consequently, the amendments do not change the requirements in IAS 19 on whether and when an entity should remeasure the net defined benefit liability (asset); the existing guidance in paragraph 99 requires an entity to remeasure the net defined benefit liability (asset) when a plan amendment, curtailment or settlement occurs. The intention of the amendments is to confirm that an entity should determine the current service cost and net interest for the remaining portion of the period by using the updated assumptions used in the more recent measurement required by paragraph 99.

Transition and first-time adoption

- BC20 The IASB decided that an entity should apply the amendments retrospectively to achieve comparability between periods and entities when a plan amendment, curtailment or settlement occurs, in accordance with the general requirement of IAS 8. The IASB also noted that the amendments do not require new estimates to be made.
- BC21 Consequently, the IASB proposes that an entity should apply the amendments to IFRIC 14 and IAS 19 retrospectively. However, it also decided that it should provide an exemption that would be similar to the exemption granted in respect of the amendments to IAS 19 issued in 2011 (see paragraph 173 of IAS 19), taking account of the costs and benefits. Consequently, the IASB proposed the exemption for adjustments of the carrying amount of assets outside the scope of IAS 19 (for example, economic benefit expenses that were included in inventories). Because the amendments do not affect the defined benefit

obligation, the IASB did not propose the exemption for disclosure requirements about the sensitivity of the defined benefit obligation.

- BC22 A similar relief is already provided for first-time adopters of IFRS in paragraph E5 of IFRS 1 *First time Adoption of International Financial Reporting Standards*. The IASB concluded that no additional exemption to the requirements of IFRS 1 would be required.
- BC23 The IASB proposes that early application should be permitted.

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