



ED/2009/4 Prepayments of a Minimum Funding Requirement

Public Discussion
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Preliminary note

Background

- If an entity has a pension plan, where the net total of the present value of the defined benefit plan and the fair value of the plan assets is negative, the entity is only permitted to recognise an asset if the so called asset ceiling test according to IAS 19.58 does not result in a lower recognisable amount.
- Evaluation of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (IAS 19.58 (b) (ii)).
- IFRIC 14 deals with the effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions.

Problem

- Recognition of an asset, if an entity makes a voluntary prepayment subject to a minimum funding requirement.



Initial case

Example: An entity has a defined benefit plan (fund). Over the next 10 years, the entity is required to fund the plan with CU 15 per year (so called minimum funding requirement = MFR). Over the next 10 years, future service costs (=SC) of CU 10 are expected by the entity. For simplification, this example assumes that the discount rate und the expected return on plan assets is nil.

| Jahr | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|------|----|----|----|----|----|----|----|----|----|----|
| SC | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| MFR | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |

After year 5 the service charge has been CU 50 and the entity has made contributions of CU 75 to the fund. There is a surplus of CU 25.



Initial case

The recognition of this asset after year 5 according to IAS 19.58 and IFRIC 14.20/22 is limited to the recoverable surplus, ie the difference between the future service costs and the minimum funding requirement contributions $\rightarrow (5 \times 10) - (5 \times 15) = \text{CU} - 25 \rightarrow \text{asset} = \text{CU} 0$

Problematic case

At the beginning of year 5, the entity makes a prepayment of CU 25 subject to the minimum funding requirement in respect of years 6 and 7. The plan surplus after year 5 increases to CU 50 (25 + 25).

| Year | 6 | 7 | 8 | 9 | 10 |
|------|----|----|----|----|----|
| SC | 10 | 10 | 10 | 10 | 10 |
| MFR | 0 | 5 | 15 | 15 | 15 |



Problematic case

IFRIC 14.20/22:

No recoverable surplus, because the difference between the future service costs and the minimum funding requirement contributions is not greater than nil $\rightarrow (5 \times 10) - (5 + 3 \times 15) = \text{CU } 0 \rightarrow \text{asset} = \text{CU } 0$

IFRIC 14.20 amend:

Recognisable asset comprising of :

- a) the prepayment of CU 25 and
- b) assuming there was no prepayment, the lower of (minimal CU 0)
 - the plan surplus (= CU 25) and
 - the difference between the future service costs and the minimum funding requirement contributions ($50 - 75 = \text{CU } - 25$)

$\rightarrow \text{asset} = \text{CU } 25$



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