IFRIC 14: Minimum Funding Requirements

Excerpt, IFRS Discussion Group Report on Meeting – September 28, 2011

IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* addresses how a minimum funding requirement might affect the availability of reductions in future contributions. In March 2011, the Group discussed the application of the minimum funding requirements in accordance with IFRIC 14.

Paragraph 21 of IFRIC 14 specifies that an entity “shall estimate the minimum funding requirement contributions for future service taking into account the effect of any existing surplus.” In March 2011, members discussed two approaches for determining a minimum funding requirement for future service, specifically, how the words “the effect of any existing surplus” in paragraph 21 of IFRIC 14 should be applied.

> *View A – Existing surplus at the current time*
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> The “effects of the existing surplus” are limited to the amount of the surplus at the present time. Expected future growth in the current surplus would not be included.
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> *View B – Existing surplus including growth*
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> The “effects of the existing surplus” include growth in the surplus due to expected returns on plan assets exceeding the discount rate. Changes to the surplus due to any other factors would not be included.

The Group’s discussion in March 2011 demonstrated that there was support for both views, and these two approaches can result in significantly different outcomes and cause a lack of comparability across sectors. The Group noted that clarification of whether “the effect of any existing surplus” should include growth in the surplus would be helpful. However, Members questioned if the measurement of minimum funding requirements was a Canadian-specific issue or one that affected other jurisdictions. As a result, at the March 2011 meeting, the Group:

> recommended that the staff perform additional research to determine whether there is diversity in practice in other jurisdictions; and
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> tentatively recommended that the AcSB consider bringing this issue to the attention of the IFRS Interpretations Committee if sufficient evidence of global diversity is found.

At the September 2011 meeting, the staff reported that the additional research performed has not identified any other jurisdiction where this issue is viewed as a significant issue that needs to be addressed. The staff noted that no significant diversity in practice outside of Canada has been found. In light of the staff’s research, the Group reconsidered whether the issue should be brought to the attention of the IFRS Interpretations Committee by the AcSB in a request for an interpretation.

Source: www.frascanada.ca/ifrs-discussion-group

Group members observed that diversity in practice exists in Canada but acknowledged that based on the IFRS Interpretations Committee's current approach and agenda criteria, the issue should not be brought forward at this time. Instead, the Group directed the staff to continue to keep the IASB staff informed and monitor the work of the Canadian Institute of Actuaries and the International Actuarial Association on this issue. Also, the Group directed the staff to draw this issue to the attention of the IASB staff as an example that demonstrates one problem with the IFRS Interpretations Committee's current agenda criteria.

The Group plans to reconsider this issue after any changes to the IFRS Interpretations Committee's approach or agenda criteria resulting from the Trustees review are implemented.