

**SB-FRS 19—The Limit on a Defined Benefit Asset,
Minimum Funding Requirements and their Interaction**

INT SB-FRS 114 *SB-FRS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* applies to Statutory Boards' financial statements for annual periods beginning on or after 1 January 2008.

This INT SB-FRS is equivalent to INT FRS 114 *FRS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* applies issued by the Accounting Standards Council on 28 March 2008

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Interpretation of SB-FRS 114 SB-FRS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (INT SB-FRS 14) is set out in paragraphs 1–28. INT SB-FRS 114 is accompanied by Illustrative Examples and a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface* to the Interpretations of Statutory Board Financial Reporting Standard.

INTERPRETATION OF STATUTORY BOARD FINANCIAL REPORTING STANDARD INT SB-FRS 114

SB-FRS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

References

- o SB-FRS 1 *Presentation of Financial Statements*
- o SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- o SB-FRS 19 *Employee Benefits*
- o SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Background

- 1 Paragraph 58 of SB-FRS 19 limits the measurement of a defined benefit asset to 'the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan' plus unrecognised gains and losses. Questions have arisen about when refunds or reductions in future contributions should be regarded as available, particularly when a minimum funding requirement exists.
- 2 Minimum funding requirements exist in many countries to improve the security of the post-employment benefit promise made to members of an employee benefit plan. Such requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.
- 3 Further, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

Scope

- 4 This Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits.
- 5 For the purpose of this Interpretation, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

Issues

- 6 The issues addressed in this Interpretation are:
 - (a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of SB-FRS 19.
 - (b) how a minimum funding requirement might affect the availability of reductions in future contributions.

- (c) when a minimum funding requirement might give rise to a liability.

Consensus

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 and any statutory requirements in the jurisdiction of the plan.
- 8 An economic benefit, in the form of a refund or a reduction in future contributions, is available if the entity can realise it at some point during the life of the plan or when the plan liabilities are settled. In particular, such an economic benefit may be available even if it is not realisable immediately at the balance sheet date.
- 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.
- 10 In accordance with SB-FRS 1, the entity shall disclose information about the key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the statement of financial position. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

The economic benefit available as a refund

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 balance sheet date.

- 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.

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 balance sheet date (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.

The economic benefit available as a contribution reduction

- 16 If there is no minimum funding requirement, an entity shall determine the economic benefit available as a reduction in future contributions as the lower of
- (a) the surplus in the plan and
 - (b) the present value of the future service cost to the entity, ie excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity.
- 17 An entity shall determine the future service costs using assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the balance sheet date as determined by SB-FRS 19. Therefore, an entity shall assume no change to the benefits to be provided by a plan in the future until the plan is amended and shall assume a stable workforce in the future unless the entity is demonstrably committed at the balance sheet date to make a reduction in the number of employees covered by the plan. In the latter case, the assumption about the future workforce shall include the reduction. An entity shall determine the present value of the future service cost using the same discount rate as that used in the calculation of the defined benefit obligation at the balance sheet date.

The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

- 18 An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover (a) any existing shortfall for past service on the minimum funding basis and (b) the future accrual of benefits.
- 19 Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service. They may give rise to a liability in accordance with paragraphs 23–26.
- 20 If there is a minimum funding requirement for contributions relating to the future accrual of benefits, an entity shall determine the economic benefit available as a reduction in future contributions as the present value of:
- (a) the estimated future service cost in each year in accordance with paragraphs 16 and 17 less
 - (b) the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.
- 21 An entity shall calculate the future minimum funding contributions required in respect of the future accrual of benefits taking into account the effect of any existing surplus on the minimum funding requirement basis. An entity shall use the assumptions required by the minimum funding requirement and, for any factors not specified by the minimum funding requirement, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the balance sheet date as determined by SB-FRS 19. The

calculation shall include any changes expected as a result of the entity paying the minimum contributions due. However, the calculation shall not include the effect of expected changes in the terms and conditions of the minimum funding requirement that are not substantively enacted or contractually agreed at the balance sheet date.

- 22 If the future minimum funding contribution required in respect of the future accrual of benefits exceeds the future SB-FRS 19 service cost in any given year, the present value of that excess reduces the amount of the asset available as a reduction in future contributions at the balance sheet date. However, the amount of the asset available as a reduction in future contributions can never be less than zero.

When a minimum funding requirement may give rise to a liability

- 23 If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.
- 24 To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognise a liability when the obligation arises. The liability shall reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected to result from applying paragraph 58 of SB-FRS 19 when the contributions are paid.
- 25 An entity shall apply paragraph 58A of SB-FRS 19 before determining the liability in accordance with paragraph 24.
- 26 The liability in respect of the minimum funding requirement and any subsequent remeasurement of that liability shall be recognised immediately in accordance with the entity's adopted policy for recognising the effect of the limit in paragraph 58 in SB-FRS 19 on the measurement of the defined benefit asset. In particular:
- (a) an entity that recognises the effect of the limit in paragraph 58 in profit or loss, in accordance with paragraph 61(g) of SB-FRS 19, shall recognise the adjustment immediately in profit or loss.
 - (b) an entity that recognises the effect of the limit in paragraph 58 in the statement of recognised income and expense, in accordance with paragraph 93C of SB-FRS 19, shall recognise the adjustment immediately in the statement of recognised income and expense.

Effective date

- 27A SB-FRS 1 (as revised in 2008) amended the terminology used throughout SB-FRSs. In addition it amended paragraph 26. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies SB-FRS 1 (revised 2008) for an earlier period, the amendments shall be applied for that earlier period.
- 27 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008. Earlier application is permitted.

Transition

- 28 An entity shall apply this Interpretation from the beginning of the first period presented in the first financial statements to which the Interpretation applies. An entity shall recognise any initial adjustment arising from the application of this Interpretation in retained earnings at the beginning of that period.

Illustrative examples

These examples accompany, but are not part of, INT SB-FRS 114.

Example 1—Effect of the minimum funding requirement when there is an SB-FRS 19 surplus and the minimum funding contributions payable are fully refundable to the entity

- IE1 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under SB-FRS 19) of 82 per cent in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95 per cent immediately. As a result, the entity has a statutory obligation at the balance sheet date to contribute 200 to Plan A immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. The year-end valuations for Plan A are set out below.

Market value of assets	1,200
Present value of defined benefit obligation under SB-FRS 19	(1,100)
Surplus	<u>100</u>
Defined benefit asset (before consideration of the minimum funding requirement) ^(a)	<u>100</u>

(a) For simplicity, it is assumed that there are no unrecognised amounts.

Application of requirements

- IE2 Paragraph 24 of INT SB-FRS 114 requires the entity to recognise a liability to the extent that the contributions payable are not fully available. Payment of the contributions of 200 will increase the SB-FRS 19 surplus from 100 to 300. Under the rules of the plan this amount will be fully refundable to the entity with no associated costs. Therefore, no liability is recognised for the obligation to pay the contributions.

Example 2—Effect of a minimum funding requirement when there is an SB-FRS 19 deficit and the minimum funding contributions payable would not be fully available

- IE3 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under SB-FRS 19) of 77 per cent in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100 per cent immediately. As a result, the entity has a statutory obligation at the balance sheet date to pay additional contributions of 300 to Plan B. The plan rules permit a maximum refund of 60 per cent of the SB-FRS 19 surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the SB-FRS 19 service cost. The year-end valuations for Plan B are set out below.

Market value of assets	1,000
Present value of defined benefit obligation under SB-FRS 19	(1,100)
Deficit	<u>(100)</u>

Defined benefit (liability) (before consideration of the minimum funding requirement) ^(a)	(100)
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(a) For simplicity, it is assumed that there are no unrecognised amounts

Application of requirements

- IE4 The payment of 300 would change the SB-FRS 19 deficit of 100 to a surplus of 200. Of this 200, 60 per cent (120) is refundable.
- IE5 Therefore, of the contributions of 300, 100 eliminates the SB-FRS 19 deficit and 120 (60 per cent of 200) is available as an economic benefit. The remaining 80 (40 per cent of 200) of the contributions paid is not available to the entity.
- IE6 Paragraph 24 of INT SB-FRS 114 requires the entity to recognise a liability to the extent that the additional contributions payable are not available to it.
- IE7 Therefore, the entity increases the defined benefit liability by 80. As required by paragraph 26 of INT SB-FRS 114, 80 is recognised immediately in accordance with the entity's adopted policy for recognising the effect of the limit in paragraph 58 and the entity recognises a net balance sheet liability of 180. No other liability is recognised in respect of the statutory obligation to pay contributions of 300.

Summary

Market value of assets	1,000
Present value of defined benefit obligation under SB-FRS 19	(1,100)
Deficit	(100)
Defined benefit liability (before consideration of the minimum funding requirement) ^(a)	(100)
Adjustment in respect of minimum funding requirement	(80)
Net balance sheet liability	(180)

(a) For simplicity, it is assumed that there are no unrecognised amounts.

- IE8 When the contributions of 300 are paid, the net balance sheet asset will be 120.

Example 3—Effect of a minimum funding requirement when the contributions payable would not be fully available and the effect on the economic benefit available as a future contribution reduction

- IE9 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under SB-FRS 19) of 95 per cent in Plan C. Under the minimum funding requirements, the entity is required to pay contributions to increase the funding level to 100 per cent over the next three years. The contributions are required to make good the deficit on the minimum funding requirement basis (shortfall) and to cover the accrual of benefits in each year on the minimum funding basis.

- IE10 Plan C also has an SB-FRS 19 surplus at the balance sheet date of 50, which cannot be refunded to the entity under any circumstances. There are no unrecognised amounts.
- IE11 The nominal amounts of the minimum funding contribution requirements in respect of the shortfall and the future SB-FRS 19 service cost for the next three years are set out below.

Year	Total minimum contribution requirement	Minimum contributions required to make good the shortfall	Minimum contributions required to cover future accrual
1	135	120	15
2	125	112	13
3	115	104	11

Application of requirements

- IE12 The entity's present obligation in respect of services already received includes the contributions required to make good the shortfall but does not include the minimum contributions required to cover future accrual.
- IE13 The present value of the entity's obligation, assuming a discount rate of 6 per cent per year, is approximately 300, calculated as follows:
- $$[120/(1.06) + 112/(1.06)^2 + 104/(1.06)^3].$$
- IE14 When these contributions are paid into the plan, the present value of the SB-FRS 19 surplus (ie the fair value of assets less the present value of the defined benefit obligation) would, other things being equal, increase from 50 to 350 (300 + 50).
- IE15 However, the surplus is not refundable although an asset may be available as a future contribution reduction.
- IE16 In accordance with paragraph 20 of INT SB-FRS 114, the economic benefit available as a reduction in future contributions is the present value of
- the future service cost in each year to the entity, less
 - any minimum funding contribution requirements in respect of the future accrual of benefits in that year

over the expected life of the plan.

- IE17 The amounts available as a future contribution reduction are set out below.

Year	SB-FRS 19 service cost	Minimum contributions required to cover future accrual	Amount available as contribution reduction
1	13	15	(2)
2	13	13	0
3	13	11	2
4+	13	9	4

- IE18 Assuming a discount rate of 6 per cent, the economic benefit available as a future contribution reduction is therefore equal to:

$$(2)/(1.06) + 0/(1.06)^2 + 2/(1.06)^3 + 4/(1.06)^4 + \dots + 4/(1.06)^{50} + \dots = 56.$$

The asset available from future contribution reductions is accordingly limited to 56.

- IE19 Paragraph 24 of INT SB-FRS 114 requires the entity to recognise a liability to the extent that the additional contributions payable will not be fully available. Therefore, the entity reduces the defined benefit asset by 294 (50 + 300 – 56).
- IE20 As required by paragraph 26 of INT SB-FRS 114, the 294 is recognised immediately in accordance with the entity’s adopted policy for recognising the effect of the limit in paragraph 58 and the entity recognises a net balance sheet liability of 244. No other liability is recognised in respect of the obligation to make contributions to fund the minimum funding shortfall.

Summary

Surplus	50
Defined benefit asset (before consideration of the minimum funding requirement)	50
Adjustment in respect of minimum funding requirement	(294)
Net balance sheet liability ^(a)	(244)

(a) For simplicity, it is assumed that there are no unrecognised amounts.

- IE21 When the contributions of 300 are paid into the plan, the net balance sheet asset will become 56 (300 – 244).

Basis for Conclusions on INT SB-FRS 114

This Basis for Conclusions accompanies, but is not part of, INT SB-FRS 114.

- BC1 This Basis for Conclusions summarises the considerations in reaching its consensus. It gave greater weight to some factors than to others.
- BC2 It was noted that practice varies significantly with regard to the treatment of the effect of a minimum funding requirement on the limit placed by paragraph 58 of SB-FRS 19 *Employee Benefits* on the amount of a defined benefit asset. It was therefore decided to include this issue on the agenda. In considering the issue, there was also a need for general guidance on determining the limit on the measurement of the defined benefit asset, and for guidance on when that limit makes a minimum funding requirement onerous.
- BC3 D19 *SB-FRS 19—The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements* was published in August 2006. In response, 48 comment letters were received.

Definition of a minimum funding requirement

- BC4 D19 referred to statutory or contractual minimum funding requirements. Respondents to D19 asked for further guidance on what constituted a minimum funding requirement. It was decided to clarify that for the purpose of the Interpretation a minimum funding requirement is any requirement for the entity to make contributions to *fund* a post-employment or other long-term defined benefit plan.

Interaction between SB-FRS 19 and minimum funding requirements

- BC5 Funding requirements would not normally affect the accounting for a plan under SB-FRS 19. However, paragraph 58 of SB-FRS 19 limits the amount of the defined benefit asset to the available economic benefit plus unrecognised amounts. The interaction of a minimum funding requirement and this limit has two possible effects:
- (a) the minimum funding requirement may restrict the economic benefits available as a reduction in future contributions, and
 - (b) the limit may make the minimum funding requirement onerous because contributions payable under the requirement in respect of services already received may not be available once they have been paid, either as a refund or as a reduction in future contributions.
- BC6 These effects raised general questions about the availability of economic benefits in the form of a refund or a reduction in future contributions.

Availability of the economic benefit

- BC7 One view of 'available' would limit the economic benefit to the amount that is realisable immediately at the balance sheet date.
- BC8 This view met with some disagreement. The *Framework* defines an asset as a resource 'from which future economic benefits are expected to flow to the entity.' Therefore, it is not necessary for the economic benefit to be realisable immediately. Indeed, a reduction in future contributions cannot be realisable immediately.
- BC9 It was concluded that a refund or reduction in future contributions is available if it could be realisable at some point during the life of the plan or when the plan liability is settled. Respondents to D19 were largely supportive of this conclusion.

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. It was noted that the existence of an asset at the balance sheet date 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. It was noted that such events of future periods do not affect the existence or measurement of the asset at the balance sheet date.

The asset available as a refund of a surplus

BC11 It was 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 It was 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 a third party (for example the plan trustees) gave its approval. It was 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 a third party, 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 annuities available on the market is expected to be significantly higher than that implied by the SB-FRS 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 It was noted that the available surplus should be measured at the amount that the entity could receive from the plan. It was 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 It was 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.

BC16 It was also noted that the present value of the defined benefit obligation and the fair value of assets are both measured on a present value basis and therefore take into account the timing of the future cash flows. It was concluded that no further adjustment for the time value of money needs to be made when measuring the amount of a refund determined as the full amount or a proportion of the surplus that is realisable at a future date.

The asset available in the form of a future contribution Reduction

- BC17 It was decided that the amount of the contribution reduction available to the entity should be measured with reference to the amount that the entity would have been required to pay had there been no surplus. It concluded that is represented by the cost to the entity of accruing benefits in the plan, in other words by the future SB-FRS 19 service cost. Respondents to D19 broadly supported this conclusion.
- BC18 When the issue of the availability of reductions in future contributions was first raised, some expressed the view that an entity should recognise an asset only to the extent that there was a formal agreement between the trustees and the entity specifying contributions payable lower than the SB-FRS 19 service cost. It disagreed, concluding instead that an entity is entitled to assume that, in general, it will not be required to make contributions to a plan in order to maintain a surplus and hence that it will be able to reduce contributions if the plan has a surplus. (The effects of a minimum funding requirement on this assumption are discussed below.)
- BC19 The assumptions that underlie the calculation of the future service cost were considered. In respect of the discount rate, SB-FRS 19 requires the measurement of the present value of the future contribution reduction to be based on the same discount rate as that used to determine the present value of the defined benefit obligation.
- BC20 It was considered whether the term over which the contribution reduction should be calculated should be restricted to the expected future working lifetime of the active membership. Some disagreed with that view. It was noted that the entity could derive economic benefit from a reduction in contributions beyond that period. It was also noted that increasing the term of the calculation has a decreasing effect on the incremental changes to the asset because the reductions in contributions are discounted to a present value. Thus, for plans with a large surplus and no possibility of receiving a refund, the available asset will be limited even if the term of the calculation extends beyond the expected future working lifetime of the active membership to the expected life of the plan. This is consistent with paragraph 77 of the Basis for Conclusions on SB-FRS 19, which states that 'the limit [on the measurement of the defined benefit asset] is likely to come into play *only* where ... the plan is very mature and has a very large surplus that is more than large enough to eliminate *all* future contributions and cannot be returned to the entity' (emphasis added). If the contribution reduction were determined by considering only the term of the expected future working lifetime of the active membership, the limit on the measurement of the defined benefit asset would come into play much more frequently.
- BC21 Most respondents to D19 were supportive of this view. However, some argued that the term should be the shorter of the expected life of the plan and the expected life of the entity. It was agreed that the entity could not derive economic benefits from a reduction in contributions beyond its own expected life and has amended the Interpretation accordingly.
- BC22 Next, it was considered what assumptions should be made about a future workforce. D19 proposed that the assumptions for the demographic profile of the future workforce should be consistent with the assumptions underlying the calculation of the present value of the defined benefit obligation at the balance sheet date. Some respondents noted that the calculation of service costs for future periods requires assumptions that are not required for the calculation of the defined benefit obligation. In particular, the assumptions underlying the present value of the defined benefit obligation calculation do not include an explicit assumption for new entrants.
- BC23 It was agreed that this is the case. It was noted that assumptions are needed in respect of the size of the future workforce and future benefits provided by the plan. It was decided that the future service cost should be based on the situation that exists at the balance sheet date determined in accordance with SB-FRS 19. Therefore, increases in the size of the workforce or the benefits provided by the plan should not be anticipated. Decreases in the size of the workforce or the benefits should be included in the assumptions for the future service cost at the same time as they are treated as curtailments in accordance with SB-FRS 19.

The effect of a minimum funding requirement on the economic benefit available as a refund

BC24 It was considered whether a minimum funding requirement to make contributions to a plan in force at the balance sheet date would restrict the extent to which a refund of surplus is available. It was noted that there is an implicit assumption in SB-FRS 19 that the specified assumptions represent the best estimate of the eventual outcome of the plan in economic terms, while a requirement to make additional contributions is often a prudent approach designed to build in a risk margin for adverse circumstances. Moreover, when there are no members left in the plan, the minimum funding requirement would have no effect. This would leave the SB-FRS 19 surplus available. To the extent that the entity has a right to this eventual surplus, the SB-FRS 19 surplus would be available to the entity, regardless of the minimum funding restrictions in force at the balance sheet date. It was therefore concluded that the existence of a minimum funding requirement may affect the timing of a refund but does not affect whether it is ultimately available to the entity.

The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

BC25 The entity's minimum funding requirements at a given date can be analysed into the contributions that are required to cover (a) an existing shortfall for past service on the minimum funding basis and (b) the future accrual of benefits.

BC26 Contributions required to cover an existing shortfall may give rise to a liability, as discussed in paragraphs BC31–BC37 below. But they do not affect the availability of a reduction in future contributions for future service.

BC27 In contrast, future contribution requirements in respect of future service do not generate an additional liability at the balance sheet date because they do not relate to past services received by the entity. However, they may reduce the extent to which the entity can benefit from a reduction in future contributions. Therefore, it was decided that the available asset from a contribution reduction should be calculated as the present value of the SB-FRS 19 future service cost less the minimum funding contribution requirement in respect of future service in each year.

BC28 If the minimum funding contribution requirement is consistently greater than the SB-FRS 19 future service cost, that calculation may be thought to imply that a liability exists. However, as noted above, an entity has no liability at the balance sheet date in respect of minimum funding requirements that relate to future service. The economic benefit available from a reduction in future contributions can be nil, but it can never be a negative amount.

BC29 The respondents to D19 were largely supportive of these conclusions.

BC30 It was noted that future changes to regulations on minimum funding requirements might affect the available surplus. However, it was decided that, just as the future service cost was determined on the basis of the situation existing at the balance sheet date, so should the effect of a minimum funding requirement. It was concluded that when determining the amount of an asset that might be available as a reduction in future contributions, an entity should not consider whether the minimum funding requirement might change in the future. The respondents to D19 were largely supportive of these conclusions.

Onerous minimum funding requirements

BC31 Minimum funding requirements for contributions to cover an existing minimum funding shortfall create an obligation for the entity at the balance sheet date because they relate to past service. Nonetheless, usually minimum funding requirements do not affect the measurement of the defined benefit asset or liability under SB-FRS 19. This is because the contributions, once paid, become plan assets and the additional net liability for the funding requirement is nil.

However, it was noted that the limit on the measurement of the defined benefit asset in paragraph 58 of SB-FRS 19 may make the funding obligation onerous, as follows.

- BC32 If an entity is obliged to make contributions and some or all of those contributions will not subsequently be available as an economic benefit, it follows that when the contributions are made the entity will not be able to recognise an asset to that extent. However, the resulting loss to the entity does not arise on the payment of the contributions but earlier, at the point at which the obligation to pay arises.
- BC33 Therefore, it was concluded that when an entity has an obligation under a minimum funding requirement to make additional contributions to a plan in respect of services already received, the entity should reduce the balance sheet asset or increase the liability to the extent that the minimum funding contributions payable to the plan will not be available to the entity either as a refund or a reduction in future contributions.
- BC34 Respondents to D19 broadly supported this conclusion. But some questioned whether the draft Interpretation extended the application of paragraph 58 of SB-FRS 19 too far. They argued that it should apply only when an entity has a defined benefit asset. In particular, it should not be used to classify a funding requirement as onerous, thereby creating an additional liability to be recognised beyond that arising from the other requirements of SB-FRS 19. Others agreed that such a liability existed, but questioned whether it fell within the scope of SB-FRS 19 rather than SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- BC35 It did not agree that the Interpretation extends the application of paragraph 58 of SB-FRS 19. Rather, it applies the principles in SB-FRS 37 relating to onerous contracts in the context of the requirements of SB-FRS 19, including paragraph 58. On the question whether the liability falls within the scope of SB-FRS 19 or SB-FRS 37, it was noted that employee benefits are excluded from the scope of SB-FRS 37. It was therefore confirmed that the interaction of a minimum funding requirement and the limit on the measurement of the defined benefit asset could result in a decrease in a defined benefit asset or an increase in a defined benefit liability.
- BC36 It was also discussed whether the liability in respect of the minimum funding requirement and the effect of any subsequent remeasurement should be recognised immediately in profit or loss or whether they should be eligible for the options for deferred recognition or recognition outside profit or loss that SB-FRS 19 specifies for actuarial gains and losses. It was noted that the liability in respect of any minimum funding requirements arises only because of the limit on the measurement of the balance sheet asset under paragraph 58 of SB-FRS 19. Furthermore, all consequences of paragraph 58 should be treated consistently.
- BC37 Therefore, it was concluded that any liability in respect of a minimum funding requirement and the effect of any subsequent remeasurement should be recognised immediately in accordance with paragraph 61(g) or 93C of SB-FRS 19. This is consistent with the recognition of other adjustments to the net balance sheet asset or liability under paragraph 58 of SB-FRS 19. The respondents to D19 broadly agreed with this requirement.

Transitional provisions

- BC38 In D19, it was proposed that the draft Interpretation should be applied retrospectively. The draft Interpretation required immediate recognition of all adjustments relating to the minimum funding requirements. It was therefore argued that retrospective application would be straightforward.
- BC39 Respondents to D19 noted that paragraph 58A of SB-FRS 19 causes the limit on the defined benefit asset to affect the deferred recognition of actuarial gains and losses. Retrospective application of the Interpretation could change the amount of that limit for previous periods, thereby also changing the deferred recognition of actuarial gains and losses. Calculating these revised amounts retrospectively over the life of the plan would be costly and of little benefit to users of financial statements.

BC40 Most agreed with this view. It was therefore agreed to amend the transitional provisions so that INT SB-FRS 114 is to be applied only from the beginning of the first period presented in the financial statements for annual periods beginning on or after the effective date.

Summary of changes from D19

BC41 The Interpretation has been altered in the following significant respects since it was exposed for comment as D19:

- (a) the issue of when an entity controls an asset arising from the availability of a refund has been clarified (paragraphs BC10 and BC12);
- (b) requirements relating to the assumptions underlying the measurement of a reduction in future contributions have been clarified (paragraphs BC22 and BC23); and
- (c) the transitional requirements have been changed from retrospective application to application from the beginning of the first period presented in the first financial statements to which the Interpretation applies (paragraphs BC38–BC40).

