INTERPRETATION OF STATUTORY BOARD FINANCIAL REPORTING STANDARD

INT SB-FRS 114 (amendments)

Prepayments of a Minimum Funding Requirement

Amendments to INT SB-FRS 114

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Introduction

This document sets out amendments to INT SB-FRS 114 SB-FRS *19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

The amendments result from proposals that were contained in the exposure draft *Prepayments of a Minimum Funding Requirement* published in June 2009.

The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

Entities shall apply these amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted.

Amendments to INT SB-FRS 114

The rubric and paragraphs 16–18 and 20–22 are amended (new text is underlined and deleted text is struck through). Paragraphs 3A, 27B and 29 are added.

In the rubric 'paragraphs 1–28' is replaced by 'paragraphs 1–29'.

Background

3A In February 2010 INT SB-FRS 114 was amended to remove an unintended consequence arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement.

Consensus

The economic benefit available as a contribution reduction

~~*The economic benefit available as a contribution reduction*~~

16 If there is no minimum funding requirement for contributions relating to future service, ~~an entity shall determine~~ the economic benefit available as a reduction in future contributions is ~~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 period ~~year~~ over the shorter of the expected life of the plan and the expected life of the entity. The future service cost to the entity excludes amounts that will be borne by employees.

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 end of the reporting period 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 end of the reporting period 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 end of the reporting period.~~

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~~ future service.

20 If there is a minimum funding requirement for contributions relating to ~~the~~ future ~~accrual of benefits~~ service, ~~an entity shall determine~~ the economic benefit available as a reduction in future contributions ~~as the present value~~ is the sum of:

(a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (ie paid the amount before being required to do so); and

(b) the estimated future service cost in each ~~year~~ period in accordance with paragraphs 16 and 17, less ~~(b)~~ the estimated minimum funding requirement contributions that would be required ~~in respect of the future accrual of benefits~~ for future service in ~~that year~~ those periods if there were no prepayment as described in (a).

21 An entity shall estimate ~~calculate~~ the future minimum funding requirement contributions for ~~required in respect of the~~ future ~~accrual of benefits~~ service taking into account the effect of any existing surplus determined using ~~on~~ the minimum funding ~~requirement~~ basis but excluding the prepayment described in paragraph 20(a). An entity shall use ~~the~~ assumptions ~~required by~~ consistent with the minimum funding ~~requirement~~ basis and, for any factors not specified by that basis ~~the minimum funding requirement~~, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period as determined by SB-FRS 19. The estimate ~~calculation~~ shall include any changes expected as a result of the entity paying the minimum contributions when they are due. However, the estimate ~~calculation~~ shall not include the effect of expected changes in the terms and conditions of the minimum funding basis ~~requirement~~ that are not substantively enacted or contractually agreed at the end of the reporting period.

22 When an entity determines the amount described in paragraph 20(b), i~~I~~f the future minimum funding requirement contributions for future service ~~required in respect of the future accrual of benefits~~ exceed~~s~~ the future SB-FRS 19 service cost in any given ~~year~~ period, ~~the present value of~~ that excess reduces the amount of the economic benefit ~~asset~~ available as a reduction in future contributions ~~at the end of the reporting period~~. However, the amount ~~of the asset available as a reduction in future contributions~~ described in paragraph 20(b) can never be less than zero.

Effective date

27B *Prepayments of a Minimum Funding Requirement* added paragraph 3A and amended paragraphs 16–18 and 20–22. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Transition

29 An entity shall apply the amendments in paragraphs 3A, 16–18 and 20–22 from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies this Interpretation. If the entity had previously applied this Interpretation before it applies the amendments, it shall recognise the adjustment resulting from the application of the amendments in retained earnings at the beginning of the earliest comparative period presented.

Amendments to the illustrative examples accompanying INT SB-FRS 114

In the illustrative examples, paragraphs IE9, IE11, IE12 and IE16–IE18 are amended (new text is underlined and deleted text is struck through). Example 4 (paragraphs IE22–IE27) is added.

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~~ it measures on a different basis from that required ~~under~~ by SB-FRS 19) of 95 per cent in Plan C. ~~Under t~~The minimum funding requirements~~,~~ require 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 future service ~~the accrual of benefits in each year on the minimum funding basis~~.

IE11 The nominal amounts of contributions required to satisfy 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 contributions for minimum funding ~~contribution~~ requirement	~~Minimum~~ ~~c~~Contributions required to make good the shortfall	~~Minimum~~ ~~c~~Contributions required to cover future ~~accrual~~ service
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 service ~~accrual~~.

IE16 In accordance with paragraph 20 of INT SB-FRS 114, the economic benefit available as a reduction in future contributions is the sum ~~present value~~ of:

(a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (ie paid the amount before being required to do so); and

(~~a~~b) the estimated future service cost in each period in accordance with paragraphs 16 and 17 ~~year to the entity~~, less

~~(b)~~ ~~any~~ the estimated minimum funding requirement contributions that would be required for ~~requirements in respect of the~~ future service in those periods if there were no prepayment as described in (a) ~~accrual of benefits in that year~~

~~over the expected life of the plan~~.

IE17 In this example there is no prepayment as described in paragraph 20(a). The amounts available as a reduction in future contributions ~~reduction~~ when applying paragraph 20(b) are set out below.

Year	SB-FRS 19 service cost	Minimum contributions required to cover future service ~~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 present value of the economic benefit available as a future contribution reduction is ~~therefore~~ equal to:

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

Thus in accordance with paragraph 58(b) of SB-FRS 19, the present value of the economic benefit ~~The asset~~ available from future contribution reductions is ~~accordingly~~ limited to 56.

Example 4—Effect of a prepayment when a minimum funding requirement exceeds the expected future service charge

IE22 An entity is required to fund Plan D so that no deficit arises on the minimum funding basis. The entity is required to pay minimum funding requirement contributions to cover the service cost in each period determined on the minimum funding basis.

IE23 Plan D has an SB-FRS 19 surplus of 35 at the beginning of 20X1. There are no cumulative unrecognised net actuarial losses and past service costs. This example assumes that the discount rate and expected return on assets are 0 per cent, and that the plan cannot refund the surplus to the entity under any circumstances but can use the surplus for reductions of future contributions.

IE24 The minimum contributions required to cover future service are 15 for each of the next five years. The expected SB-FRS 19 service cost is 10 in each year.

IE25 The entity makes a prepayment of 30 at the beginning of 20X1 in respect of years 20X1 and 20X2, increasing its surplus at the beginning of 20X1 to 65. That prepayment reduces the future contributions it expects to make in the following two years, as follows:

Year	SB-FRS 19 service cost	Minimum funding requirement contribution before prepayment	Minimum funding requirement contribution after prepayment
20X1	10	15	0
20X2	10	15	0
20X3	10	15	15
20X4	10	15	15
20X5	10	15	15
Total	50	75	45

Application of requirements

IE26 In accordance with paragraphs 20 and 22 of INT SB-FRS 114, at the beginning of 20X1, the economic benefit available as a reduction in future contributions is the sum of:

(a) 30, being the prepayment of the minimum funding requirement contributions; and

(b) nil. The estimated minimum funding requirement contributions required for future service would be 75 if there was no prepayment. Those contributions exceed the estimated future service cost (50); therefore the entity cannot use any part of the surplus of 35 noted in paragraph IE23 (see paragraph 22).

IE27 Assuming a discount rate of 0 per cent, the present value of the economic benefit available as a reduction in future contributions is equal to 30. Thus in accordance with paragraph 58 of SB-FRS 19 the entity recognises an asset of 30 (because this is lower than the SB-FRS 19 surplus of 65).