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Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement

[AASB Interpretation 14]



Australian Government

**Australian Accounting
Standards Board**

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Australian Accounting Standard AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* is set out in paragraphs 1 – 16. All the paragraphs have equal authority.

PREFACE

Interpretation Amended by AASB 2009-14

This Standard makes amendments to Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

These amendments arise from the issuance of *Prepayments of a Minimum Funding Requirement* (Amendments to IFRIC 14).

ACCOUNTING STANDARD AASB 2009-14

The Australian Accounting Standards Board makes Accounting Standard AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* under section 334 of the *Corporations Act 2001*.

Dated 21 December 2009

Kevin M. Stevenson
Chair – AASB

ACCOUNTING STANDARD AASB 2009-14

AMENDMENTS TO AUSTRALIAN INTERPRETATION – PREPAYMENTS OF A MINIMUM FUNDING REQUIREMENT

Objective

- 1 The objective of this Standard is to make amendments to Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* as a consequence of the issuance of *Prepayments of a Minimum Funding Requirement* (Amendments to IFRIC 14) by the International Accounting Standards Board in November 2009.

Application

- 2 **This Standard applies to:**
 - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
 - (b) **general purpose financial statements of each other reporting entity; and**
 - (c) **financial statements that are, or are held out to be, general purpose financial statements.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 January 2011.**

- 4 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2011. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.**
- 5 **This Standard uses underlining, striking out and other typographical material to identify some of the amendments to an Interpretation, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.**

Amendments to Interpretation 14

- 6 After paragraph 3, paragraph 3A is added.
 - 3A In November 2009 the International Accounting Standards Board amended IFRIC 14 to remove an unintended consequence arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement.
- 7 Paragraphs 16 and 17 are amended (new text is underlined and deleted text is struck through).
 - 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, i.e. 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 AASB 119. 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.~~

- 8 Paragraphs 18 and 20-22 are amended (new text is underlined and deleted text is struck through).
- 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 (i.e. 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 AASB 119. 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), if the future minimum funding requirement contributions for future service required in respect of the future accrual of benefits exceeds the future AASB 119 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.
- 9 After paragraph 27A, a note concerning paragraph 27B is added.
- 27B [Deleted by the AASB]
- 10 After paragraph 28, paragraph 29 is added.
- 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 Interpretation 14 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 Interpretation 14

- 11 In the Illustrative Examples, paragraphs IE9, IE11, IE12 and IE16-IE18 are amended (new text is underlined and deleted text is struck through).

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 AASB 119) of 95 per cent in Plan C. ~~Under~~ 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 ~~AASB 119~~ service cost for the next three years are set out below.

Year	Total <u>contributions</u> for minimum <u>funding</u> contribution requirement	Minimum <u>e</u> Contributions required to make good the shortfall	Minimum <u>e</u> Contributions required to cover future accrual <u>service</u>
1	135	120	15
2	125	112	13
3	115	104	11

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 Interpretation 14, 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 (i.e. paid the amount before being required to do so); and
- (ab) 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	AASB 119 service cost	Minimum contributions required to cover future service <u>accrual</u>	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:

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

Thus in accordance with paragraph 58(b) of AASB 119, the present value of the economic benefit ~~The asset~~ available from future contribution reductions is ~~accordingly~~ limited to 56.

- 12 Example 4 (a heading, paragraphs IE22-IE25, a heading and paragraphs IE26-IE27) is added.

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 AASB 119 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 AASB 119 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	AASB 119 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 Interpretation 14, 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 AASB 119 the entity recognises an asset of 30 (because this is lower than the AASB 119 surplus of 65).

Amendments to the Basis for Conclusions on IFRIC Interpretation 14

- 13 After paragraph BC3, paragraph BC3A is added.
- BC3A In November 2009 the International Accounting Standards Board amended IFRIC 14 to remove an unintended consequence arising from the treatment of prepayments in some circumstances when there is a minimum funding requirement (see paragraphs BC30A-BC30D).
- 14 Paragraph BC25 is amended (new text is underlined and deleted text is struck through).
- 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 service accrual of benefits.
- 15 After paragraph BC30, a heading and paragraphs BC30A-BC30D are added.

Prepayments of a minimum funding requirement

BC30A If an entity has prepaid future minimum funding requirement contributions and that prepayment will reduce future contributions, the prepayment generates economic benefits for the entity. However, to the extent that the future minimum funding requirement contributions exceeded future service costs, the original version of IFRIC 14 did not permit entities to consider those economic benefits in measuring a defined benefit asset. After issuing IFRIC 14, the Board reviewed the treatment of such prepayments. The Board concluded that such a prepayment provides an economic benefit to the entity by relieving the entity of an obligation to pay future minimum funding requirement contributions that exceed future service cost. Therefore, considering those economic benefits in measuring a defined benefit asset would convey more useful information to users of financial statements. In May 2009 the Board published that conclusion in an exposure draft *Prepayments of a Minimum Funding Requirement*. After considering the responses to that exposure draft, the Board amended IFRIC 14 by issuing *Prepayments of a Minimum Funding Requirement* in November 2009.

BC30B Some respondents noted that the amendments increase the effect of funding considerations on the measurement of a defined benefit asset and liability and questioned whether funding considerations should ever affect the measurement. However, the Board noted that the sole purpose of the amendments was to eliminate an unintended consequence in IFRIC 14. Thus, the Board did not re-debate the fundamental conclusion of IFRIC 14 that funding is relevant to the measurement when an entity cannot recover the additional cost of a minimum funding requirement in excess of the IAS 19 service cost.

BC30C Many respondents noted that the proposals made the assessment of the economic benefit available from a prepayment different from the assessment for a surplus arising from actuarial gains. Most agreed that a prepayment created an asset, but questioned why the Board did not extend the underlying principle to other surpluses that could be used to reduce future payments of minimum funding requirement contributions.

BC30D The Board did not extend the scope of the amendments to surpluses arising from actuarial gains because such an approach would need further thought and the Board did not want to delay the amendments for prepayments. However, the Board may consider the matter further in a future comprehensive review of pension cost accounting.

16 Paragraph BC41 is amended (new text is underlined and deleted text is struck through).

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

- (a) ...
- (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); ~~and~~
- (d) in November 2009 the Board amended IFRIC 14 to require entities to recognise as an economic benefit any prepayment of minimum funding requirement

contributions. At the same time, the Board removed references to 'present value' from paragraphs 16, 17, 20 and 22 and 'the surplus in the plan' from paragraph 16 because these references duplicated references in paragraph 58 of IAS 19. The Board also amended the term 'future accrual of benefits' to 'future service' for consistency with the rest of IAS 19.