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How IFRIC 14 (an interpretation of IAS 19) addresses the defined benefit pension assets and their minimum funding requirements

On 5 July 2007 the International Financial Reporting Interpretations Committee (IFRIC) issued an Interpretation, IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

Since the release of the Interpretation the IFRIC has observed several press articles and statements by market commentators providing an inaccurate assessment of the effect of IFRIC 14. This document addresses the key issues that have been raised.

Whether and how IFRIC 14 applies to a particular entity will depend on the exact terms of the pension plan and the regulatory requirements in the relevant jurisdiction, and should be determined by reference to IFRIC 14 itself.

The Interpretation does not change the rules on funding

The Interpretation clarifies how entities should account for the effect of any statutory or contractual funding requirements. It cannot change those requirements as they are set by regulators and pension fund trustees, and it is for management to decide how it satisfies those requirements.

The Interpretation does not affect an entity's ability to get a refund

The Interpretation provides guidance on how to account for any restrictions that may be in place. It does not affect an entity's ability to get a refund. An employer's ability to get a refund is determined by the statutory requirements in the jurisdiction in question and the scheme rules.

An additional liability is recognised only if two conditions exist at the same time

An additional liability is recognised only if both of the following conditions exist:

- If the entity has a statutory or contractual obligation to pay additional amounts to the plan *and*
- If the entity's ability to recover those amounts in the future by refund or otherwise is restricted.

In that case, the recognition of an additional liability reflects the economic reality.

The Interpretation clarifies when a surplus in a pension plan can be recognised

IFRIC 14 provides a clearer interpretation of the availability of a surplus than the original standard, IAS 19 *Employee Benefits*. Under IAS 19 some have argued that a surplus is not available to a plan sponsor unless it is immediately realisable at the balance sheet date. IFRIC 14 states that the employer only needs to have an unconditional right to use the surplus at some point during the life of the plan or on its wind up in order for a surplus to be recognised.

The Interpretation ensures that the accounting for surpluses is consistent and transparent

The Interpretation will ensure that any economic consequences of making contributions required by legislation or the terms of the plan will be treated in a transparent and consistent manner by all entities.

For further information on IFRIC 14, please visit the IFRIC project pages on www.iasb.org

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NOTES TO EDITORS

About the IFRIC

The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about six times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

About the IASB

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.