

IFRIC 14 IAS 19–The Limit on a Defined Asset, Minimum Funding Requirements and their Interaction (November 2008)

Application to prepaid employer’s contribution reserve

The IFRIC received a request to consider an issue arising from IFRIC 14. The issue relates to the economic benefit available in the form of reductions in future contributions when there is a minimum funding requirement. IFRIC 14 requires the economic benefit to be determined assuming 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. The request noted that in some circumstances the assumption of a stable workforce may understate the economic benefits available to the entity as a reduction in future contributions. The request noted that contributions to a plan are recognised as an expense, not an asset, if they provide no economic benefits in accordance with IFRIC 14. Therefore, by choosing the timing and the level of such contributions, an entity can affect its reported earnings.

The IFRIC noted that the requirements of IFRIC 14 regarding the assumption of a stable workforce are explicit. The issue was discussed extensively during the development of IFRIC 14 and the request provides no new information to cause the IFRIC to reconsider its conclusion. The IFRIC therefore decided not to add this issue to its agenda.