Should an entity assume continuation of a minimum funding requirement for contributions relating to future service? (IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*)—July 2015

The Interpretations Committee received a request to clarify whether the future minimum funding requirement for contributions to a defined benefit plan to cover future service would apply for only the fixed period that had been agreed between the entity and the pension trustees. The conclusion on this issue could affect how the economic benefit available as a reduction in future contributions is determined, which could in turn affect the amount of the net defined benefit liability or asset to be recognised in the entity's statement of financial position.

In the circumstances described by the submitter, neither a plan wind-up nor a plan closure to future accrual has been decided upon at the end of the reporting period. In addition, a pension regulation or a contractual agreement, or both, specify that:

a. the pension trustees are required to prepare, and from time to time review and if necessary revise, a statement of funding principles that documents the pension trustees' policy for ensuring that a required funding objective is met;
b. the statement of funding principles sets out, among other things, the methods to be used to determine the assumptions that are used to calculate the liabilities that determine contributions to be paid;
c. the pension trustees are required to prepare a schedule of contributions that is negotiated with the entity and that is consistent with the statement of funding principles;
d. the amounts specified in the schedule of contributions must then be paid for a fixed period;
e. the entity and the pension trustees are required to renew the schedule of contributions as the fixed period comes to an end if the plan is continued;
f. the schedule of contributions does not need to be renewed if the plan is wound up; and
g. the entity can decide to wind up or close the plan to future accrual, if this is agreed with the pension trustees.

The Interpretations Committee observed that, although the level of contributions after the fixed period will be subject to future negotiations, if the plan continues after the fixed period the entity must continue to make contributions for future service that are consistent with the statement of funding principles.

The Interpretations Committee noted that paragraph 18 of IFRIC 14 requires an entity to analyse its minimum funding requirements at a given date into the contributions that are required to cover:

a. any existing shortfall for past service on the minimum funding basis; and
b. future service.

The Interpretations Committee also noted that:

a. paragraph 19 of IFRIC 14 explains that contributions to cover any existing shortfall for past service do not affect future contributions for future service; and
b. paragraph 23 of IFRIC 14 requires an entity to determine whether contributions payable to cover an existing shortfall for past service will be available as a refund or reduction in future contributions.

The Interpretations Committee noted that the question raised by the submitter relates only to the minimum funding requirement for contributions to cover future service.

The Interpretations Committee then noted that, in the circumstances described, the pension trustees determine some or all of the factors (or funding principles) establishing the minimum funding basis (as that term is used in IFRIC 14) and record them in the statement of funding principles. Accordingly, when the entity estimates the future minimum funding requirement contributions, it should (i) include the amounts in the schedule of contributions for the fixed period specified by the schedule; and (ii) beyond that period, make an estimate that assumes a continuation of those factors establishing the minimum funding basis as determined by the pension trustees. This is because:

a. paragraphs 21 and BC30 of IFRIC 14 explain that an entity's estimate of future minimum funding requirement contributions shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed at the end of the reporting period; and

b. in the circumstances described, those factors establishing the minimum funding basis that are determined by the pension trustees and recorded in the statement of funding principles are equivalent to a legal requirement or contractual agreement. Accordingly, the estimate of future minimum funding requirement contributions for future service should not assume any changes to those factors if such changes require future negotiations with the pension trustees.

The Interpretations Committee further noted that, for any factors affecting the estimation of future minimum funding requirements that are not determined by the trustees (for example, the remaining life of the plan is not specified by the existing funding principles), the assumptions used to estimate future minimum funding requirement contributions for future service beyond the fixed period must be consistent with those used for determining future service costs. This is because paragraphs 17 and 21 of IFRIC 14 require an entity to use assumptions that are consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary and therefore decided not to add this issue to its agenda.