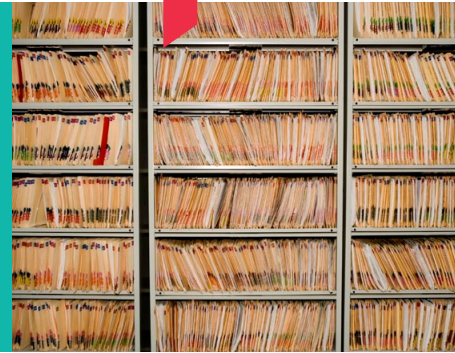


INTERNATIONAL FINANCIAL REPORTING BULLETIN 2010/04

PREPAYMENTS OF A MINIMUM FUNDING REQUIREMENT: AMENDMENTS TO IFRIC 14



Background

IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (IFRIC 14) was published by the International Financial Reporting Interpretations Committee (IFRIC) in July 2007. Paragraph 20 of IFRIC 14 limited the extent to which reductions in future contributions could be recognised as an asset. This limit was the present value of the estimated service cost each year, less the minimum estimated funding contributions required in respect of the future accrual of benefits each year.

The IFRIC amended IFRIC 14 in November 2009 because in some cases the requirements of the original Interpretation had the unintended consequence of preventing a prepayment of future minimum funding requirements from being recognised as an asset.

Requirements

IFRIC 14.20 has been revised to expand the circumstances in which an asset can be recognised. It now requires that, if there is a minimum funding requirement for contributions relating to future service and an entity makes a prepayment of those contributions, the amount that is recognised as an asset is the sum of:

- (a) any amount that reduces the future minimum funding requirement contribution for future service because the entity made a prepayment; and
- (b) the estimated future service costs in each period less the estimated minimum funding requirement contributions that would be required for future service in that period if there were no prepayment of those contributions as described in (a), subject to a minimum of zero.

The limit on the amount that can be calculated under (b) has been included in order that the economic benefit available as a reduction in future contributions (and hence the amount of the asset recognised) will, at a minimum, correspond to the amount of any prepayment.

Effective date

The effective date of the amendments is annual periods beginning on or after 1 January 2011, with earlier application being permitted. If the amendments are applied for an earlier period, an entity is required to disclose that fact.

If IFRIC 14 (as originally issued) and the amendments are applied initially in the same accounting period, the amendments to IFRIC 14 are applied from the beginning of the earliest comparative period presented in the first financial statements in which an entity applies IFRIC 14.

IFRIC 14 (as originally issued) may have been adopted before applying the subsequent amendments. If this is the case, the adjustment resulting from the application of the amendments is recognised in retained earnings at the beginning of the earliest comparative period presented.

Action required

Entities subject to minimum funding requirements under their post-employment and other long-term employee benefit plans that have made, or are considering making, prepayments of contributions to cover those requirements should assess the consequences of adopting the amendments to IFRIC 14.

STATUS


Final

EFFECTIVE DATE

Annual periods beginning on or after 1 January 2011.

ACCOUNTING IMPACT

Prepayments of contributions to cover minimum funding requirements are recorded as an asset.



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