

Exposure Draft

Prepayments of a Minimum Funding Requirement

Proposed amendments to INT FRS 114

Comments to be received by 30 June 2009

This exposure draft *Prepayments of a Minimum Funding Requirement* (proposed amendments to INT FRS 114) is issued by the Accounting Standards Council (ASC) for comment only and does not necessarily represent the views of ASC. The proposals may be modified in the light of the comments received before being issued as amendments to INT FRS 114.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **30 June 2009** preferably by email to MOF_Feedback_ASC@mof.gov.sg or addressed to:

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**DRAFT INTERPRETATION OF
FINANCIAL
REPORTING STANDARD**

ED INT FRS

Introduction

INT FRS 114 *FRS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* was issued in March 2008 with mandatory application for annual periods beginning on or after 1 January 2008. This exposure draft contains proposals to amend INT FRS 114. The proposals would remove an unintended consequence arising from the treatment of prepayments in some circumstances when there is a minimum funding requirement.

Invitation to comment

ASC invites comments on all aspects of the amendments to INT FRS 114 proposed in this exposure draft. Comments are most helpful if they:

- (a) indicate the specific paragraph or group of paragraphs to which they relate,
- (b) contain a clear rationale, and
- (c) include any alternative it should consider, if applicable.

It is not requesting comments on matters not addressed in this exposure draft. Comments should be submitted in writing so as to be received no later than **30 June 2009**.

Proposed amendments to INT FRS 114

FRS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Paragraphs 18, 20 and 21 are amended and paragraph 22 is deleted (new text is underlined and deleted text is struck through). Paragraph 19 is not proposed for amendment but is included here for ease of reference. Paragraphs 20A, 27B and 28A are added.

Consensus

The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

- 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.
- 19 Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service. They may give rise to a liability in accordance with paragraphs 23–26.
- 20 If there is a minimum funding requirement for contributions relating to ~~the future accrual of benefits~~ service, an entity shall recognise an asset comprising:
- (a) the amount of any prepayment of the minimum funding requirement contributions, ie any amount of any minimum funding requirement contributions that the entity has paid before being required to do so that gives the entity the right to reduce future minimum funding requirement contributions; and
 - (b) the amount of any ~~determine the~~ economic benefit available as a reduction in future contributions determined as the lower present value of:
 - (i) the surplus in the plan excluding any prepayment in (a); and
 - (a)(ii) 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 for future accrual of benefits service in that year period if there were no prepayment of those contributions as described in (a).
- 20A If the amount determined in accordance with paragraph 20(b) is less than zero, an entity shall not recognise a liability or a reduction in the asset determined in accordance with paragraph 20(a).
- 21 An entity shall calculate the future minimum funding contributions required ~~for in respect of the future accrual of benefits~~ service taking into account the effect of any existing surplus determined in accordance with ~~on~~ the minimum funding requirement ~~basis~~. An entity shall use the assumptions required by the minimum funding requirement and, for any factors not specified by 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 FRS 19. The calculation shall include any changes in assumptions expected as a result of the entity paying the minimum contributions due. However, the calculation shall not include the effect of expected changes in the terms and conditions of the minimum funding requirement that are not contracted or ~~substantively enacted or contractually agreed~~ at the end of the reporting period.

- 22 ~~[Deleted] If the future minimum funding contribution required in respect of the future accrual of benefits exceeds the future FRS 19 service cost in any given year, the present value of that excess reduces the amount of the 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 can never be less than zero.~~

Effective date

- 27B Paragraphs 18, 20 and 21 were amended, paragraph 22 was deleted and paragraph 20A was added by *Prepayments of a Minimum Funding Requirement* issued in [month, year]. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted when the amendments are finalised]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Transition

- 28A An entity shall apply the amendments in paragraphs 18, 20, 20A, 21 and 22 from the beginning of the earliest comparative period presented in the first financial statements in which the entity applied INT FRS 114. An entity shall recognise in retained earnings at the beginning of that period any initial adjustment arising from the application of those amendments.

In the illustrative examples, paragraphs IE9, IE11, IE12, IE16 and IE17 of Example 3 are amended (new text is underlined and deleted text is struck through). The changes to Example 3 reflect only changes in terminology and are not substantive. Example 4 is added.

Example 3—Effect of a minimum funding requirement when the contributions payable would not be fully available and the effect on the economic benefit available as a future contribution reduction

- IE9 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under FRS 19) of 95 per cent in Plan C. Under the minimum funding requirements, 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 the minimum funding contribution requirements in respect of the shortfall and the future FRS 19 service cost for the next three years are set out below.

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

Application of requirements

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 INT FRS 114, the economic benefit available as a reduction in future contributions is the present value of:

- (a) the estimated future service cost in each period ~~year to the entity~~, less
- (b) ~~any the~~ the estimated minimum funding requirement contributions that would be required for the requirements in respect of the future service in that period ~~accrual of benefits in that year~~

over the expected life of the plan.

IE17 The amounts available as a future contribution reduction are set out below.

Year	FRS 19 service cost	Minimum contributions required to cover future <u>service</u> accrual	Amount available as contribution reduction
1	13	15	(2)
2	13	13	0
3	13	11	2
4+	13	9	4

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 there is no deficit determined in accordance with the minimum funding requirement. The entity is required to pay minimum funding requirement contributions to cover the service cost in each period determined in accordance with the minimum funding requirement.

IE23 Plan D also has an FRS 19 surplus of CU35* that cannot be refunded to the entity under any circumstances but can be used for reductions in future contributions. There are no unrecognised amounts. This example assumes that the discount rate and expected return on assets are 0 per cent.

IE24 The minimum contributions required to cover future service are CU15 for each year of the

* In this example monetary amounts are denominated in 'currency units (CU)'.

next five-year period. The expected service cost is CU10 in each year. For simplicity, this example assumes that the plan does not continue after five years.

- IE25 The entity makes a prepayment of CU30 in respect of years 20X1 and 20X2, increasing its surplus at the beginning of 20X1 to CU65. That prepayment reduces the future contributions it expects to make in the following two years, as follows:

Year	20X1	20X2	20X3	20X4	20X5
Service charge/CU	10	10	10	10	10
Minimum funding requirement contribution/CU	0	0	15	15	15

Application of requirements

- IE26 In accordance with paragraph 20 of INT FRS 114, the entity recognises an asset comprising:
- (a) CU30, being the amount of the prepayment of the minimum funding requirement contribution; and
 - (b) CU0. No part of the surplus of CU35 described in paragraph IE23 may be recognised because, if there were no prepayment, the estimated minimum funding requirement contributions (CU75) that would be required for future service exceeds the estimated future service cost (CU50).
- IE27 Thus the entity recognises a recoverable asset of CU30.