27 November 2009

Straight away

IFRS bulletin from PricewaterhouseCoopers

Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement

This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan

What is the issue?

The IASB has issued an amendment to IFRIC 14 "IAS19–The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The amendment, issued on 26 November 2009, removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

Am I affected?

This amendment will affect a relatively small number of companies as mentioned above. These are companies that:

- have a defined benefit pension plan that is subject to a minimum funding requirement under local legislation: and
- have prepaid (or expect to prepay) the minimum funding requirement in respect of future employee service, leading to a pension surplus.

Some companies that are subject to a minimum funding requirement have elected to prepay their pension contributions. The prepaid contributions are recovered through lower minimum funding requirements in future years. The previous version of IFRIC 14 did not permit the recognition of an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was an unintended consequence of the interpretation, which has been amended to require that an asset is recognised in these circumstances.

Companies that have elected to prepay contributions and have until now restricted the asset recognised for any surplus in accordance with IFRIC 14 will be affected. These companies should reconsider their accounting in the light of the revised guidance to determine whether an asset for the prepaid contributions should be recognised. Companies that plan to prepay minimum funding contributions from which the employer can benefit by reduced contributions in future periods will also be affected.

When does the amendment apply?

The amendment is effective for annual periods beginning on or after 1 January 2011 and will apply from the beginning of the earliest comparative period presented. Early adoption is permitted. Impact should be assessed as early as possible to determine whether the amendment should be adopted before the effective date.

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What do I need to do?

Talk to your PwC IAS 19 contact or your IAS 19 pension expert about the impact on your company.

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