

Supporting material to *Amendments to PBE Standards: Specific IFRIC Interpretations* relating to PBE IPSAS 39

The NZASB issued the amending standard *Amendments to PBE Standards: Specific IFRIC Interpretations* in June 2026, which is available on the XRB website.

This document sets out amendments to:

- the Basis for Conclusions accompanying PBE IPSAS 39 *Employee Benefits*; and
- the Illustrative Examples accompanying PBE IPSAS 39;

resulting from the above amending standard.

The Basis for Conclusions and Illustrative Examples accompany, but are not part of, PBE IPSAS 39.

Amendments to Basis for Conclusions on PBE IPSAS 39

Paragraphs BC5 – BC6 and the related heading are added. New text is underlined.

Amendments to PBE Standards: Specific IFRIC Interpretations

BC5. IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued by the IASB in July 2007, clarifies how employer entities should account for their involvement in defined benefit plans, specifically:

- (a) How certain aspects of the “asset ceiling” definition should be interpreted;
- (b) How a minimum funding requirement might affect the availability of reductions in future contributions in respect of the “asset ceiling” definition; and
- (c) When a minimum funding requirement might give rise to a liability.

The IPSASB subsequently incorporated this Interpretation into IPSAS 39, *Employee Benefits*, by issuing *Amendments to IPSAS Standards: Specific IFRIC Interpretations* in January 2025.

BC6. The NZASB considered this guidance is appropriate for application by public benefit entities and amended PBE IPSAS 39 by issuing *Amendments to PBE Standards: Specific IFRIC Interpretations* in June 2026. Those amendments are equivalent to the IPSASB pronouncement.

Amendments to PBE IPSAS 39 illustrative Examples

Paragraphs IE1 – IE26 and the related heading are added. New text is underlined.

Illustrative Examples

These examples accompany, but are not part of, PBE IPSAS 39

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

Example 1: Effect of the Minimum Funding Requirement when there is a Surplus and the Minimum Funding Contributions Payable are Fully Refundable to the Entity

IE1. An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under PBE IPSAS 39) of 82 per cent in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95 per cent immediately. As a result, the entity has a statutory obligation at the reporting date to contribute CU200 to Plan A immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. The year-end valuations for Plan A are set out below.

	<u>CU</u>
<u>Fair value of assets</u>	1,200
<u>Present value of defined benefit obligation under PBE IPSAS 39</u>	(1,100)
	<hr/>
<u>Surplus</u>	<u>100</u>

IE2. Paragraph AA23 of Appendix AA of PBE IPSAS 39 clarifies that the entity is required to recognise a liability to the extent that the contributions payable are not fully available. Payment of the contributions of CU200 will increase the surplus from CU100 to CU300. Under the rules of the plan this amount will be fully refundable to the entity with no associated costs. Therefore, no liability is recognised for the obligation to pay the contributions and the net defined benefit asset is CU100.

Example 2: Effect of a Minimum Funding Requirement when there is a Deficit and the Minimum Funding Contributions Payable would not be Fully Available

IE3. An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under PBE IPSAS 39) of 77 per cent in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100 per cent immediately. As a result, the entity has a statutory obligation at the reporting date to pay additional contributions of CU300 to Plan B. The plan rules permit a maximum refund of 60 per cent of the surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the service cost. The year-end valuations for Plan B are set out below.

	<u>CU</u>
<u>Fair value of assets</u>	1,000
<u>Present value of defined benefit obligation under PBE IPSAS 39</u>	(1,100)
	<hr/>
<u>Deficit</u>	<u>(100)</u>

IE4. The payment of CU300 would change the deficit of CU100 to a surplus of CU200. Of this CU200, 60 per cent (CU120) is refundable.

IE5. Therefore, of the contributions of CU300, CU100 eliminates the deficit and CU120 (60 per cent of CU200) is available as an economic benefit. The remaining CU80 (40 per cent of CU200) of the contributions paid is not available to the entity.

IE6. Paragraph AA23 of Appendix AA of PBE IPSAS 39 clarifies that the entity is required to recognise a liability to the extent that the additional contributions payable are not available to it.

IE7. Therefore, the net defined benefit liability is CU180, comprising the deficit of CU100 plus the additional liability of CU80 resulting from the requirements in Paragraph AA23 of Appendix AA of PBE IPSAS 39. No other liability is recognised in respect of the statutory obligation to pay contributions of CU300.

	<u>CU</u>
<u>Fair value of assets</u>	1,000
<u>Present value of defined benefit obligation under PBE IPSAS 39</u>	(1,100)
	<hr/>
<u>Deficit</u>	(100)
<u>Effect of the asset ceiling</u>	(80)
	<hr/>
<u>Net defined benefit liability</u>	<u>(180)</u>

IE8. When the contributions of CU300 are paid, the net defined benefit asset will be CU120.

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 basis (which it measures on a different basis from that required by PBE IPSAS 39) of 95 per cent in Plan C. The minimum funding requirements require the entity 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 basis (shortfall) and to cover future service.

IE10. Plan C also has a surplus at the reporting date of CU50, which cannot be refunded to the entity under any circumstances.

IE11. The nominal amounts of contributions required to satisfy the minimum funding requirements in respect of the shortfall and the future service for the next three years are set out below.

<u>Year</u>	<u>Total contributions for minimum funding requirement (CU)</u>	<u>Contributions required to make good the shortfall (CU)</u>	<u>Contributions required to cover future service (CU)</u>
<u>1</u>	<u>135</u>	<u>120</u>	<u>15</u>
<u>2</u>	<u>125</u>	<u>112</u>	<u>13</u>
<u>3</u>	<u>115</u>	<u>104</u>	<u>11</u>

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 contributions required to cover future service.

IE13. The present value of the entity's obligation, assuming a discount rate of 6 per cent per year, is approximately CU300, calculated as follows:

$$[CU120/(1.06) + CU112/(1.06)^2 + CU104/(1.06)^3]$$

IE14. When these contributions are paid into the plan, the surplus (i.e., the fair value of assets less the present value of the defined benefit obligation) would, other things being equal, increase from CU50 to CU350 (CU300 + CU50).

IE15. However, the surplus is not refundable although an asset may be available as a future contribution reduction.

IE16. In applying paragraph AA19 of Appendix AA of PBE IPSAS 39, the entity determines that there is no prepayment as described in paragraph AA19(a). The amounts available as a reduction in future contributions when applying paragraph AA19(b) of Appendix AA of PBE IPSAS 39 are set out below.

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

IE17. Assuming a discount rate of 6 per cent, the present value of the economic benefit available as a future contribution reduction is therefore equal to:

$$(CU2)/(1.06) + CU0/(1.06)^2 + CU2/(1.06)^3 + CU4/(1.06)^4 \dots = CU56$$

IE18. Paragraph AA23 of Appendix AA of PBE IPSAS 39 clarifies that the entity is to recognise a liability to the extent that the additional contributions payable will not be fully available. Therefore, the effect of the asset ceiling is CU294 (CU50 + CU300 – CU56).

IE19. The entity recognises a net defined benefit liability of CU244 in the statement of financial position. No other liability is recognised in respect of the obligation to make contributions to fund the minimum funding shortfall.

	<u>CU</u>
<u>Surplus</u>	<u>50</u>
<u>Net defined benefit asset (before consideration of the minimum funding requirement)</u>	<u>50</u>
<u>Effect of the asset ceiling</u>	<u>(294)</u>
<u>Net defined benefit liability</u>	<u>(244)</u>

IE20. When the contributions of CU300 are paid into the plan, the net defined benefit asset will become CU56 (CU300 – CU244).

Example 4: Effect of a Prepayment when a Minimum Funding Requirement Exceeds the Expected Future Service Charge

IE21. An entity is required to fund Plan D so that no deficit arises on the minimum funding basis. The entity is required to pay minimum funding requirement contributions to cover the service cost in each period determined on the minimum funding basis.

IE22. Plan D has a surplus of CU35 at the beginning of 20X1. This example assumes that the discount rate and expected return on assets are 0 per cent, and that the plan cannot refund the surplus to the entity under any circumstances but can use the surplus for reductions of future contributions.

IE23. The minimum contributions required to cover future service are CU15 for each of the next five years. The expected service cost is CU10 in each year.

IE24. The entity makes a prepayment of CU30 at the beginning of 20X1 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:

<u>Year</u>	<u>Service cost (CU)</u>	<u>Minimum funding requirement contribution before prepayment (CU)</u>	<u>Minimum funding requirement contribution after prepayment (CU)</u>
<u>20X1</u>	<u>10</u>	<u>15</u>	<u>0</u>
<u>20X2</u>	<u>10</u>	<u>15</u>	<u>0</u>
<u>20X3</u>	<u>10</u>	<u>15</u>	<u>15</u>
<u>20X4</u>	<u>10</u>	<u>15</u>	<u>15</u>
<u>20X5</u>	<u>10</u>	<u>15</u>	<u>15</u>
<u>Total</u>	<u>50</u>	<u>75</u>	<u>45</u>

IE25. In accordance with paragraphs AA19 and AA21 of Appendix AA of PBE IPSAS 39, at the beginning of 20X1, the economic benefit available as a reduction in future contributions is the sum of:

- (a) CU30, being the prepayment of the minimum funding requirement contributions; and
- (b) Nil. The estimated minimum funding requirement contributions required for future service would be CU75 if there was no prepayment. Those contributions exceed the estimated future service cost (CU50); therefore, the entity cannot use any part of the surplus of CU35 noted in paragraph IE22 (see paragraph AA21 of Appendix AA of PBE IPSAS 39).

IE26. Assuming a discount rate of 0 per cent, the present value of the economic benefit available as a reduction in future contributions is equal to CU30. Thus, in accordance with paragraph 66 of PBE IPSAS 39, the entity recognises a net defined benefit asset of CU30 (because this is lower than the surplus of CU65).

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