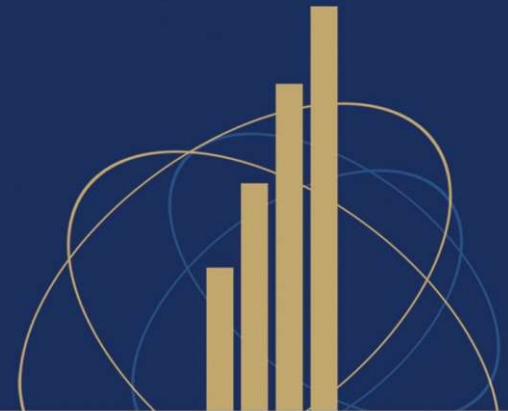




Presentation on IGRAP 7

Siyabonga Bekwa (Dynamic Dashing Solutions)

6 March 2024



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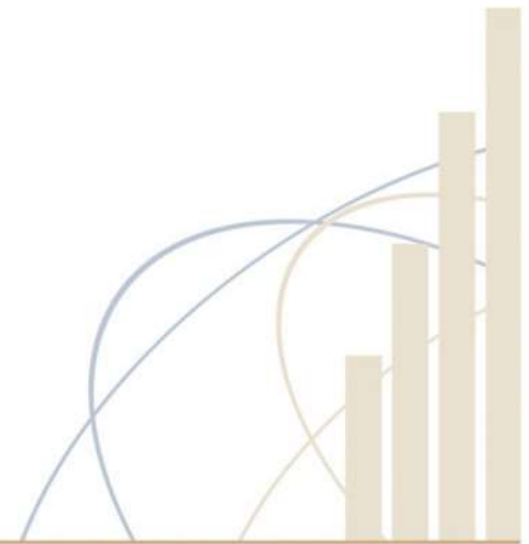
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IGRAP 7 STANDARD



Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction



BACKGROUND



What is a defined benefit plan?

1. A defined benefit plan sets out a specific benefit that will be paid to an employee when they retire. This benefit is calculated in advance using a formula based on the employee's age, earnings and years of service. The employer OR the employer and employee will make contributions to the fund to meet the defined benefit calculated.
2. These contributions are actuarially determined taking into consideration employee's life expectancy, normal retirement age, possible changes to interest rate, etc.
3. The risks of the investments lie with the employer. Therefore at the end of the reporting period, the entity will report a defined benefit obligation and a plan asset.

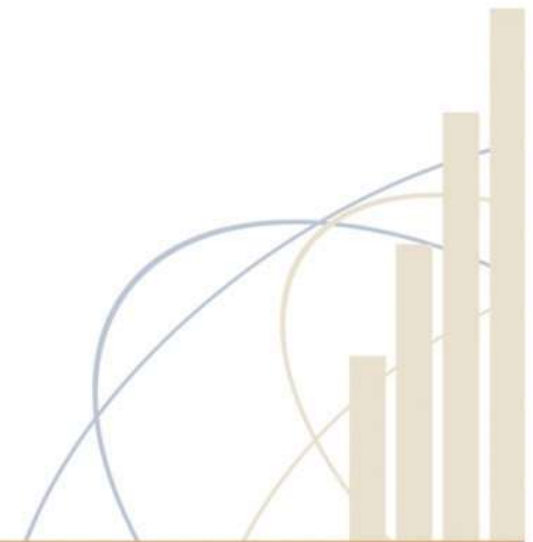


AVAILABILITY OF A REFUND OR REDUCTION IN FUTURE CONTRIBUTIONS



What is a minimum funding requirement?

- A minimum funding requirement normally stipulates a minimum amount or level of contributions that must be made to a plan over a given period.



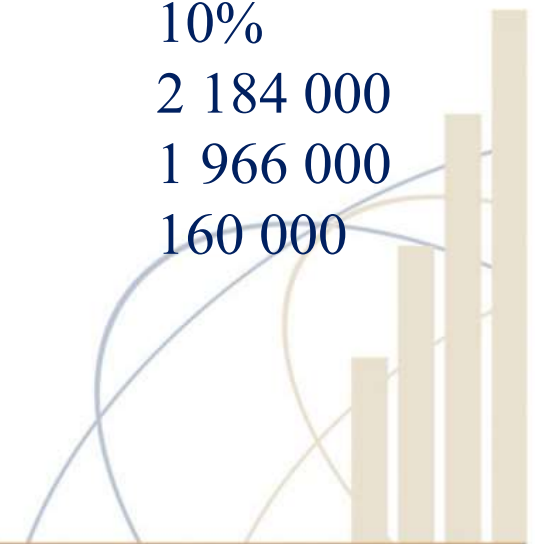
DEFINED BENEFIT PLAN



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Example:

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PV of defined benefit obligation (31 Dec 2010)	2 000 000
FV of plan assets (31 Dec 2010)	1 800 000
Current service cost for the year	260 000
Benefits paid during the year	300 000
Contributions paid into fund	180 000
Discount rate beginning of year	12%
Discount rate end of year	10%
PV of defined benefit obligation (31 Dec 2011)	2 184 000
FV of plan assets(31 Dec 2011)	1 966 000
additional obligation arising from additional benefits	160 000



DEFINED BENEFIT PLAN



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Defined benefit obligation		Plan assets	
Opening balance	2 000 000	Opening balance	1 800 000
Current service cost (P/L)	260 000	Contributions	180 000
Past service cost (P/L)	160 000		
Interest cost (P/L)	240 000	Interest income (P/L)	216 000
Benefits paid	(300 000)	Benefits paid	(300 000)
Recognised obligation	2 360 000	Recognised assets	1 896 000
Remeasurement (OCI)	(176 000)	Remeasurement (OCI)	70 000
PV of defined benefit obligation	2 184 000	Fair value of plan assets	1 966 000

CEILING

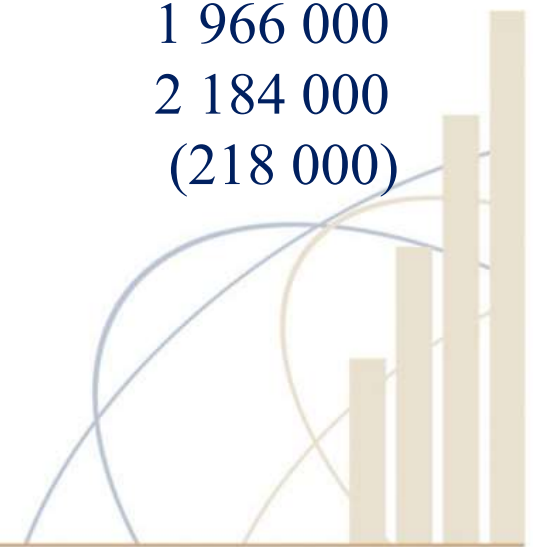


Therefore the amount recognized as a defined benefit liability shall be the:

Present value of the obligation:	2 184 000
Fair value of plan asset:	1 966 000
	218 000

However if the numbers were reversed, a defined benefit asset would arise:

E.g. Present value of the obligation:	1 966 000
Fair value of plan asset:	2 184 000
	(218 000)



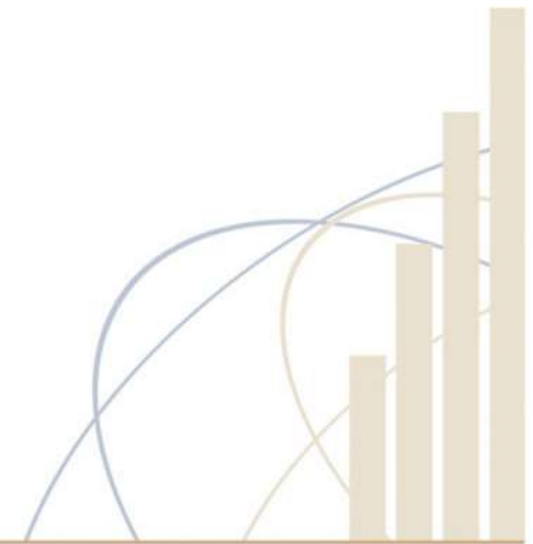
CEILING



There is a ceiling on the recognition of this amount in terms of paragraph 68 of GRAP 25.

An entity shall measure the resulting asset at the lower of:

- a). the amount determined above and
- b). the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

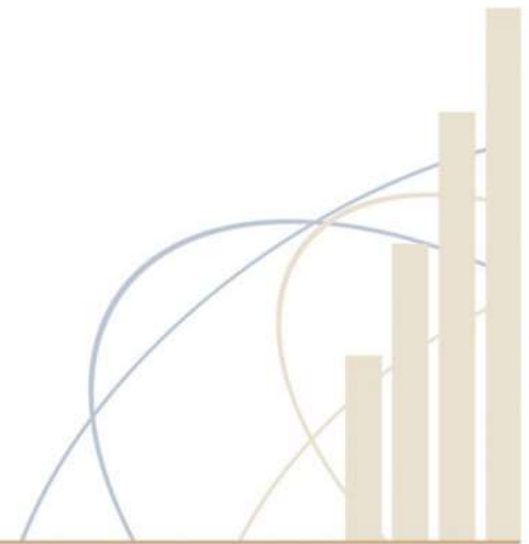


WHAT WERE THE ISSUES?



- a) When should refunds or reductions in future contributions be regarded as available in accordance with paragraph .68 of GRAP 25?

- b) How a minimum funding requirement might affect the availability of reductions in future contributions?



WHAT WERE THE ISSUES?



a) When should refunds or reductions in future contributions be regarded as available in accordance with paragraph .68 of GRAP 25?

i. Availability of economic benefit

A refund is available to an entity only if the entity has an unconditional right to realize the refund at some point during the life of the plan or when the plan is settled.

If the entity's right to a refund depends on the occurrence or non-occurrence of one or more uncertain future events e.g. approval by a third party, the entity does not have an unconditional right and shall not therefore recognize an asset.



WHAT WERE THE ISSUES?



ii. Measurement of economic benefits
FV of plan asset less PV of defined obligation.

E.g.

Present value of the obligation:	1 966 000
Fair value of plan asset:	2 184 000
	(218 000)
Present value of available future refunds and reductions	
In future contributions	118 000
Limit of asset	118 000

R 118 000 is less than R 218 000, therefore the entity recognises an asset of R 118 000 and discloses that the limit in paragraph .68(b) reduced the carrying amount of the asset by R 100 000.



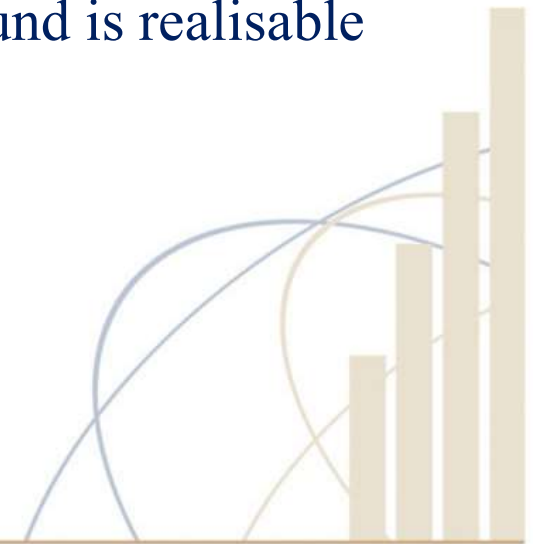
WHAT WERE THE ISSUES?



b) How a minimum funding requirement might affect the availability of reductions in future contributions?

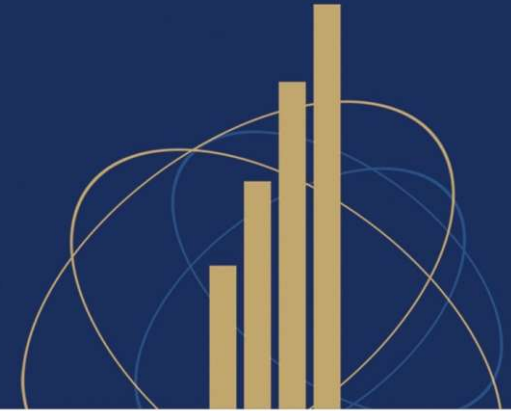
It increases the minimum required contributions made into the fund and limits the entity's ability to reduce future contributions.

If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, an entity shall make no adjustment for the time value of money, even if the refund is realisable only at a future date.





Q & A



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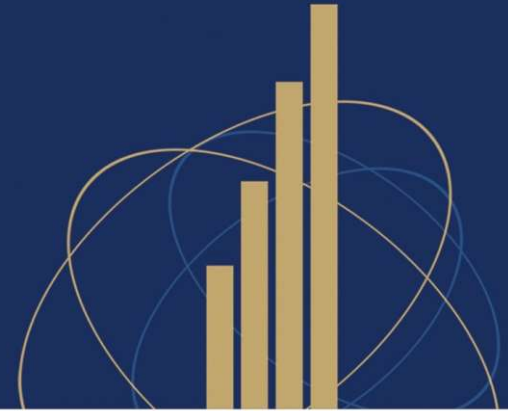


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Thank You!



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