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**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **March 2007, London**

Project: **Curtailments and negative past service cost
(Agenda paper 9(iv))**

Introduction

1. In IAS 19, plan amendments that reduce existing benefits may fall within the definition of either curtailments or negative past service cost. The ambiguity in the definitions means that entities can, in effect, choose how to treat those plan amendments. When curtailments occur, they are recognised immediately, together with any related actuarial gains and losses that had not previously been recognised. Negative past service costs are recognised over the remaining service lives of the employees. Thus, entities can choose between boosting current year profit or loss and producing a stable credit to profit or loss over a number of years.
2. The Basis for Conclusions to IAS 19 indicates that the IASC were aware that there were difficulties in distinguishing between negative past service costs and curtailments, but decided not to provide clarification because it would result in excessive complexity.

3. The IFRIC was asked to give guidance on how to distinguish between curtailments and negative past service costs. At its January meeting, the IFRIC concluded that a lack of clarity in IAS 19 had resulted in diverse practices. The IFRIC noted that the issue was becoming more prevalent in practice but observed that there might be limited benefit in addressing it if the Board's project on post-employment benefits would result in a further change to the accounting for post-employment benefits shortly after any Interpretation could be finalised. The IFRIC decided to explore whether it should recommend that the Board address the issue through its annual improvements process.
4. This paper presents possible amendments to IAS 19 that the IFRIC could propose to the Board.

Staff recommendation

5. The staff recommends that the IFRIC propose the amendments in paragraph 7 to the Board as an annual improvement.

Proposed amendments to IAS 19

6. At its January meeting, it was suggested that the IFRIC explore proposing an amendment to the Board that deleted the notion of a negative past service cost from IAS 19. It was suggested that the concept of a negative cost was flawed.
7. [Paragraph omitted from observer notes]

Consequences

8. The amendments in paragraph 7 would treat plan amendments that improve benefits as giving rise to service costs (past or current). Plan amendments that reduce benefits would be curtailments. They can be summarised as follows:

Effect of plan amendment	Changes in benefits attributed to	
	Past service	Future service (no change in DBO ¹)
Reduce or eliminate benefits	<ul style="list-style-type: none"> • Decrease in DBO treated as curtailment 	<ul style="list-style-type: none"> • Affects current service cost in future years • Treated as curtailment for disclosure purposes

¹ defined benefit obligation

Increase or introduce benefits	<ul style="list-style-type: none"> • Increase in DBO treated as past service cost 	<ul style="list-style-type: none"> • No curtailment or past service cost • Affects current service cost in future years
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9. [Paragraph omitted from observer notes]
10. The proposed amendment also removes the references to materiality in part (b) of the definition of curtailments in paragraph 111. In general, IFRSs apply only to material items. There is no need to refer specifically to materiality here.

Possible issues

Inconsistent with Framework and IAS 37

11. Some argue that the liability that arises from applying with the proposed amendments would not be consistent with the definition of a liability in the *Framework* and in IAS 37. This is because the liability recognised arises from a future, not a present, obligation. This inconsistency arises because IAS 19 relies on the plan's benefit formula to attribute benefits which include attributing the effect of future salary increases to past service.
12. However, those holding this view would accept that this issue relates to IAS 19's methodology of attributing benefits that depend on future salary levels to past and future years of service, and is thus a fundamental feature of IAS 19, rather than a flaw resulting from the proposed amendments.

Interaction with US GAAP

13. In US GAAP, as set out by FAS 87 and 88, plan amendments are curtailments only if they eliminate the accrual of defined benefits for future service. In contrast, IFRSs require and would continue to require only that benefits are reduced. Thus, the proposed amendments do not achieve convergence with US GAAP.
14. [Paragraph omitted from observer notes]

Appropriateness of annual improvement process

15. [Paragraph omitted from observer notes]

Timing

16. At the January meeting, the staff noted that the Board is currently undertaking a post-employment benefits project that is expected to result in final guidance by 2010. Although tentative decisions taken in that project so far would not eliminate the ambiguity between the definitions of a past service cost and a curtailment, they would remove any difference in accounting for them because:
 - a. there would be no unrecognised actuarial gains or losses or unrecognised past service cost to be recognised when there was a curtailment
 - b. gains on both negative past service cost and curtailments would be recognised immediately in profit or loss.
17. An issue that forms part of the annual improvements process might be exposed for comment on 1 October 2007 with amendments effective from 1 January 2009. The Board project is expected to result in final guidance by 2010. [Part of paragraph omitted from observer notes]

Conclusion

18. IFRIC members noted that post-employment benefits were an economically important area and that the identified diversity in practice should be addressed. Thus, IFRIC members argued that rejecting this issue is not appropriate. However, IFRIC members questioned whether an Interpretation would be the best use of IFRIC resources in the light of the Board's on-going project on post-employment benefits. Some members also argued that clarification of this issue could most easily be achieved through changes to IAS 19.
19. [Paragraph omitted from observer notes]
20. Accordingly, the staff recommends that the IFRIC propose the amendments in paragraph 7 to the Board to be taken up within the annual improvements process.