



**30 Cannon Street, London EC4M 6XH, United Kingdom**  
**Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411**  
**Email: [iasb@iasb.org](mailto:iasb@iasb.org) Website: [www.iasb.org](http://www.iasb.org)**

**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

## **INFORMATION FOR OBSERVERS**

**Board Meeting:** 18 May 2007, London

**Project:** Post-employment benefits

**Subject:** **Curtailments and Settlements: Curtailments and negative past service cost (Agenda paper 10C)**

---

## **INTRODUCTION**

1. At its April 2007 meeting, the Board considered the following issue that had been referred to it by IFRIC: Ambiguous definitions of negative service costs and curtailments have resulted in diverse accounting for plan amendments that reduce existing benefits.
2. The Board noted that its tentative decisions in phase 1 of its post-employment benefits project would eliminate the relevance of this issue. An important difference between the accounting for past service costs and curtailments is that a curtailment triggers the recognition of unrecognised gains and losses. The Board's tentative decisions would mean there are no unrecognised gains and losses. However, the Board concluded it would prefer to eliminate diverse practice on a timely basis through its annual improvements process.

3. At its April meeting, the staff presented a proposed amendment to IAS 19 that would account for all reductions in existing benefits that resulted from a plan amendment as curtailments. The Board expressed some reservations about that proposal and asked the staff to develop an alternative amendment that would clarify the difference between negative past service costs and curtailments in IAS 19.
4. This paper:
  - (a) presents, as appendices A and B, two proposed amendments;  
*[Appendices A and B are not provided in these observer notes]*
  - (b) discusses the relative merits of these amendments; and
  - (c) considers whether the Board should amend IAS 19 as part of its annual improvements process.

## STAFF RECOMMENDATIONS

5. The staff recommends that the Board issue an annual improvement which clarifies that, when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost.
6. The staff also recommends that the Board eliminate references to materiality in paragraph 111 of IAS 19.

## STAFF ANALYSIS

### **The issue**

7. IAS 19 states that “A curtailment occurs when an entity ...amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify for only reduced benefits. (paragraph 111).”
8. IAS 19 defines past service cost as:

“... the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits.” (paragraph 7).

9. In addition, IAS 19 notes that past service cost:

- “... may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).” (paragraph 7)
- “excludes ... the effect of plan amendments that reduce benefits for future service (a curtailment).” (paragraph 98(e)).

10. The IFRIC was informed that different interpretations had been reported in practice. Those interpretations can be attributed to the following different interpretations of paragraph 98(e) for a plan amendment that affects benefits for both past service and for future service:

- (a) if a plan amendment results in *any* reduction in benefits for future service, the amendment does not result in past service cost
- (b) if a plan amendment results in reduction in benefits for past and future service, the reduction relating to future service is a curtailment, not past service cost. However, the reduction relating to past service is past service cost.

11. The IFRIC concluded that it would not be appropriate to address this issue in an Interpretation in the light of the Board’s current phase 1 project on post-employment benefits. The IFRIC also noted that the Basis for Conclusions to IAS 19 seemed to indicate that the ambiguity in IAS 19 was intentional (see Basis for Conclusions to IAS 19, paragraph BC62). The staff thinks that the purpose of paragraph 62 of the Basis for Conclusions to IAS 19 is unclear, and that it is not well-expressed. Accordingly, the staff proposes it is deleted in both proposed amendments.

12. Amendment A changes IAS 19 to be consistent with the interpretation in paragraph 10(a). Amendment B changes IAS 19 to be consistent with the interpretation in paragraph 10(b). The amendments are set out in Appendices A

and B respectively. *[Appendices A and B are not provided in these observer notes]*

#### **Amendment A**

13. Amendment A was developed from the IFRIC's discussions about this issue. During those discussions, the IFRIC noted that any Interpretation would be effective for only a few years before being superseded by the output of the Board's post-employment benefits project. Accordingly, the IFRIC sought an Interpretation that would be simple to understand and implement. The IFRIC rejected a view that was similar to Amendment B because of its relative complexity.
14. Amendment A would eliminate the need to allocate the reduction in defined benefit obligation between past and future service. It would also result in curtailment accounting for more reductions in defined benefit obligation. As amounts that arise from a curtailment are recognised when the curtailment occurs (rather than spread over the remaining expected service lives of employees for negative past service costs), Amendment A would result in superior accounting for more plan amendments.
15. At the April 2007 meeting, some Board members did not support Amendment A because it goes beyond a clarification of IAS 19, and would change IAS 19 in a way inconsistent with the IASC's intent.

#### **Amendment B**

16. At the April 2007 meeting, some Board members expressed the view that IAS 19 was clear: past service cost, positive or negative, relates to plan amendments that affect the amount of benefit that employees receive for service already rendered. A curtailment relates to the amount of benefits that employees can earn in the future.
17. Amendment B clarifies that the reduction in benefits that arises from a plan amendment should be separated into a component that relates to past service and

one that relates to future service. Those components are accounted for as negative past service cost and curtailments respectively.

### **Which amendment?**

18. The staff recommends Amendment B because:

- (a) it appears to be consistent with the original intention of the IASC.
- (b) Amendment A would mean that none of the curtailments described in paragraph 111(b) of IAS 19 affect the measurement of the defined benefit obligation. In other words, there would be no change in the defined benefit obligation to account for as a curtailment.<sup>1</sup> The staff argues that the IASC would not have written paragraph 111(b) if it did not intend an accounting consequence for the curtailments it describes.
- (c) The changes proposed in Amendment B are of a clarifying nature, compared to the change in meaning proposed in Amendment A.

### **Materiality**

19. The staff also recommends that the Board eliminate references to materiality in paragraph 111<sup>2</sup> of IAS 19 because they are unnecessary. IFRSs apply only to material items.

---

<sup>1</sup> Although there would be no accounting implications, additional disclosures would be required from those plan amendments.

<sup>2</sup> Paragraph 111 states:

“A curtailment occurs when an entity either:

- (a) is demonstrably committed to make a material reduction in the number of employees covered by a plan; or
- (b) amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan. An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements. Curtailments are often linked with a restructuring. Therefore, an entity accounts for a curtailment at the same time as for a related restructuring. “

### **Suitability for annual improvements**

20. The Board has indicated that it would prefer to eliminate the diversity in practice that exists because of this issue. The question is whether it could do so as an annual improvement, or whether it would be required to issue a separate Exposure Draft.
21. The annual improvements process focuses on areas of inconsistency in standards or where clarification of wording is required. In the staff's view, Amendment B is a clarification of IAS 19.
22. The staff notes that Amendment B would result in changes to existing practice, which some argue results from ambiguity that is supported by the Basis for Conclusions to IAS 19. However, should the Board decide to proceed with Amendment B, the staff argues that it would be appropriate to do so as part of annual improvements because the changes proposed are few in number, clarify the existing Standard and are self-contained. The staff recommends that the Board issue Amendment B as an annual improvement.