



Project **Post-employment Benefits**

Topic **Sweep issue – curtailments and settlements**

Purpose of this paper

1. The purpose of this paper is to discuss an issue that has arisen during the drafting of the pre-ballot draft of the ED of amendments to IAS 19.
2. The Board has decided to remove the options in IAS 19 for deferred recognition of actuarial gains and losses. This paper considers whether that decision means that some of the requirements relating to curtailments and settlements can also be removed.

Staff recommendation

3. The staff recommends that:
 - (a) the existing requirements on curtailments and settlements are removed
 - (b) curtailments are included in negative past service costs, and disclosure is required of the effect of plan amendments with a narrative description of the amendments¹ and
 - (c) a definition of ‘non-routine settlements’ based on the IFRIC May 2008 Update wording is added to the definitions in IAS 19 and separate disclosure of such ‘non-routine settlements’ is required.

Current requirements

4. Paragraphs 109-115 of IAS 19 (reproduced in Appendix A) set out the requirements in IAS 19 relating to curtailments and settlements. An important
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¹ This recommendation is in the context of the discussion of materiality and disaggregation in Agenda Paper 20A. The specific requirements proposed in Agenda Paper 20A on curtailments and settlements would be amended to include the recommendations on disclosure in this paper.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

consequence of a curtailment or settlement under IAS 19 at present is that it triggers the recognition of previously unrecognised gains and losses.

5. If there are no unrecognised gains and losses, this aspect of the accounting for curtailments and settlements falls away. Curtailments are accounted for exactly as negative past service costs. Settlements are accounted for exactly as other remeasurements. This raises the question of whether they need to be addressed separately in the standard.

Staff analysis and recommendation

Curtailments

6. Curtailments are the effect on future service² arising from:
 - (a) a significant reduction in the number of employees covered by a plan or
 - (b) plan amendments that reduce benefits.
7. Without the need to include any previously unrecognised gains and losses, the requirements for curtailments are exactly the same as the requirements for other plan amendments that reduce benefits, ie negative past service costs. The staff sees no need for a separate discussion of the measurement or recognition of curtailments.
8. Curtailments are also required to be separately disclosed under IAS 19. But again that was because curtailment gains and losses included previously unrecognised gains and losses. Now they include only the direct effect of the plan amendment. The staff sees no need to disclose curtailments separately from other plan amendments. Instead, the staff thinks that more useful information would be provided by disclosure of the effect of plan amendments and a narrative description of the amendment.

² An effect on future service is included in the measurement of the defined benefit obligation at the end of the reporting period because the measurement of the defined benefit obligation includes an assessment of future salary increases. An effect from future service can also arise if the benefit formula attributes a higher level of benefits to later years of services and the entity recognises the benefit on straight-line basis in accordance with paragraph 67 of IAS 19.

Proposed requirements

9. The staff proposes that
- (a) the requirements relating to curtailments in paragraphs 109 to 115 of IAS 19 are deleted
 - (b) instead, the discussion in IAS 19 of negative past service costs is amended to include curtailments as set out in paragraph 111 and
 - (c) disclosure is no longer required of curtailments separately from past service costs but instead of the effect of plan amendments and a narrative description of the amendment..

Question

Does the Board with the staff recommendation in paragraph 9(a)?

Does the Board with the staff recommendation in paragraph 9(b)?

Does the Board with the staff recommendation in paragraph 9(c)?

Settlements

10. A settlement under IAS 19 occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan.
11. Without the need to include any previously unrecognised gains and losses, the requirements for settlements are exactly the same as the requirements for other remeasurements. The staff sees no need for a separate discussion of the measurement or recognition of settlements.
12. Settlements are also required to be separately disclosed under IAS 19. The staff thinks that separate disclosure of settlements is useful information and should continue to be required.
13. However, the staff thinks the phrase ‘settlements’ could be misleading. In May 2008, the IFRIC noted that events that are covered by actuarial assumptions, for example an employee taking up an option in the plan terms to receive a lump sum benefit at retirement instead of ongoing payments, are not treated as settlements under IAS 19. So, settling (as the term is used in other IFRSs) a

liability does not always result in a settlement as the term is used in IAS 19. The staff proposes that the term ‘non-routine settlements’ is used to describe the events that should be disclosed.

Proposed requirements

14. The staff proposes that
- (a) the requirements relating to settlements in paragraphs 109 to 115 of IAS 19 are deleted
 - (b) a definition of ‘non-routine settlements’ based on the IFRIC May 2008 wording is added to the definitions in IAS 19 and
 - (c) separate disclosure of such ‘non-routine settlements’ is required.

Question
Does the Board with the staff recommendation in paragraph 14(a)?
Does the Board with the staff recommendation in paragraph 14(b)?
Does the Board with the staff recommendation in paragraph 14(c)?

Appendix A: relevant paragraphs of IAS 19

109 An entity shall recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement shall comprise:

- (a) any resulting change in the present value of the defined benefit obligation;**
- (b) any resulting change in the fair value of the plan assets;**
- (c) any related actuarial gains and losses and past service cost that, under paragraphs 92 and 96, had not previously been recognised.**

110 Before determining the effect of a curtailment or settlement, an entity shall remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

111 A curtailment occurs when an entity either:

- (a) is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or
- (b) amends the terms of a defined benefit plan so that a significant 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, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case, an entity accounts for a curtailment at the same time as for a related restructuring.

111A When a plan amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.

112 A settlement occurs³ when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants

³ IFRIC Update—May 2008: Settlements The IFRIC received a request to clarify whether some payments of benefits under a defined benefit plan are settlements as defined in IAS 19. The payments in question arise when an existing plan gives plan members the option to choose to receive a lump sum payment at retirement instead of ongoing payments. The IFRIC noted that events that are covered by the actuarial assumptions underlying the measurement of the defined benefit obligation are not treated as settlements under IAS 19. The IFRIC decided not to add the issue to its agenda because there was little diversity in practice.

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in exchange for their rights to receive specified post-employment benefits.

- 113 In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 39) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 104A–104D deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.
- 114 A settlement occurs together with a curtailment if a plan is terminated such that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a curtailment or settlement if the plan is replaced by a new plan that offers benefits that are, in substance, identical.
- 115 Where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of the previously unrecognised past service cost and actuarial gains and losses (and of transitional amounts remaining unrecognised under paragraph 155(b)). The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement, unless another basis is more rational in the circumstances. For example, it may be appropriate to apply any gain arising on a curtailment or settlement of the same plan to first eliminate any unrecognised past service cost relating to the same plan.