



Project **Post-employment benefits**

Topic **Next steps for the proposed amendments to IAS 19 relating to termination benefits**

Purpose of this paper

1. In June 2005, the Board published an Exposure Draft of Amendments to IAS 19, dealing with the accounting for termination benefits, together with proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
2. This paper:
 - (a) Sets out the background of the Board's deliberations on the termination benefits amendments
 - (b) Provides a decision summary to date
 - (c) Discusses whether it would be appropriate to publish the amendments arising from that exposure draft in advance of the related amendments to IAS 37, including the timing of publication of any such advance amendments.

Summary of staff recommendations

3. The staff recommends that the Board:
 - (a) confirm its previous decisions on termination benefits noted in paragraph 8; and
 - (b) conclude that the amendments to IAS 19 relating to termination benefits could be published in advance of the amendments to IAS 37.

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.

Background

4. As part of the short-term convergence project, the Board proposed amendments to the requirements in IAS 37 relating to the recognition of liabilities for costs associated with a restructuring. Those amendments were intended to converge with SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities* and to improve the Standard.
5. SFAS 146 also specifies the accounting for a class of termination benefits known as ‘one-time termination benefits’. These are benefits provided to current employees whose employment is involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract. Because IAS 19 specifies the accounting for termination benefits, the Board also decided to amend the termination benefit recognition requirements in IAS 19 at the same time as its amendment to IAS 37.
6. The Board at the time observed that because the accounting for termination benefits in US GAAP is specified in a number of standards, an approach that converged with all aspects of US GAAP would be difficult to integrate into IAS 19. Accordingly, the Board concluded that it should converge with the principles of SFAS 146 and SFAS 88 *Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, relating to one-time termination benefits. The Board acknowledged that differences with US GAAP will remain following the introduction of these amendments. Nonetheless, the Board believed that the proposed amendments will increase convergence as well as improve the accounting for termination benefits.
7. The Board exposed its proposals for public comment in June 2005. The comment letters were supportive of the proposed amendments and in May 2008, the Board concluded its deliberations on the amendments to the accounting for termination benefits. However, the amendments have not been balloted or published pending further deliberations on IAS 37.

Decision summary

8. We set out the current requirements of IAS 19 relating to termination benefits in the appendix. The Board's tentative decisions are:
- (a) The definition of *termination benefits* in IAS 19 would be amended to clarify that benefits that are offered in exchange for an employees' decision to accept voluntary termination of employment are termination benefits only if they are offered for a *short period*. A *short period* refers to the period between the offer for voluntary termination and the actual termination of employment.
 - (b) Voluntary termination benefits should be recognised when employees accept the entity's offer of those benefits.
 - (c) If an entity offers voluntary termination benefits and cannot withdraw that offer, the entity should recognise a liability in the same way as for involuntary termination benefits.
 - (d) Involuntary termination benefits, with the exception of those provided in exchange for employee's future service, should be recognised when the entity has communicated its plan of termination to the affected employees and the plan meets specified criteria. Before an obligation exists for involuntary termination benefits, employees need to know whether they are in the class of employees whose employment will be terminated.
 - (e) Involuntary termination benefits provided in exchange for employees' future service should be recognised over the period of the future service. The Board would specify three criteria for determining whether involuntary termination benefits are provided in exchange for future services.
 - (f) Because the definition of voluntary termination benefits refers to a short period, voluntary termination benefits do not relate to future services.

Question 1: Decision summary

Does the Board confirm that it will finalise an amendment to IAS 19 that incorporates the decision summary in paragraph 8?

Publication in advance of related amendments to IAS 37

9. Some constituents have stated that the amendments to IAS 19 relating to termination benefits are needed and long overdue. They note that the Board has already completed its deliberations on termination benefits and on the related recognition issues for IAS 37. They argue that the remaining issues to be determined in the IAS 37 project do not affect the termination benefit amendments and should not prevent them being finalised. Further, the continuing deliberations on IAS 37, including the possibility that parts of that project would be re-exposed, causes them concern that the termination benefits amendment may not be forthcoming for a significant time.
10. Accordingly, the staff discusses below whether the Board should finalise the termination benefits amendments ahead of the IAS 37 amendments. We discuss the timing of publishing any amendments relating to termination benefits below. However, to avoid unnecessary delay, we would like to ask the Board in this meeting to confirm whether the amendments *can* be published in advance of the related amendments to IAS 37, and to describe the next steps if we do so.
11. We think the advantages of advance publication would be:
 - (a) The amendments to termination benefits, that were widely accepted, would be finalised sooner, rather than later.
 - (b) It would be more convenient to constituents to group together publications that affect the accounting for pensions.
12. However, we do not think that the Board should finalise the amendments ahead of the IAS 37 amendments if:
 - (a) the proposals rely on the amendments to IAS 37 and thus would be exposed to future changes in the short term.

(b) doing so creates any additional logistical confusion or complexity.

We discuss these issues below.

Relationship to IAS 37

Timing of recognition

13. Although the termination benefits do not depend on the IAS 37 amendments, they are complementary. This means that there is a potential issue of timing.
14. The current versions of IAS 19 and IAS 37 specify when an entity should recognise a liability for termination benefits and other restructuring provisions respectively. The requirements of the two standards are broadly consistent.
15. The Board has tentatively decided to amend the timing in both standards.
16. If the Board were to amend the accounting for termination benefits in advance of the amendments to IAS 37, then the timing of recognition of a liability for termination benefits could be later than for other liabilities associated with a restructuring. This would be the case until the Board finalises the equivalent amendments to IAS 37.
17. We note that the timing issue may be of concern to entities that undertake restructuring activities because they would have to recognise the liabilities associated with restructuring activities at different times, if those activities included the granting of termination benefits. However, in our view, this timing issue should not prevent the Board from finalising the termination benefits amendments in advance of the IAS 37 amendments. We note that the timings of recognition in IAS 37 and for termination benefits in IAS 19 are at present different from other liabilities. An improvement to the accounting in IAS 19 need not depend on improving the accounting elsewhere first.

Consequential amendments

18. If the Board were to finalise the amendments to IAS 19 for termination benefits, there would be no effect on the current version of IAS 37. This is because the accounting for termination benefits is outside the scope of IAS 37 as it is covered by IAS 19.

19. When the Board later finalises any amendments to IAS 37, there would be no consequential amendments to the termination benefits requirements, unless the Board revised its decisions on restructuring activities in IAS 37 and wanted to revise IAS 19 in the same way. We understand that the IAS 37 staff expects that the Board will not revise its conclusions on this aspect of the amendments to IAS 37.
20. Therefore we do not think that logistical concerns of making the amendments should prevent the Board finalising the amendments for termination benefits in advance of the IAS 37 amendments.

Question 2: Publication in advance of amendments to IAS 37

Does the Board agree that the amendments to IAS 19 relating to termination benefits could be published in advance of the amendments to IAS 37?

Timing of publication

21. If the Board decided that it could publish the termination benefits amendments in advance of the IAS 37 amendments, we would need to consider the best time to do so. Possible publication points for amendments to the accounting for termination benefits are:
 - (a) When the Board publishes any amendments of *Discount Rate for Employee Benefits* and *Prepayments of a Minimum Funding Requirement* (agenda papers 8A and 8B), ie in December 2009. In the light of the Board's possible amendments to the accounting for pensions in December 2009, some have suggested that it would be appropriate to finalise the termination benefits amendments at the same time.
 - (b) When the Board finalises any amendments relating to IAS 37. Paper 7 for this meeting discusses plans for the IAS 37 project. If the Board approved the plan recommended by the staff, it would be aiming to finalise the amendments to IAS 37 in the third quarter of 2010.

- (c) When the Board finalises any amendments to the IAS 19 improvement project (on recognition, presentation, disclosures and other issues), planned for early 2011.
22. We do not recommend 21(b) because it would create further delay for no reason.
23. We note that at this meeting, the Board will consider whether to proceed with the amendments in 21(a) and also make decisions that will affect the timing of 21(b). Accordingly, we propose that we will consider the best time to publish the termination benefit amendments after this meeting. We will have regard to the following considerations:
- (a) The Board’s decisions in paper 7 for this meeting for the timing of finalising the amendments to IAS 37.
- (b) If the Board decides to proceed with the discount rate amendment to IAS 19 or the prepayment amendment to IFRIC 14, it may be best to publish all amendments affecting the accounting for pensions at the same time.

Proposed next steps

At this meeting	<p>Board confirms decisions summary relating to termination benefits</p> <p>Board decides that amendments to termination benefits could be published in advance of IAS 37 amendments</p> <p>Board decides whether to proceed with amendments of <i>Discount Rate for Employee Benefits</i> and <i>Prepayments of a Minimum Funding Requirement</i></p>
After this meeting	In light of decisions at this meeting,

IASB Staff paper

	staff proceed to draft amendments to termination benefits for publication at an appropriate date.
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Appendix: Current IAS 19 requirements relating to termination benefits

This appendix sets out the current requirements in IAS 19 relating to termination benefits.

7 The following terms are used in this Standard with the meanings specified:

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Termination benefits are employee benefits payable as a result of either:

- (a) an entity's decision to terminate an employee's employment before the normal retirement date; or
- (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Termination benefits

132 This Standard deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

133 An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:

- (a) terminate the employment of an employee or group of employees before the normal retirement date; or
- (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

134 An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan shall include, as a minimum:

- (a) the location, function, and approximate number of employees whose services are to be terminated;
- (b) the termination benefits for each job classification or function; and
- (c) the time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.

135 An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:

- (a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and

- (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.
- 136 Some employee benefits are payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some countries as termination indemnities, or termination gratuities, they are post-employment benefits, rather than termination benefits and an entity accounts for them as post-employment benefits. Some entities provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination is a termination benefit.
- 137 Termination benefits do not provide an entity with future economic benefits and are recognised as an expense immediately.
- 138 Where an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits (see paragraph 109).

Measurement

- 139 **Where termination benefits fall due more than 12 months after the reporting period, they shall be discounted using the discount rate specified in paragraph 78.**
- 140 **In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.**

Disclosure

- 141 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by IAS 37 an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.
- 142 As required by IAS 1, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.
- 143 Where required by IAS 24 an entity discloses information about termination benefits for key management personnel.