



Project **Post-employment benefits**

Topic **Termination benefits**

Purpose of this paper

1. In June 2005 the Board exposed proposals to amend the requirements for termination benefits in IAS 19 *Employee Benefits* with proposals to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In October 2009, the Board tentatively decided to publish the termination benefits amendments without waiting for the completion of the revised IAS 37.
2. Although the Board has tentatively decided to proceed with the final amendments on termination benefits, the staff believes that the Board might benefit from re-exposing the termination benefits amendments along with the proposed amendments in the forthcoming ED *Defined Benefit Plans*.
3. Paragraphs 4 and 5 set out the advantages and disadvantages of re-exposure, followed by a question for the Board. Paragraph 6 sets out a proposed timeline. Paragraphs 7-14 set out the background. In line with our general policy on re-exposure, this paper does not include a recommendation.
4. The benefits of re-exposing the termination benefits amendments include:
 - (a) Allowing respondents to identify possible unintended consequences, if any, arising from the interaction of the amendments to termination benefits with the proposed amendments in the forthcoming ED *Defined Benefit Plans*.
 - (b) Providing respondents with the opportunity to give feedback on the new wording. While the decisions and rationale behind the amendments have not changed significantly, the wording of the

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.

amendments has undergone significant changes since the 2005 ED including changes in terminology (please refer to illustrations in paragraph 14).

5. The disadvantages of re-exposing the termination benefits amendments include:
- (a) Possibility of delays in the publication of ED *Defined Benefit Plans*.
However we suggest that if the Board does decide to re-expose termination benefits, and if the finalisation of the amendments to termination benefits is delayed for any reason, then the Board should continue to publish *Defined Benefit Plans* on its own.
 - (b) This topic may not be significant enough to justify consuming additional time and energy of respondents, the Board and staff.

Question for the Board

Should the Board re-expose the amendments to termination benefits? Does your answer to that question depend on whether the material on termination benefits will be ready in time for inclusion in the exposure draft on post-employment benefits?

Next steps

6. The staff will circulate a pre-ballot for the termination benefit amendments which either will form the basis for a final amendment or be inserted as part of ED *Defined Benefit Plans*. The table below sets out the proposed timetable.

	Pre-ballot comments due	Ballot	Ballot due	Publish
Defined benefit plans		1 April	8 April	Late April
Termination benefits	8 April	9 April	13 April	Late April

Background

7. In June 2005, as part of the short-term convergence project, 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, relating to the recognition of liabilities for costs associated with a restructuring. Those amendments would converge with then SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities* (now US Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic 420 *Exit or Disposal Cost Obligations* (FASB ASC Topic 420)).

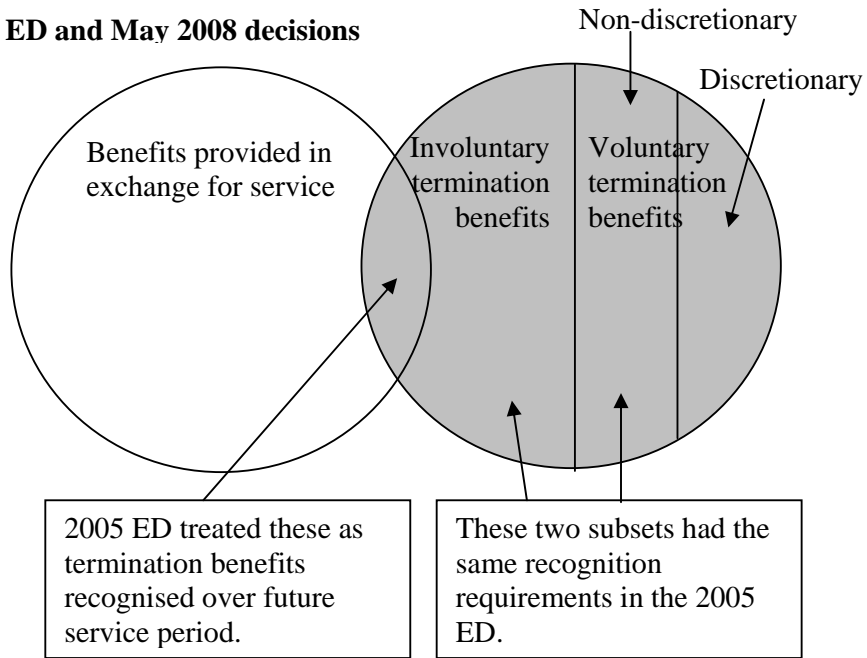
8. FASB ASC Topic 420 also specifies the accounting for a class of termination benefits known as ‘one-time termination benefits’. These are benefits provided to current employees whose employment is involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract. Because IAS 19 specifies the accounting for termination benefits, the Board proposed to amend the termination benefit recognition requirements in IAS 19 at the same time as its amendment to IAS 37.
9. The Board at the time observed that because US GAAP specifies the accounting for termination benefits in a number of standards, an approach that converged with all aspects of US GAAP would be difficult to integrate into IAS 19. 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* (now FASB ASC topic 712 *Compensation-Nonretirement Postemployment Benefits*) relating to special 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 would contribute to convergence as well as improve the accounting for termination benefits.
10. The amendments proposed that:
 - (a) the definition of termination benefits should be amended to clarify that benefits that are payable in exchange for an employee’s decision to accept voluntary redundancy are termination benefits only if they are offered for a short period.

- (b) voluntary termination benefits should be recognised when employees accept the entity's offer of those benefits.
 - (c) involuntary termination benefits should be recognised when the entity has communicated its plan of termination to the affected employees and the plan meets specified criteria, unless the involuntary termination benefits are provided in exchange for employees' future services (ie in substance they are a 'stay bonus'). In such cases, the liability for those benefits should be recognised over the future service period.
11. The Board exposed its proposals for public comment in June 2005. The comment letters were supportive of the proposed amendments. In May 2008 the Board considered the comments received on the exposure draft's proposals for termination benefits and made the following tentative decisions:
- (a) In the proposed definition of voluntary termination benefits, the term 'short period' refers to a period between the offer for voluntary termination and the actual termination of the employment.
 - (b) Because the definition of voluntary termination benefits refers to a short period, voluntary termination benefits do not relate to future services.
 - (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) 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.
12. In January 2010 the staff identified some ways to simplify the drafting and requirements and as a consequence:
- (a) The Board tentatively decided to amend the definition of termination benefits to include only benefits provided in exchange for termination of employment and not include benefits provided in exchange for employee service. Treating benefits provided in exchange for

employee service as post-employment benefits results in the same recognition as is required under SFAS 146. It is just the label that is different. But calling such benefits post-employment benefits makes the section in IAS 19 on termination benefits much easier to understand (refer paragraph 14).

- (b) The Board decided tentatively to require an entity to recognise termination benefits when it no longer has the ability to withdraw an offer of those benefits.
13. The staff has since identified opportunities for further improvement to the drafting including:
- (a) eliminating voluntary and involuntary as separate categories of termination benefits. Since the recognition requirements are the same (ie when an entity can no longer withdraw an offer of termination benefits) removing these categories will reduce the level of complexity of the requirements.
 - (b) clarifying the requirements for initial measurement and subsequent recognition and measurement when termination benefits are provided as part of an ongoing benefit plan.
14. The following diagrams illustrate the differences in accounting for termination benefits proposed in the 2005 ED (together with the May 2008 tentative decisions) and in the January 2010 tentative decisions.

2005 ED and May 2008 decisions



Current proposal (January decisions)

