

Objective

1. The objective of this paper is to discuss the timing of recognition for plan amendments, curtailments, settlements and termination benefits, and how their timing of recognition interacts with the timing of recognition for restructuring costs.
2. This paper provides:
 - (a) an overview of the proposals in the exposure draft *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits* (the 2005 ED) and a summary of the Board's tentative decisions to date relating to the timing of recognition of curtailments, termination benefits and restructuring provisions (paragraphs 4 – 14).
 - (b) an overview of the proposals in the exposure draft *Defined Benefit Plans* (the 2010 ED) relating to the timing of recognition of past service cost, curtailments and settlements and the comments received on those proposals (paragraphs 15 - 19).
 - (c) a staff analysis and recommendation (paragraphs 20 – 35).
3. In summary, the staff recommends that:
 - (a) if a curtailment or plan amendment is linked to a restructuring or termination benefit, the gain or loss should be recognised when the related restructuring costs or termination benefits are recognised.

This paper has been prepared by the technical staff of the IFRS Foundation 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 IFRS Interpretations Committee 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.

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Otherwise, the gain or loss should be recognised when the curtailment or plan amendment occurs.

- (b) if termination benefits are linked to a restructuring, they should be recognised when the related restructuring costs are recognised. Otherwise, termination benefits should be recognised when the entity can no longer withdraw an offer of the benefits.
- (c) the Board confirms the proposals in the ED that a settlement should be recognised when it occurs.

Background to the 2005 ED

- 4. In 2005, the Board published the exposure draft *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits* (the 2005 ED) that proposed:
 - (a) withdrawal of the current requirements in IAS 37 relating to restructuring provisions;
 - (b) amendments to the requirements in IAS 19 relating to termination benefits; and
 - (c) consequential amendments to the requirements in IAS 19 relating to curtailments to reflect the changes in (a) and (b) above.

Restructuring provisions

- 5. Current IAS 37 states that an entity has a constructive obligation for restructuring costs if it: (a) has a detailed formal plan for restructuring; and (b) has raised a valid expectation in those affected that it will carry out the restructuring. At that time, it recognises a provision for the direct expenditures arising from the restructuring.
- 6. The 2005 ED proposed:

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- (a) revising the application guidance for restructuring provisions to specify that a liability for a cost associated with a restructuring is recognised only when the definition of a liability has been satisfied for that cost. Accordingly, a cost associated with a restructuring would be recognised as a liability on the same basis as if that cost arose independently of a restructuring.
 - (b) specific guidance for accounting for costs that are often associated with a restructuring. The guidance included a proposal, that the cost of employee termination benefits should be recognised in accordance with IAS 19.
7. In April 2008 the Board tentatively confirmed the proposals in the 2005 ED relating to restructuring. However the IAS 37 project has since been delayed.

Termination benefits

8. Current IAS 19 states that termination benefits should be recognised when the entity is demonstrably committed either to terminating the employment of employees before the normal retirement date or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. The words ‘demonstrably committed’ were used in IAS 19 because, at the time the IASC was finalising IAS 19, the words were also used in exposure draft E59 *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of provisions for restructuring. However the IASC changed these words when it finalised IAS 37. At the time, no consequential amendments were made to IAS 19.
9. The 2005 ED was intended to improve IAS 37 and converge with US GAAP requirements now in US Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic 420 *Exit or Disposal Cost Obligations*¹ (FASB ASC Topic 420), relating to ‘one-time termination benefits’ and FASB ASC Topic 712 *Compensation—Nonretirement*

¹ The requirements in FASB ASC Topic 420 were introduced into US GAAP by SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities*.

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*Postemployment Benefits*², relating to ‘special termination benefits’. The Board acknowledged in the 2005 ED that differences with US GAAP would remain following the introduction of these amendments. Nonetheless, the Board believed that the proposed amendments would converge with some US GAAP requirements as well as improve the accounting for termination benefits.

10. The 2005 ED proposed that:
 - (a) voluntary termination benefits (benefits offered for a short period in exchange for an employee’s decision to accept voluntary termination of employment – ie the employee has a choice) should be recognised when employees accept the entity’s offer of those benefits.
 - (b) involuntary termination benefits (benefits provided as a result of an entity’s decision to terminate an employee’s employment before the normal retirement date – ie the employee has no choice) should be recognised:
 - (i) over the future service period if the involuntary termination benefits are provided in exchange for employees’ future services (ie in substance they are a ‘stay bonus’).
 - (ii) in all other cases, when the entity has communicated its plan of termination to the affected employees and the plan meets specified criteria.

11. In May 2008 the Board considered the comments received on those proposals 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, rather than to the period between the offer and the expiry of the offer.

² The requirements in FASB ASC Subtopic 715-30 were introduced into US GAAP by SFAS 88 *Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

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- (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 and April 2010 the staff identified some ways to simplify the drafting and requirements and as a consequence the Board tentatively decided:
- (a) to amend the definition of termination benefits to include only benefits provided in exchange for termination of employment and exclude benefits provided in exchange for employee service. FASB ASC Topic 420 regards some involuntary termination benefits as being provided in exchange for employees' future services (or, expressed another way, a 'stay bonus'). In such cases under US GAAP, an entity recognises the cost of those benefits over the period of the employees' service, consistently with the accounting for other employee benefits. Treating benefits provided in exchange for employee service as post-employment or other employee benefits, rather than termination benefits, results in the same recognition as is required under FASB ASC Topic 420. It is just the label that is different. But calling such benefits post-employment or other employee benefits makes the section in IAS 19 on termination benefits much easier to understand.
 - (b) to require an entity to recognise termination benefits when it no longer has the ability to withdraw an offer of those benefits.
 - (c) to eliminate 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

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benefits) removing these categories reduces the complexity of the requirements.

- (d) to clarify the requirements for initial measurement and subsequent recognition and measurement for termination benefits provided as part of an ongoing benefit plan.

- 13. In October 2009, the Board had tentatively decided to publish the termination benefits amendments without waiting for the completion of the revised IAS 37. However, because of competing priorities, the staff were unable to complete the work on those amendments in the first half of 2010, and so have held them back for finalisation together with the amendments that will result from the 2010 ED.

Consequential amendment to curtailments

- 14. The 2005 ED included the following consequential amendment to paragraph 111 of current IAS 19 related to the proposed replacement of the application guidance for restructuring provisions with the termination benefit requirements:

111 A curtailment occurs when an entity either:

(a) ~~is demonstrably committed to~~ makes a material reduction in the number of employees covered by a plan; or

(b) amends the terms of a defined benefit plan ~~such so~~ 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 the provision of termination benefits. Therefore, an entity accounts for a curtailment at the same time as for a any related restructuring termination benefits.

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Background to the 2010 ED

15. The underlying theme of the 2010 ED was that an entity shall recognise gains or losses when they occur. The 2010 ED proposed that the gains and losses should be recognised for a:
- (a) plan amendment in the period when an entity introduces a plan that attributes benefits to past service or changes the benefits payable for past service under an existing plan (paragraph 96A and 97 of the 2010 ED).
 - (b) curtailment:
 - (i) when the entity significantly reduces the number of employees covered by a plan or amends the terms of a defined benefit plan so that future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits (paragraph 98A of the 2010 ED); or
 - (ii) if the curtailment is linked with a restructuring, then at the same time as for the related restructuring (paragraph 98A of the 2010 ED).
 - (c) settlement when the 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 (paragraph 119D of the 2010 ED).
16. The recognition requirements for plan amendments, curtailments and settlements as proposed in the 2010 ED are the same as the existing IAS 19 requirements except the 2010 ED proposed amending the timing of recognition for a curtailment that arises from a significant reduction in plan coverage. Currently, IAS 19 requires an entity to recognise such a curtailment when it is **demonstrably committed** to make the reduction. However, the 2010 ED proposes that the entity would recognise the curtailment when the reduction **occurs**.

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Responses to the 2010 ED

17. The effect of eliminating the reference to a ‘demonstrable commitment’ would be to change the timing of recognition for a curtailment that was not linked to a restructuring from when the reduction in employees covered by the plan is announced to when the reduction occurs. Some respondents wondered whether this change was intentional.
18. Respondents are concerned about the accounting interactions between settlements, curtailments, termination benefits and restructurings since they often occur together and it could be difficult distinguishing the gain or loss that arises from each transaction if they have different recognition or presentation requirements. Some have suggested aligning the timing of recognition of plan amendments, curtailments, settlements with the timing of recognition for a related termination benefit.
19. At the Board’s December 2010 meeting, the Board tentatively decided:
 - (a) to confirm the proposal in the exposure draft that the definition of curtailment should include a significant reduction in the number of employees covered by a plan,
 - (b) to amend the definition of settlements to exclude plan amendments that result in past service cost and curtailments and to amend the definition of non-routine settlements to exclude benefit payments envisaged in the terms of the plan,
 - (c) to require past service cost and gains and losses on curtailments and non-routine settlements to be presented in the service cost component,
 - (d) to require gains and losses on routine settlements to be presented in the remeasurements component; and
 - (e) to confirm the proposals in the exposure draft for the disclosure of past service cost, curtailments and non-routine settlements but not require distinguishing between these items if they occur together and are presented in the same component.

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Staff analysis

20. This section considers whether :
- (a) to change the timing of recognition of curtailments from when the entity is demonstrably committed to when the curtailment occurs;
 - (b) to align the timing of recognition of a curtailment or plan amendment with a related restructuring or termination benefit; and
 - (c) to give further guidance on the timing of recognition of a plan amendment, curtailment or settlement when there is no related restructuring or termination benefit.

Change from 'demonstrably committed' to 'occurs'

21. The removal of the 'demonstrably committed' recognition criteria in the 2010 ED was intended to conform the requirements to the changes that will result from the proposed amendments in the 2005 ED (refer paragraph 14). Because the current IAS 19 recognition requirements for termination benefits still include the demonstrably committed criterion, it could be argued that the amendments proposed in the 2010 ED should have waited for finalisation of the termination benefits amendments (the proposed amendments to termination benefits in the 2005 ED and the Board's current tentative decisions will replace this criterion). However now that the Board is finalising the amendments in the 2010 ED and the amendments for termination benefits at the same time, the concern in paragraph 17 falls away as the demonstrably committed criterion will be removed from curtailments and termination benefits at the same time.

Aligning the timing of recognition with a related restructuring or termination benefit

22. Paragraph 111 of current IAS 19 aligns the timing of recognition for a curtailment with the timing of recognition of a related restructuring and paragraph 138 of current IAS 19 suggests that when an entity recognises termination benefits, the entity may also have to account for a curtailment. The staff thinks the objective of these is to ensure that any gain or loss on

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curtailment of the benefits is recognised at the same time as an expense resulting from a related termination benefit and/or restructuring provision.

23. Under current IAS 19 and IAS 37, the recognition criteria for termination benefits and restructuring provisions are very similar:

Termination benefits (IAS 19.134)	Restructuring provisions (IAS 37.72)
<p>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:</p> <ul style="list-style-type: none"> (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. 	<p>A constructive obligation to restructure arises only when an entity:</p> <ul style="list-style-type: none"> (a) has a detailed formal plan for the restructuring identifying at least: <ul style="list-style-type: none"> (i) the business or part of a business concerned; (ii) the principal locations affected; (iii) the location, function, and approximate number of employees who will be compensated for terminating their services; (iv) the expenditures that will be undertaken; and (v) when the plan will be implemented; and (b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

24. As noted in paragraph 14 above, the 2005 ED proposed to amend the timing of recognition in paragraph 111 of IAS 19 from being aligned with a related restructuring to being aligned with a related termination benefit. This was a consequential amendment in the 2005 ED arising from the amendments to both IAS 37 and termination benefits in the 2005 ED. The 2010 ED did not include

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this amendment because the Board was in the process of finalising the amendments to the termination benefits at the time.

25. The tentative decisions to date for termination benefits will result in their recognition when the offer of those benefits cannot be withdrawn. For example, if an offer of benefits can be withdrawn after it is communicated, then the termination benefits will be recognised when a future event occurs that eliminates the entity’s ability to withdraw that offer, such as the employee accepting the offer, or some legal requirement. If an offer of benefits cannot be withdrawn after it is communicated, then the termination benefits will be recognised when they are communicated to the employees.
26. The Board has tentatively decided to go ahead with the amendments to termination benefits separately from the amendments to IAS 37 because the Board views the amendments to termination benefits as not depending on the amendments to IAS 37. Because the amendments to IAS 37 will be finalised at a different time to the amendments to termination benefits, the timing of recognition for termination benefits based on the Board’s tentative decisions to date may differ from the timing of recognition for restructuring provisions under the current requirements of IAS 37. This may be a problem if a curtailment is related to a restructuring *and* a termination benefit.
27. The staff has identified the following alternatives:
 - (a) Aligning the timing of recognition for a curtailment with a related termination benefit but not with a related restructuring (ie the proposal in the 2010 ED). This will have the following effect on the timing of recognition for related transactions:

Related transactions	Timing of recognition of transactions
Curtailment with a related termination benefit (but no related restructuring)	Recognise curtailment gain or loss when the termination benefit is recognised.
Curtailment with a related restructuring (but no related termination	Recognise curtailment gain or loss when it occurs. Recognise restructuring separately which

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benefit)	could be different to timing of recognition for curtailment gain or loss.
Termination benefit with a related restructuring (but no related curtailment)	Recognise termination benefit when the entity can no longer withdraw the offer of the termination benefits. Recognise restructuring separately which could be different to timing of recognition for termination benefits.
Curtailment with a related termination benefit and related restructuring	Recognise curtailment when the termination benefit is recognised. Recognise restructuring costs separately, which could be different to timing of recognition for termination benefits and hence curtailment gain or loss.

- (b) Aligning the timing of recognition for a curtailment with the earlier of the timing of recognition for a related termination benefit and a related restructuring. This will have the following effect on the timing of recognition for related transactions:

Related transactions	Timing of recognition of transactions
Curtailment with a related termination benefit (but no related restructuring)	Recognise curtailment gain or loss when the termination benefit is recognised.
Curtailment with a related restructuring (but no related termination benefit)	Recognise curtailment gain or loss when restructuring costs are recognised.
Termination benefit with a related restructuring (but no related curtailment)	Recognise termination benefit when the entity can no longer withdraw the offer of the termination benefits. Recognise restructuring separately which could be different to timing of recognition for termination benefits.
Curtailment with a related termination benefit and related restructuring	Recognise curtailment gain or loss at the same time as the earlier of recognition for termination benefit and restructuring costs. However restructuring costs and termination benefits not recognised at the

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	same time.
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(c) Aligning the timing of recognition for a curtailment with a related termination benefit or restructuring and aligning the timing of recognition for a termination benefit with a related restructuring. In other words:

- (i) the timing of recognition for a related restructuring determines the timing of recognition for termination benefits and curtailments; and
- (ii) the timing of recognition for a related termination benefits determines the timing of recognition for curtailments.

This will have the following effect on the timing of recognition for related transactions:

Related transactions	Timing of recognition of transactions
Curtailment with a related termination benefit (but no related restructuring)	Recognise curtailment gain or loss when the termination benefit is recognised.
Curtailment with a related restructuring (but no related termination benefit)	Recognise curtailment gain or loss when restructuring costs are recognised.
Termination benefit with a related restructuring (but no related curtailment)	Recognise termination benefit when restructuring costs are recognised.
Curtailment with a related termination benefit and related restructuring	Recognise curtailment gain or loss and termination benefit when restructuring costs are recognised.

28. Of the above alternatives, the staff thinks that alternative 27(c) has the following benefits over the other two alternatives:

- (a) It addresses the timing of recognition of both curtailments and termination benefits when they are related to a restructuring, the other two alternatives only relate to curtailments, however alternative three

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will change the Board's current tentative decision with respect to termination benefits if they are related to a restructuring.

- (b) It results in the alignment of timing of recognition for related transactions for all combinations of curtailment, termination benefit and restructuring (which is consistent with the current requirements).

29. Therefore the staff recommends alternative 27(c), ie that:

- (a) if a curtailment is linked to a restructuring or termination benefit, the gain or loss should be recognised at the same time as the related restructuring costs or termination benefits. Otherwise, the gain or loss should be recognised as proposed in the 2010 ED (ie when the curtailment occurs).
- (b) if a termination benefits is linked to a restructuring, the termination benefit should be recognised at the same time as the related restructuring costs. Otherwise, termination benefits should be recognised in accordance with the Boards tentative decisions (ie when the entity can no longer withdraw an offer of the benefits).

30. The above discussion focuses on the timing of recognition for curtailments and its alignment with termination benefits and restructuring costs. However, the staff sees no reason why the timing of recognition for a plan amendment should not be aligned with other related transactions in the same way the timing of recognition for a curtailment is aligned. Both a plan amendment and curtailment arise from changes in existing benefits, or changes in the number of employees covered by a plan (eg introduction of a plan for plan amendments, or withdrawal of a plan for curtailments), therefore the staff thinks that the timing of recognition for similar transactions should be the same and recommends the same approach is used for plan amendments. Using the same approach for the recognition of curtailments and plan amendments will improve the consistency of accounting between these similar transactions and will streamline the requirements.

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Further guidance on 'occurs'

31. Some respondents requested the Board clarify whether, in the context of a plan amendment and curtailment, "occurs" means when the change is announced, when it is executed or when the change is effective.
32. Determining when a plan amendment or curtailment occurs is only relevant when there is no other related transaction, such as a settlement or termination benefit, that would trigger recognition of the related plan amendment or curtailment. If a plan amendment or curtailment occurs in isolation, the staff thinks that determining when the plan amendment or curtailment occurs requires the exercise of judgment. The timing of recognition would depend on the individual facts and circumstances and how they interact with the constructive obligation requirements in paragraphs 52 and 53 of IAS 19. The staff thinks that providing further guidance on when a plan amendment or curtailment "occurs" is beyond the scope of this project.
33. Some respondents asked for further clarification of when a settlement occurs and whether it should be aligned with the recognition of a curtailment. Some also noted that paragraph 119D relating to settlements refers to both an entity entering into a transaction and the transaction date, which may be different.
34. The staff thinks that a settlement occurs when the definition of a settlement is met (ie when all further legal or constructive obligations are eliminated). This is similar to FASB ASC paragraph 715-30-35-81 that states that a settlement occurs on the date that the criteria for a settlement are met and settlement accounting becomes appropriate. The requirements in FASB ASC paragraph 715-30-35-81 relating to settlements are different to FASB ASC paragraph 715-30-35-94, that requires a curtailment **loss** to be recognised when it is probable that a curtailment will occur and the effect can be reasonably estimated, and a curtailment **gain** to be recognised when the related employees terminate or the plan suspension or amendment is adopted. The timing of recognition of a settlement could be the same as the timing of recognition for a related curtailment or plan amendment, however it could also be different

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depending on the facts and circumstances. As noted in paragraph 114 of IAS 19, a settlement occurs with a curtailment if a plan is terminated such that the obligation is eliminated and the plan ceases to exist. However it is possible for a settlement to occur without a curtailment, and a curtailment to occur without a settlement.

35. Therefore the staff proposes that no amendment should be made to the timing of recognition of a settlement, however the staff will consider clarifying the drafting of the requirements to ensure the words used to describe the date of settlement are consistent throughout.

Questions

Does the Board agree with the staff recommendations that:

(a) if a curtailment or plan amendment is linked to a restructuring or termination benefit, the gain or loss should be recognised when the related restructuring costs or termination benefits are recognised. Otherwise, the gain or loss should be recognised when the curtailment or plan amendment occurs.

(b) if termination benefits are linked to a restructuring, they should be recognised when the related restructuring costs are recognised. Otherwise, termination benefits should be recognised when the entity can no longer withdraw the offer of the benefits.

(c) a settlement should be recognised when it occurs (confirming the proposals in the 2010 ED)?

If not, what does the Board propose and why?