STAFF PAPER

March 2014

IFRS Interpretations Committee Meeting

Project	**IAS 19—*Employee Benefits***
Paper topic	Remeasurement at a plan amendment or curtailment

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Introduction

1. In January 2014, the IFRS Interpretations Committee (the 'Interpretations Committee') received a request to clarify the accounting for a plan amendment or curtailment in IAS 19 *Employee Benefits*.

2. The submitter raised two issues. If a plan amendment or curtailment of a defined benefit plan occurs, should an entity:

   (a) recognise the remeasurement of the net defined benefit liability (asset) (hereafter 'net DBL') that is required for the separate calculation of the amendment or curtailment in gain or loss? (Issue 1)

   (b) update any actuarial assumptions for the calculation of service cost and interest cost in the event period? (Issue 2)

3. The objective of this Agenda Paper is to provide the Interpretations Committee with a summary of the issues and the staff's research and analysis. This Agenda Paper also contains three questions for the Interpretations Committee.

4. This Agenda Paper is structured as follows:

   (a) summary of the issue;

   (b) alternative views;

   (c) staff technical analysis;

(d) summary of the outreach result;

(e) agenda criteria assessment;

(f) staff recommendation;

(g) questions for the Interpretations Committee;

(h) Appendix A—Normal calculation mechanism and issues;

(i) Appendix B—Proposed wording for tentative agenda decision;

(j) Appendix C—Assessment of the Interpretations Committee's agenda criteria;

(k) Appendix D—Submission; and

(l) Appendix E—Topic 715-30: *Defined Benefit Plans—Pension.*

Summary of the issues

5. Paragraph 99 of IAS 19 states:

> 99 Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

6. The submitter thinks that there are three amounts of net DBL as of the event date (the date of a plan amendment or curtailment), as follows:

(a) "Expected amount under the plan before the event": the 'expected amount' of the net DBL before the event comprising:

(i) the net DBL at the end of the prior year;

(ii) any cash movement; and

(iii) current service cost and interest cost to date.

(b) "Remeasured amount under the plan before the event": the net DBL before the event using:

(i) the current fair value of plan assets; and

(ii) current actuarial assumptions, reflecting the benefits offered under the plan before the event.

(c) "Remeasured amount under the plan after the event": the net DBL after the event using:

(i) the current fair value of plan assets; and

(ii) current actuarial assumptions, reflecting the benefits offered under the plan after the event.

7. The difference between the amount of the defined benefit obligation (DBO)[1] in (b) and (c) is the past service cost, as described in paragraph 102 of IAS 19. As a result of this calculation, an entity isolates the effect of a plan amendment or curtailment from other changes. Paragraph 102 of IAS 19 states:

> 102 Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

8. The difference between the amount of the DBO in (a) and (b) does not include any effect of the event, and is not a part of the past service cost. This difference is a remeasurement gain or loss if it occurs at the end of the period. There is a diversity of views and arguments for and against its recognition at the event date, instead of the end of the period **(Issue 1)**.

9. **We note that Issue 1 does not affect the amount of the net DBL in the financial statements at the end of the reporting period,** because the net DBL is remeasured to reflect the current financial position at the end of the reporting period. However, the submitter thinks that Issue 1 affects the calculation of net interest in the post-event period. In other words, **Issue 1 is about how an entity should calculate net interest, if the net DBL is remeasured during the period because of a plan amendment or curtailment**. Paragraph 123 of IAS 19 states (emphasis added):

> 123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, **both as determined at the start of the annual reporting period,**

[1] DBO is equal to net DBL and interest cost is equal to net interest in the financial statement, if we assume that there are no plan assets and no effect from an asset ceiling or minimum funding requirement.

taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

10. The other issue (Issue 2) is about updating assumptions to determine current service cost and net interest for the post-event period. Issue 2 affects the amounts of both current service cost and net interest[2] for the post-event period, because the assumptions used in measuring the amount of (c) as at the event date are typically different from the assumptions used at the beginning of the period.

11. Overall, the issues affect the disaggregation of the changes in the net DBL between the current service cost, the net interest and the remeasurement gain or loss within a reporting period, while the issues do not affect the amount of the net DBL in the financial statements at the end of the reporting period. **Appendix A illustrates the issues with a comparison against the normal calculation mechanism under IAS 19**.

12. In the submission, the submitter described the fact pattern:

> *Entity X accounts for its defined benefit plan in accordance with IAS 19 (2011) in its financial statements for the year ending 31 December 2013. Accordingly, on 1 January 2013 X determined the defined benefit cost for 2013. On 20 March 2013, X commits to a restructuring plan that reduces by half the number of employees covered by the defined benefit plan. The restructuring plan meets the criteria in IAS 37 and, as a result, a curtailment loss (past service cost) is recognised on 20 March 2013.*

13. The submitter stated that diversity in practice existed before the amendment to IAS 19 in 2011. Although the revised IAS 19 (2011) provides the IASB's intention for the requirements, the submitter observed diverse views and thought that the issues could be more material after the amendment to IAS 19, because of immediate recognition of remeasurement.

14. The submitter identified diverse views, as the following table explains.

[2] Net interest is based on financial assumptions including the discount rate, as described in paragraph 123 of IAS 19. Current service cost is determined as a result of attribution of benefits to periods of service, based on of the valuation, which uses financial assumptions as well as demographic assumptions including the employee turnover ratio. Assumptions are determined in accordance with paragraph 75-98 of IAS 19. The normal calculation mechanism under IAS 19 is explained in detail in paragraphs 31-35 in this paper.

Issue 1	Issue 2	Remeasure net DBL as at the event date to determine net interest for the post-event period? (Issue 1)	Update the actuarial assumptions to determine current service cost and net interest for the post-event period? (Issue 2)	
			Financial assumptions	Demographic assumptions
View 1	View A	No	No	No
View 1	View C	No	No	Yes
View 2	View A	Yes	No	No
View 2	View B	Yes	Yes	Yes
View 2	View C	Yes	No	Yes

Note: The submitter thinks that the number of employees for whom current service cost will arise is not a demographic assumption as described in paragraphs 75–98 of IAS 19, but instead a matter of fact in each period of service. The number of employees is therefore updated for the post-event period, even if the actuarial assumptions are not updated.

Issue 1: Should an entity remeasure net DBL as at the event date to calculate net interest for the post-event period?

View 1: No

15. In this view, the difference between the expected net DBL as of the event date (the amount of (a)) and the remeasured net DBL amount before the event (the amount of (b)) is not recognised in other comprehensive income (OCI) at the event date. The remeasurement is performed solely to exclude the effect of the remeasurement from past service cost (ie to isolate the effect of this event).

16. The proponents of this view think that the carrying amount of the net DBL after the event is the amount of (a) less the past service cost. Consequently, they think that net interest for the post-event period will be based on this carrying amount.

17. The proponents of this view believe that it is most consistent with the IASB's intentions as described in paragraph BC64 of IAS 19, which states:

> BC64 The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement. [Extracted]

View 2: Yes

18. In this view, the difference between the expected net DBL as of the event date (the amount of (a)) and the remeasured net DBL amount before the event (the amount of (b)) is recognised in other comprehensive income (OCI) at the event date. The net DBL is remeasured to the amount of (c) as at the event date. Supporters of this view therefore believe that the difference between the amount of (a) and (b) should be recognised (in OCI) when that remeasurement is performed.

19. The proponents of this view think that the carrying amount of the net DBL after the event is the amount of (c). Consequently, they think that net interest for the post-event period will be based on the amount of (c).

20. Proponents of View 2 point out that remeasurements should be recognised in the period in which they arise, as described in the first sentence of BC60 of IAS 19.

> BC60 The amendments made in 2011 require an entity to recognise remeasurements in the period in which they arise. [Extracted]

Issue 2: Should an entity update the actuarial assumptions to determine current service cost and net interest for the post-event period?

View A: No assumptions are updated to determine current service costs and net interest for the post-event period

21. In this view, the actuarial assumptions are not updated to the current actuarial assumptions for the post-event period. Actuarial assumptions are only updated during the year-end assessment together with remeasuring the net DBL.

22. The proponents of this view think that it is most consistent with the IASB's intentions as described in paragraphs BC63–BC64 of IAS 19 (emphasis added):

> BC63 The Board noted that if assumptions for each interim reporting period were updated to the most recent interim date, **the measurement of the entity's annual amounts would be affected by how frequently the entity reports**, ie whether the entity reports quarterly, half-yearly or with no interim period. In the Board's view this would not be consistent with the requirements of paragraphs 28 and 29 of IAS 34.
>
> BC64 Similarly, in the Board's view, there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in determining current service cost and net interest, ie determining how much service the employee has rendered to date and the effect of the time value of money to date. **The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement. In accordance with paragraph B9 of IAS 34 the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year.**

View B: All actuarial assumptions (financial and demographic) are updated to determine current service costs and net interest in the post-event period

23. Proponents of View B point out that a plan amendment or curtailment may have a significant impact on an actuarial assumption(s), such as the rate of employee turnover. Consequently, not updating actuarial assumptions would result in an inappropriate measurement of current service cost for the remainder of the reporting period, which does not reflect the present situation.

24. Supporters of this approach note that paragraph BC64 of IAS 19 does not form part of the Standard itself, which is silent on the issue.

25. They also point to paragraph B9 of the Illustrative Examples on IAS 34 *Interim Financial Reporting*. They think that this paragraph indicates that the actuarially determined pension cost rate calculated at the end of the prior period should be adjusted for significant one-off events, such as plan amendments, curtailments and settlements.

> B9 Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant one-off events, such as plan amendments, curtailments and settlements.

View C: The financial assumptions are not updated, but the demographic assumptions are, to determine current service costs and net interest in the post-event period

26. In this view, only the demographic assumptions, which include the rate of employee turnover, are updated, and the financial assumptions, which include the discount rate, remain the same.

27. Proponents of this view believe that paragraph 80 of IAS 19 clearly requires the financial assumptions to be based on market expectations at the end of the (previous) reporting period, but silently accepts the demographic assumptions being updated when a plan amendment or curtailment occurs.

> 80 Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

28. Similar to the supporters of View B, those of View C also point to paragraph B9 of the Illustrative Examples on IAS 34.

Staff technical analysis

29. We analyse Issue 2 before Issue 1, because the principle to address Issue 2 is directly described in paragraph BC 64 of IAS 19 and because we think that conclusion on Issue 2 is relevant when we consider Issue 1.

Issue 2: Should an entity update the actuarial assumptions to determine current service cost and net interest for the post-event period?

30. **We think that View A is appropriate, based on the arguments in paragraph BC64 of IAS 19 (**i.e., an entity should not update assumptions to determine current service costs and net interest for the post-event period).

31. The normal calculation mechanism is illustrated in Appendix A. In the mechanism in IAS 19, current service cost and net interest in the period are calculated using the assumptions at the beginning of the period. The mechanism is explained in paragraphs 55–98 of IAS 19.

32. IAS 19 requires that an entity should perform valuation with regularity. Paragraph 58 of IAS 19 states (emphasis added):

> 58 **An entity shall determine the net defined benefit liability (asset) with sufficient regularity** that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

33. In this mechanism in IAS 19, revised valuations are not required during a period and an entity uses assumptions at the beginning of the period if valuations are performed with sufficient regularity, to calculate current service cost and net interest.

34. In accordance with paragraphs 70–74 of IAS 19, current service cost is determined as a result of the attribution of benefits to periods of service, based on the valuation at the beginning of the period.

35. The mechanism for net interest is explained in the paragraphs 83 and 123 of IAS 19, which state (emphasis added):

> 83 Financial assumptions shall be based on market expectations, **at the end of the reporting period**, for the period over which the obligations are to be settled.
>
> 123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, **both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.**

36. The IASB thought that the irregular remeasurement for a plan amendment or curtailment should not affect the measurement under the normal calculation mechanism in IAS 19. Paragraph BC64 states (emphasis added):

> BC64 Similarly, **in the Board's view, there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in determining current service cost and net interest, ie determining how much**

service the employee has rendered to date and the effect of the time value of money to date. The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement. In accordance with paragraph B9 of IAS 34 **the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year.**

37. The idea in paragraph BC64 of IAS 19 is similar to the principle of IAS 34. In IAS 34, the frequency of an entity's reporting should not affect the measurement of its annual results in accordance with the principle for interim reporting described in paragraphs 28–29 in IAS 34. Paragraphs 28–29 of IAS 34 state (emphasis added):

28 **An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements**, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. However, **the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis**.

29 Requiring that an entity apply the same accounting policies in its interim financial statements as in its annual statements may seem to suggest that interim period measurements are made as if each interim period stands alone as an independent reporting period. However, **by providing that the frequency of an entity's reporting shall not affect the measurement of its annual results, paragraph 28, acknowledges that an interim period is a part of a larger financial year.** Year-to-date measurements may involve changes in estimates of amounts reported in prior interim periods of the current financial year. But the principles for recognising assets, liabilities, income, and expenses for interim periods are the same as in annual financial statements.

38. Paragraphs BC60–BC63 of IAS 19 explain accounting for interim reporting in IAS 19, while ensuring consistency with the principle in IAS 34. Paragraphs BC60–BC63 state (emphasis added):

BC60 The amendments made in 2011 require an entity to recognise remeasurements in the period in which they arise. Thus, remeasurements are now more likely to have a material effect on the amount recognised in the financial statements than would have been the case before those amendments if an entity elected to defer recognition of actuarial gains and losses. It follows that entities previously deferring recognition of some gains and losses are now more likely to judge that remeasurement is required for interim reporting.

BC61 The Board considered setting out explicitly whether an entity should remeasure a net defined benefit liability (asset) at interim dates. However, in the Board's view, such a change would be an exemption from the general requirements of IAS 34 and consequently it decided against such an amendment. The Board is not aware of concerns with the application of these interim reporting requirements for entities that applied the immediate recognition option under the previous version of IAS 19.

BC62 Some respondents to the 2010 ED asked the Board to **clarify whether the assumptions used to determine defined benefit cost for subsequent interim periods should reflect the assumptions used at the end of the prior financial year or for the most recent measurement of the defined benefit obligation (for example, in an earlier interim period or in determining the effect of a plan amendment or settlement**).

BC63 The Board noted that if assumptions for each interim reporting period were updated to the most recent interim date, **the measurement of the entity's annual amounts would be affected by how frequently the entity reports, ie whether the entity reports quarterly, half-yearly or with no interim period. In the Board's view this would not be consistent with the requirements of paragraphs 28 and 29 of IAS 34.**

39. Similarly, the IASB thought that the irregular remeasurement for a plan amendment or curtailment should not affect the measurement for current service cost and net interest in IAS 19. This accounting would be consistent with the accounting for other significant changes in assumptions that occur during the reporting period that do not meet the definitions of a plan amendment, curtailment or settlement.

40. Consequently, we think that an entity should not update assumptions to determine current service costs and net interest for the post-event period.

Issue 1: Should an entity remeasure the net DBL as at the event date to determine net interest for the post-event period?

41. Paragraph BC60 of IAS 19 explains that an entity recognises remeasurements "in the period in which they arise".

42. As described in paragraph 9 of this paper, the issue about whether an entity recognises the remeasurement at the event date does not affect the amounts in the statement of financial position. The issue is how to determine net interest for the post event period.

43. View 1 is consistent with the argument in paragraph BC64 of IAS 19 and the normal mechanism in IAS 19, because the irregular remeasurement should not affect amounts in profit or loss in a period.

44. The normal calculation mechanism for net interest is explained in the paragraph 123 of IAS 19 (emphasis added):

> 123 Net interest on the net defined benefit liability (asset) shall be determined by **multiplying the net defined benefit liability (asset)** by the discount rate specified in paragraph 83, both as **determined at the start of the annual reporting period**, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments**.**

45. IAS 19 does not require a calculation of the amount of net DBL in (a) at the event, while those in (b) and (c) are required to determine past service cost in accordance with paragraph 99 of IAS 19. The remeasurement of the DBO in the event of a plan amendment or curtailment is required in order to determine past service cost as described in paragraph BC64 of IAS 19 (emphasis added):

> BC64 Similarly, in the Board's view, there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in determining current service cost and net interest, ie determining how much service the employee has rendered to date and the effect of the time value of money to date. **The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement.** In accordance with paragraph B9 of IAS 34 the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year.

46. Consequently, we think that an entity should not use the updated net DBL as at the event date to determine net interest for the post-event period. We think that net interest should be determined in accordance with paragraph 123 of IAS 19 and the principle that is described in paragraph BC64 of IAS 19.

Supplemental argument about consistency between IAS 19 and IAS 34

47. Supporters of View B or View C think that paragraph B9 of the Illustrative Examples on IAS 34 allows an entity to update assumptions to adjust current service cost and net interest for significant events, while paragraphs BC60–BC64 of IAS 19 implies that an entity should not update assumptions. The outreach result implied that some think that there is inconsistency between IAS 34 and IAS 19.

48. However, paragraph B9 of the Illustrative Examples on IAS 34 provides "an example of applying the general recognition and measurement principles", which is set out in paragraphs 28–29 of IAS 34. The principle in paragraph BC64 of IAS 19 is also consistent with paragraphs 28–29 of IAS 34 and, therefore, all of them should be consistent with the principles in paragraphs 28–29 of IAS 34.

49. In our view, paragraph B9 of the Illustrative Examples on IAS 34 does not require an entity to update assumptions to determine current service cost or net interest. (An entity should not update assumptions to determine current service costs and net interest for the post-event period, based on the arguments in paragraph BC64 of IAS 19.)

50. We think that paragraph B9 of the Illustrative Examples on IAS 34 explains that pension cost, which includes past service cost, is adjusted for significant events. Paragraph B9 of the Illustrative Examples on IAS 34 states (emphasis added):

> B9 **Pension cost for an interim period is calculated** on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, **adjusted** for significant market fluctuations since that time and **for significant one-off events, such as plan amendments, curtailments and settlements**.

51. Consequently, we think that paragraphs 28–29 and B9 of the Illustrative Examples on IAS 34 and paragraph BC64 of IAS 19 are consistent.

Supplemental information

52. Under US GAAP, measurements of net periodic pension cost for both interim and annual financial statements should be based on the assumptions used for the previous year-end measurements, unless more recent measurements of both plan

assets and obligations are available or a significant event occurs, such as a plan amendment, which would ordinarily call for such measurements (see the related paragraphs under US GAAP in Appendix E—of Topic 715-30: *Defined Benefit Plans—Pension* in the *FASB Accounting Standards Codification*®).

Staff conclusions

53. We think that View 1 and View A are appropriate because they are consistent with the principle described in paragraph BC64 of IAS 19.

54. In our view, an entity should not update assumptions to determine current service cost and net interest for the period after the event; because paragraph BC64 of IAS 19 explains that the occurrence of a plan amendment or curtailment should not affect the assumptions to determine current service cost and net interest.

55. In our view, an entity should not use the updated net DBL as at the event date to determine net interest for the post-event period. Net interest should be determined in accordance with paragraph 123 of IAS 19 and the principle described in paragraph BC64 of IAS 19.

Summary of the results of outreach

56. In order to gather information about the issue described in the submission, we sent requests to the International Forum of Accounting Standard-Setters and regulators. Specifically, we asked:

Q1 In your jurisdictions, are curtailments or plan amendments common?

If yes, are you aware of any difficulties or challenges in your jurisdiction to decide:

- *whether an entity recognises remeasurement gain or loss at a plan amendment or curtailment (Issue1), or/and*
- *whether an entity recognises update assumptions to determine current service costs and net interest in the post-plan amendment or curtailment period (Issue2)?*

Q2 If you answered 'Yes' to Q1, what is the prevalent interpretation for each issue?

In addition, if possible, could you please briefly describe the rationale for that prevalent interpretation/ treatment?

Q3 If you answered 'Yes' to Q1, to what extent do you observe diversity in practice in respect of each issue?

Responses from national standard-setters and regulators

57. The geographical breakdown for the responses received from the national standard-setters is as follows:

Geographical region	Number of respondents
Asia	4
Europe	4
Americas	3
Oceania	1
Africa	1
Total respondents	13

58. Three respondents reported that a plan amendment or curtailment is common. One respondent reported that it used to be quite common in its jurisdiction, but it is currently decreasing, while another reported that it is becoming more common in its jurisdiction. Seven respondents reported that it exists but it is not very common while another reported that it is not common in its jurisdiction, because defined benefit plans are not common in its jurisdiction.

59. **Quite diversified interpretations and practices were observed.**

60. Three respondents reported that the prevalent approach is **View 1 and View A**. No diversity is observed in one of the jurisdictions. Some diversity is observed in two of the jurisdictions, but one of them also reported that the vast majority is based on View A. One of the respondents, which reported that a plan amendment or curtailment is common in its jurisdiction, thinks that the actual number of employees should be updated as it affects net interest, which is consistent with the

submission in this paper. It also thinks that net interest for the post-event period should be calculated on the net DBO for the remaining employees but based on the assumptions as at the beginning of the period.

61. One respondent, which reported that plan amendments and curtailments are fairly common in its jurisdiction, reported that the prevalent approach is **View 2 and View A**, while the diversity for Issue 2 is observed in the jurisdiction. It reported that some of those that have seen View A in practice argue for View B, although it observes that a simplified approach such as pro-rating the opening defined benefit obligation and current service cost for the percentage change attributable to the special event is probably more common than a strict application of View B. Furthermore, it reported that a change in demographic assumptions, such as expected retirement age, due to the event should be taken into account in determining current service cost. It reported that some difficulties have been experienced in determining current service costs and net interest in the post-amendment period when the effect of the plan amendment is to change the duration of the liabilities.

62. Two respondents reported that the prevalent approach is **View 2 and View B** and no diversity is observed in their jurisdictions. (One of them reported that a plan amendment or curtailment is common in its jurisdiction.) The supporters of View B think that no sensible answers are obtained without updating assumptions.

63. One respondent reported that it found cases in its jurisdiction of each assumption being separately reviewed and updated, but only if the difference between before and after the event was material.

64. One respondent reported that some entities assume that all assumptions remain unchanged before and after the event in its jurisdiction, because it is difficult to accurately estimate demographic assumptions that reflect a restructuring plan.

65. One respondent thinks that the assumptions are not updated but if it results in a significant reduction in plan members, no service cost is recognised for the period.

66. The majority of the rationales for each prevalent interpretation are similar to those of proponents of each view described in this paper. Respondents implied that

there is inconsistency between paragraph BC64 of IAS 19 and paragraph B9 of the Illustrative Examples on IAS 34.

Additional comments from employee benefits specialists

67. We also obtained comments from experts (mainly accounting specialists and actuarial consultants).

68. Accounting specialists indicated that there was diversity in practice before the amendment. Although the IASB's intention is clear in paragraph BC64 of the revised IAS 19 in 2011, there are diverse views among specialists.

69. They think that there is inconsistency between IAS 19 and IAS 34. (They interpret paragraph B9 of the Illustrative Examples on IAS 34 to indicate that the actuarially determined pension cost rate, which implies current service cost and interest cost, should be adjusted and therefore, the assumptions to determine current service cost and interest cost are updated for the adjustment.)

70. Some think that the combination of View 1 and View A is consistent with paragraph BC64 of IAS 19, but are concerned that it would not result in faithful representation if a significant curtailment occurs in an earlier date during a period. They think that, without updating the employee numbers, an entity continues to recognise current service cost while related members do not exist in the plan.

71. The submitter thinks that the number of employees is not an assumption and, therefore, is updated to determine current service cost and net interest for the post-event period, even if the actuarial assumptions are not updated in View A (see paragraph 14 of this paper). However, experts are concerned that the numbers of employees are not updated by all entities. They think that the result could be less sensible in these cases.

72. Actuarial consultants provided comments. They think that the revision of IAS 19 is relatively new, so the amount of experience is limited. It takes time to observe standard practices after the revision.

73. They noted that the settlements and curtailments were frequent in some countries. (This comment is consistent with the outreach result of national standard-setters.)

In one jurisdiction, the computational shortcut of recognising the curtailment at the end of the fiscal year was common.

74. Some actuarial consultants think that there is probably some diversity, but feel that they do not necessarily have good visibility over the practice taken across the market in the countries.

75. Consistently with those comments about the lack of good visibility of practice, actuarial consultants did not feel that they were able to provide a good rationale for the approach, other than to note that the practicality of performing calculations mid-year was a possible factor to encourage a more pragmatic approach.

Implication of the outreach result

76. A plan amendment or curtailment is more common in some jurisdictions than others.

77. In some jurisdiction, the combination of View 1 and View A or the combination View 2 and View A is the prevalent approach. The combination of View 2 and View B is also the prevalent approach in some jurisdictions.

78. The outreach result implies that diversity could exist even after the amendment of IAS 19 in 2011, because some think that the result of the principle in paragraph BC64 of IAS 19 is not sensible if a significant curtailment happens during a period.

79. It also implies that diversity or difficulty could exist when detailed calculations are used to determine net interest if a plan amendment or curtailment occurs during a period, because it is required “to take account of any changes in the net DBL during the period as a result of contribution and benefit payment” in accordance with paragraph 123 of IAS 19. (Some plan amendments and curtailments do not involve immediate cash payment.)

Agenda criteria assessment

80. In this section, we assess the issues against the agenda criteria of the Interpretations Committee described in paragraphs 5.16–5.17 of the IFRS Foundation *Due Process Handbook*. Please refer to **Appendix B** of this Agenda Paper for the details of the agenda criteria and the assessment of the issue against the agenda criteria.

81. As a result of the agenda criteria assessment, we do not think that the Interpretations Committee should address the issues, because the principle is stated in paragraph BC64 of IAS 19, which was revised in 2011.

Staff recommendation

82. We recommend to the Interpretations Committee that it should not add this issue to its agenda, because sufficient guidance exists. The principle is stated in paragraph BC64 of IAS 19, which was revised in 2011.

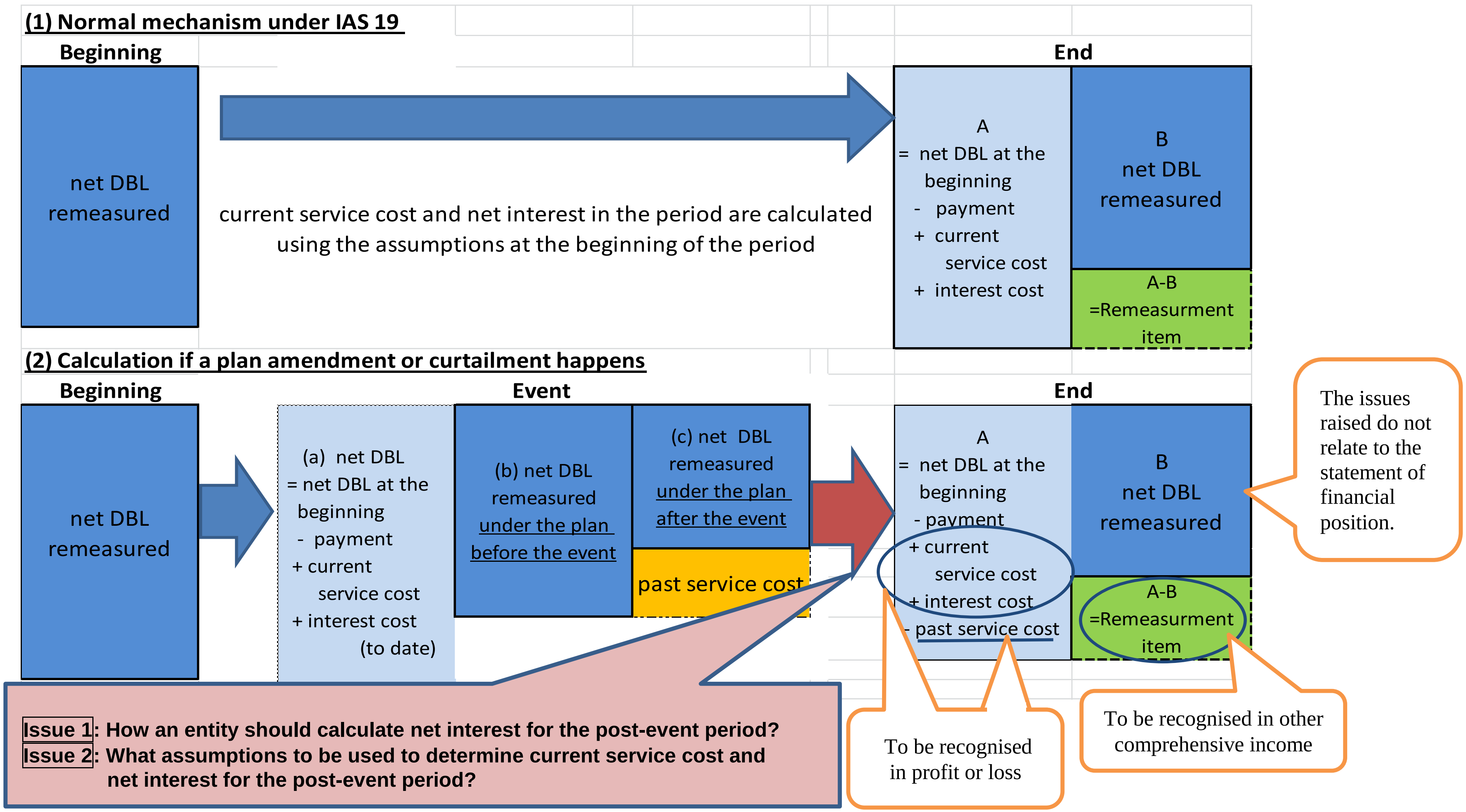
83. We think that an entity should not update its assumptions to determine current service cost and net interest for the post-period event period, because paragraph BC64 of IAS 19 explains that the irregular remeasurement for a plan amendment or curtailment should not affect the assumptions to determine current service cost and net interest.

84. Moreover, we think that an entity should not use the updated net DBL as at the event date to determine net interest for the post-event period. We think that net interest should be determined in accordance with paragraph 123 of IAS 19 and the principle described in paragraph BC64 of IAS 19.

Questions for the Interpretations Committee

Questions
1. Does the Interpretations Committee agree with the staff's technical analysis in paragraphs 29–55?
2. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should not add this issue to its agenda?
3. If the answer to Question 2 is 'Yes', does the Interpretations Committee agree with the wording of the tentative agenda decision in Appendix B of this Agenda Paper?

Appendix A—Normal calculation mechanism and issues



(Note 1) The issues affect only the amount circled (current service cost and interest cost for the post-event period) in the financial statement at the end of the period.

(Note 2) DBO is equal to net DBL and interest cost is equal to net interest in the financial statement, if we assume that there are no plan assets and no effect from asset ceiling or minimum funding requirement.

Appendix B—Proposed wording for the tentative agenda decision

IAS 19 *Employee Benefits*—Remeasurement at a plan amendment or curtailment

In January 2014, the IFRS Interpretations Committee (the 'Interpretations Committee') received a request to clarify accounting treatments for two issues related to remeasurement at a plan amendment or curtailment in IAS 19 *Employee Benefits*.

The submitter raised the two issues. If a significant plan amendment or curtailment of a defined benefit plan occurs, should an entity:

(a) recognise the remeasurement of the net defined benefit liability (asset) (hereafter 'net DBL') at the event date to determine net interest for the post-event period? (Issue1)

(b) revise any actuarial assumptions for the calculation of service cost and interest cost in the post-event period? (Issue 2)

Regarding Issue 2, the Interpretations Committee noted that an entity should not update assumptions to determine current service cost and net interest for a post-event period, because a principle is stated in paragraph BC64 of IAS 19. In the principle, the irregular remeasurement for a plan amendment or curtailment should not affect the assumptions to determine current service cost and net interest.

Regarding Issue 1, the Interpretations Committee noted that an entity should not use the updated net DBL as at the event date to determine net interest, because the remeasurement for a plan amendment or curtailment should not affect the calculation that is used to determine net interest. Net interest should be determined in accordance with paragraph 123 of IAS 19 and the principle described in paragraph BC64 of IAS 19.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary and consequently [decided] not to add this issue to its agenda.

Appendix C—Assessment against the Interpretations Committee's agenda criteria

B1. In the following below, we have assessed the issue against the agenda criteria of the Interpretations Committee as described in paragraphs 5.14–5.22 of the IFRS Foundation *Due Process Handbook*.

Agenda criteria of the Interpretations Committee	
We should address issues (see paragraph 5.16 of the IFRS Foundation *Due Process Handbook*):	
that have widespread effect and have, or are expected to have, a material effect on those affected;	**Plan amendments, curtailments or both are common or exist in many jurisdictions.** **The issues could have a material impact on profit or loss and OCI for one period, only if a significant plan amendment or curtailment occurs in an earlier timing in that period.** **The issues do not relate to the statement of financial position.**
in which financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and	**N/A**
that can be resolved efficiently within the confines of existing Standards and the *Conceptual Framework for Financial Reporting*.	**The principle is stated in paragraph BC64 of IAS 19, which was revised in 2011.**
In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRS (see paragraph 5.17 of the IFRS	**N/A**

Foundation *Due Process Handbook*)?	
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (see paragraph 5.21 of the IFRS Foundation *Due Process Handbook*)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified).	**N/A**

Appendix D—Submission

D1. We received the following request. We have deleted details that would identify the submitter of this request.

Potential Interpretations Committee Agenda Item Request

This letter describes an issue that we believe should be added to the agenda of the IFRS Interpretations Committee, potentially as an annual improvement clarification. We have included a summary of the two parts of the issue, alternative views and an assessment of the issue against the Interpretations Committee criteria.

The issue

If a significant plan amendment or curtailment of a defined benefit plan occurs should an entity:

- **Recognise the remeasurement of the net defined benefit liability (asset) ('net DBL') required for the separate calculation of the amendment or curtailment gain or loss (Issue 1)?**
- **Revise any actuarial assumptions for the calculation of service cost and interest cost in the post-plan amendment or curtailment period (Issue 2)?**

When a plan amendment or curtailment occurs, an entity remeasures the net DBL using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment or curtailment, as the first step in determining the past service cost (IAS 19.99).

Under the former IAS 19, there was diversity in practice regarding both whether to recognise the total amount of this remeasurement of the net DBL in OCI when the past service cost is recognised, and the basis on which to measure the components of profit or loss for the period following the plan amendment or curtailment.

IAS 19 (2011) did not change the relevant requirements. Although paragraphs 62 to 64 of the Basis for Conclusions that accompanies IAS 19 (2011) provides insight to the IASB's intentions, we understand that there continue to be diverse views regarding these two matters. The matter is brought into greater focus by the immediate recognition of remeasurement gains and losses required by IAS 19 (2011).

Consider the following fact pattern:

> *Entity X accounts for its defined benefit plan in accordance with IAS 19 (2011) in its financial statements for the year ending 31 December 2013. Accordingly, on 1 January 2013 X determined the defined benefit cost for 2013. On 20 March 2013, X commits to a restructuring plan that reduces by half the number of employees covered by the defined benefit plan. The restructuring plan meets the criteria in IAS 37 and, as a result, a curtailment loss (past service cost) is recognised on 20 March 2013.*

Appendix D—Submission

The following table summarises the possible accounting treatments, resulting from a combination of the two issues on page 1. A more detailed analysis is attached in Appendix A.

Issue 1	Issue 2	Remeasure net DBL on the statement of financial position by recognising total gain/loss?	Update the actuarial assumptions to determine current service cost and net interest?	
			Financial assumptions	Demographic assumptions
View 1	View A	No	No	No
View 1	View C	No	No	Yes
View 2	View A	Yes	No	No
View 2	View B	Yes	Yes	Yes
View 2	View C	Yes	No	Yes

Assessment against agenda criteria

(a) ***Is the issue widespread and has, or is expected to have, a material effect on those affected?*** Yes. Plan amendments and curtailments are common, and we expect the issue to be widespread. It affects the timing of recognition of gains and losses within a reporting period and can affect whether they are included in or excluded from profit or loss.

(b) ***Would financial reporting be improved through the elimination, or reduction, of diverse reporting methods?*** Yes. There are at least two different views widely taken in practice. Financial reporting would be improved if similar events were accounted for on a consistent basis.

(c) ***Can the issue be resolved efficiently within the confines of IFRSs and the Conceptual Framework for Financial Reporting?*** Yes. We believe that the issue is capable of annual improvement within the confines of IFRSs and the *Conceptual Framework*.

(d) ***Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process?*** Yes. See the comment above.

(e) ***Will the solution developed by the Interpretations Committee be effective for a reasonable time period? The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified.*** Yes. The issue is not currently within the scope of any of the Board's projects.

Appendix D—Submission

Appendix A

Background

The net defined benefit liability (asset) ('net DBL') is remeasured at the annual reporting date using the current fair value of plan assets and current actuarial assumptions. During the year, the net DBL is generally not remeasured (unless the entity reports also at an interim reporting date, when it must apply judgement in determining whether remeasurement is required) and the carrying amount of the net DBL is estimated based on the opening balance of the net DBL, adjusted for current service cost, net interest and cash payments ('expected amount' of the net DBL). The current service cost and net interest are determined using the actuarial assumptions at the end of the prior year. At the end of the year, the difference between the expected and actual net DBLs is recognised as remeasurements in other comprehensive income (OCI).

When a plan amendment or curtailment (an 'event') occurs during the year, the past service cost is calculated on the basis of a remeasured net DBL (IAS 19.99[1]).

The net DBL is therefore determined three times in connection with an event, as follows:

(i) The 'expected amount' of the net DBL before the event, based on actuarial assumptions at the end of the prior year and cash movements.

(ii) The net DBL *before* the event remeasured using:
- the current fair value of plan assets; and
- current actuarial assumptions, reflecting the benefits offered under the plan *before* the event.

(iii) The net DBL *after* the event remeasured using:
- the current fair value of plan assets; and
- current actuarial assumptions, reflecting the benefits offered under the plan *after* the event.

The difference between the amount of the DBO in (ii) and (iii) is the past service cost (IAS 19.102)[2].

The difference between (i) and (ii) does not include any effect of the event. IAS 19 (2011) is silent (as was the former IAS 19) as to whether it should be recognised: if it was, the net DBL in the statement of financial position after the event would be equal to the amount in (iii) above. There is a diversity of views and the arguments for and against its recognition are set out below (***Issue 1***).

There is also diversity about whether some or all of the actuarial assumptions which are used in determining current service cost and net interest for the post-event period should be updated to the current actuarial assumptions (including current market interest rates and other current market prices), reflecting the benefits offered under the plan after the event (i.e. those used in measuring the amount of (iii)) (***Issue 2***).

[1] IAS 19.99 also requires the remeasurements before a *settlement* in addition to a plan amendment or curtailment. This submission does not address settlements.

[2] While the standard does not refer to changes in plan assets, if a plan amendment or curtailment affected the fair value of plan assets we would expect that change to be included in arriving at a net past service cost.

Appendix D—Submission

These divergences of views continue despite BC64 of IAS 19 (2011), which might be read as indicating that the IASB's intentions[3] are that:

- remeasurement of the DBO (or the net DBL) when there is a plan amendment or curtailment is required only in order to determine past service cost (and not to remeasure the net DBL on the statement of financial position[4]); and
- the actuarial assumptions should not be updated for the post-event period.

Issues

Issue 1: Is the net DBL remeasurement recognised?[5]

View 1: Net DBL remeasurement is not recognised

Under this view, the net DBL is NOT remeasured to the amount of (iii). The difference between the expected net DBL amount of (i) and the remeasured net DBL amount before the event of (ii) is not recognised (in OCI) at the time of the event. The remeasurement is performed solely to exclude the effect of the remeasurement from past service cost.

As a result, the carrying amount of the net DBL after the event is the expected amount of (i) less the difference between the amounts of (ii) and (iii), i.e. less the past service cost.

The proponents of this view believe that it is most consistent with the IASB's intentions as summarised above described in IAS 19.BC64.

View 2: Net DBL remeasurement is recognised

Under this view, the net DBL is remeasured to the amount of (iii). Proponents of View 2 point out that, as highlighted in the first sentence of IAS 19.BC60, remeasurements should be recognised in the period in which they arise. They therefore believe that the remeasurement gain or loss (i.e. the difference between (i) and (ii)) should be recognised (in OCI) when that remeasurement is performed.

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[3] Paragraphs 21-25 of the IASB staff paper discussed in December 2010 (see Appendix C) appear to explain the thinking behind the IASB's intention.

[4] However, when a curtailment occurs together with a settlement, it eliminates all of or part of the net DBL and remeasurement of that part of the net DBL that has been settled would be recognised at this time.

[5] Some may consider it would not matter for entities with no interim reporting whether the net DBL remeasurement is recognised when an amendment or curtailment occurs, because it is presented in the financial statements only at the end of the year. However, its recognition may affect the net interest amount through the change in the net DBL. Although IAS 19.123 provides that only 'any changes in the net DBL during the period *as a result of contribution and benefit payments*' should be considered in determining net interest, some believe that a change in the net DBL due to a (significant) curtailment should also be considered.

Appendix D—Submission

Issue 2: What assumptions, if any, are updated?

View A: No assumptions are updated

Under this view the actuarial assumptions are not updated to the current actuarial assumptions for the post-event period[6]. Actuarial assumptions are only updated during the year-end assessment together with remeasuring the net DBL.

The proponents of this view believe that it is most consistent with the IASB's intentions as described in IAS 19.BC63 and BC64.

View B: All actuarial assumptions (financial and demographic) are updated for the remainder of the reporting period

Proponents of View B point out that a plan amendment or curtailment may have a significant impact on an actuarial assumption(s), such as the rate of turnover. Therefore, not updating actuarial assumptions would result in an inappropriate measurement of current service cost for the remainder of the reporting period which does not reflect the present situation.

Proponents of updating the actuarial assumptions generally also support recognising the remeasurement gain or loss (i.e. View 2 under Issue 1).

Supporters of this approach note that IAS 19.BC64 does not form part of the standard itself, which is silent. They also point to IAS 34.IE.B9 which indicates that the actuarially determined pension cost rate calculated at the end of the prior period should be adjusted for significant one-off events, such as plan amendments, curtailments and settlements.

View C: The financial assumptions are not updated but the demographic assumptions are

Only the demographic assumptions, which include the rate of turnover, are updated and the financial assumptions remain the same.

Proponents of this view believe that IAS 19.80 clearly requires the financial assumptions to be based on market expectations at the end of the [previous] reporting period, but silently accepts the demographic assumptions being updated when a plan amendment or curtailment occurs. Supporters of View C also point to IAS 34.IE.B9.

[6] The number of employees for whom current service cost will arise is not a demographic assumption, as described in IAS 19.75-98, but instead a matter of fact in each period of service. The number of employees is therefore updated for the post-event period, even if the actuarial assumptions are not updated.

Appendix D—Submission

Summary of the views

We acknowledge that there are at least five possible views which may be applied in practice resulting from a combination of Issue 1 and Issue 2. The following table shows such views.

Issue 1	Issue 2	Remeasure net DBL on the statement of financial position by recognising total gain/loss?	Update the actuarial assumptions to determine current service cost and net interest?		Update the number of employees?[6]
			Financial assumptions	Demographic assumptions	
View 1	View A	No	No	No	Yes
View 1	View C	No	No	Yes	Yes
View 2	View A	Yes	No	No	Yes
View 2	View B	Yes	Yes	Yes	Yes
View 2	View C	Yes	No	Yes	Yes

Appendix D—Submission

Appendix B

Requirements in IAS 19 (2011) and IAS 19 (2004)

IAS 19 (2011)

99 Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

IAS 19 (2004)

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).

IAS 19 (2011)

80 Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

IAS 19 (2004)

77 Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

IAS 19 (2011)

123 Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

IAS 19 (2004)

82 Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation. The present value of the obligation will differ from the liability recognised in the statement of financial position because the liability is recognised after deducting the fair value of any plan assets and because some actuarial gains and losses, and some past service cost, are not recognised immediately.

Basis for Conclusion in IAS 19 (2011)

BC62 Some respondents to the 2010 ED asked the Board to clarify whether the assumptions used to determine defined benefit cost for subsequent interim periods should reflect the assumptions used at the end of the prior financial year or for the most recent measurement of the defined benefit obligation (for example, in an earlier interim period or in determining the effect of a plan amendment or settlement).

Appendix D—Submission

BC63 The Board noted that if assumptions for each interim reporting period were updated to the most recent interim date, the measurement of the entity's annual amounts would be affected by how frequently the entity reports, ie whether the entity reports quarterly, half-yearly or with no interim period. In the Board's view this would not be consistent with the requirements of paragraphs 28 and 29 of IAS 34.

BC64 Similarly, in the Board's view, there is no reason to distinguish between the periods before and after a plan amendment, curtailment or settlement in determining current service cost and net interest, ie determining how much service the employee has rendered to date and the effect of the time value of money to date. The remeasurement of the defined benefit obligation in the event of a plan amendment, curtailment or settlement is required in order to determine past service cost and the gain or loss on settlement. In accordance with paragraph B9 of IAS 34 the assumptions underlying the calculation of current service cost and net interest are based on the assumptions at the end of the prior financial year.

Appendix D—Submission

Appendix C

The IASB staff paper discussed in December 2010 meeting

21. Respondents to the ED question, in the context of both IAS 19 and IAS 34, whether:

(a) updated assumptions are used only

(i) for the purpose of determining the effect of a curtailment or settlement (ie identifying the difference between the amount of net defined benefit liability calculated using current actuarial assumptions after taking into account a curtailment or settlement and the amount of net defined benefit liability calculated using current actuarial assumptions before taking into account a curtailment or settlement); but

(ii) not for the purpose of determining current service cost and net interest for the post-curtailment or settlement period within an (annual or interim) period; or

(b) updated assumptions are used both

(i) for the purpose of determining the effect of a curtailment or settlement; and

(ii) for the purpose of determining current service cost and net interest for the post-curtailment or settlement period within an (annual or interim) period.

22. Currently, there is no explicit guidance on this question.

23. Nonetheless, ***the staff believes that updated assumptions should not be used for the purpose of determining current service cost and net interest for the post-curtailment or settlement period within an (annual or interim) period*** *in the light of the definitions of current service cost and net interest in the ED, which states [emphasis added]:*

Service cost comprise:

(a) current service cost, which is the increase in the present value of a defined benefit obligation resulting from employee service in the current period; and

(b) past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from the introduction of, or changes to, long-term employee benefits.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the time value of money.

24. In the staff's opinion, there is no reason to distinguish between a pre-curtailment or settlement period and post-curtailment or settlement period in determining current service cost and net interest, ie determining how much service the employee has endered to date and how much time value of money accrued to date. Rather, the staff thinks that the assumptions underlying the calculation of current service cost and net interest for the post-settlement period (including the next interim period) should remain fixed at the beginning of the year.

25. Therefore, the staff thinks that no additional amendment needs to be made by the Board regarding this issue.

Appendix E—Topic 715-30: *Defined Benefit Plans—Pension*

C1. The following paragraphs are the related guidance under US GAAP (Topic 715-30: *Defined Benefit Plans—Pension* in the *FASB Accounting Standards Codification*®).

715-30-25 Recognition

25-5 Sometimes, an entity remeasures both plan assets and benefit obligations during the fiscal year. Paragraph 715-30-35-66 provides an example of some events that may require a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

715-30-35 Subsequent measurement

35-66 Paragraph 715-30-25-5 notes that, sometimes, an entity remeasures both plan assets and benefit obligations during the fiscal year, for example, when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement.

35-67 As required by paragraph 715-30-25-5, upon remeasurement, an entity shall adjust its statement of financial position in a subsequent interim period to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

35-68 Measurements of net periodic pension cost for both interim and annual financial statements shall be based on the assumptions used for the previous year-end measurements unless more recent measurements of both plan assets and obligations are available or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements.