

EXPOSURE DRAFT OF PROPOSED

Amendments to

**IAS 37 Provisions, Contingent Liabilities and
Contingent Assets and IAS 19 Employee Benefits**

Comments to be received by 28 October 2005



Exposure Draft of Proposed

AMENDMENTS TO

IAS 37

PROVISIONS,

CONTINGENT LIABILITIES AND

CONTINGENT ASSETS

IAS 19

EMPLOYEE BENEFITS

Comments to be received by 28 October 2005

This Exposure Draft of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits* is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as a revised IAS 37 and amendments to IAS 19. Comments on the Exposure Draft and the Bases for Conclusions should be submitted in writing so as to be received by **28 October 2005**.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to: **CommentLetters@iasb.org** or addressed to:

Henry Rees
Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

Fax: +44 (0)20 7246 6411

The International Accounting Standards Board (IASB), the International Accounting Standards Committee Foundation (IASCF), the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Copyright © 2005 IASCF®

ISBN : 1-904230-91-1

All rights reserved. Copies of the draft Amendments and the accompanying documents may be made for the purpose of preparing comments to be submitted to the IASB, provided such copies are for personal or intra-organisational use only and are not sold or disseminated and provided each copy acknowledges the IASCF's copyright and sets out the IASB's address in full. Otherwise, no part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without prior permission in writing from the IASCF.



The IASB logo/'Hexagon Device', 'eIFRS', 'IAS', 'IASB', 'IASC', 'IASCF', 'IASs', 'IFRIC', 'IFRS', 'IFRSs', 'International Accounting Standards', 'International Financial Reporting Standards' and 'SIC' are Trade Marks of the IASCF.

Additional copies of this publication may be obtained from:
IASCF Publications Department,
1st Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@iasb.org Web: www.iasb.org

Contents

Introduction

Proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Invitation to Comment

Summary of main changes

Contents

Standard

Appendix: Amendments to other pronouncements

Basis for Conclusions

Alternative view

Illustrative Examples

Table of Concordance

Proposed amendments to IAS 19 *Employee Benefits*

Invitation to Comment

Summary of main changes

Contents

Proposed amendments to IAS 19

Other amendments to the Standard

Basis for Conclusions

INTRODUCTION

- 1 This Exposure Draft of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (to be retitled *Non-financial Liabilities*) and IAS 19 *Employee Benefits* has been published by the International Accounting Standards Board as a result of two of its projects: the Short-term Convergence project and the second phase of the Business Combinations project.
- 2 The objective of short-term convergence (undertaken jointly with the Financial Accounting Standards Board (FASB) in the United States) is to reduce differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (US GAAP). Short-term convergence focuses on differences that can be resolved in a relatively short time and can be addressed outside current and planned major projects. It is one strand of the Board's broader objective of convergence of accounting standards around the world.
- 3 One aspect of the joint short-term convergence project involves the two boards considering each other's recent standards with a view to adopting high quality accounting solutions. The proposed amendments to the requirements in IAS 37 for constructive obligations, onerous contracts and restructuring provisions, together with the complementary amendments to the requirements in IAS 19 for termination benefits, result from the IASB's consideration of FASB Statement No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146), issued in 2002. The Board believes that the proposed amendments would both improve accounting and achieve substantial convergence with the recognition requirements of SFAS 146.
- 4 The second phase of the Business Combinations project is a joint project with the FASB, and involves a broad reconsideration of the requirements in IFRSs and US GAAP on applying the purchase method (now called the 'acquisition method' in the Exposure Draft of Proposed Amendments to IFRS 3 *Business Combinations*) to the accounting for business combinations. This has included reconsidering the treatment in a business combination of the contingencies of an acquiree. As a consequence, the Board proposes to eliminate the terms 'contingent asset' and 'contingent liability' in IAS 37 (and in other Standards) and to analyse afresh items previously described as such. These proposed amendments have also required a reconsideration of the probability recognition criterion in IAS 37. The Board believes that these amendments achieve substantial convergence with the recognition principles underpinning FASB Interpretations No. 45 *Guarantor's*

Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others and No. 47 *Accounting for Conditional Asset Retirement Obligations*. Because these amendments were prompted by the second phase of the Business Combinations project, this Exposure Draft is published simultaneously with the Exposure Draft of Proposed Amendments to IFRS 3. If confirmed in a Standard, the proposals in this Exposure Draft would have an effective date of 1 January 2007, the same as is proposed for the revised IFRS 3.

- 5 In developing this Exposure Draft, the Board has made amendments related to its decisions in the Short-term Convergence project and the second phase of the Business Combinations project. These amendments particularly affect the definitions and the recognition requirements. The Board has not reconsidered all of the requirements in IAS 37 and IAS 19. However, it has taken the opportunity to clarify the scope of IAS 37. As a result, it proposes not to use 'provision' as a defined term but instead to use the term 'non-financial liability'. The Board also proposes to clarify some aspects of the existing measurement requirements.

Invitation to comment

- 6 The Board invites comments on all the amendments to IAS 37 and IAS 19 proposed in this Exposure Draft and would particularly welcome answers to the questions in the Invitation to Comment. As noted above, the Board is not considering changes to all of the requirements in IAS 37 and IAS 19 at this time. Therefore, the Board is not requesting comments on aspects of those Standards not proposed for change.
- 7 Comments should be submitted in writing so as to be received no later than **28 October 2005**.

Presentation of the document

- 8 This Exposure Draft presents for the proposed amendments to each of the two Standards:
- An invitation to comment. Questions have been limited to the main issues, but the Board would also welcome comments on other changes proposed.
 - A summary of main changes. This section summarises the Board's proposals for changes to the Standard. Minor matters and editorial changes are not mentioned.

PROPOSED AMENDMENTS TO IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS
AND IAS 19 EMPLOYEE BENEFITS JUNE 2005

- The revised text presented as (a) a 'clean' draft of the full text of IAS 37 and (b) a marked-up copy of the amended paragraphs of IAS 19.
- A Basis for Conclusions. This section presents the basis for the Board's conclusions on major issues.
- Consequential amendments to other Standards and IFRIC Interpretations.

EXPOSURE DRAFT JUNE 2005

**PROPOSED AMENDMENTS TO
IAS 19
EMPLOYEE BENEFITS**

INVITATION TO COMMENT

The Board would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale, and, when applicable, provide a suggestion for alternative wording.

Question 1 – Definition of termination benefits

The Exposure Draft proposes amending the definition of termination benefits to clarify that benefits that are offered in exchange for an employee's decision to accept voluntary termination of employment are termination benefits only if they are offered for a short period (see paragraph 7). Other employee benefits that are offered to encourage employees to leave service before normal retirement date are post-employment benefits (see paragraph 135).

Do you agree with this amendment? If not, how would you characterise such benefits, and why?

Question 2 – Recognition of termination benefits

The Exposure Draft proposes that voluntary termination benefits should be recognised when employees accept the entity's offer of those benefits (see paragraph 137). It also proposes that involuntary termination benefits, with the exception of those provided in exchange for employees' future services, should be recognised when the entity has communicated its plan of termination to the affected employees and the plan meets specified criteria (see paragraph 138).

Is recognition of a liability for voluntary and involuntary termination benefits at these points appropriate? If not, when should they be recognised and why?

Question 3 – Recognition of involuntary termination benefits that relate to future service

The Exposure Draft proposes that if involuntary termination benefits are provided in exchange for employees' future services, the liability for those benefits should be recognised over the period of the future service (see paragraph 139). The Exposure Draft proposes three criteria for determining whether involuntary termination benefits are provided in exchange for future services (see paragraph 140).

Do you agree with the criteria for determining whether involuntary termination benefits are provided in exchange for future services? If not, why not and what criteria would you propose? In these cases, is recognition of a liability over the future service period appropriate? If not, when should it be recognised and why?

SUMMARY OF MAIN CHANGES (IAS 19)

The following main changes are proposed:

Definition of termination benefits

- The definition of termination benefits in IAS 19 includes employee benefits that are payable as a result of an employee's decision to accept voluntary redundancy in exchange for those benefits. The Exposure Draft proposes that:
 - the definition should be amended to clarify that benefits that are payable in exchange for an employee's decision to accept voluntary redundancy are termination benefits only if they are offered for a short period.
 - other employee benefits that are offered to encourage employees to leave service before normal retirement date are post-employment benefits.

Recognition

- 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 Exposure Draft proposes that:
 - voluntary termination benefits should be recognised when employees accept the entity's offer of those benefits.
 - involuntary termination benefits should be recognised when the entity has communicated its plan of termination to the affected employees and the plan meets specified criteria, unless the involuntary termination benefits are provided in exchange for employees' future services (ie in substance they are a 'stay bonus'). In such cases, the liability for those benefits should be recognised over the future service period.

Contents

	<i>paragraphs</i>
International Accounting Standard 19 Employee Benefits	
...	
DEFINITIONS	7
...	
TERMINATION BENEFITS	132-147
Recognition	137-142
Measurement	143-145
Disclosure	146-147
...	
EFFECTIVE DATE	159D
OTHER AMENDMENTS TO THE STANDARD	
BASIS FOR CONCLUSIONS ON PROPOSED AMENDMENTS	

PROPOSED AMENDMENTS TO INTERNATIONAL ACCOUNTING STANDARD 19

Employee Benefits

For ease of reference, paragraphs proposed to be amended are shown with new text underlined and deleted text struck through. Proposed new paragraphs are not underlined.

DEFINITIONS

Paragraph 7 is amended as follows.

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

...

Termination benefits are employee benefits ~~payable as a result of~~ provided in connection with the termination of an employee's employment. They may be either:

- (a) involuntary termination benefits, which are benefits provided as a result of an entity's decision to terminate an employee's employment before the normal retirement date; or
- (b) voluntary termination benefits, which are benefits offered for a short period in exchange for an employee's decision to accept voluntary ~~redundancy~~ termination of employment in exchange for these benefits.

The minimum retention period is the period of notice that an entity is required to provide to employees in advance of terminating their employment. The notice period may be specified by law, contract or union agreement, or may be implied as a result of customary business practice.

...

TERMINATION BENEFITS

Paragraph 132 is amended; paragraph 135 is moved, amended and renumbered as 133; paragraphs 134 and 135 are added; and paragraph 136 is moved and amended as follows.

- 132 This Standard deals with termination benefits separately from other employee benefits because, except as described in paragraphs 139 and 140, the event ~~which~~ that gives rise to an obligation is the termination of employment rather than employee service.
- ~~135~~133 ~~An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:~~
- (a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and
 - (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.
- 134 Involuntary termination benefits are often provided in accordance with the terms of an ongoing benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. In other cases, they are provided at the discretion of the entity and are incremental to what an employee would otherwise be entitled to, for example because the entity has no ongoing benefit plan or provides benefits in addition to those specified by an ongoing benefit plan.
- 135 Some entities offer benefits to encourage employees to accept voluntary termination of employment before normal retirement date. For the purpose of this [draft] Standard, such benefits are termination benefits only if they are offered for a short period. Other benefits offered to encourage employees to accept voluntary termination of employment (for example, those available under the terms of an ongoing benefit plan) are post-employment benefits because the benefits are payable in exchange for the employees' service.

- 136 Some employee benefits are ~~payable~~ provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some ~~countries~~ jurisdictions as termination indemnities, or termination gratuities, they are post-employment benefits, ~~rather than termination benefits and an entity accounts for them as post-employment benefits.~~ Some entities provide a lower level of benefit for voluntary termination of employment at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination of employment is a termination benefit.

Recognition

Paragraphs 133, 134, 137 and 138 are deleted and paragraphs 137-142 are added as follows.

- 137 **An entity shall recognise a liability and expense for voluntary termination benefits when the employee accepts the entity's offer of those termination benefits.**
- 138 **Except as specified in paragraph 139, an entity shall recognise a liability and expense for involuntary termination benefits when it has a plan of termination that it has communicated to the affected employees, and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The plan shall:**
- (a) **identify the number of employees whose employment is to be terminated, their job classifications or functions and their locations, and the expected completion date; and**
 - (b) **establish the benefits that employees will receive upon termination of employment (including but not limited to cash payments) in sufficient detail to enable employees to determine the type and amount of benefits they will receive when their employment is terminated.**
- 139 **If involuntary termination benefits are provided in exchange for employees' future services, an entity shall recognise the termination benefits as a liability and an expense over the period of the employees' future services (ie from the date specified in paragraph 138 to the date that employment is terminated).**

- 140 In some cases, involuntary termination benefits are provided in exchange for employees' future services. For the purpose of this [draft] Standard, this is the case if those benefits:
- (a) are incremental to what the employees would otherwise be entitled to receive (ie the benefits are not provided in accordance with the terms of an ongoing benefit plan);
 - (b) do not vest until the employment is terminated; and
 - (c) are provided to employees who will be retained beyond the minimum retention period.
- 141 In some cases, employers provide involuntary termination benefits that are expressed as an enhancement of the existing terms of an ongoing benefit plan. Examples are a doubling of benefits specified by employment legislation and an increase in retirement benefits to be provided through a post-employment benefit plan. If the termination benefits that are attributable to the enhancement of the ongoing benefit plan do not represent a change to the terms of the ongoing plan (and therefore would not apply to employees leaving service in the future) and satisfy the criteria in paragraph 140(b) and (c), they shall be recognised in accordance with paragraph 139.
- 142 When termination benefits are provided through a post-employment benefit plan, the liability and expense recognised initially include only the value of the additional benefits that arise from providing those termination benefits. Other changes in any defined benefit obligation for the post-employment benefit plan resulting from employees leaving employment at a date earlier than originally assumed should be recognised either as actuarial gains or losses or as a curtailment.

Measurement

Paragraphs 139 and 140 are amended and renumbered as 143 and 145, and paragraph 144 and the illustrative example are added as follows.
--

- ~~139~~**143** ~~Where~~ **When termination benefits fall due more than 12 months after the balance sheet date, they an entity shall be discounted them using the discount rate specified in paragraph 78 and shall subsequently follow the recognition and measurement requirements for post-employment benefits.**

144 Accordingly, when termination benefits are provided through a post-employment benefit plan, their initial measurement and subsequent recognition and measurement are consistent with the requirements of IAS 19 for the underlying post-employment benefit plan.

140145 In the case of an offer made to encourage voluntary redundancy, the measurement of a liability for unvested involuntary termination benefits shall be based on the number of employees expected to accept the offer reflect the likelihood of employees leaving voluntarily before the termination benefits vest.

Example illustrating paragraphs 138-145

Background

As a result of a recent acquisition, an entity plans to close a factory in 12 months and, at that time, terminate the employment of all of the remaining employees at the facility. Because the entity needs the expertise of the employees at the facility to complete some contracts, it announces a termination benefit plan as follows. Each employee who stays and renders service for the full 12-month period will receive as a termination benefit on the termination date a cash payment of three times the amount specified by employment legislation.

The entity's usual practice is to pay only the minimum termination benefits specified by employment legislation. For the employees at the factory, this minimum amounts to 10,000 per employee. Employment legislation also requires the entity to give 60 days' notice of its intention to terminate employment.

There are 120 employees at the factory, 20 of whom are expected to leave voluntarily before closure. Therefore, the total expected cash flows under the termination benefit plan are 3,200,000 (ie $20 \times 10,000 + 100 \times 30,000$).

As required by paragraph 141, the entity accounts for the benefits provided in accordance with the ongoing benefit plan (ie employment legislation) and the enhancement separately.

Ongoing benefit plan

A liability of 1,200,000 (ie $120 \times 10,000$) for the termination benefits provided in accordance with the ongoing benefit plan is recognised when the plan of termination is announced. The liability represents the benefits of 1,200,000 that the entity is required to pay in accordance with legislation.

continued...

Incremental benefits

The expected cash flows for the termination benefits that are incremental to what the employees would otherwise be entitled to receive (and relate to future services) are 2 million (ie $100 \times 20,000$). In this example, discounting is not required, so a liability and expense of 166,667 (ie $2,000,000 \div 12$) is recognised in each month during the future service period of 12 months. If the number of employees expected to leave voluntarily before closure changes, the entity makes corresponding adjustments to its estimate of the expected cash flows for termination benefits and hence the liability recognised.

Disclosure

Paragraph 141 is deleted and paragraphs 142 and 143 are amended and renumbered as 146 and 147 as follows.

~~142~~146 As required by IAS 1, an entity discloses the nature and amount of an expense if it is material. ~~The expense for termination benefits may result in an expense needing to be disclosed in order to comply with this that~~ disclosed in order to comply with this that requirement.

~~143~~147 ~~Where~~ When required by IAS 24, ~~Related Party Disclosures~~ an entity discloses information about termination benefits for key management personnel.

EFFECTIVE DATE

Paragraph 159D is added as follows.

159D An entity shall apply the amendments in [draft] paragraphs 7 and 132-147 from the beginning of its first annual period commencing on or after [1 January 2007]. Comparative information shall not be restated. Earlier application is encouraged. However, an entity shall apply the amendments only from the beginning of an annual period commencing on or after [date the amendments are issued]. If an entity applies the amendments before the effective date, it shall disclose that fact.

OTHER AMENDMENTS TO THE STANDARD

As a consequence of the amendments above, other paragraphs are amended as described below.
--

Paragraph 111 is amended as follows.

- 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed Amendments to IAS 19.

INTRODUCTION

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching the conclusions in the Exposure Draft of Proposed Amendments to IAS 19 *Employee Benefits*. Individual Board members gave greater weight to some factors than to others.
- BC2 The amendments to IAS 19 proposed in this Exposure Draft result from the Board's Short-term Convergence project and complement the proposed amendments to the requirements addressing restructurings in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- BC3 Because the Board's intention was not to reconsider the fundamental approach to the accounting for employee benefits established by IAS 19, this Basis for Conclusions does not discuss requirements in IAS 19 that the Board has not reconsidered.

Short-term Convergence project

- BC4 In September 2002 the Board decided to add a Short-term Convergence project to its active agenda. The objective of the project is to reduce differences between IFRSs and US generally accepted accounting principles (US GAAP) that are capable of resolution in a relatively short time and can be addressed outside current and planned major projects. The project is a joint project with the Financial Accounting Standards Board (FASB) in the United States.
- BC5 In working towards the objective of the project, the two boards agreed to review each other's deliberations on each of the selected possible convergence topics and choose the higher quality solution as the basis for convergence. For topics recently considered by either board, there is an expectation that whichever board had more recently deliberated that topic would have the higher quality solution.
- BC6 As part of the review of topics recently considered by the FASB, the Board considered the requirements of FASB Statement No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146), which was

issued in June 2002. This has resulted in the Board proposing amendments to the requirements in IAS 37 relating to the recognition of liabilities for costs associated with a restructuring to converge with SFAS 146 and to improve the Standard. SFAS 146 also specifies the accounting for a class of termination benefits known as 'one-time termination benefits'. These are 'benefits provided to current employees that [sic] are involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract.' Because the accounting for termination benefits is specified by IAS 19, the Board also decided to amend the termination benefit recognition requirements in IAS 19 consistently with its amendments to IAS 37.

- BC7 SFAS 146 does not alter the accounting for other termination benefits specified by earlier FASB Statements (principally Statement No. 88 *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS 88) and Statement No. 112 *Employers' Accounting for Postemployment Benefits*). Although the aim of the Short-term Convergence project is to reduce differences between IFRSs and US GAAP, the Board decided that in general it should not seek convergence with those earlier Statements. The Board observed that because the accounting for termination benefits in US GAAP is specified in a number of standards, the approach would be difficult to integrate into IAS 19. Accordingly, the Board concluded that it should converge with the principles of SFAS 146 relating to one-time termination benefits and apply those principles consistently to all termination benefits. It acknowledged that differences with US GAAP will remain following the introduction of these amendments. Nonetheless, the Board believes that the proposed amendments will increase convergence as well as improve the accounting for termination benefits.

Recognition of involuntary termination benefits payable in exchange for employees' future services

- BC8 The present version of IAS 19 explains that termination benefits are dealt with separately from other employee benefits because the event that gives rise to a present obligation for termination benefits is the termination of employment rather than employee service. Therefore, a liability for termination benefits is recognised when the entity is 'demonstrably committed' to the termination. In contrast, SFAS 146 regards some one-time termination benefits as being provided in exchange for employees' future services (or, expressed another way, are in substance

a 'stay bonus'). In such cases, the liability is recognised over the period of the employees' service, consistently with the accounting for other employee benefits.

- BC9 The Board agreed with the FASB that in some cases termination benefits, although provided as compensation for the early termination of services, also have the characteristic of being provided in exchange for employees' future services. For example, the Board observed that, following an acquisition, entities sometimes terminate the employment of the employees of the acquired entity. However, because the entity requires the skills and knowledge of those employees for a period of time, it offers enhanced termination benefits as an inducement for those employees to stay for that period. Therefore, the Board decided that, like SFAS 146, IAS 19 should specify different recognition requirements for termination benefits that are provided in exchange for future service.
- BC10 In SFAS 146, determining whether one-time termination benefits are provided in exchange for future service depends on whether employees are required to render future service to receive the benefits and, if so, whether they will be retained beyond the minimum retention period. This is because the FASB reasoned that, in the absence of a requirement to provide advance notice of termination, an entity would promise one-time termination benefits in advance of termination only if the entity needed the employees to render future service. In other words, if the employees are required to render future service to be entitled to the benefits, those benefits must be compensation for that future service. To accommodate any requirement to provide advance notice of termination, the FASB specified that if employees are required to render future service only during the minimum retention period to be entitled to the benefits, those benefits do not relate to future service.
- BC11 Like the FASB, the Board concluded that it should specify when termination benefits are provided in exchange for future service, rather than leaving it to an assessment of the individual facts and circumstances. The Board was concerned that the latter approach could result in different entities accounting for similar termination benefits differently. The Board also agreed with the FASB's two criteria for determining whether one-time termination benefits are provided in exchange for future services. However, because the requirements in IAS 19 apply to all involuntary termination benefits, and not (as in SFAS 146) just one-time involuntary termination benefits, the Board decided that it needed to specify a third criterion, namely that the benefits are incremental to what the employees would otherwise be entitled to receive (or expressed another way, that the benefits are not provided in accordance with the terms of an ongoing benefit plan, whether that plan is established by an employment contract,

union agreement, legal requirement, or implied by the entity's usual practice). The Board reasoned that if the termination benefits are paid in accordance with the terms of an ongoing benefit plan, those benefits would not be provided as an inducement to stay and render future service (and, hence, be provided in exchange for future services) because the entity would be obliged to provide them. In other words, the employees would know the benefits to which they would be entitled in the event of their employment being terminated. The Board noted that this would be counter to the notion in SFAS 146 of the employer making a payment completely at its discretion to encourage the employee to stay and render future service.

- BC12 The Board noted that in some cases, termination benefits that are payable in exchange for future service would be calculated using a benefit formula that determines some (or all) of the termination benefits with reference to past service. However, the Board agreed with the FASB that the benefit formula 'in and of itself, does not render one-time termination benefits a 'reward' for past service. The [FASB] observed that an objective of providing a 'reward' for past service could be accomplished by granting immediately vested benefits.'^{*} Accordingly, the Board concluded that such benefits should be recognised over the future service period, even though they are calculated by reference to past service.
- BC13 The Board also noted that in some cases, an employer might offer termination benefits in excess of those specified by an ongoing benefit plan (for example, a doubling of benefits specified by employment legislation). The Board concluded that although the additional benefits might be expressed as an enhancement of the terms of the ongoing benefit plan, the additional benefits should be treated as a separate benefit plan. Thus, if the additional benefits are provided in exchange for employees' future services (because they do not represent an ongoing plan that would apply to future terminations and meet the criteria in paragraph 140(b) and (c)) they are recognised over future service periods.
- BC14 The Board adopted the notion from SFAS 146 of a minimum retention period because, like the FASB, it acknowledged that a promise of termination benefits may need to be communicated to employees in advance of the termination as a result of law, contract or union agreement, rather than to induce the employees to continue in service until termination date. The Board, however, decided to broaden the definition to include notice periods that are implied by customary business practice.

* Paragraph B28 of SFAS 146.

Recognition of involuntary termination benefits

- BC15 The Board then considered SFAS 146's recognition requirements for one-time termination benefits that are not payable in exchange for future services, ie one-time termination benefits that are paid to employees who are not required to render future service to receive the benefits or who will not be retained beyond the minimum retention period. In SFAS 146, the liability for such benefits is recognised when the entity has a plan of termination that (a) meets specified criteria and (b) has been communicated to the employees in sufficient detail for them to be able to determine the termination benefits to which they are entitled.
- BC16 The Board noted that the specific criteria in SFAS 146 relating to the termination plan are similar to the criteria in the present version of IAS 19 for establishing whether an entity is demonstrably committed to a termination plan and, therefore, should recognise termination benefits. However, the Board observed that there is no requirement in IAS 19 to communicate the plan of termination to employees. Having considered SFAS 146, the Board agreed with the FASB that there is no liability to provide one-time termination benefits until the entity has communicated the plan of termination to the employees. However, the Board decided that this principle in SFAS 146 should apply to all involuntary termination benefits and not just one-time termination benefits. The Board observed that even if the termination benefits are not one-time and, for example, are provided in accordance with the terms of an ongoing benefit plan, there is no *present* obligation to provide the benefits until communication of the plan of termination. The Board concluded that until this point the employer has the discretion to avoid paying termination benefits and, therefore, a liability does not exist.
- BC17 Therefore, the Board decided that it should add a new recognition criterion to IAS 19 and specify that an entity does not have a present obligation to provide involuntary termination benefits (under either an ongoing or a one-time benefit plan) until it has communicated its plan of termination to the affected employees. The Board also decided to replace the present criteria relating to the plan of termination with those in SFAS 146. As noted, these criteria are very similar. Nonetheless, the Board concluded that it would ease convergence if they were identical.

Voluntary termination benefits

- BC18 In US GAAP, most voluntary termination benefits are within the scope of SFAS 88 (and are not within the scope of SFAS 146) and are referred to as 'special termination benefits'. SFAS 88 specifies that an employer's obligation to provide voluntary termination benefits meets the definition of a liability when the employees accept the employer's offer of termination benefits. This is different from IAS 19, because IAS 19 specifies that the benefits are recognised when the entity is demonstrably committed to provide those benefits. However, the Board concluded that in many instances the requirement of SFAS 88 would be closer to the principle underlying SFAS 146 (namely, that a liability is recognised when incurred). This is because until an employee accepts an entity's offer of voluntary termination of employment, the entity would typically have the discretion to withdraw the offer and, therefore, have no present obligation. Because of this and for the sake of convergence, the Board decided to amend IAS 19 to converge with SFAS 88.
- BC19 The Board noted that the definition of special termination benefits in SFAS 88 specifies that the benefits are offered for only a short period of time. The Board decided that the short-term nature of the offer was important, because it noted that if the benefits for leaving service are made available for more than a short period, the employer has effectively established a new ongoing benefit plan and the employees would treat the benefits as part of their employment package. In other words, the benefits would be payable in exchange for the employees' services and, therefore, should be treated like any other post-employment benefit. Accordingly, the Board decided to amend the definition of termination benefits to clarify that benefits paid to encourage employees to leave service should be regarded as voluntary termination benefits under IAS 19 only if those benefits are made available for a short period.

Measurement

- BC20 SFAS 146 specifies that one-time termination benefits should be measured at fair value, except when the liability is recognised over time. In such cases, the fair value measurement date is modified to the termination date, ie the fair value of the liability at termination date is recognised over the future service period.
- BC21 The Board considered whether the measurement requirements of IAS 19 for termination benefits should converge with those of SFAS 146. However, it decided not to take this step, principally because it wanted to

specify a measurement requirement that could be applied to all termination benefits, regardless of whether those benefits are provided through or outside an ongoing benefit plan. The Board noted that when termination benefits are provided through a post-employment defined benefit plan (for example, by providing an enhancement of retirement benefits) it would be unduly complex to specify that they should be measured at fair value. This is because the effect of the changes to the plan arising from the termination of employment would need to be isolated, on an ongoing basis, from the remainder of the plan. Therefore, the Board decided that the measurement of such termination benefits should be consistent with the measurement of the underlying post-employment defined benefit plan.

- BC22 Accordingly, the Board concluded that it should retain the existing measurement requirement in IAS 19 to discount termination benefits due more than 12 months after the balance sheet date. It acknowledged that this could result in measurement differences with US GAAP for one-time termination benefits within the scope of SFAS 146. However, it observed that most one-time termination benefits that are not recognised over a service period would be likely to vest relatively quickly and, hence, the effect of discounting might be immaterial.