

IAS 19 (2011): Transition (Other than for Defined Benefit Pension Plans)

Extract, IFRS Discussion Group Report on Meeting – January 11, 2013

IAS 19 *Employee Benefits* (Amended in 2011) is effective for annual periods beginning on or after January 1, 2013. Entities will need to consider the implications of applying the revised standard to employee benefit plans other than defined benefit pension plans.

The changes include:

- revised definitions of both short-term and other long-term employee benefits;
- new guidance on the reclassification of short-term employee benefits;
- removal of the concept of demonstrable commitment as the basis for recognition of termination payments; and
- additional details on the measurement of termination benefits on initial recognition and subsequent changes to termination benefits.

The Group's Discussion

Group members noted that it is important that preparers do not ignore the changes to IAS 19 due to an incorrect assumption that the changes only affect those with defined benefit plans. Group members discussed key changes in the amended standard relating to the classification of employee benefits and termination benefits.

Classification of employee benefits

Group members observed that on adoption of the amended standard, an entity will need to reconsider the existing classification of its employee benefits as either short- or long-term. Group members noted that the amended IAS 19 changes the definition of short-term and other long-term benefits so that it is clear that the distinction between the two depends on when the entity expects the benefits to be settled rather than when the benefits are due to be settled (i.e., depends on the entity's expectations rather than the employee's entitlement to the benefit).

Group members observed that the amended standard also provides new guidance on reclassification between short- and long-term employee benefits. As a result, entities will need to continuously review these classifications in case of changes to expectations on an other than temporary basis.

Group members noted that issues surrounding classification of employee benefits as short- or long-term were relatively common previously and the clarifications made to IAS 19 will be helpful. Also, for some entities the classification of an employee benefit as short- or long-term can be a significant determination that should be considered carefully. Group members noted that the entities that will be most affected are those with significant accruals that employees are permitted to carry forward such as vacation pay.

Termination benefits

Group members observed that the amended standard removes the concept of demonstrable commitment from the recognition of termination benefits. Under the amended standard, a liability and expense for termination benefits is recognized at the earlier of when the entity:

can no longer withdraw the offer of those benefits; and

recognizes costs for restructuring relating to the specific event involving the payment of those benefits.

Group members noted that entities may need to rethink the timing of recognition of termination benefits, which may result in earlier or later recognition depending on the facts of their precise arrangements. This work may be particularly important for termination plans that span over the end of a reporting period because IAS 19 (Amended in 2011) is to be applied retrospectively.

Group members observed that the amended standard provides additional guidance on the measurement of termination benefits and provides new requirements if the termination benefits are provided as enhancements to a post-employment benefit plan. Group members noted that this change relates to timing rather than what or how the termination benefits are determined. Group members noted that the amended standard clarifies the distinction between a benefit paid for future service and a termination benefit. Group members observed that the amended standard provides a new example to illustrate the application of paragraphs 159-170 of IAS 19 (Amended in 2011).

Interim remeasurements

Group members also noted that under the amended standard, remeasurements are recognized immediately in the period in which they arise. Group members noted that because the amended standard is to be applied retrospectively, the issue of interim remeasurements could have implications to the comparative figures and preparers need to be alert to the possibility of these interim remeasurements.