

Determining Whether a One-Time Termination Benefit Offered in Connection with an Exit or Disposal Activity Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement Subject to FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*.

(Comment Deadline: July 27, 2003)

Q—Under FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, when are one-time termination benefits offered in connection with an exit or disposal activity considered, in substance, an enhancement to an ongoing benefit arrangement and, therefore, subject to the provisions of FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*?

Background

Statement 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. Paragraph 2(a) indicates that those costs include, but are not limited to:

Termination benefits provided to current employees that 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 (hereinafter referred to as *one-time termination benefits*)⁴

⁴ FASB Statements No. 87, *Employers' Accounting for Pensions*, No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Pension Plans and for Termination Benefits*, No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and No. 112, *Employers' Accounting for Postemployment Benefits*, address the accounting for other employee benefits. APB Opinion No. 12, *Omnibus Opinion—1967*, as amended by Statement 106, addresses the accounting for deferred compensation contracts with individual employees. **This Statement does not change the accounting for termination benefits, including one-time termination benefits granted in the form of an enhancement to an ongoing benefit arrangement, covered by those accounting pronouncements.** [Emphasis added.]

A—In order to be considered an enhancement to an ongoing benefit arrangement and, therefore, subject to the provisions of Statement 112, the additional termination benefits must represent a revision to the ongoing arrangement that is not limited to a specified termination event or a specified future period. Otherwise, the additional termination benefits should be considered one-time termination benefits and accounted for under Statement 146. The following example illustrates the application of this FSP:

A company has a written involuntary termination benefit plan that is distributed to all of its employees at date of hire. The plan provides that upon an involuntary termination of employment for other than cause, each terminated employee will receive one week of severance pay for every year of service. In the current year, the company initiates a reduction in force (RIF). In connection with that RIF, management decides to amend the ongoing benefit arrangement to provide an

additional two weeks of severance pay for every year of service. That additional benefit applies to all employees affected by this RIF and all future involuntary terminations.

Evaluation: The additional termination benefit is considered an enhancement to the ongoing termination benefit plan because it represents a revision to the ongoing plan that applies to all future involuntary terminations. That is, the amendment to the ongoing benefit arrangement is not limited to a specified termination event or specified future period. Therefore, the additional termination benefit should be accounted for in accordance with Statement 112.

If this example were changed to indicate that the additional termination benefits only applied to the employees affected by that RIF, those additional benefits would not be considered an enhancement to the ongoing termination benefit plan and would, therefore, be accounted for under Statement 146.

Transition

The guidance in this FSP is effective for exit or disposal activities initiated after August 15, 2003. Alternatively, an entity may elect to report the change in accounting as a cumulative-effect adjustment in accordance with APB Opinion No. 20, *Accounting Changes*, for exit activities initiated after December 31, 2002 (the original effective date of Statement 146).