

S02.03-EL-02-I.2-restructuring

1. Provisions for restructuring: MORE

1.1. Conditions relating to recording such provisions

A provision for restructuring is recognized when the Group has approved a detailed formal plan and has either started to implement the plan, or announced its main features to the public.

(IAS 37, par 71)

A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 14 are met. (...).

In this context ... **(IAS 37, par 72)**

A **constructive obligation** to restructure arises **only** when an entity:

- a. has a detailed formal plan for the restructuring identifying at least:
 - i. the business or part of a business concerned;
 - ii. the principal locations affected;
 - iii. the location, function, and approximate number of employees who will be compensated for terminating their services;
 - iv. the expenditures that will be undertaken; and
 - v. when the plan will be implemented; and
- b. has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(IAS 37, par 74)

For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.

(IAS 37, par 75)

*A management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, **before the end of the reporting period**:*

- a. started to implement the restructuring plan; or
- b. announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under IAS 10 "Events after the Reporting Period", if the restructuring is material and non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

The announcement to third parties or to the employees concerned need not necessarily be on an individual basis. A public announcement, or in the case of employees, an announcement to their representatives, is sufficient.

Thus, a restructuring may have been announced prior to the balance sheet date but will nevertheless **not** give rise to the recognition of a provision:

- If its implementation is far off (for example over 3 years away), or
- If it is between 6 months and 3 years away and the company is not in a position to calculate it, as it is still uncertain, what actions need to be taken.

(IAS 37, par 78)

No obligation arises for the sale of an operation until the entity is committed to the sale, ie there is a binding sale agreement.

The gains from the expected sale of assets cannot be used to lower the provision. If a binding sale agreement has been signed at the balance sheet date, the receivable relating to this sale can be recognized as an asset in the balance sheet. The capital gain is recognized separately as sale proceeds when it actually takes place.

(IAS 37, par 80)

A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

- a. necessarily entailed by the restructuring; and
- b. not associated with the ongoing activities of the entity.

(IAS 37, par 81)

A restructuring provision does not include such costs as:

- a. retraining or relocating continuing staff;
- b. marketing; or

c. investment in new systems and distribution networks.

These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the end of the reporting period. (...).

1.2. Restructuring as part of business combinations

By attributing the cost of combinations, the Group as acquirer should only record a provision for terminating or reducing the activities of an acquiree if at the acquisition date the acquiree has an existing liability for this restructuring that has been accounted for in accordance with IFRS.

If such a provision has already been recognised by the acquiree in accordance with IFRS, this provision shall affect the goodwill to be determined at the time of the business combination.

1.3. Type of costs to be provided for versus those that cannot be provisioned

A restructuring provision only includes the direct expenditure arising from the restructuring, namely costs of disposal for which the entity no longer expects future consideration, such as:

- redundancy costs,
- closure costs,
- costs of unused goods.

*** Added 15 Oct 2013 ***

When a restructuring plan creates an environmental obligation, the provision for remediation has to be booked as an environmental liability (L15940 & L45940) and not as part of the restructuring provision (L15800 & L45800).

A restructuring provision does not include the costs for activities to be continued. In addition, future operating losses that are identifiable by the date of restructuring may not be provisioned.

Restructuring costs include severance pay and all exit costs arising from restructurings, including impairment losses recognized on discontinued assets due to the closure of a site or operation. They are recognized net of reductions in employee benefits already accrued, in case of loss of these benefits by employees.

Restructuring costs break down into:

- **R45100** - Restructuring expenses for the period
 - These are actual restructuring charges for which provisions were made in previous years.
 - The classification as "restructuring" takes priority over the classification by type of expenditure.
 - Be aware that gains or losses arising from the sale of tangible assets retired following a restructuring, will be included in "restructuring".
- **R45200** - Use of restructuring provisions
This involves reversing during the period the part of the restructuring provisions relating to expenditures during the period.
- **R45300** - Restructuring provisions
 - The costs of restructuring plan must be broken down as follows:
 - Staff costs and other social costs (**X0810**)
 - Shutdown expenses (**X0820**). Read global note on shutdowns in [here](#).
 - Environmental costs.
- **R45500** - Restructuring: Impairment of intangible and tangible assets
 - These are the impairments booked following the restructuring decision.
 - Example: impairment of a furnace which will be turned off following the decision to shut down the installations
- **R45600** - Restructuring: Impairment of current and non-current assets
 - These are the impairments booked on current and non-current assets following the restructuring decision.
 - Example: impairment of the inventory of industrial supplies which will neither be used in the production process, nor be resold.