

Query No. 31

Subject: Accounting treatment of change in the Company's obligation under Group Mediclaim Insurance Coverage Scheme (Defined Benefit Plan) on account of change of Plan.¹

A. Facts of the Case

1. A Public Sector Undertaking (PSU) (hereinafter referred to as 'the Company'), is engaged in the manufacture of the steel products in India.

2. The Company has prepared its accounts as per the Indian Accounting Standards (Ind ASs) with effect from 1st April 2017. In compliance with the Companies (Indian Accounting Standards) Rules, 2015, the Company has prepared its financial statements for the financial year (F.Y.) 2020-21 with comparatives figures for F.Y. 2019-20.

3. The Company is operating various schemes for the welfare of its employees. One of the schemes is the Group Mediclaim Insurance Coverage Scheme (hereinafter referred to as the 'Existing Scheme') for separated employees of the Company and their eligible family members.

4. *Brief of the Existing Scheme:*

(i) Under this scheme, the following benefits are assured to the members.

- a. Hospitalisation Benefit, i.e., reimbursement of actual charges.
- b. Domiciliary Hospitalisation Benefit (Non-surgical treatment only).
- c. Out-patient Department (OPD) treatment.

The above benefits are subject to the overall ceiling for members as prescribed under the scheme.

(ii) The Company is taking an insurance policy every year for providing the aforesaid benefits to the members and the member who wished to enroll in this scheme is required to pay meagre amount as enrollment fee annually.

(iii) Constraints and deficiencies of the Existing Scheme:

- Insufficient coverage in case of critical diseases like cancer, kidney and cardiac issues.
- Inadequate OPD coverage due to abnormal increase in consultation fees and cost of medicines.
- Cumbersome claim process after incurring the expenditure.
- Majority of the members do not avail the full benefit provided and some members suffer due to inadequate coverage for critical diseases as the claims are subjected to a ceiling.

¹ Opinion finalised by the Committee on 9.2.2022.

5. *Accounting treatment under the Existing Scheme:*

Since there is no fixed contribution and the benefits are assured to the members under the Existing Scheme, this scheme falls under the Defined Benefit Plan for accounting purpose. Therefore, the Company is assessing and accounting its future liability (i.e., defined benefit obligation) under this Scheme at every reporting date through the mechanism of actuarial valuation. This liability is discharged by taking sufficient insurance policy annually.

6. *Introduction of new scheme –Post Retirement Medical Scheme (PRMS):*

A detailed presentation on the PRMS was made to the representatives of Steel Executives Association (SEA) on 16.11.2020 i.e., before approval of the scheme and the salient features of the scheme were appraised to the members of General Body of SEA. This scheme was appreciated by the SEA in totality. The Board of Directors of the Company has approved the new PRMS on 30.12.2020 in order to overcome the constraints and deficiencies of the Existing Scheme. The details of the scheme and its operating guidelines were issued vide HR Circular dated 09.02.2021 and 26.03.2021 respectively. Since the insurance policy taken under Existing Scheme is valid upto 31.03.2021, the new scheme will come into force from 01.04.2021 and covers executives who are separated on or after 01.01.2007 and opted for the new scheme.

7. *Salient features of new scheme:*

- (a) This scheme will provide medical coverage including hospitalization, out-patient/domiciliary treatments to members subject to certain ceiling limits.
- (b) The executives separated on or after 01.01.2007 and had put in a minimum of 15 years of service in the Company are eligible to become members.
- (c) The members are required to pay lump sum amount at the time of 1st enrolment and then a nominal annual renewal fee.
- (d) For the sake of convenience in implementation of the new scheme, an option was given to separated executives either to continue in the Existing Scheme or to migrate to the new scheme on or before 31.03.2022. However, executives retiring on 31st March 2021 and serving executives on separation shall necessarily be covered under PRMS (new scheme).
- (e) A PRMS Trust is created to administer the PRMS and to meet the medical requirements of its members.
- (f) The corpus for operating the scheme shall comprise:
 - (i) The Company's fixed contribution of 1% of Basic Pay + DA every month in respect of each executive on the rolls of the Company and
 - (ii) Lump sum enrollment fee and annual renewal fee collected from members.

8. *Accounting treatment of PRMS:*

Since the Company's obligation under this scheme is limited to a fixed contribution of 1% of Basic Pay + DA every month in respect of each executive on the rolls of the Company to the Trust, according to the querist, this scheme falls under defined

contribution plan. Therefore, with effect from (w.e.f.) 01.04.2021, the Company's contribution is calculated considering the executives on roll at the end of each month and accounted for accordingly. The said contribution is to be remitted to PRMS Trust in the following month.

9. *Accounting treatment towards curtailment of the Existing Scheme:*

As per the Board Approval dated 30.12.2020, the Existing Scheme covers only the employees retired before 01.01.2007 only. Therefore, the executives who have separated on or after 01.01.2007 and on roll executives will not be covered under the Existing Scheme. As a result, there is a curtailment of existing plan. This curtailment resulted in reduction of the defined benefit obligation of the Company as on 31.03.2021 and the same is also brought out by the Actuary in the report. (Extracts from actuarial report wherein the actuary also classified the reduction in defined benefit obligation as the gain on the curtailment of existing defined benefit plan in line with Ind AS 19 has been supplied separately by the querist for the perusal of the Committee.) This curtailment benefit was recognised by the Company in the Statement of Profit and Loss (P&L) in line with Ind AS 19 and relying on the actuarial valuation report, wherein also, it was shown as an item of P&L under curtailment benefits. Considering the materiality of the amount involved, the said curtailment benefit was shown under exceptional items in the Statement of Profit and Loss by providing necessary disclosures.

10. *Comments of Comptroller and Auditor General of India (C&AG):*

C&AG during its supplementary audit under section 143(6) (b) of the Companies Act, 2013, questioned the accounting treatment of the Company on the following grounds:

- (i) Recognition of Rs. 223.06 crores arisen on account of curtailment of Existing Scheme even before the commencement of new scheme w.e.f. 01.04.2021 is not in order. As a result, loss before tax decreased by Rs. 223.06 crores.
- (ii) Recognition of this item treating PRMS as defined contribution plan when the Company's liability is not limited only to fixed contribution to the PRMS Trust as seen from clause 10.01 of the scheme.

11. *Management reply to C&AG Comments:*

Reply to Point No. (i):

- Board approved PRMS during Dec.'20 and necessary guidelines and circulars for the implementation of the scheme were issued before the reporting date for the F.Y. 2020-21.
- The Company estimated its obligation under the Existing Scheme i.e., defined benefit plan as on 31.03.2021 after taking into account the Board approval dated 30.12.2020. The said obligation was accordingly recognised and the same is as per actuarial report.
- PRMS is governed by PRMS Trust and hence, there is no obligation on the Company to provide future liability under this scheme as on 31.03.2021.

- In view of the above, recognition of reduction in Company's defined benefit obligation as on 31.03.21 under the existing scheme before the commencement of new scheme is in order.

Reply to Point No. (ii):

- Clause 10.1 of PRMS states that the reimbursement for critical diseases will be made by the Company/Trust from the Fund. The ultimate source of reimbursement is the Fund to which the Company's contribution is fixed.
- Clause 11 of PRMS provides the methodology for Fund/Corpus allocation for critical diseases wherein the Company's obligation to meet the shortage of Fund, if any, is not envisaged.
- As per Clause 5 of PRMS, the Company's contribution is limited to 1% of the Basic + DA every month in respect of each executive on the rolls of the Company.
- In view of the above, PRMS is a Defined Contribution Plan.

12. *Factors supporting the Company's accounting treatment:*

- The Company's obligation as on 31.03.2021 under the Existing Scheme refers to the future liability towards benefits committed under the scheme in respect of eligible employees on rolls of the Company on the reporting date. The said liability has been accounted for as per Actuarial Report taking into account the eligible beneficiaries under the scheme on the reporting date, i.e., 31.03.2021. The Company's liability under the existing scheme is discharged by way of taking insurance policy for the beneficiaries.
- The separated executives who opted to new PRMS are also covered by insurance policy already taken up to 31.03.2021 and their future liability w.e.f. 01.04.2021 will be taken care by PRMS Trust.
- The executives on rolls as on 31.03.2021 are covered by the Medical Reimbursement Rules of the Company till their date of separation and on separation, the stipulated benefits will be taken care of by the PRMS Trust and hence, there is no liability on the Company as on the reporting date towards new scheme.
- Under the above situation, there is no under estimation of the Company's liability as on reporting date under the Existing Scheme as well as under the new scheme.
- Therefore, any excess future liability under the Existing Scheme on the reporting date arising on account of curtailment under the Existing Scheme needs to be recognised on the reporting date as per the provisions of Indian Accounting Standard (Ind AS) 19, 'Employee Benefits'.
- As per paragraph 102 of Ind AS 19, past service cost is the change in the present value of defined benefit obligation resulting from a plan amendment or curtailment.
- As per paragraph 105 of Ind AS 19, a curtailment occurs when an entity significantly reduces the number of employees covered by a plan.

- Accordingly, in the instant case, when the significant number of beneficiaries under the existing scheme are reduced consequent to the Board's approval, a curtailment of existing plan occurred. As a result, the change in the present value of defined obligation has been recognised as curtailment benefit as per Actuarial Report and shown in the Statement of Profit and Loss as an exceptional item considering the materiality of amount involved.
- The recognition of such curtailment benefit does not have any relationship to the commencement of new scheme.
- As brought out above, the Board accorded approval in the F.Y. 2020-21 and HR Circulars were also distributed in the F.Y. 2020-21. Further, the Circular is also placed in the 'Retired Employees Portal' wherein all the executive employees can access all the circulars relating to the retired employees. Hence, the Company could not postpone the recognition of this curtailment.
- The Company's liability under new scheme towards its fixed contribution w.e.f. 01.04.2021 will be recognised in the financial year 2021-22.
- The Company is also conducting various programmes for employees who will be retiring in the near future (i.e., next 3 months) with respect to investment of funds, health advisory and various benefit schemes available after retirement. During this programme, the features about PRMS with respect to availment of facility, limits available to self and spouse, Company's liability under PRMS etc., are also explained to the employees.
- Further, clauses 10.01 and 11 of PRMS explain the modality for meeting the expenses in respect of critical diseases where such expenses exceed the prescribed monetary ceilings. This clause is reproduced below:

“10.01: In the event of any ailments as specified at Annexure-I (Critical Diseases), the expenses shall be met first from the prescribed Monetary Ceiling as indicated under the Clause 9.1.1 and any amount over and above the Monetary Ceiling, shall be 100% reimbursed by the Company/Trust from the Fund, on submission of medical bills and supporting documents as prescribed.

If prescribed Monetary Ceiling as indicated under the Clause 9.1.1 is exhausted for critical ailments and a member gets admitted as inpatient for non-critical ailment, the expenditure upto 85% of the additional expenses over and above the Monetary Ceiling, shall be reimbursed by the Company/Trust from the Fund, on submission of medical bills and supporting documents.”

“11: The expenditure towards OPD and Insurance Premium will be met from the Corpus. Out of the balance Corpus after meeting expenditure towards OPD and Insurance premium, 1/3rd of the corpus will be allocated for expenditure towards critical ailments. The balance amount shall be carried forward to the Corpus for the next year.”

Clause 10.01 states that such expenses shall be reimbursed by the Company/Trust from the Fund on submission of medical bills and supporting documents. In other words, the ultimate source is the Fund from which such reimbursement shall be made by the Company/Trust. The intention of using the word 'Company' is to facilitate the

reimbursement to beneficiaries by the Company and to claim the same from the Trust in the initial days. Further, as explained in the previous paragraph, the Company's liability is limited to fixed contribution to Fund only. The clauses 10.01 and 11 do not envisage that the Company should bear such expenses which will be reimbursed over and above the monetary ceilings. Since the Company's obligation under the new scheme is limited to fixed contribution every month, the new scheme is defined contribution plan. (Emphasis supplied by the querist.)

13. (1) With regard to the situation when the insurer/service provider does not pay or if the fund/corpus is not sufficient to pay any post-retirement medical benefits promised to employees under the new scheme, whether the Company shall/or can be expected to pay/bear the cost of such benefits i.e. any excess liability beyond the funds/corpus of EPF Trust will have to be borne by the Company, the querist has clarified as follows:
- (i) As per PRMS, three types of medical expenditures are covered by the scheme i.e., (i) Outpatient/Domiciliary Treatment; (ii) Inpatient/Hospitalisation and (iii) Critical Diseases. For Outpatient treatment, annual monetary ceilings are prescribed in the Scheme and members are entitled to that extent only. For Inpatient treatment, members are required to avail the medical treatment within the monetary ceiling prescribed in the insurance policy. Any additional expenses over and above the prescribed monetary ceiling under insurance coverage is to be borne by the member.
 - (ii) However, in the case of expenditure for critical ailments, such expenditure has to be initially met from the monetary ceiling as insured. For such expenditures (critical ailments) over and above the monetary ceiling, the same shall be reimbursed by the Trust on submission of medical bills and supporting documents. But, the said reimbursement shall be limited to the amount available in the Fund earmarked towards critical ailments. In other words, in case of shortage in the Earmarked Fund of critical ailments, the member has to bear such expenditure. In other words, neither the Company nor the Trust is undertaking any liability in the event of shortfall of Fund.
 - (iii) The Company shall not be liable to reimburse any expenses, whatsoever incurred by the members in connection with or in respect of the critical ailments as expressly stated in clause 16 of PRMS.
 - (iv) The Company is neither liable nor expected to pay/bear the expenses in case of shortfall in the corpus.
- (2) Further, with regard to any practical instance(s) or informal practice(s) wherein the actual liability towards the member was more than the limits specified in the scheme or amount available in the corpus/fund and the Company either considered or denied the same, the querist has clarified that:
- (i) As on date, there is no practical instance where the actual liability towards the member is more than the limits specified in the scheme or amount available in the corpus/fund.
 - (ii) The Trust is already established and is in operation with its own bank account maintained with a reputed Bank.
 - (iii) Monthly fixed contribution is being remitted to the Trust by the Company.
 - (iv) Members' enrolment fee is also deposited with the Trust.
 - (v) Medical insurance coverage premium as per the scheme is paid by the Trust.

(vi) Outpatient treatment charges are also paid by the Trust to the members as per the scheme.

- (3) Further, with regard to the intention of the Company if such situation (as mentioned in Point No. 2) arises in future, as to whether the Company will or intends to bear the liability in excess of the corpus/Fund or whether the member will be reimbursed as per the scheme only upto the corpus/Fund, the querist has clarified that its liability is limited to fixed contribution to the Trust only. In future, if the situation as referred arises, the Company will not bear any further liability. The member will be reimbursed as per the scheme only up to the amount available in the corpus/fund.
- (4) The querist has also stated that as per the scheme, it is the liability of the Trust to provide the benefits as assured under the scheme to its members and the Company is not committed to the same. Also, the Company is not liable to compensate the shortfall in the corpus of the Trust, if any, arising in the future.

B. Query

14. On the basis of the above, the querist has sought the opinion of the Expert Advisory Committee on the following issues:

- (i) Whether the recognition of curtailment benefit, based on the Board's approval dated 30.12.2020 and as stated in the actuarial report under the existing scheme (DBP) before commencement of new scheme, by the Company during F.Y. 2020-21 is in order.
- (ii) Whether the new scheme i.e., PRMS is a Defined Benefit Plan or Defined Contribution Plan.
- (iii) Whether any liability arises on the Company as on 31.03.2021 under new PRMS, which is effective from 01.04.2021.

C. Points considered by the Committee

15. The Committee notes that the basic issue raised by the querist relates to timing of recognition of the effect of changes in the employee benefits plan due to commencement or introduction of new Post Retirement Medical Scheme (PRMS) (hereinafter also referred as the 'new scheme'), classification of new PRMS as defined benefit or defined contribution plan and timing of recognition of any liability on account of new scheme. The Committee has, therefore, considered only these issues and has not examined any other issue that may arise from the Facts of the Case, such as, accounting treatment under existing scheme or new PRMS, detailed accounting for curtailment/plan amendment/settlement (if any), past service cost, measurement of liability under the new scheme, accounting for the insurance policies and other plan assets under the existing and new scheme, accounting in the books of PRMS Trust, etc. The Committee has only examined the issue from Ind AS perspective and has not examined the regulatory or legal aspects, including those arising under Income-tax Act and interpretation of the terms/clauses of existing scheme and new scheme, etc.

16. The Committee first examines the issue of classification of new scheme. In order to determine the nature of employee benefit plan under new scheme, the Committee notes the following requirements of Ind AS 19, 'Employee Benefits':

“Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.”

“26 Post-employment benefits include items such as the following:

- (a) retirement benefits (eg pensions and lump sum payments on retirement); and
- (b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

27 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

28 Under defined contribution plans the entity’s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

29 Examples of cases where an entity’s obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

- (a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;
- (b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or
- (c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.”

“46 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation either:

- (a) to pay the employee benefits directly when they fall due; or
- (b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.”

“48 Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

- (a) accounts for a qualifying insurance policy as a plan asset (see paragraph 8); and
- (b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criterion in paragraph 116).

49 Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.”

“Recognition and measurement

56 Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity’s ability, and willingness, to make good any shortfall in the fund’s assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.”

“Accounting for the constructive obligation

61 **An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity’s informal practices would cause unacceptable damage to its relationship with employees.”**

“72 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.”

17. From the above, the Committee notes that Ind AS 19 draws the distinction between defined contribution plans and defined benefit plans. The determination is made based on the economic substance of the plan as derived from its principal terms and conditions. Under defined contribution plans, the benefits received by the employee are determined by the amount of contributions paid (either by the employer, the employee or both) to the benefit plan or fund or insurance company, together with investment returns, and hence actuarial and investment risk fall in substance on the employee. Thus, in defined contribution plans, the entity’s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund/insurance company.

Whereas under defined benefit plans, the employer’s obligation is not limited to the amount that it agrees to contribute to the employee benefit funds; rather, employer is obliged to provide the agreed benefits to current and former employees. When an entity pays contribution to a fund or insurance premium under a post-employment benefit plan, but retains legal or constructive obligation to pay the employee benefits directly when they fall due; or to pay further amounts if the insurer does not pay or if the fund is not sufficient to pay all future employee benefits relating to employee service in the current and prior periods, the post-employment benefit plan is a defined benefit plan.

Further, as per the requirements of Ind AS 19, an entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits.

Accordingly, the Committee is of the view that in the extant case, the nature of PRMS would depend upon the Company’s obligations under the employee benefit plan, both legal as well as constructive obligations.

18. In this regard, the Committee notes the following clauses from the new Post Retirement Medical Scheme (PRMS):

“9.1.1 The scheme covers hospitalization expenses upto the annual Monetary Ceiling as prescribed below for the Members, based on grades:

S. No.	Grade	Monetary Ceiling (Rs. in lakh)
1	E7 & above including Functional Directors and CMD	2.5
2	JO to E6	2.0

“10.1 In the event of any ailments as specified at Annexure-I (Critical Diseases), the expenses shall be met first from the prescribed Monetary Ceiling as indicated under the Clause 9.1.1 and any amount over and above the Monetary Ceiling, shall be 100% reimbursed by the Company/Trust from the Fund, on submission of medical bills and supporting documents as prescribed.

If prescribed Monetary Ceiling as indicated under the Clause 9.1.1 is exhausted for critical ailments and a member gets admitted as inpatient for non-critical ailment, the expenditure upto 85% of the additional expenses over and above the Monetary Ceiling, shall be reimbursed by the Company/Trust from the Fund, on submission of medical bills and supporting documents.”

“11. **Fund/Corpus allocation for Critical Diseases:**

The expenditure towards OPD and Insurance Premium will be met from the Corpus. Out of the balance Corpus after meeting expenditure towards OPD and Insurance premium, 1/3rd of the corpus will be allocated for expenditure towards critical ailments. The balance amount shall be carried forward to the Corpus for the next year.”

“16. **Other conditions:**

The Company shall not be liable to reimburse any expenses whatsoever incurred by the Members in connection with or in respect of the diseases mentioned in the critical ailments list as per Annexure-I and Permanent Exclusions mentioned at Annexure-II.”

From the above, the Committee notes that the scheme covers hospitalization expenses upto monetary ceiling as prescribed in clause 9.1.1 and clause 10.1 further states that in case of ailments as specified at Annexure-I (Critical Diseases), expenditure beyond the Monetary Ceiling indicated in clause 9.1.1 shall be 100% reimbursed by the Company/Trust *from the Fund*. If prescribed Monetary Ceiling as indicated under the Clause 9.1.1 is exhausted for critical ailments, the expenditure upto 85% of the additional expenses over and above the Monetary Ceiling, shall be reimbursed by the Company/Trust *from the Fund*. Further, clause 16 states that “the Company shall not be liable to reimburse any expenses whatsoever incurred by the Members in connection with or in respect of the diseases mentioned in the critical ailments list as per Annexure-I and Permanent Exclusions mentioned at Annexure-II”. The Committee also notes that the querist has explicitly stated that it is the liability of the Trust to provide the benefits as assured under the scheme to its members and the Company is not committed to the same; also, the Company is not liable to compensate the shortfall in the corpus of the Trust, if any, arising in the future. The querist has also stated that under new PRMS, the liability of the Company is limited to fixed contribution to the Trust only; the member will be reimbursed as per the scheme only upto the amount available in the Fund/corpus; and the Company is neither liable nor expected to pay/bear the expenses in case of shortfall in the corpus of the Trust. Further, this fact has been communicated to the

beneficiaries/members (by making presentation before SEA, circulating PRMS circular to executive employees, placing the circular regarding PRMS on 'Retired Employees Portal' and conducting various programmes for employees who will be retiring in near future) to give a clear understanding to the members/beneficiaries about the extent of the Company's obligations under the new scheme so that there is no valid expectation amongst the employees for the Company to bear any obligation beyond what is specified under the scheme. Accordingly, relying on the above-mentioned facts stated by the querist, it appears to the Committee that there is no further obligation on the Company (either legal or constructive) beyond the contribution made by it to the Fund/corpus of the Trust and therefore, the new scheme should be classified as a defined contribution plan.

19. The Committee further notes the following requirements of Ind AS 19, 'Employee Benefits':

“A *settlement* is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.”

“99 When 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:

- (a) the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and**
- (b) the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.**

100 An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognises past service cost before any gain or loss on settlement.

101 A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

101A When a plan amendment, curtailment or settlement occurs, an entity shall recognise and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs 99–101 and paragraphs 102–112. In doing so, an entity shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognise any change in that effect in

accordance with paragraph 57(d).”

“103 An entity shall recognise past service cost as an expense at the earlier of the following dates:

(a) when the plan amendment or curtailment occurs; and

(b) when the entity recognises related restructuring costs (see Ind AS 37) or termination benefits (see paragraph 165).

104 A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

105 A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. 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.

106 Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

107 Where an entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.”

“Gains and losses on settlement

109 The gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

110 An entity shall recognise a gain or loss on the settlement of a defined benefit plan when the settlement occurs.

111 A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.”

From the above, the Committee notes that a curtailment occurs when an entity significantly reduces the number of employees covered by a plan. A plan amendment occurs when a defined benefit plan is introduced or withdrawn or the benefits payable under an existing

defined benefit plan are changed. Whereas a settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan. The Committee further notes that in the extant case, with effect from 1.4.2021, the Company is withdrawing the benefits of existing scheme, which is a defined benefit plan, for specified employees and at the same time, replacing the same with the new scheme, which is a defined contribution plan. Thus, it is not a case of an isolated event of suspension or withdrawal of a plan; rather there is reclassification of defined benefit plan to defined contribution plan for some employees. Therefore, the Committee is of the view that the afore-mentioned changes in the PRMS benefits should be considered and accounted for as a plan amendment/curtailment/settlement, considering the specific facts and circumstances of the Company as per the above requirements of Ind AS 19.

20. With regard to the issue when the plan amendment/curtailment occurs, the Committee is of the view that in the extant case, plan amendment/curtailment occurs due to replacement of the existing scheme by the new scheme and therefore, the plan amendment/curtailment shall occur when the new scheme comes into existence (legally or constructively); in other words, when the obligation (legal or constructive), of the Company towards its employees can be considered to arise under the new scheme and the rights of the parties involved can be enforced. The Committee is of the view that whether any liability arises on the Company as a result of any legal or constructive obligation towards the employees in respect of the new scheme, as on 31.03.2021 and whether on that date, rights of the parties involved can be enforced is a matter of judgement considering the specific facts and circumstances, for example, in case, the employees who are covered under the new scheme avail any medical benefits, which scheme can be considered to be applicable before 1.04.2021 or whether the Company may be legally or constructively considered to provide benefits to these employees under the new scheme before 1.04.21. However, considering the fact that the insurance policy under the old scheme continues till 31.03.21, it appears to the Committee, that till 31.03.21 these employees will avail benefits under the old scheme. Further, although the new scheme is announced or adopted by the Board before 1.04.21, the Committee is of the view that since the effective date is clearly specified in the scheme as 1.04.21, it cannot be construed that it will raise valid expectations amongst the employees that the benefits available under the new scheme will be available before that date. Accordingly, the Committee is of the view that in the extant case, plan amendment/curtailment occurs with effect from 1.04.21 and not before that. Further, as per the requirements of Ind AS 19, reproduced above, settlement shall either occur together with the plan amendment and curtailment or after plan amendment/curtailment.

21. In this context, the Committee also wishes to point out that although the option to make the choice under the new scheme is available to few employees till 31.03.22, this will not change the date of occurrence of plan amendment/curtailment/settlement and, therefore, while accounting for plan amendment/curtailment/settlement, certain estimates regarding the choices which the employees will make will need to be made by the Company in the extant case.

22. As regards the timing of recognition of liability under the new scheme, the Committee notes the requirements of paragraphs 99 and 103 of Ind AS 19, reproduced above and is of the view that the same should be recognised when the past service cost is recognised, which in turn is recognised when the plan amendment or curtailment occurs. As plan amendment/curtailment in the extant case occurs with effect from 1.04.21, as mentioned in

paragraph 20 above, the Committee is of the view that the liability under the new scheme should be recognised on 1.04.21, when the plan amendment/curtailment occurs.

D. Opinion:

23. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 14 above:

- (i) Changes in the PRMS benefits in the extant case should be considered and accounted for as a plan amendment/curtailment/settlement, as per the requirements of Ind AS 19, as discussed in paragraph 19 above. Further, in the extant case, plan amendment/curtailment occurs with effect from 1.04.21 and not before that; and settlement shall occur either together with the plan amendment and curtailment or after plan amendment/curtailment, as discussed in paragraph 20 above.
- (ii) The new scheme should be considered as defined contribution plan, as discussed in paragraph 18 above.
- (iii) The liability under the new scheme should be recognised on 1.04.21, when the plan amendment/curtailment occurs, as discussed in paragraph 22 above.
