



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
E-mail: iasb@iasb.org Website: www.iasb.org

**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: January 2008, London

Project: Death-in-service benefits (Agenda Paper 3)

INTRODUCTION

1. At its September 2007 meeting, the IFRIC discussed whether it should take a project on to its agenda relating to death-in-service benefits. The IFRIC had received a request for guidance as to how such benefits should be attributed to periods of service using the Projected Unit Credit Method in IAS 19.
2. In September, the IFRIC tentatively agreed not to take the issue on to its agenda and published its tentative agenda decision in IFRIC Update.
3. The IFRIC received one comment letter. That letter agreed with the IFRIC's tentative decision not to add the issue to its agenda. It did not disagree with the IFRIC's conclusions about how benefits should be attributed to periods of service. However, the letter disagreed with some wording in the introductory paragraph which discussed the circumstances in which benefits should be attributed to periods of service.

4. The wording that the commentator disagreed with stated that benefits should be attributed to periods of service if they formed part of a defined benefit plan. The letter proposed two changes to the IFRIC's tentative agenda decision:
 - i. To change the first paragraph to state that, in determining whether benefits should be attributed to periods of service, it is necessary to consider whether the benefits are service related. The proposed change stated that attribution is required only if benefits are service related and are part of a defined benefit plan.
 - ii. To state that, if benefits are not service related, IAS 19 paragraph 130 can be applied.
5. In November 2007, the IFRIC discussed the comment letter and reaffirmed its decision not to take the issue on to its agenda. However, it was unable to conclude on suitable wording in respect of when entities should attribute benefits to periods of service.

Purpose of this paper

6. This paper does not revisit the IFRIC's conclusions as to how benefits should be attributed to periods of service. Instead, the paper focuses on the issue identified in the comment letter regarding when benefits should be attributed to periods of service.
7. Having considered that issue, the paper discusses how best it should be addressed. For example, should it be addressed by finalising the IFRIC's wording from September, by an interpretation, or by a change to IAS 19?

STAFF ANALYSIS

8. The staff first considered the question of whether death-in-service benefits are required to be attributed to periods of service in accordance with IAS 19.
9. In forming its view, the staff considered both benefits that are service related and those that are not. The staff also considered benefits that are provided as part of a defined benefit plan and those that are not. The staff initially considered two views:

View 1: Benefits should be attributed to periods of service if they are dependent on the length of service of an employee.

View 2: Benefits should be attributed to periods of service if they form part of a defined benefit plan.

View 1: Benefits should be attributed to periods of service if they are dependent on the length of service of an employee.

10. D54 (the exposure draft of IAS 19) included guidance as to how entities should account for death-in-service benefits that are not insured *and* are not provided through a post-employment benefit plan. The IASC Board decided that such cases would be rare and so decided to delete this guidance from IAS 19. As a result, the current version of IAS 19 contains no guidance that directly discusses the accounting for death-in-service benefits.
11. Paragraph 130 of IAS 19 discusses the accounting for disability benefits. Like death-in-service benefits, disability benefits become payable when an event that is specific to an employee occurs. If the employee terminates his/her employment before the event occurs, the employer will not be required to pay the benefit.
12. Paragraph 130 states:

'One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.'
13. The staff notes that, whilst paragraph 130 falls within the section of IAS 19 that considers other long-term employee benefits, it gives guidance on the application of the Projected Unit Credit Method. Since this is the same method that is used for post-employment benefits, IAS 19.130 could also be considered to apply to the accounting for those benefits.
14. If paragraph 130 were applied to death-in-service benefits then they would be attributed to periods of service if the level of the benefit depended on the period of service, but not if the level of benefit remained the same regardless of the period of service.

15. The staff is aware of three different views as to whether this paragraph should be applied to such benefits:
 - i. Paragraph 130 applies to all ‘event-driven’ benefits. Long-term disability benefits are offered as one example of such benefits.
 - ii. Death-in-service benefits and long-term disability benefits are fundamentally similar. Both become payable on the occurrence of an event that is specific to an employee and that results in the employer receiving no further services from the employee. Whilst paragraph 130 applies only to long-term disability benefits, it should be applied to death-in-service benefits by analogy.
 - iii. Paragraph 130 is an exception that applies only to long-term disability benefits. Death-in-service benefits differ fundamentally from long-term disability benefits since employees can potentially return to work after disability. Paragraph 130 should not be extended by analogy to death-in-service benefits.
16. IAS 8 requires that, if a standard does not specifically apply to a transaction, entities should first look to the requirements and guidance in the standards and interpretations dealing with similar and related issues.
17. The staff considers that, even if paragraph 130 is intended to apply only to long-term disability benefits, such benefits could be considered to be similar to death in service benefits as both relate to ‘event-driven’ benefits that only become payable when the employee will not be able to work again.
18. The staff therefore concludes that it is appropriate to apply IAS 19.130 to death-in-service benefits, ie to attribute such benefits to periods of service only if they are service related.

View 2: Benefits should be attributed to periods of service if they form part of a defined benefit plan.

19. Supporters of view 2 consider that, if benefits are provided as an integral part of a defined benefit plan (that is, the plan rather than the employer will pay the benefits), the entity should take into account the death-in service benefits when determining the Defined Benefit Obligation (‘DBO’). This is because, to

comply with IAS 19, the DBO of the plan is reduced to take into account mortality assumptions relating to the employees.

20. For example, some defined benefit pension plans include a provision that, if the employee dies whilst in service, the employee's spouse receives a lump-sum benefit. In these situations, the spouse's benefit will be the same regardless of the employee's length of service. The DBO relating to the pension will be reduced to take into account employees who are expected to die before retirement. However, if an employee dies before retirement, the employer will still have an obligation to pay the spouse's lump-sum benefit. It could be argued to be illogical and inconsistent to reduce the accrual for the employee's pension but not to accrue for the spouse's lump-sum benefit.
21. Supporters of this view note that a defined benefit plan is a service related benefit. They therefore consider that benefits provided through that plan are service related. Death-in-service benefits that are provided through a plan should therefore be considered to be service related and be attributed to periods of service regardless of whether the benefit itself (if provided on a standalone basis) would be considered to be service related.

Conclusion

22. The staff considers that the above arguments demonstrate that two opposing views could be developed as to when benefits should be attributed to periods of service. The first would attribute benefits only when they are service related. In this case, if benefits are not service related, even though they are provided as part of a defined benefit plan, they would not be attributed to periods of service. The second would attribute all benefits that are part of a defined benefit plan to periods of service.

23. From the discussion at the November IFRIC meeting and subsequent discussions, the staff believes that current practice in this area is varied. A summary of the staff's understanding of current practice is set out below:

	Part of defined benefit plan	Not Part of defined benefit plan
Service related	The staff understands that most entities currently attribute these benefits to periods of service.	The staff understands that some entities recognise these benefits as they become payable whilst some attribute benefits to periods of service.
Not service related	The staff understands that most entities attribute these benefits to periods of service but that some do not.	The staff understands that most entities currently recognise these benefits on death.

24. In the staff's view, both of the arguments presented above have some validity. However, the staff does not believe that the wording of the standard is sufficiently clear to mandate one approach over another.
25. The staff therefore believes that there is some ambiguity in IAS 19. For example:
- View 1 above is justified on the basis that paragraph 130 sets out a principle and not an exception that may only be applied in the case of disability benefits. It could be possible to read paragraph 130 as applying only to long-term disability benefits. If this were the case then, as an exception, this paragraph should not be applied by analogy to death-in-service benefits.
 - View 2 assumes that paragraph 130 either only applies to long-term disability benefits or that it only applies to other long-term employee benefits (rather than post-employment benefits). The staff considers that paragraph 130 (as currently drafted) could be validly interpreted as a principle that should be applied to all benefits (including those in defined benefit plans) that are being accounted for using the Projected Unit Credit Method.
26. The staff considers that this ambiguity is evident in the comment letter received on the tentative agenda decision published in September. It is also evident in the discussions held in November and in some of the large accounting firms' published guidance.

27. For example, one accounting firm's published guidance states:
- '...death-in-service and disability benefits are not termination benefits...However, it is far from clear from IAS 19 how such benefits should be treated.'*
28. Given that the staff considers that the guidance in IAS 19 in this area is not clear, publishing an agenda decision that states either that benefits should be attributed if they are a part of a defined benefit plan or that they should only be attributed if they are service related could be seen as being interpretive. The staff does not therefore believe that this approach should be pursued by the IFRIC.
29. The staff therefore considers that the IFRIC has 3 options.
- Option 1:** The IFRIC could finalise its agenda decision by including its original wording about how benefits should be attributed but without concluding on when they should be attributed. This could be achieved either by stating that benefits should only be attributed in 'some situations' or stating that they should be attributed in situations 'including when the benefits are service related and provided as part of a defined benefit plan.'
- Option 2:** The IFRIC could add the issue to its agenda and develop an Interpretation on when non-service related benefits should be attributed to periods of service.
- Option 3:** The IFRIC could conclude that the existing guidance in IAS 19 is not clear and refer the issue to the Board's Annual Improvements Project for clarification.
30. The staff considers that, whilst option 1 is the simplest approach, it does not address the question of when benefits should be attributed to periods of service. Divergence would therefore continue to exist in this area, with some attributing benefits to periods of service and some recognising an expense when the benefits become payable.
31. The staff notes that the effect of this divergence is likely to be greater than the effect of the divergence that the IFRIC originally considered when it discussed the issue of how benefits should be attributed. In this case, the difference would

be between attribution and no attribution rather than between two different methods of attribution.

32. The staff does not therefore consider that finalising an agenda decision that does not address this issue is the optimum solution for the IFRIC.

33. The staff notes that most of the divergence in this area could be addressed by clarifying paragraph 130 of IAS 19. For example, paragraph 130 could be amended to make clear that:

- Paragraph 130 sets out a principle that applies to all long-term employee benefits.
- If a benefit is an integral part of a defined benefit plan, whether it is service-related should be determined with reference to the plan as a whole (so that benefits that would not be service related if they were standalone that are delivered as an integral part of a defined benefit plan would be considered to be service related).

34. For example, the wording could be re-drafted as follows:

~~One form of other long-term employee benefit is long-term disability benefit.~~ If the level of an other long-term employment benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any ~~disabled~~ employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes the benefit to become payable a long-term disability. A benefit that is part of a defined benefit plan that provides benefits dependant on the length of service is service related.

35. Since the staff considers that the standard could be amended relatively easily to address the majority of the divergence in this area and because the staff considers that the existing guidance in this area is not clear, the staff considers that the most appropriate response would be for the IFRIC to refer the issue to the Board's Annual Improvements Project.

36. In order to do this, the staff recommends that the IFRIC finalises its wording (as proposed in September) regarding how benefits should be attributed to periods of service without the sentence that the commentator objected to regarding when benefits should be attributed to periods of service.
37. The staff then recommends that the IFRIC publish a second tentative agenda decision discussing the issue of when benefits should be attributed to periods of service.
38. [Paragraph omitted from observer note].