KPMG IFRG Limited
1-2 Dorset Rise
London EC4Y 8EN
United Kingdom

Tel +44 (0) 20 7694 8871
Fax +44 (0) 20 7694 8429
DX 38050 Blackfriars

Mr Robert Garnett
Chairman
The International Financial Reporting
Interpretations Committee of the International
Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Our ref MT/288

Contact Mary Tokar
+44 (20) 7694 8288

18 October 2007

Dear Bob

IAS 19 *Employee Benefits* – 'Death in service' benefits

We note from the September 2007 *IFRIC Update* that the IFRIC tentatively decided to remove from its agenda the issue of how to attribute 'death in service' benefits to periods of service.

We acknowledge the reservations of the IFRIC regarding beginning a project addressing benefit allocation for defined benefit plans (*IFRIC Update* September 2007). However, we believe that a key aspect with respect to 'death in service' benefits attribution is the determination whether 'death in service' benefit is in fact service-related or not, and the basis for such a conclusion. The proposed reason for rejection is based on the assumption that 'death in service' benefit is service related but does not provide a rationale for this assumption. In our experience, some plans offer a 'death in service' benefit in form of a lump sum payment regardless of the period of service. The question on attribution is one that arises frequently in practice when plans with features not directly linked to service are considered. We believe that the agenda decision should acknowledge that as a first step in the process of determining the attribution of 'death in service' benefits it needs to be considered whether or not the benefit is service related.

We agree that the attribution period should not go beyond the date of death and that without providing further guidance on the attribution method divergence in practice on how benefits are attributed may continue. If a benefit is service related, then either straight-line attribution from the date of service commencement through the date of death, or attribution based on the date of retirement with an immediate catch up adjustment to the extent that death occurs prior to the retirement, may be appropriate.

If it is determined that a benefit is not service related, then IAS 19.130 on long-term disability benefits may apply by analogy. We are concerned that this agenda decision does not address why IAS 19.130 could not be applied by analogy to 'death in service' benefits, i.e. with the benefit being expensed fully on death.

We believe it would be helpful if IFRIC's commentary provided clarity with respect to the above (see attached proposed wording).

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Please contact Mary Tokar at +44 (20) 7694 8288 or Thomas Schmid at +44 (20) 7694 8566 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

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cc. Andrew Vials

Appendix

IAS 19 *Employee Benefits*—'Death in service' benefits

An entity may provide payments to employees if they die while employed ('death in service' benefits). Due consideration needs to be given to the terms of a plan in determining whether a death in service benefit is or is not service related. If ~~these~~ such benefits are provided as part of a defined benefit plan and are service related, IAS 19 requires them to be attributed to periods of service using the Projected Unit Credit Method. The IFRIC received a request for guidance as to how an entity should attribute these benefits to periods of service. The request noted that different treatments existed in practice.

The IFRIC noted that paragraph 67(b) of IAS 19 requires attribution of the cost of the benefits until the date "when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases."

In the case of death in service benefits, the IFRIC noted that:

- the anticipated date of death would be the date at which no material amount of further benefit would arise from the plan;

- using different mortality assumptions for a defined benefit pension plan and an associated death in service benefit would not comply with the requirement in paragraph 72 of IAS 19 to use actuarial assumptions that are mutually compatible;~~ and~~

- if the conditions in paragraph 39 of IAS 19 were met then accounting for death in service benefits on a defined contribution basis would be appropriate; and~~.~~

- if the benefit is non service related, paragraph 130 of IAS 19 dealing with long-term disability benefit may be considered by analogy.

The IFRIC concluded that divergence in this area was unlikely to be significant. In addition, any further guidance that it could issue would be application guidance on the use of the Projected Unit Credit Method. The IFRIC therefore [decided] not to add this issue to its agenda.