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**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: **November 2007, London**

Project: **IAS 19 *Employee Benefits* – Death in service benefits
(Agenda Paper 6C (revised 23 October 2007))**

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1. In September 2007, the IFRIC published a tentative agenda decision in respect of the attribution of 'death in service' benefits under IAS 19¹. One comment letter has been received which suggests some changes to the IFRIC's proposed wording.
 2. This paper sets out the staff's suggested response to that comment letter and proposes some amendments to the tentative agenda decision. In doing so, the staff notes that neither the comment letter nor this paper proposes changing the decision not to take this issue on to the IFRIC agenda. The only question that is being considered is whether the tentative wording should be amended before being finalised.
 3. The letter received by the IFRIC suggests two changes to the tentative agenda decision. Firstly it suggests that the first paragraph should be amended to make clear that benefits are attributed to periods using the Projected Unit Credit Method if they are 'service related'. Secondly it suggests introducing a

¹ See the attached extract from IFRIC *Update*

comment that paragraph 130 of IAS 19 may be applied by analogy if the benefit is not service related.

4. The staff has considered these two changes below.

Service related

5. The first paragraph of the tentative agenda decision attempts to define the situations in which an entity may be required to attribute benefits to periods of service using the Projected Unit Credit Method. The amendment proposed in the comment letter suggests that whether such benefits are 'service related' is a factor in determining whether they should be attributed to periods using the Projected Unit Credit Method.
6. IAS 19 distinguishes between short-term employee benefits, post-employment benefits, termination benefits, and other long-term employee benefits. Death-in-service benefits are unlikely to meet the definition of short-term employee benefits as they are unlikely to fall due 'wholly within twelve months after the end of the period in which the employees render the related service.' Similarly, they are unlikely to meet the definition of termination benefits as they do not arise as a result of an entity's decision to terminate an employee's employment before the normal retirement date or the employee's decision to accept voluntary redundancy.
7. The staff therefore concludes that death-in-service benefits can only be post-employment benefits or long-term employee benefits.
8. If an entity provides death-in-service benefits to members of a pension plan and those benefits may be given as an alternative or addition to benefits provided by the plan, then that entity must assess whether they are part of a defined benefit or a defined contribution plan. The staff considers that if a death-in-service benefit is a defined contribution benefit then the costs should be recognised as contributions are made in accordance with IAS 19.43-47. If the benefit forms an integral part of a defined benefit plan then it should be attributed to periods using the Projected Unit Credit Method.
9. If the death-in-service benefit is not an integral part of a post-employment benefit plan then it should be accounted for as a long-term employee benefit. The accounting for such benefits is set out in IAS 19.126-130.

10. IAS 19.130 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.

11. If the principle in paragraph 130 is applied to death-in-service benefits then those whose level of benefit depends on the length of service should be attributed to periods using the Projected Unit Credit Method. Benefits that are the same regardless of years of service should be recognised as a cost when death occurs and the benefit becomes payable.
12. The staff concludes that benefits should be attributed to periods of service using the Projected Unit Credit Method when:
- they are provided to members of a defined benefit pension plan as an alternative or addition to benefits provided by the plan; or
 - the level of benefit depends on the length of service.
13. When the level of benefit is the same regardless of years of service the cost should be recognised when death occurs. Benefits that are provided on a defined contribution basis should be recognised as the contributions are made.
14. The staff notes that the phrase ‘service related’ is not defined within IAS 19. The staff therefore has concerns that amending the tentative agenda wording in the way suggested by the comment letter may cause confusion. On the other hand, the staff considers that the comment letter raises a valid concern that the wording in the tentative agenda decision could be confusing and does not reflect all the situations in which death-in-service benefits should be attributed to periods of service using the Projected Unit Credit Method.
15. The staff therefore proposes that the wording of the first paragraph of the tentative agenda decision be amended to make clear that entities attribute benefits using the Projected Unit Credit Method when they form part of a defined benefit pension plan or the benefits depend on the length of service.

The staff also proposes amending the bullet point considering benefits provided as part of a defined benefit pensions plan to make it more consistent with the revised first paragraph.

16. The staff considers that this proposal will meet the intentions of the commentator as well as making the wording of the agenda decision clearer.

Application of paragraph 130

17. The comment letter received by the IFRIC also proposed including a bullet point stating that ‘if the benefit is non service related, paragraph 130 of IAS 19 dealing with long-term disability benefit may be considered by analogy.’
18. As discussed above, the staff does not consider that the phrase ‘service related’ should be used as this is not defined in IAS 19. The staff therefore considers that, if such a statement is to be included, it should state:

If the level of benefit is the same regardless of years of service, the cost is recognised when death occurs and the benefit becomes payable.

19. However, the staff notes that if the revised introductory paragraph is used, it will be clear that benefits are only required to be attributed to periods of service when they depend on the length of service. In other words, it will be clear that if benefits do not depend on the length of service, they should not be attributed to periods of service and instead be recognised when the event that makes them payable occurs.
20. The staff does not therefore propose making this change.
21. [Paragraph omitted from observer note].

Attachment: Extract from September 2007 IFRIC Update

An entity may provide payments to employees if they die while employed ('death in service' benefits). If these benefits are provided as part of a defined benefit plan, 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.

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.