

## STAFF PAPER

January 2012

## IFRS Interpretations Committee Meeting

Project	Review of tentative agenda decision from November 2011		
Paper topic	IAS 19 Employee Benefits-Definition of termination benefits		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

1. The Interpretations Committee (the Committee) received a request for guidance regarding the application of IAS 19 *Employee Benefits* (revised in 2011) to ‘Altersteilzeit’ plans (ATZ plans) in Germany.
2. In the tentative agenda decision published in the November 2011 *IFRIC Update*, the Committee noted that ATZ plans have attributes of both required service and termination benefits. The Committee also noted that, consistently with paragraph 162(a) of IAS 19 (2011), the fact that the bonus payments are conditional upon completion of employee service over a specified period indicates that the benefits are in exchange for that service and that they do not therefore meet the definition of termination benefits.
3. On the basis of the analysis described above, the Committee tentatively decided not to add the issue to its agenda.

## Comments received on the tentative agenda decision

4. We have received three comment letters with respect to the tentative agenda decision published in the November 2011 *IFRIC Update*. The comment letters are shown in Appendices B, C and D. The constituents supported the decision not to take the issue onto the Committee’s agenda.

5. However, one of the constituents is not convinced that applying IAS 19 (2011) will be as clear as the draft decision suggests, for the following reasons:
  - (a) The constituent believes that the draft decision incorrectly emphasises one indicator (ie benefits being conditional upon completion of employee services for any period after the offer is accepted) as the sole determining factor in classifying employee benefits between termination benefits and benefits in exchange for services. Although the constituent agrees with the determination that benefits payments being conditional on future employment would be a strong indicator that benefits are provided in exchange for future services, they do not believe the existence of this indicator alone would preclude an entity from classifying a benefit as a termination benefit.
  - (b) The constituent believes that clarifications were made mainly to align with Topic 420 in the area of involuntary termination of employees where benefits are paid to retain the employees for a certain period (ie a stay bonus). In the case of the ATZ plans, these benefits would not serve the purpose of being a bonus provided to convince employees to stay until a later period rather than be terminated immediately. In fact, the purpose of the benefits is often the exact opposite - to convince employees to retire early (ie early termination) or to reduce hours until retirement.
  - (c) The constituent believes that the individual facts and circumstances need to be considered. They believe that the benefits provided can, in fact, be split between benefits in exchange for service and termination benefits when benefits have characteristics of both categories.
6. The two other constituents agree, on the basis of the information available in the submission, with the conclusion that ATZ plans do not meet the definition of a termination benefit under IAS 19 (2011). However, one of the constituents thinks that:

- (a) The Committee should not provide comments or guidance about the application of IFRSs to a fact pattern described by a submitter in an agenda decision.
- (b) The decision should be restricted to referring to IFRS literature that the Committee thinks should be considered and explaining which of the agenda criteria were not met.
- (c) If members of the Committee wish to curtail potential diversity that may emerge in a jurisdiction, the Committee should decide to develop an interpretation or recommend that the IASB amend IFRSs to clarify the requirements or provide application guidance.
- (d) The Committee should not attempt to resolve an issue and change existing or emerging practice through an agenda decision because agenda decisions are not subject to full due process, are not updated when changes are made to IFRSs and do not provide for transition.
- (e) The Committee should develop a framework to support when and how the Committee should provide guidance in an agenda decision. This framework should be in place before the Committee attempts to provide more helpful guidance in agenda decisions.

## **Staff response**

7. We agree that the distinction between benefits provided in exchange for future services and termination benefits under IAS 19 (2011):
- (a) may require the application of judgement;
  - (b) should be based on the characteristics of each entity's offer of benefits under the plan considered;
  - (c) should be assessed taking into account the indicators in IAS 19 (2011) and all other relevant facts and circumstances (such as the period of time during which the required service should be provided); and

(d) needs to be consistent with the definitions of employee benefits given in IAS 19 (2011).

8. However, we think that in the fact pattern submitted:

- (a) The defining characteristic of the bonus payment is the requirement to provide service. We note that the bonus payments are paid only if the employee provides the required service during the specified period. If the employee's service ends for any reason before the end of the specified period, the employee does not receive the bonus payments. This indicates that the benefit is provided in exchange for services. In our view, splitting benefits between benefits provided in exchange for services and termination benefits (as specified in the examples illustrating paragraphs 159-170 of IAS 19 revised in 2011) would be appropriate if, for example, a portion of the bonus payments had to be paid for ending the employment regardless of whether the employees render the services.
- (b) The bonus payments are economically similar to 'stay bonuses' in that an employee is offered a higher rate to convert from permanent employment to temporary employment in both cases. Termination benefits do not include benefits provided in exchange for a reduction in employment.

9. With respect to the comment that agenda decisions should be restricted to referring to IFRS literature that the Committee thinks should be considered, we think that the requirements in IAS 19 (2011) are reasonably clear for the specific fact pattern submitted. We also note that no Committee members disagreed that bonus payments paid in ATZ plans did not meet the definition of a termination benefit as defined in IAS 19 (2011).

10. As a result, we think that the Committee should proceed with the agenda decision as it is worded, but with the clarifications proposed in Appendix A to this paper.

### Question for the Committee

Does the Committee agree with the staff's recommendation not to take the issue onto its agenda and that it should proceed with the agenda decision, but with the clarifications proposed in Appendix A to this paper?

## Appendix A—proposed wording for the final agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through):

### **IAS 19 *Employee Benefits*—Applying the definition of termination benefits to ‘Altersteilzeit’ plans**

The Interpretations Committee received a request for guidance regarding the application of IAS 19 (2011) to ‘Altersteilzeit’ plans (ATZ plans) in Germany. ATZ plans are early retirement programmes designed to create an incentive for employees within a certain age group to smooth the transition from (full- or part-time) employment into retirement before the employees’ legal retirement age. ATZ plans offer bonus payments to employees in exchange for a 50 per cent reduction in working hours. Their employment is terminated at the end of ~~the~~ a required service period. The bonus payments are conditional on the completion of the required service period. If employment ends for any reason before the required service is provided, the employees do not receive the bonus payments. ATZ plans typically operate over a period of one to six years. Eligibility for the benefit would be on the basis of the employee’s age but would also typically include a past service requirement.

IAS 19 (2011) was the result of revisions issued in 2011 to IAS 19. These revisions, among other things, amended the guidance relating to termination benefits. Paragraph 8 of IAS 19 (2011) defines termination benefits as these ‘employee benefits provided in exchange for the termination of an employee’s employment as a result of either:

(a) an entity’s decision to terminate ~~the~~ an employee’s employment before the normal retirement date; or

(b) an employee’s decision to accept an ~~entity’s~~ offer of benefits in exchange for the termination of employment.’

The Committee observed ~~noted~~ that ATZ plans have attributes of both required service and termination benefits. The Committee noted that the distinction between benefits provided in exchange for services and termination benefits should be based on:

(a) all the relevant facts and circumstances for each individual entity's offer of benefits under the plan considered;

(b) the indicators provided in IAS 19 (2011); and

(c) the definitions of the different categories of employee benefits in IAS 19 (2011).

The Committee also noted that, consistently with paragraph 162(a) of IAS 19 (2011), the fact that the bonus payments are conditional upon completion of employee service over a specified period indicates that, in the fact pattern described above, the benefits are in exchange for that service and they therefore do not meet the definition of termination benefits.

On the basis of the analysis described above, the Committee {decided} not to add the issue to its agenda.

## Appendix B—Comment letter 1

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International Financial Reporting Standards  
Interpretations Committee  
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12 December 2011

Dear IFRS Interpretations Committee members,

### **Tentative Agenda Decision - IAS 19 *Employee Benefits* – Applying the definition of termination benefits to ‘Altersteilzeit’ plans**

The global organisation of Ernst & Young is pleased to submit its comments on the above Tentative Agenda Decision as published in the September 2011 *IFRIC Update*.

The IFRS Interpretations Committee (the Committee) received a request for guidance regarding the application of IAS 19 (2011) to ‘Altersteilzeit’ plans (ATZ plans) in Germany. It was tentatively concluded:

‘ATZ plans are early retirement programmes designed to create an incentive for employees within a certain age group to smooth the transition from (full- or part-time) employment into retirement before the employees’ legal retirement age. ATZ plans offer bonus payments to employees in exchange for a 50 per cent reduction in working hours. Their employment is terminated at the end of the required service period. The bonus payments are conditional on the completion of the required service period. Eligibility for the benefit would be on the basis of the employee’s age but would also typically include a past service requirement.

IAS 19 (2011) was the result of revisions issued in 2011 to IAS 19. These revisions, among other things, amended the guidance relating to termination benefits. IAS 19 (2011) defines termination benefits as those benefits provided in exchange for the termination of an employee’s employment as a result of either an entity’s decision to terminate the employment before the normal retirement date or an employee’s decision to accept an entity’s offer of benefits in exchange for the termination of employment.

The Committee noted that ATZ plans have attributes of both required service and termination benefits. The Committee also noted that, consistent with paragraph 162(a) of IAS 19 (2011), the fact that the bonus payments are conditional upon completion of employee service over a specified period indicates that the benefits are in exchange for that service and they therefore do not meet the definition of termination benefits.

On the basis of the analysis described above, the Committee [decided] not to add the issue to its agenda.’

We agree with the Committee's decision not to add this item to its agenda. Our view is based on the fact that the interpretation would be specific to an individual plan provided in one jurisdiction and any guidance the Committee provided would be applicable only to the specific facts and circumstances of that plan. However, we are not convinced that applying IAS 19R will be as clear as the draft decision suggests. We have outlined our concerns below and suggest a different wording for the agenda decision.

#### *Indicators versus rules*

We believe the draft decision incorrectly emphasizes one indicator (i.e., benefits being conditional upon completion of employee services for any period after the offer is accepted) as the sole determining factor in classifying employee benefits between termination benefits and benefits in exchange for services. This implies that the existence of one indicator by itself would be sufficient to require classification as benefits in exchange for future services. Under this concept, further judgement would not be necessary and the Committee's draft decision would interpret the indicator in IAS 19R.162(a) as a bright-line rule that cannot be rebutted based on individual facts and circumstances.

We do not believe this is the correct interpretation of the indicators in IAS 19R. In our view, it was not the IASB's intention to create such a rule when drafting the amendments to IAS 19. This is supported in paragraph BC257 of the Basis for Conclusions on IAS 19R that indicates the IASB decided to maintain the existing distinction between termination benefits and benefits in exchange for future services. That distinction continues to drive the definition of termination benefits in IAS 19R. Treating indicators as rules would result in a new basis for distinguishing between these two categories of employee benefits that would contradict the definition of termination benefits in certain circumstances.

Further, paragraph BC256 of the Basis for Conclusions on IAS 19R indicates that the clarifications were made to the definition of termination benefits mainly to align with Topic 420 in the area of involuntary termination of employees where benefits are paid to retain the employees for a certain period (i.e., a stay bonus). In the case of the ATZ plans, these benefits would not serve the purpose of being a bonus provided to convince employees to stay until a later period rather than be terminated immediately. In fact, the purpose of the benefits is often the exact opposite - to convince employees to retire early (i.e., early termination) or to reduce hours until retirement.

If it is the Committee's view that the IASB intended for these indicators to be read as rules, then this should be recommended to the IASB as part of an improvement of IFRS to amend the text of IAS 19R accordingly.

We are also concerned that, despite the Committee restricting the agenda decision to the ATZ plans only, supporting the view that an indicator is a definitive factor for classifying employee benefits in isolation would have consequences for other similar plans.



*Consider individual facts and circumstances*

Although we agree with the determination that benefits payments being conditional on future employment would be a strong indicator that benefits are provided in exchange for future services, we do not believe the existence of this indicator alone would preclude an entity from classifying a benefit as a termination benefit. Instead, we believe the individual facts and circumstances need to be considered. We also believe that the benefits provided can, in fact, be split between benefits in exchange for service and termination benefits when benefits have characteristics of both categories. This is supported by the example in IAS 19R illustrating paragraphs 169-170 in which a lump sum payment to employees has been split into a termination benefit portion and a short term employee benefit portion. As such, the benefits need not be considered as a whole, but should be separated when facts and circumstances support this view.

As one example of considering the individual facts and circumstances, the ATZ plan could be used by a company specifically as part of an overall plan to reduce its workforce size that is isolated in its application (i.e., the ATZ plan is not made continuously available to employees after the implementation of the restructuring). In this example, the purpose of the plan and overall substance is to induce senior employees to retire early to facilitate a planned company downsizing. We would consider the fact that the scheme has been introduced in tandem with a downsizing strategy by the entity and that the benefits are made available for only a short period of time as relevant (and compelling) factors that indicate the bonus payments should be classified as termination benefits. In this fact pattern, these payments are provided as a result of an employee's decision to accept the entity's offer of benefits in exchange for early termination, which meets the definition of termination benefits in IAS 19R.8.

An alternative, and opposite, example for the ATZ plan would be in circumstances in which an employer provides benefits under the ATZ plan to all employees for an extended period of time and has no intention to withdraw the benefits offered under this plan in the future. Under IAS 19R.163, this would be an indication that the benefits are in substance part of an ongoing benefit plan (i.e., the employer has created a constructive obligation to provide these benefits to employees on an ongoing basis) and these benefits are more likely to represent a post-employment benefit.

*Conclusion*

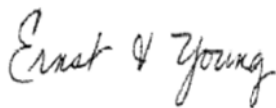
We believe the draft decision does not adequately consider the need for judgement in making a comprehensive assessment of each individual entity's ATZ plan to determine the appropriate classification of benefits provided under such plans. This assessment shall incorporate all of the relevant indicators in IAS 19R and ultimately needs to be consistent with the definition of benefits in the Standard.

As a result of these concerns, we recommend that the third paragraph of the draft decision should be replaced with the following:

The Committee noted that the distinction between benefits in exchange for future services and termination benefits under IAS 19R may require the application of signification judgement. It may further require splitting benefits provided between benefits in exchange for service and termination benefits and assessing whether some benefits are effectively a form of post-employment benefits. Accordingly, all relevant facts and circumstances need to be considered for each individual entity's offer of benefits under the ATZ plan. Ultimately, the accounting treatment shall be based on the substance of the benefits provided and the definitions of the different categories of employee benefits in IAS 19R.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

The image shows a handwritten signature in black ink that reads "Ernst & Young". The signature is written in a cursive, flowing style.

## Appendix C—Comment letter 2



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December 14, 2011

(by e-mail to [ifric@ifrs.org](mailto:ifric@ifrs.org))

IFRS Interpretations Committee  
 30 Cannon Street,  
 London EC4M 6XH  
 United Kingdom

Dear Sirs,

**Re: Tentative agenda decision on IAS 19 *Employee Benefits* – Applying the definition of termination benefits to ‘Altersteilzeit’ plans**

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee’s tentative agenda decision on the application of IAS 19 (2011) to ‘Altersteilzeit’ (ATZ) plans in Germany. This tentative agenda decision was published in the November 2011 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee’s decision not to add this item to its agenda. Also, we agree with the staff’s technical analysis and conclusion that ATZ plans do not meet the definition of a termination benefit under IAS 19 (2011). Our view is based on the information available in the submission and IASB staff agenda paper because we do not have experience with ATZ plans.

Although we agree with the Committee’s conclusion in this instance, we continue to have concern with the Committee providing a conclusion in an agenda decision (i.e., the statement “that the benefits are in exchange for that service and they therefore do not meet the definition of termination benefits” in the third paragraph of the tentative agenda decision).

In general, we think that the Committee should not provide comments or guidance about the application of IFRSs to a fact pattern described by a submitter in an agenda decision. When an issue submitted for interpretation is not added to the Committee’s agenda, we think the agenda decision should be restricted to referring to IFRS literature that the Committee thinks should be considered and explaining which of the agenda criteria were not met. If members of the Committee wish to curtail potential diversity that may emerge in a jurisdiction, the Committee should decide to develop an interpretation or recommend that the IASB amend IFRSs to clarify the requirements or provide application guidance. The Committee should not attempt to resolve an issue and change existing or emerging practice through an agenda decision because agenda decisions are not subject to full due process, are not updated when changes are made to IFRSs and do not provide for transition.

However, we appreciate the Committee’s desire to help the submitter and acknowledge that this submission differs from other submissions because:

- the requirements of IAS 19 (2011) are reasonably clear for the specific fact pattern as outlined in the submission and IASB staff agenda paper;
- the conclusion can be drawn from the application of relevant IFRSs without the need for significant judgment;
- no Committee member disagreed with the staff conclusion that the ATZ plan did not meet the definition of a termination benefit under IAS 19 (2011); and
- it is difficult to conclude that significantly divergent views will emerge in practice because IAS 19 (2011) was issued recently and is not being applied by most entities.

We encourage the Committee to develop a framework to support when and how the Committee should provide guidance in an agenda decision. We commend the staff’s initial work to develop

such a framework in agenda paper 3A from the Committee's September 2011 meeting. A framework is important because it will help the Committee and its staff to be efficient and consistent when drafting agenda decisions. We think this framework should be in place before the Committee attempts to provide more helpful guidance in agenda decisions.


As a result, we recommend revising the third paragraph of the tentative agenda decision by removing the Committee's conclusion that "the benefits are in exchange for that service and they therefore do not meet the definition of termination benefits." Instead, we recommend including a quote from paragraph 162(a) of IAS 19 (2011).

Also, we recommend directly quoting the definition of termination benefit from paragraph 8 of IAS 19 (2011) in the second paragraph because the wording in the tentative agenda decision is almost identical to the wording in paragraph 8.

The Appendix reflects our recommendations and drafting suggestions.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail [peter.martin@cica.ca](mailto:peter.martin@cica.ca)), or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail [kathryn.ingram@cica.ca](mailto:kathryn.ingram@cica.ca)).

Yours truly,



Peter Martin, CA  
Director,  
Accounting Standards

## Appendix

We suggest revising the tentative agenda decision to state the following:

### **IAS 19 *Employee Benefits* – Applying the definition of termination benefits to ‘Altersteilzeit’ plans**

The Interpretations Committee received a request for guidance regarding the application of IAS 19 (2011) to ‘Altersteilzeit’ plans (ATZ plans) in Germany. ATZ plans are early retirement programmes designed to create an incentive for employees within a certain age group to smooth the transition from (full- or part-time) employment into retirement before the employees’ legal retirement age. ATZ plans offer bonus payments to employees in exchange for a 50 per cent reduction in working hours. Their employment is terminated at the end of the required service period. The bonus payments are conditional on the completion of the required service period. Eligibility for the benefit would be on the basis of the employee’s age but would also typically include a past service requirement.

IAS 19 (2011) was the result of revisions issued in 2011 to IAS 19. These revisions, among other things, amended the guidance relating to termination benefits. Paragraph 8 of IAS 19 (2011) defines termination benefits as ~~those~~ “employee benefits provided in exchange for the termination of an employee’s employment as a result of either:

- (a) an entity’s decision to terminate an employee’s the employment before the normal retirement date; or
- (b) an employee’s decision to accept an entity’s offer of benefits in exchange for the termination of employment.”

The Committee noted that ATZ plans have attributes of both required service and termination benefits. The Committee also noted that, ~~consistent with paragraph 162(a) of IAS 19 (2011), the fact that~~ the bonus payments are conditional upon completion of employee service over a specified period ~~indicates that the benefits are in exchange for that service and they therefore do not meet the definition of termination benefits.~~ Paragraph 162(a) of IAS 19 (2011) provides “indicators that an employee benefit is provided in exchange for services” including when “the benefit is conditional on future service being provided (including benefits that increase if further service is provided.”

On the basis of the analysis described above, the Committee [decided] not to add the issue to its agenda.

## Appendix D—Comment letter 3



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5 December 2011

Dear Mr Upton,

**Tentative agenda decision: IAS 19: Employee Benefits – Applying the definition of termination benefits to ‘Altersteilzeit’ plans**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee’s publication in the November 2011 *IFRIC Update* of the tentative decision not to take onto the IFRIC’s agenda requests for Interpretations of IAS 19, *Employee Benefits*, with respect to providing guidance on the classification of ‘Altersteilzeit’ (ATZ) plans under the revised version of IAS 19 issued in June 2011.

Although we understand that ATZ plans are entered into by employers to facilitate an orderly transition from older to younger workers and as such are intended as a form of termination benefit, we agree with the Committee’s conclusion that the bonus payments they offer do not meet the definition of termination benefits under the revised version of IAS 19 because they are conditional upon completion of a period of service.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,

**Veronica Poole**  
Global Managing Director  
IFRS Technical