



STAFF PAPER

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Project	Attributing Benefit to Periods of Service (IAS 19)		
Paper topic	Initial Consideration		
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the periods of service to which an entity attributes benefit for a particular type of defined benefit plan applying IAS 19 *Employee Benefits*.
2. The objective of this paper is to:
 - (a) provide the Committee with a summary of the matter;
 - (b) present our research and analysis; and
 - (c) ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

Structure of the paper

3. This paper includes the following:
 - (a) background information (paragraphs 5–10);
 - (b) outreach (paragraphs 11–17);
 - (c) staff analysis (paragraphs 18–44); and

- (d) staff recommendation (paragraphs 45–46).
4. There are three appendices to this paper:
- (a) Appendix A—proposed wording of the tentative agenda decision;
 - (b) Appendix B—excerpts from IAS 19; and
 - (c) Appendix C—submission.

Background information

5. The submission describes a fact pattern in which an entity sponsors a post-employment benefit plan for its employees that is classified as a defined benefit plan applying IAS 19. Under the terms of the plan, employees are entitled to a lump sum benefit payable on retirement provided they are employed by the entity when they reach retirement age. The amount of the retirement benefit to which an employee is entitled depends on the employee’s length of service before retirement and is capped at a specified number of consecutive years of service.
6. To illustrate¹, assume the terms of the defined benefit plan are as follows:
- (a) employees are entitled to a retirement benefit only when they reach the retirement age (62 years old) provided they are employed by Entity X at that time;
 - (b) the amount of the retirement benefit is calculated as one month of final salary for each year of service before the retirement date;

¹ For illustrative purposes, we have simplified the fact pattern described in the submission.

- (c) the retirement benefit is capped at 16 years of service (ie the maximum retirement benefit an employee is entitled to is 16 months of final salary); and
 - (d) the retirement benefit is calculated using only the number of consecutive years of employee service immediately before retirement.
7. Accordingly, the retirement benefit for the following employees would be calculated as follows:
- (a) Employee A with five consecutive years of service immediately before the retirement age—five months of final salary;
 - (b) Employee B with 16 consecutive years of service immediately before the retirement age—16 months of final salary;
 - (c) Employee C with 20 consecutive years of service immediately before the retirement age—16 months of final salary.
8. If an employee rendered service to Entity X for four years, left Entity X's employment and then subsequently re-joined Entity X for an additional three years of service until retirement, that employee would be entitled to a benefit of only three months of final salary, not seven months of final salary.
9. The question asked is about the periods of service to which Entity X attributes the retirement benefit. Applying paragraphs 70–74 of IAS 19, does Entity X attribute the retirement benefit:
- (a) from the date the employee starts working with the entity until the retirement date, regardless of whether this is longer than 16 years—View A;
 - (b) to only the first 16 years of employee service (or from the date employment commences until the retirement date if the employee joins the entity with less than 16 years remaining until retirement)—View B; or

- (c) to only the last 16 years of employee service (or from the date employment commences until the retirement date if the employee joins the entity with less than 16 years remaining until retirement)—View C?
10. The submission—reproduced in Appendix C—explains the rationale for View A and View B. View C was not included in the submission but has been included by staff for completeness.

Outreach

11. We sent an information request to members of the International Forum of Accounting Standard-Setters, securities regulators and large accounting firms. The submission was also made available on our website.
12. The request asked those participating to provide information based on their experience about:
- (a) whether it is common for entities to sponsor defined benefit plans of the type described in the submission (ie plans in which the retirement benefit depends on the consecutive length of employee service immediately before retirement and is capped at a specified number of years of service);
 - (b) the attribution period for such plans; and
 - (c) details of any terms of the plan that affect the determination of the attribution period and that might differ from the plan described in the submission.
13. We received eighteen responses—six from large accounting firms, nine from national standard-setters, two from organisations representing groups of securities regulators and one from an individual. The views received represent informal opinions, rather than formal views of those responding.

Prevalence

14. Respondents provided the following feedback regarding the prevalence of similar defined benefit plans:
- (a) many respondents said such plans are common in France. We understand that not all defined benefit plans in France include a cap on the retirement benefit based on a specified number of consecutive years of service. However, when a cap exists, it is generally for a long period (for example, 30 years of service).
 - (b) a few respondents said such plans are common in Greece and Austria. One respondent said in Austria, such plans apply only to employees who commenced employment before 2003 and are still employed by the same entity.
 - (c) a few respondents said such plans exist in Canada but may not be common. Such plans exist in relation to post-retirement health care benefit, the receipt of which requires an employee to have completed a specified number of consecutive years of service immediately before retirement.
 - (d) one respondent said such defined benefit plans exist in Brazil, Chile and Taiwan.
15. A few respondents said such plans are not common in Australia, Germany, Hong Kong, Israel, Japan, the Netherlands and Norway. A few respondents said however such plans exist in Australia, Japan and the Netherlands.

Accounting treatment applied

16. Respondents provided the following feedback on the accounting treatment applied:
- (a) in France, Brazil, Chile and Taiwan, entities generally apply View A (ie attributing the retirement benefit from the date the employee starts working with the entity until the retirement date).
 - (b) in Austria and Greece, entities apply either View A or View B (ie attributing benefit to only the first [applicable number based on cap] years of service). However, one respondent said entities in Greece usually apply View B or View C (ie attributing benefit to only the last [applicable number based on cap] years of service).
 - (c) one respondent said a majority of entities in Canada apply View A. However, other respondents said they have also seen entities apply View C.
17. Some respondents also provided their views on the appropriate accounting for such plans. These views were mixed with some respondents supporting view A, some supporting View B and others supporting View C.

Staff analysis

18. Paragraphs 70–74 of IAS 19 specify requirements that apply when attributing retirement benefits to periods of service. Paragraph 70 sets out the principle for attributing benefit to periods of service and paragraphs 71–74 include requirements that specify how an entity applies that principle. Appendix B to this paper reproduces relevant excerpts from those paragraphs.
19. Paragraph 71 requires an entity to attribute benefit to periods in which the obligation to provide post-employment benefits arises. Paragraph 73 specifies that all benefit is attributed to periods ending on or before the date when further service by the employee will lead to no material amount of further benefits.

20. Accordingly, to determine the periods to which to attribute benefit, an entity needs to determine:
- (a) when an obligation to provide post-employment benefits first arises under the defined benefit plan; and
 - (b) when further service by the employee will lead to no material amount of further benefits under the plan.
21. The following paragraphs discuss how an entity makes these determinations for the defined benefit plan described in the submission. Our analysis uses the illustrative example in paragraph 6 of this paper.

When an obligation first arises

Applicable requirements in IAS 19

22. Paragraphs 71–72 of IAS 19 state:

71. ...An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods...

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...

Application to the example described in paragraph 6

23. In the defined benefit plan illustrated in paragraph 6 of this paper:
- (a) an employee is entitled to the retirement benefit only when the employee reaches the retirement age of 62 years;
 - (b) the amount of the retirement benefit increases as the employee renders service and is calculated as one month of final salary for each consecutive year of service immediately before the retirement date; and
 - (c) the amount of the retirement benefit is capped at 16 consecutive years of service immediately before the retirement date.
24. Even though the retirement benefit vests only when an employee reaches the retirement age of 62 (ie the benefit is conditional on the employee continuing to render service until that age), it is the employee's service before that date that gives rise to a constructive obligation for the entity to provide the retirement benefit. Our analysis below considers separately employees who join before the age of 46 and those who join on or after the age of 46.

Employees who join before the age of 46

25. For employees who join Entity X before the age of 46, in our view Entity X's obligation does not arise from the date the employee joins Entity X but rather arises only from when the employee reaches the age of 46 (and consequently has only 16 years left until the retirement age of 62). This is because any service the employee renders before that date does not reduce the amount of future service the employee will have to render in each successive reporting period before becoming entitled to the retirement benefit. In other words, any service rendered before the age of 46 does not affect the timing or amount of the retirement benefit. However, once an employee reaches the age of 46, the amount of future service the employee will have to render before becoming entitled to the retirement benefit reduces at the end of each successive reporting period. Paragraph 72 of IAS 19 explains that a constructive

obligation arises before the vesting date ‘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’.

26. For example, assume that an employee joins Entity X at the age of 40. In this situation, the amount of future service the employee will have to render before becoming entitled to the retirement benefit does not reduce before the employee reaches the age of 46. At the end of each successive reporting period between the ages of 40 and 46, the employee will have to render 16 years of future service before becoming entitled to the retirement benefit. It is only *after* the employee reaches the age of 46 that the number of years of future service the employee will have to render before becoming entitled to the retirement benefit will reduce at the end of each reporting period.

27. The employee could work with Entity X for a number of years, then leave and re-join before the age of 46. In this situation, the employee would be entitled to the same retirement benefit as another employee that first starts working with the entity at the age of 46. Accordingly, in our view employee service first leads to benefits under the plan only at the age of 46.

28. The fact pattern illustrated in paragraph 6 of this paper and our analysis above is similar to, and consistent with, example 2 illustrating paragraph 73 of IAS 19². This example states:

A plan pays a lump sum retirement benefit of CU2,000 to all employees who are still employed at the age of 55 after twenty years of service....

² The examples illustrating specific paragraphs in IAS 19 are part of the Standard—they do not accompany the Standard. Therefore, for example, this example illustrating paragraph 73 of IAS 19 follows paragraph 73 within the Standard.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of CU100 (CU2,000 divided by twenty) to each year from the age of 35 to the age of 55...

29. Similarly, example 2 illustrating paragraph 72 of IAS 19 states:

A plan pays benefit of CU100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of CU100 is attributed to each subsequent year.

Employees who join on or after the age of 46

30. For employees that joins Entity X on or after the age of 46, in our view Entity X's obligation arises from the date employment commences. This is because the amount of future service the employee will have to render before becoming entitled to the retirement benefit reduces at the end of each successive reporting period.
31. For example, assume that an employee joins Entity X at the age of 50. In this situation, the employee will be entitled to a retirement benefit of 12 months of final salary provided the employee continues to be employed by Entity X until the retirement age of 62. The amount of future service the employee will have to render before becoming entitled to the retirement benefit reduces at the end of each successive reporting period from the age of 50 to the age of 62.

32. Accordingly, for employees who join on or after the age of 46, Entity X first attributes retirement benefit from the date employment commences.

When further service will lead to no material amount of further benefits

33. Paragraph 73 of IAS 19 states:

The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date...

34. In the defined benefit plan illustrated in paragraph 6, in our view an employee receives no material amount of further benefits when they reach the retirement age of 62. This is irrespective of whether an employee joins before, on or after the age of 46. Our view is supported by Example 2 illustrating paragraph 73 of IAS 19 (see paragraph 28 of this paper).
35. We see no basis to stop attributing retirement benefit for an employee before the employee reaches the retirement age because it is the employee's service from the date the obligation first arises (see paragraphs 23–32 of this paper) *until the retirement age* that gives rise to the retirement benefit. The employee must render service up to the retirement age to be entitled to any benefit.

Staff conclusion

36. Based on our analysis, we conclude that Entity X attributes retirement benefit to each year from the age of 46 to the age of 62 (or, if employment commences on or after the age of 46, from the date that the employee first renders service to the age of 62). Our conclusion aligns with View C described in paragraph 9 of this paper.

Why we disagree with the other views

View A

37. View A (ie attributing retirement benefit from the date the employee starts working with the entity until the retirement date, regardless of whether that is longer than 16 years) aligns with our conclusion that Entity X attributes benefit until an employee reaches the retirement age of 62. However, View A differs from our conclusion with respect to when the entity’s obligation first arises.
38. The rationale for View A is as follows:
- (a) Entity X’s constructive obligation to provide the retirement benefit first arises when an employee joins Entity X, regardless of whether that date is more than 16 years before the employee’s retirement age. An employee renders service in exchange for future benefits from the date the employee joins Entity X and not just in the last 16 years of service. An employee that joins Entity X at the age of 40 would render 22 years of service before being entitled to the full amount of the retirement benefit—every additional year of employee service reduces the amount of future service the employee will have to render to become entitled to the retirement benefit.
 - (b) the formula—that determines the amount of the retirement benefit (including the cap of 16 years of service)—determines only the amount to be paid on retirement. It does not indicate (a) the years of employee service needed to receive the retirement benefit, or (b) that the employee is not rendering service in exchange for future benefits from the first year of service.
 - (c) for an employee that joins Entity X many years before the age of 46, the employee’s service in later years will lead to a materially higher level of benefit than in earlier years. Accordingly, applying paragraph 70 of IAS 19

(see Appendix B), Entity X attributes retirement benefit on a straight-line basis to the entire employment period.

39. We disagree with View A. In particular:
- (a) as explained in paragraphs 23–32 of this paper, in our view Entity X’s constructive obligation to provide the retirement benefit first arises only when an employee reaches the age of 46—employee service before the age of 46 is not in exchange for the retirement benefit.
 - (b) the effect of the formula—that determines the amount of the retirement benefit—is that employee service before the age of 46 does not reduce the number of years of service the employee will have to render before becoming entitled to the retirement benefit. That employee service affects neither the timing nor the amount of the retirement benefit. Accordingly, employee service before the age of 46 is not in exchange for the retirement benefit.
 - (c) even in situations in which service in later years will lead to a materially higher level of benefit than in earlier years, paragraph 70 of IAS 19 requires an entity to attribute benefit on a straight-line basis from the date when service by the employee *first leads to benefits* under the plan. For the reasons explained in paragraphs 23–32 of this paper, in our view service first leads to benefits under the plan only when an employee reaches the age of 46.

View B

40. Similar to View A, View B (ie attributing retirement benefit to only the first 16 years of employee service) views Entity X’s constructive obligation to provide the retirement benefit as first arising when an employee joins Entity X, regardless of whether that is longer than 16 years before the employee’s retirement age. However,

View B differs from View A and View C with respect to when further employee service will lead to no material amount of further benefits.

41. The rationale for View B is as follows:
- (a) for employees who join before the age of 46, the effect of the formula—that determines the amount of the retirement benefit—is that employee service beyond the first 16 years will lead to no material amount of further benefits. Entity X therefore recognises the entire amount of the retirement benefit in the first 16 years of employee service. Applying View A or View C could lead to a lower liability compared to that determined based on the formula used to determine the retirement benefit, which is not in line with the principle in paragraph 70 as well as the examples in paragraph BC114³.
 - (b) the fact that an employee is entitled to the retirement benefit only when the employee reaches the retirement age (62 years old) does not mean that Entity X is required to attribute benefit until the retirement age. Any vesting condition is taken into account in measuring an entity’s defined benefit obligation and not in determining the periods to which retirement benefit is attributed. Paragraph 72 of IAS 19 states:

Employee service gives rise to an obligation under the defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested)...In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy the vesting conditions...’.

³ Paragraph BC114 explains the rationale for the International Accounting Standards Committee (IASC)’s conclusions on how an entity attributes benefit to periods of service—it does not explain the determination of the periods of service to which an entity attributes benefit.

42. We disagree with View B. As discussed in paragraphs 23–32 of this paper, in our view it is employee service in the 16 years immediately before retirement (and not the first 16 years of service) that gives rise to a constructive obligation for Entity X. In addition:
- (a) for the reasons discussed in paragraph 39 of this paper, we disagree with the view that a constructive obligation to provide retirement benefit first arises when an employee joins Entity X, regardless of whether that is longer than 16 years before the employee’s retirement age.
 - (b) although we agree that an entity measures its defined benefit obligation considering the probability that some employees may not satisfy the vesting condition, this does not mean that Entity X stops attributing retirement benefit before an employee reaches the retirement age. As explained in paragraph 35 of this paper, it is employee service from the date Entity X’s obligation first arises (see paragraphs 23–32 of this paper) *until the retirement date* that gives rise to the retirement benefit. Each year of service between the age of 46 and the age of 62 leads to further benefits because service rendered in each of those years reduces the amount of future service that an employee will have to render before becoming entitled to the retirement benefit.

Staff conclusion

43. In the defined benefit plan described in the submission (as illustrated in paragraph 6 of this paper), Entity X attributes retirement benefit to each year from the age of 46 to the age of 62 (or, if employment commences on or after the age of 46, from the date that the employee first renders service to the age of 62).

Question 1 for the Committee

1. Does the Committee agree with our analysis of the application of the requirements in IFRS Standards to the defined benefit plan described in the submission?

Should the Committee add a standard-setting project to the work plan?

Is it necessary to add or change requirements in IFRS Standards to improve financial reporting?⁴

44. Based on our analysis, we conclude that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the periods of service to which the entity attributes retirement benefit for the defined benefit plan described in the submission.

Staff recommendation

45. Based on our assessment of the work plan criteria in paragraph 5.16 of the *Due Process Handbook* (discussed in paragraph 44 of this paper), we recommend that the Committee does not add a standard-setting project to the work plan. Instead, we recommend publishing a tentative agenda decision that outlines how an entity applies IAS 19 in attributing retirement benefit to periods of service for the defined benefit plan described in the submission.
46. Appendix A to this paper sets out the proposed wording of the tentative agenda decision. In our view, the proposed tentative agenda decision (including the

⁴ Paragraph 5.16(b) of the [Due Process Handbook](#).

explanatory material contained within it) would not add or change requirements in IFRS Standards.⁵

Questions 2 and 3 for the Committee

2. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan?
3. Does the Committee have any comments on the proposed wording of the tentative agenda decision in Appendix A to this paper?

⁵ Paragraph 8.4 of the *Due Process Handbook* states: ‘Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.’.

Appendix A—proposed wording of the tentative agenda decision

Attributing Benefit to Periods of Service (IAS 19 *Employee Benefits*)

The Committee received a request about the periods of service to which an entity attributes benefit for a particular defined benefit plan. Under the terms of the plan:

- a. employees are entitled to a lump sum benefit payment on retirement provided they are employed by the entity when they reach a specified retirement age; and
- b. the amount of the retirement benefit to which an employee is entitled depends on the length of employee service before retirement and is capped at a specified number of consecutive years of service.

To illustrate, assume an entity sponsors a defined benefit plan for its employees. Under the terms of the plan:

- a. employees are entitled to a retirement benefit only when they reach the retirement age of 62 provided they are employed by the entity at that date;
- b. the amount of the retirement benefit is calculated as one month of final salary for each year of service before the retirement date;
- c. the retirement benefit is capped at 16 years of service (ie the maximum retirement benefit an employee is entitled to is 16 months of final salary); and
- d. the retirement benefit is calculated using only the number of consecutive years of employee service immediately before retirement.

Paragraph 70 of IAS 19 specifies the principle for attributing benefit to periods of service and paragraphs 71–74 of IAS 19 include requirements that specify how an entity applies that principle. Paragraph 71 requires an entity to attribute benefit to periods in which the obligation to provide post-employment benefits arises. That paragraph also specifies that the obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods. Paragraph 72 specifies that employee service before any 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.

For the defined benefit plan illustrated in this agenda decision:

- a. if an employee joins the entity before the age of 46 (ie there are more than 16 years before the employee's retirement date), any service the employee renders before the age of 46 does not reduce the amount of future service that the employee will have to render in each successive reporting period before becoming entitled to the retirement benefit. In other words, employee service before the age of 46 affects neither the timing nor the amount of the retirement benefit. Accordingly, the entity's obligation to provide retirement benefits arises only from the age of 46.
- b. if an employee joins the entity on or after the age of 46, the entity's obligation to provide retirement benefits arises from the date the employee first renders service. This is because, at the end of each successive reporting period, the amount of future service the employee will have to render before becoming entitled to the retirement benefit is reduced.

Paragraph 73 of IAS 19 specifies that an entity's obligation increases until the date when further service by the employee will lead to no material amount of further benefits under the plan. The Committee observed that:

- a. each year of service between the age of 46 and the age of 62 leads to further benefits because service rendered in each of those years reduces the amount of future service that an employee will have to render before becoming entitled to the retirement benefit; and
- b. an employee will receive no material amount of further benefits from the age of 62, regardless of the age at which the employee joins the entity. The entity therefore attributes retirement benefit only until the age of 62.

Consequently, for the defined benefit plan illustrated in this agenda decision, the Committee concluded that the entity attributes retirement benefit to each year from the age

of 46 to the age of 62 (or, if employment commences on or after the age of 46, from the date that the employee first renders service to the age of 62.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the periods to which retirement benefit is attributed. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Appendix B—excerpts from IAS 19

B1. We have reproduced excerpts from IAS 19 below.

70 In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- (a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until
- (b) 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.

71 The projected unit credit method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

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.

Examples illustrating paragraph 72

...

2 A plan pays a benefit of CU100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional).

A benefit of CU100 is attributed to each subsequent year.

- 73 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service

throughout the entire period will ultimately lead to benefit at that higher level.

Examples illustrating paragraph 73

...

2 A plan pays a lump sum retirement benefit of CU2,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of CU100 (CU2,000 divided by twenty) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (2,000 divided by twenty) to each of the first twenty years. For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of CU200 (CU2,000 divided by ten) to each of the first ten years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service. ...

74 Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

- (a) for the purpose of paragraph 70(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and
- (b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Appendix C—submission

B2. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of this request.

IFRIC POTENTIAL AGENDA ITEM REQUEST

Issue:

The application of IAS 19 par. 70-74 (attribution of retirement benefits to years of service) to a plan benefit formula (defined benefit plan) that includes a cap on retirement benefits paid.

Scenario:

1. In accordance with relevant legislation in [country], entities are legally required to pay a lump sum to employees who reach the retirement age (fulfil the requirements to receive a full old-age pension from their Public Funds) when in the entity's service and are entitled to a full pension.
2. This amount is payable only at the time when the employee meets the requirements for a full old-age pension. No benefit is required to be paid in the event of termination for any cause prior to retirement age (67 or 62), unless there is a common agreement between employer and employee.
3. The amount of the retirement benefit lump sum (is determined as 40% or 50% of the amount payable in the event of dismissal compensation) depends on the length of service of the employee with the employer upon retirement.
4. For **newer** employees the entitlement to Indemnity is capped – limited to 16 years of service.
5. The table illustrates the calculation of dismissal compensation (in cases of employment agreements' termination) and retirement lump sum (payable upon retirement age):

Period working with the same employer	Number of monthly salaries that should be paid as a dismissal compensation (retirement benefit lump sum is calculated as 40% or 50% of this dismissal compensation)
From 1 year and up to 4 years	2
From 4 years and up to 6 years	3
From 6 years and up to 8 years	4
From 8 years and up to 10 years	5
Upon completion of the 10 th year	6
- // - 11 th year	7
- // - 12 th year	8
- // - 13 th year	9
- // - 14 th year	10
- // - 15 th year	11
Upon completion and over the 16th year	12

6. For clarification purposes we set out below three examples of the number of salaries that an employee, working with the same employer, is entitled to receive as a lump sum retirement benefit when he reaches retirement age (having met the above mention requirements):
- a) A 25-year-old employee (with normal retirement age at 67) joining on 01.01.2010 in employer X is entitled to get, at the age of 67, 12 salaries from employer X (provided he is employed at the age of 67 by employer X).
 - b) A 57-year-old employee (with normal retirement age at 62) joining on 01.01.2010 in employer X is entitled to get, at the age of 62, 3 salaries from employer X (provided he is employed at the age of 62 by employer X and that he fulfills the criteria for a full pension scheme due to previous employment).
 - c) A 35-year-old employee has joined on 01.01.2000 in employer X. On 01.01.2020 he resigns from employer X and is recruited by employer Y. The employee is entitled to get, at the age of 67, 8 salaries from employer Y (provided he is employed at the age of 67 by employer Y). The Law does not oblige employer X to pay any such benefit to the employee. The benefit

is not transferrable by Law and is paid by the current employer, provided the employee is employed at retirement age by employer X and meets the requirements for a full old-age pension.

7. It is noted that the “salary” range based on which the lump sum retirement benefit is calculated is the salary paid to the employee at the date of his retirement.

Question:

To which periods of service should the benefit be attributed to in accordance with paragraph 70 of IAS 19 *Employee Benefits*? Does the retirement benefit attribution to years of service (par. 70-74 of IAS 19) include a vesting condition?

In this specific case, considering IAS 19, paragraph 70, should the present value of defined benefit obligations:

- a) be attributed to the first 16 (or 28) years of service, which is the cap based on the [local] law, as after that, further service by the employee will lead to no material amount of further benefits, other than further salary increases? **or**
- b) be attributed to the total years that the employee needs to stay with the employer to be entitled to the retirement benefits (up to the date when the employee meets the requirements for a full old-age pension)?

View 1: attribute benefit on straight line basis from the date employment service begins until the vesting date (estimated retirement age)

Proponents of view 1 believe that the lump sum retirement benefit should be attributed on a straight-line basis over the working life of an employee and until he/she fulfils the prerequisites needed in order to be eligible to a full old-age pension (e.g. until the employee reaches normal retirement age). Attribution commences from the date the employee is hired by the employer.

Basis for view 1:

- This view is mainly based on the fact that an employee cannot claim any part of the lump sum retirement benefit prior to the vesting of all prerequisites. More specifically, there is no obligation for any lump sum retirement benefit payments to the employee if he/she ceases employment for whatever reason before the entitlement to a full old-age pension (vesting date). Therefore, it is the employee’s

service throughout the entire period up to the vesting date that gives rise to the post-employment benefit; even if the amount of the benefit is capped before the vesting date, service must be provided up to the vesting date in order for the employee to become entitled to the retirement benefit.

- Per IAS 19 paragraph 71, an entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods.
- This view also considers that the applicable local law, for the obligatory lump sum retirement benefit, has no reference to vesting conditions before the retirement age. The cap derives from the table used for the calculation of this retirement benefit. The table is mainly used for the calculation of the dismissal compensation (in cases of employment agreements' termination). Consequently, the cap of the table has no connection to the vesting conditions of the abovementioned law.

View 2: attribute benefit from the date service employment begins up to the year where no additional benefits are accrued (ignoring the vesting date)

Proponents of view 2 believe that lump sum retirement benefit should be attributed over the period prescribed in the table as per [local] Labour Law (up to the year that no additional benefits are accrued). Attribution commences from the date the employee is hired by the employer.

Basis for view 2:

- The employees have accrued their entitlement to the full lump sum retirement benefit amount entitled upon retirement after the completion of the years of service stated in the Plan's formula (as per the table), therefore the full provision should be recorded as of the completion of the years beyond which, under the Plan formula, no material benefits accrue to the employee from further service, other than from further salary increases (paragraph 70 (b), paragraph 73).
- Based on IAS 19 paragraph 72, the determination of the retirement obligation does not take into account the vesting condition (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).

- A straight-line basis is only permitted when benefits in later years will lead to materially higher level of benefit than in earlier years (paragraph 70).
- Attribution of service over the whole working life of an employee, would lead to a lower provision at any point in time, compared to what is determined based on the Plan formula, which is not in line with the principle of paragraph 70 as well as the examples in BC114.

Current practice:

Diversity has been noted among practitioners concerning the length of the period over which the obligation to provide the lump sum retirement benefit arises.

Following several discussions [amongst interested parties], there seems, based on the facts submitted, to be consensus that there are strong arguments to support View 1, however, some proponents believe that the relevant paragraphs of IAS 19 (70-73) are not entirely clear as to vesting conditions, and also the examples of the standard do not specifically address this case, thus it would not possible to enforce only view 1 and would also accept view 2.

Question to the Interpretations Committee

We have the following question to the Interpretations Committee:

In the context of the existing standards, does the Interpretations Committee support View 1 or View 2 as described above (or any other view)?

Reasons for the IFRIC to address the issue:

a. Is the issue widespread and has, or is expected to have, a material effect on those affected?

We believe it is appropriate to raise the issue to the IFRS Interpretation Committee for their views and feedback. The above described issue can have significant effect on companies' financial statements and in the comparability of companies' financial position. In addition, we believe that, even though paragraphs 70-73 of IAS 19 and the respective examples are not totally clear in order to address this specific case, the current practice of application of both views may not be appropriate.

b. Would financial reporting be improved through the elimination, or reduction, of diverse reporting methods?

Considering the potential material impact to many entities across a variety of industries, we believe that clarity is needed so that a consistent approach can be taken amongst IFRS reporting entities.

c. Can the issue be resolved efficiently within the confines of IFRS Standards and the Conceptual Framework for Financial Reporting?

Yes. We believe that consideration by the Committee is needed in this instance and that it can be resolved efficiently within the confines of IFRS Standards and the Conceptual Framework for Financial Reporting.

d. Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRS Standards?

We believe this issue is sufficiently narrow in scope that it can be addressed in an efficient manner.

e. Will the solution developed by the Interpretations Committee be effective for a reasonable time period? The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified.

We are unaware of any current or planned IASB project that will directly address this issue.

[Appendix with extracts from IAS 19 not reproduced here.]

END OF ORIGINAL SUBMISSION

RESPONSE TO [IFRS Interpretations Committee Staff] COMMENTS

IFRIC [Staff] Comment No 1

The submission states that the ‘amount is payable only at the time when the employee meets the requirements for a full old-age pension’, but does not explain whether these requirements represent additional criteria that affect the accounting for the benefit applying IAS 19. Our comments below assume the only relevant condition is whether the employee is still employed at the time of retirement. Please could you confirm whether this is appropriate?

indicative response based on initial discussions

We confirm that the only relevant condition is whether the employee is still employed by the same employer at the time of retirement.

IFRIC [Staff] Comment No 2

According to the table in paragraph 5, the benefit is calculated as a function of the number of years the employee works for the same employer. For the purpose of this calculation, is the number of years of service calculated based:

- Only on the period of continuous current employment before the retirement date (current employment); or
- Current employment period and any prior period of employment with the same employer (current and previous employment)?

For example, assume an employee works for 10 years with a particular entity, leaves the entity for a number of years, and then subsequently rejoins that same entity working for an additional 5 years until retirement, in this example, would the employee be entitled to a benefit of 5 years (current employment) or 15 years (current and previous employment)?

indicative response based on initial discussions

We confirm that for the purpose of the benefit calculation, the number of years of service calculated is based only on the period of continuous current employment before the retirement date (current employment).

IFRIC [Staff] Comment No 3

At first glance, your fact pattern appears to be similar to example 2 illustrating paragraph 73 of IAS 19. We reproduce part of this example below:

“A plan pays a lump sum retirement benefit of CU2,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of CU100 (CU2,000 divided by twenty) to each year from the age of 35 to the age of 55.”

[Emphasis added]

We were wondering if you have considered the relevance of this example when assessing the appropriate accounting for your fact pattern. If this example is not relevant to your fact pattern, we would be interested in understanding why this is the case and what differentiates your fact pattern from the one in the example.

indicative response based on initial discussions

In assessing the appropriate accounting for our fact pattern we largely considered the objective of IAS 19 (par.1), which is to recognize:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Based on our assessment, judgement needs to be applied in each fact pattern regarding ‘when service by the employee first leads to benefits under the plan’ (IAS 19.70) and we believe this should be considered in the context of the provisions of the employee plan at hand, any related legal provisions and the intended employee service period for which the employee retirement benefits are earned. The decision as to ‘when service by the employee first leads to benefits under the plan’ would not in our view, just be a function of how the plan formula determines an amount.

In our fact pattern, the Plan formula provides for a specific scale to determine how benefit is “earned”, i.e. progressively, as opposed to requiring a minimum number of years of service for the employee to be entitled to this benefit on retirement. In our fact pattern, the employee receives a benefit at retirement age from his/her current employer in any case, irrespective of years of service. The only condition is that it is with the said employer on retirement. The amount to be received is calculated based on years of service with the same employer and this amount has a cap, which is calculated based on a formula.

Example 2 in paragraph 73 of IAS 19 has been considered during our assessment, however, one could argue (under View 1) is different from our fact pattern:

The first part of example 2 requires a minimum number of years of service [i.e. i) to still be employed at the age of 55 and ii) at that time to have completed 20 years of service] in order to receive any benefit (a lump sum, which is the same for all employees).

In our case the plan formula determined by the Law intends to determine the amount to be paid including setting a cap and not to indicate the years of service that an employee should complete in order to receive a full retirement benefit, nor to indicate that the employee is not providing service in exchange for future benefits from the first year of service. We therefore believe that the start date of accruing benefit is the employment date, considering the probability that an employee may leave before retirement.

Consequently, the way we understand and interpret the IAS 19 requirements and its practical examples, to our fact pattern, is that the total cost of the post-employment benefits due to retirement should be accrued from the first year of employment, as there is legal obligation to accrue benefit, up to the year that further service will not lead to materially higher level of benefit. The probability of each employee leaving before retirement should be considered in the measurement.

The issue which is being debated in our fact pattern is whether the provision should effectively be built up to the 16th year of service or over the full years of service till retirement (subject in both cases to probability one could leave before retirement at which point the benefit does not become payable).

END OF SECOND SUBMISSION