



## STAFF PAPER

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## IFRS® Interpretations Committee meeting

<b>Project</b>	<b>Attributing Benefit to Periods of Service (IAS 19)</b>		
<b>Paper topic</b>	Comment letters on tentative agenda decision		
CONTACT	Wei Shun Tan	<a href="mailto:wtan@ifrs.org">wtan@ifrs.org</a>	+81 (0) 3 5205 7282
	Jawaid Dossani	<a href="mailto:jdossani@ifrs.org">jdossani@ifrs.org</a>	+44 (0) 20 7332 2742

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## Introduction

1. In December 2020, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission about the periods of service to which an entity attributes benefit for a particular defined benefit plan.
2. Under the terms of the plan described in the submission:
  - (a) employees are entitled to a lump sum benefit payment when they reach a particular retirement age provided they are employed by the entity when they reach that retirement age; and
  - (b) the amount of the retirement benefit to which an employee is entitled depends on the length of employee service before the retirement age and is capped at a specified number of consecutive years of service.
3. 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 when they reach that retirement age;
  - (b) the amount of the retirement benefit is calculated as one month of final salary for each year of service before the retirement age;

- (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 the retirement age.
- 4. The Committee observed that for the plan illustrated in paragraph 3:
  - (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 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.
- 5. Consequently, for the defined benefit plan illustrated in paragraph 3, the Committee concluded that the entity attributes retirement benefit to each year in which the employee renders service from the age of 46 to the age of 62 (or, if employment commences on or after the age of 46, from the date the employee first renders service to the age of 62). The Committee's conclusion aligns with the outcome set out in Example 2 illustrating paragraph 73, which is part of IAS 19.
- 6. Based on its analysis, 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 in the fact pattern described in the submission. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan and, instead, published the tentative agenda decision.
- 7. We received 10 comment letters by the comment letter deadline. In addition to the comment letters and after publishing the tentative agenda decision, the submitter made us aware of an additional condition for an employee to be entitled to the retirement benefit and has asked if that additional condition affects the Committee's analysis and conclusions.

8. The objectives of this paper are to:
  - (a) present our analysis of the effect of the additional condition (paragraphs 10–22);
  - (b) analyse comments on the tentative agenda decision (paragraphs 23–47); and
  - (c) ask the Committee whether it agrees with our recommendation to finalise the agenda decision (paragraphs 48–50).
9. Appendix A to this paper contains the proposed wording of the agenda decision.

### **Additional condition**

10. The submitter says, in addition to the terms and conditions of the plan set out in paragraph 2 of this paper, employment law in the submitter’s jurisdiction specifies that to be entitled to the retirement benefit an employee must also complete at least 15 years of service with the same or different employers by the specified retirement age (15-year condition). However, employees who had joined the workforce before 1993 also have the option of being entitled to the retirement benefit five years earlier than the specified retirement age if they have completed at least 40 years of service with the same or different employers by that earlier date (40-year condition).

### **Staff analysis**

11. Our analysis of the effect of the additional condition considers only the 15-year condition. This is because:
  - (a) we understand from the submitter that there are a decreasing number of employees who are eligible for the 40-year condition; the vast majority of employees are instead entitled to the retirement benefit only under the 15-year condition (subject to the other terms and conditions of the plan).
  - (b) considering the 40-year condition would make the fact pattern highly specific and complex—in particular, we note that those employees eligible for the 40-year condition are also entitled to the retirement benefit under the

15-year condition. In our view, it is not the Committee’s role to address highly specific fact patterns.

*Updated illustration*

12. To analyse the effect of the 15-year condition, we updated the illustrative example considered by the Committee (see paragraph 3) as follows (new text is underlined):

- (a) employees are entitled to a retirement benefit only when they (i) reach the retirement age of 62 provided they are employed by the entity when they reach that retirement age; and (ii) have completed at least 15 years of service with the same or different employers by that retirement age;
- (b) the amount of the retirement benefit is calculated as one month of final salary for each year of service with the entity before the retirement age;
- (c) the retirement benefit is capped at 16 consecutive 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 the retirement age.

*When an obligation first arises*

13. We first considered the effect of the 15-year condition on when an obligation first arises under the plan (ie the start date for attributing benefit under the plan). Similar to our analysis in paragraphs 18–35 of the December 2020 agenda paper, we considered separately the effect on employees who join before the age of 46 and the effect on those who join on or after the age of 46.

**Employees who join before the age of 46**

14. The tentative agenda decision states:

if an employee joins the entity before the age of 46 (ie there are more than 16 years before the employee’s retirement age), any service the employee renders before the age of 46 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. 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.

15. The 15-year condition does not, in our view, change this analysis and conclusion. Irrespective of the number of years an employee may have been employed previously, service rendered before the age of 46 does not lead to benefits under the plan. In particular, that service 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. The 15-year condition does not affect the timing or amount of the retirement benefit. We note also that by working from the age of 46 until the age of 62, the employee will meet the 15-year condition even if that employee had never been employed before the age of 46.
16. For example, assume an employee joins Entity X at the age of 40. In this situation, irrespective of the number of years the employee may have been employed previously, service the employee renders before the age of 46 does not lead to benefits under the plan. At the end of each successive reporting period between the ages of 40 and 46, the employee will have to continue 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 service first leads to benefits under the plan.

#### Employees who join on or after the age of 46

17. The tentative agenda decision states:

if an employee joins the entity on or after the age of 46, the amount of future service the employee will have to render before becoming entitled to the retirement benefit is reduced at the end of each successive reporting period. Accordingly, the entity's obligation to provide retirement benefits arises from the date the employee first renders service.
18. We think this analysis and conclusion continues to apply provided an employee who joins the entity on or after the age of 46 will meet the 15-year condition by the retirement age.

19. For example, assume an employee joins Entity X at the age of 50 and has either already met the 15-year condition (through previous employment) or will meet the 15-year condition by the time the employee reaches the retirement age (through a combination of the number of years of service provided to Entity X and previous employers). In that case, 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 at the retirement age of 62. Employee service rendered from the date of employment affects the amount of the retirement benefit. Accordingly, for employees who join on or after the age of 46, Entity X first attributes retirement benefit from the date employment commences.
20. However, if an employee joins Entity X on or after the age of 46 and will *not* meet the 15-year condition by the age of 62<sup>1</sup> (ie the employee will not have at least 15 years of service with Entity X and previous employers by that age), the employee would not be entitled to the retirement benefit and, accordingly, Entity X would not recognise any obligation for that retirement benefit.

*The end date for attributing benefit*

21. The 15-year condition does not, in our view, affect the date the entity stops attributing retirement benefit (ie the age of 62). In particular, the 15-year condition does not change the Committee's observations in the tentative agenda decision 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 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

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<sup>1</sup> This could apply only to some employees who join after the age of 47 because these employees will not be able to meet the 15-year condition solely by working for Entity X from the age of 47 until the retirement age.

the employee joins the entity. The entity therefore attributes retirement benefit only until the age of 62.

**Staff conclusion**

22. Based on our analysis, we conclude that the 15-year condition does not change the Committee’s previous analysis and conclusions. In particular, for the defined benefit plan illustrated in paragraph 12 of this paper, we continue to think that the entity attributes retirement benefit to each year in which the employee renders service from the age of 46 to the age of 62 (or, if employment commences on or after the age of 46, from the date the employee first renders service to the age of 62). However, the entity would recognise no obligation for any employee that will not meet the 15-year condition at the age of 62.

**Question 1 for the Committee**

Does the Committee agree with our analysis of the effect of the 15-year condition as summarised in paragraph 22?

**Comment letter summary**

23. We received 10 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our website<sup>2</sup>. This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Agenda Paper 2A.
24. Five respondents (the Association of National Accountants of Nigeria, Deloitte, the Institute of Chartered Accountants of Nigeria, the Malaysian Accounting Standards Board and the Saudi Organization for Certified Public Accountants (SOCPA)) agree with the Committee’s analysis and observations in the tentative agenda decision.

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<sup>2</sup> At the date of posting this agenda paper, there was one late comment letter.

However, Deloitte says the principles underpinning Example 2 illustrating paragraph 73 of IAS 19 (Example 2) are unclear and suggests clarifying this as part of an annual improvements project.

25. Three respondents (the Autorité des Normes Comptables (ANC), EY and PwC) say the conclusion reached in the tentative agenda decision is an acceptable interpretation of IAS 19. However, they say, applying IAS 19, an entity can also consider that its obligation arises from the date an employee joins the entity regardless of the age of that employee and highlight a possible inconsistency within Example 2. EY says the explanatory material in the tentative agenda decision is more in the nature of standard-setting.
26. Several respondents comment on the fact pattern—some ask whether and how the explanatory material in the tentative agenda decision would apply to other fact patterns and a few say the fact pattern described in the tentative agenda decision is incomplete and does not consider some relevant terms and conditions that, in their view, could affect the Committee’s analysis and conclusions.
27. Further details about the matters raised by respondents, together with our analysis, are presented below.

### **Staff analysis**

28. We have separately analysed comments related to:
  - (a) when an entity’s obligation to provide the retirement benefit first arises (paragraphs 29–33);
  - (b) Example 2 (paragraphs 34–39); and
  - (c) the fact pattern and other comments (paragraphs 40–47).

***When an entity's obligation to provide the retirement benefit first arises****Committee's analysis and observations*

29. The tentative agenda decision states:

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 age), any service the employee renders before the age of 46 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. 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 amount of future service the employee will have to render before becoming entitled to the retirement benefit is reduced at the end of each successive reporting period. Accordingly, the entity's obligation to provide retirement benefits arises from the date the employee first renders service.

*Respondents' comments*

30. Some respondents say the analysis and conclusion reproduced above in paragraph 29 is an acceptable interpretation of IAS 19. However, they say it would also be appropriate to consider that an entity's obligation to provide the retirement benefit arises from the date an employee joins the entity, regardless of the employee's age.

For example:

(a) the ANC says:

When the benefit is a direct consequence of the work contract as supplemented by relevant labour law, the employer incurs an obligation from the employment date onwards, even when the benefits only vest on the date of retirement—or to use the words

of paragraph 70(a) of IAS 19, even if the benefits are 'conditional on further service'. If the employees complete all their career with the employer that initially hired them, then the employer is obliged to pay the benefits and only factors outside the employer's control (such as resignation or death) would relieve the employer from that obligation. Despite the fact that an employee joining at 25 will need to work 40 years (assuming that the retirement age is 65) to earn the same level of benefits as an employee joining at 45 who will only have to work for 20 years, each year of service of that employee reduces the amount of future service that the employee will have to render before becoming entitled to the post employment benefit. This suggests that it is appropriate to allocate a service cost for all service periods from the hiring date to the vesting date in accordance with paragraph 72 of IAS 19.

(b) EY says:

We do not believe that how the quantum of an employee benefit is determined by reference to time is automatically the same as how it is earned by reference to time. The conclusion reached in the [tentative agenda decision] seems to prescribe a one-for-one match of a plan's benefit formula to the expense recognised in the income statement, by only recognising an expense in the employee's final 16 years of service.

...

We do not believe that introducing a continuous service requirement immediately preceding the vesting date, should, in and of itself, shorten the period over which benefit is attributed.

31. In addition a few respondents say attributing retirement benefit over the entire period of employment would be:

(a) consistent with the overarching objective in paragraph 1 of IAS 19 to recognise 'an expense when the entity consumes the economic benefit

arising from service provided by an employee in exchange for employee benefits’.

- (b) relevant and faithfully reflect the underlying economics and the true cost of an employee’s service. They say although an employee who joins the entity at, for example, the age of 30 receives the same amount of retirement benefit as an employee who joins at the age of 45, the annual cost for the employee who joins at the age of 30 (because that employee provides service for 32 years in exchange for the retirement benefit) should be lower than that for the employee who joins at the age of 45 (because that employee provides service for 17 years in exchange for the retirement benefit).

*Staff analysis*

32. For the reasons explained in paragraphs 37–39 of the December 2020 agenda paper, we continue to disagree with respondents who say, in the fact pattern described in the tentative agenda decision, the entity can attribute retirement benefit from the date an employee joins the entity regardless of the age of the employee. In particular, we note the following:

- (a) applying paragraphs 70–74 of IAS 19, an entity determines the date when service first leads to benefits under the plan in accordance with the plan’s benefit formula, which in this situation caps the retirement benefit at 16 *consecutive* years of service immediately before the retirement age. The effect of this is that employee service first leads to benefits under the plan at the age of 46—service before the age of 46 is not in exchange for the retirement benefit.
- (b) the Committee’s analysis and conclusions are consistent with Example 2, which in our view illustrates an analogous fact pattern in the first part of the example (ie a retirement benefit payable to employees still employed at the

age of 55 after 20 years of service).<sup>3</sup> Example 2 is part of the Standard—it does not accompany the Standard. When specifying how an entity accounts for that analogous fact pattern, Example 2 does not permit or require the entity to attribute benefit over the entire period of employment for employees who join before the age of 35. On the basis that the first part of Example 2 illustrates an analogous fact pattern, reaching a different conclusion to that example would, in our view, add or change requirements in IAS 19.

- (c) the requirement in paragraph 70 of IAS 19—to attribute benefit on a straight-line basis in situations in which employee service in later years will lead to a materially higher level of benefits than in earlier years—changes only the pattern of attribution of benefits; it does not change the periods over which an entity attributes benefit. An entity is still required to determine the date when service by the employee *first leads to benefits* under the plan applying paragraphs 70–74 of IAS 19.

- 33. In reaching this conclusion, we note the importance of the terms and conditions of the plan described in the tentative agenda decision, and in particular the fact that the amount of the retirement benefit depends on a specified number of consecutive years of service immediately before the retirement age.

## **Example 2**

### *Background and Committee’s analysis and observations*

- 34. Example 2 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, or who are still employed at the age of 65, regardless of their length of service.

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<sup>3</sup> Paragraphs 34–39 consider respondents’ comments regarding a possible inconsistency within this example. Paragraph 34 reproduces relevant excerpts of Example 2.

*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 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.*

...

35. The tentative agenda decision states:

...The Committee's conclusion aligns with the outcome set out in Example 2 illustrating paragraph 73, which is part of IAS 19.

#### *Respondents' comments*

36. Some respondents say the Committee's analysis aligns with the first part of Example 2 (ie for employees who join before the age of 35), but not the last part (ie for an employee who joins at the age of 55). For example,

- (a) the ANC says:

Example 2 also illustrates the circumstances in which an employee who joins at the age of 55. In those circumstances, we note that such an employee could leave at the age of 57 and return at the age of 60, with no effect on the amount or timing of benefits. Instead, we observe that the benefits are only conditional on the employee being employed at the age of 65—accordingly, for employees who join after the age of 55, service before the age of 65 does not lead to any benefits before the

age of 65. Applying the Committee's tentative analysis in the [tentative agenda decision], this would result in the entity's obligation to provide benefits arising only when the employee reaches the age of 65 and thus, in the entity recognising the benefit of CU 2,000 when the employee is 65. However, example 2 concludes otherwise and specifies that for such an employee '...the entity attributes benefit of CU200 (CU2,000 divided by ten) to each of the first ten years'.

- (b) similarly, PwC suggests explaining in any agenda decision how the last part of Example 2 is consistent with the first. It also says:

It appears that more than one answer could be achieved when applying the second part of Example 2 of paragraph 73 to this set of facts. This in turn might indicate that paragraph 70(a) of IAS 19 applies more generally if the application of the contractual benefit formula results in a significant backloading of the employee expense and related liability over the service period.

37. Although Deloitte agrees with the Committee's analysis and conclusions in the tentative agenda decision, it says the principle underlying the last part of Example 2 is unclear. It therefore suggests clarifying—as part of an annual improvements project—the circumstances in which an entity attributes benefit to the entire period of service (as illustrated in the last part of Example 2) and those in which it attributes benefit to only a specific period of service (as illustrated in the first part of Example 2).

#### *Staff analysis*

38. The last part of Example 2 (ie for an employee who joins at the age of 55 and is eligible for a lump sum retirement benefit at the age of 65 regardless of the employee's length of service) addresses a dissimilar fact pattern to the one being considered by the Committee. As noted above, we view the first part of Example 2 as addressing an analogous fact pattern.

39. With that said, we do not view the last part of Example 2 as inconsistent with the first part as follows:

- (a) paragraphs 70–74 of IAS 19 requires an entity to attribute benefit to periods of service under the plan’s benefit formula from the date when service by the employee first leads to benefits under the plan 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.
- (b) the plan’s benefit formula in the first part of Example 2 (ie for employees who join before the age of 35) in effect specifies both (i) the date when service by the employee first leads to benefits under the plan (when an employee reaches the age of 35); and (ii) the date when further service by the employee will lead to no material amount of further benefits under the plan (when an employee reaches the age of 55). Accordingly, Example 2 concludes that the entity uses those dates when attributing benefit to periods of service for an employee who joins before the age of 35.
- (c) the plan’s benefit formula for the last part of Example 2 specifies only that the retirement benefit is conditional on the employee being employed at the age of 65 (ie the date when further service by the employee will lead to no material amount of further benefits under the plan). However, it does not specify when service by the employee first leads to benefits under the plan. Although that benefit is provided at retirement, it is provided in exchange for services rendered before the age of 65.<sup>4</sup> In the absence of the plan’s benefit formula specifying when service by the employee first leads to benefits under the plan, Example 2 concludes that the benefits are provided in exchange for services from the age of 55 (the entire period of service).

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<sup>4</sup> Paragraph 72 of IAS 19 states ‘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).’

## ***The fact pattern and other comments***

### *Respondents' comments*

#### [Additional terms and conditions](#)

40. A few respondents say plans of the type described in the submission are complex and suggest considering other terms and conditions that could affect the accounting outcome. These additional terms and conditions include:
- (a) a requirement for employees to have worked a minimum number of total years in-country to be eligible for the retirement benefit;
  - (b) a requirement to provide the lump sum amount of retirement benefit even when employment is involuntarily terminated by the entity or an employee becomes disabled; and
  - (c) a practice of paying the lump sum amount of retirement benefit even if an employee voluntarily leaves before the retirement age.

#### [Other similar fact patterns](#)

41. Some respondents comment on other similar fact patterns, or ask about whether and how the explanatory material in the tentative agenda decision would extend to those fact patterns. EY says similar fact patterns are common in several jurisdictions and for some senior management roles within entities. The tentative agenda decision could result in changes to the accounting for those plans, which might include delaying expense recognition until the years shortly before the retirement age.
42. While not commenting on the Committee's analysis in the tentative agenda decision, Normandin Beaudry asks the Committee to clarify the accounting for plans that do not require consecutive years of service.
43. SOCPA suggests publishing 'the content of this tentative agenda decision as an education material after expanding it to more complicated issues for the benefit of a wide range of financial statements preparers'.

### Other comments

44. EY agrees with the staff’s analysis to reject View B in December 2020 agenda paper—ie the view that an entity attribute retirement benefit to only the first 16 years of employee service (or from the date employment commences until the retirement age if the employee joins the entity with less than 16 years remaining until retirement)— and suggests including that analysis in the agenda decision. In contrast, Vassilis Marghios says View B is appropriate, particularly after considering the additional terms and conditions noted in paragraph 40(b)–40(c).

### *Staff analysis*

#### Additional terms and conditions and other similar fact patterns

45. The Committee’s analysis and conclusions in the tentative agenda decision are based on the question submitted. As discussed in paragraph 7 of this paper, after publishing the tentative agenda decision, the submitter made us aware of an additional condition for an employee to be entitled to the retirement benefit. Paragraphs 10–22 include our analysis of the effect of this additional condition.
46. We think considering other terms and conditions or the effects of the Committee’s analysis and conclusions on other similar fact patterns—including situations in which an entity might have a constructive obligation resulting from past practice of paying employees the retirement benefit even if they voluntarily leave before the retirement age—is not within the scope of the Committee’s discussions on this matter. We also note that, applying IAS 19, an entity accounts for long-term disability benefits and termination benefits separately from post-employment benefits.

### Other comments

47. The tentative agenda decision already states (and explains why) the entity attributes retirement benefit to the retirement age. We think it is unnecessary to discuss further

in the agenda decision why View B (as described above in paragraph 44) is inappropriate.

### **Staff recommendation**

48. Based on our analysis, we recommend finalising the agenda decision, with changes to the tentative agenda decision as suggested in Appendix A to this paper.
49. We have not updated the fact pattern in Appendix A to include the 15-year condition. As set out in paragraphs 10–22, the 15-year condition does not in our view change the Committee’s analysis and conclusions regarding the date when (a) employee service first leads to benefits under the plan; and (b) further employee service will lead to no material amount of further benefits under the plan. Because of this, we think it could be confusing to add the condition to the fact pattern when that condition has no effect on the main part of the analysis in the agenda decision. In other words, were the 15-year condition to be added to the fact pattern in the agenda decision, the conclusion would be that the entity attributes retirement benefit to each year in which an employee renders service from the age of 46 to the age of 62 (or, if employment commences on or after the age of 46, from the date the employee first renders service to the age of 62, provided the employee will have completed at least 15 years of service with the entity or previous employers by the age of 62).
50. If the Committee agrees with our recommendation, we will ask the Board whether it objects to the agenda decision at the first Board meeting at which it is practicable to present the agenda decision.

### **Question 2 for the Committee**

Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraphs 48–50 of this paper?

## Appendix A—proposed wording of the agenda decision

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

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

To illustrate the fact pattern described in the request, 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 when they reach that retirement age;
- b. the amount of the retirement benefit is calculated as one month of final salary for each year of service with the entity before the retirement age;
- 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 the retirement age.

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 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 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 age), any service the employee renders before the age of 46 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~~ lead to benefits under the plan. 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 the retirement benefits arises for employee service rendered only from the age of 46.
- b. if an employee joins the entity on or after the age of 46, ~~the amount of future service the employee will have to render before becoming entitled to the retirement benefit is reduced at the end of each successive reporting period~~ any service the employee renders leads to benefits under the plan. Employee service rendered from the date of employment affects the amount of the retirement benefit. Accordingly, the entity's obligation to provide the retirement benefits arises from the date the employee first renders service.

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 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 in which ~~the~~ an employee renders service from the age of 46 to the age of 62 (or, if employment

commences on or after the age of 46, from the date the employee first renders service to the age of 62). The Committee's conclusion aligns with the outcome set out in the first part of Example 2 illustrating paragraph 73 (ie for employees who join before the age of 35), which is part of IAS 19.

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 in the fact pattern described in the request. Consequently, the Committee {decided} not to add a standard-setting project to the work plan.