



STAFF PAPER

April 2021

IFRS® Interpretations Committee meeting

Project	Attributing Benefit to Periods of Service (IAS 19)		
Paper topic	Comment letters		
CONTACT	Wei Shun Tan	wtan@ifrs.org	+81 (0) 3 5205 7282
	Jawaid Dossani	jdossani@ifrs.org	+44 (0) 20 7332 2742

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee) and does not represent the views of the International Accounting Standards Board (Board), the Committee or any individual member of the Board or the Committee. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Decisions by the Board are made in public and reported in IASB® *Update*. Decisions by the Committee are made in public and reported in IFRIC® *Update*.

Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Attributing Benefit to Periods of Service (IAS 19)' published in December 2020.



Athens, Monday 25th of January

Subject: Comments for Consideration regarding the Paper of IFRIC: “Attributing benefit to periods of service under IAS19”

Dear Sir/Madam,

I would like to introduce myself. My name is Vassilios Marghios and I am the oldest active Actuary in Greece, working at this field since 1974. I have received a Scholarship from the Department of Georgia State University (USA) for Actuarial Science and I am the founder of “Prudential” which is the oldest and largest independent Group of Companies in Greece operating in the Area of Actuarial Services since 1984.

I have seen your recent paper with respect to the following topic:

“Attributing benefit to periods of service under IAS19”

based on a certain submission-question, you have recently received, about the periods of service to which an entity should ideally attribute benefits for a particular type of a defined benefit plan applying the principles described in the text of IAS 19 (employee benefits valuation) .

Although, you do not disclose the full details of the original submission, in order to not further disclose the submitter of the request, I have to admit that it is more or less clear to me, who is the submitter of this text. Actually, there is a public local discussion here in Greece for more than one year with respect to this topic amongst the auditors and actuaries who are involved with such valuations. Of course, it is also familiar to me the description of the specific benefit plan as it “coincides” with the actual legislative framework, which is valid for all the companies operating in Greece.

I quoted the word “coincides” as there are a few legal concerns that are not fully disclosed in the original submission-question. Although these are few, I must admit that they are very important when someone has to decide the attribution algorithm and the respective time period for attribution. Therefore, let me provide below these little details and legal concerns that make significant difference regarding the final decision for the period of attribution.

The lump-sum benefit is also payable (apart the situation of normal retirement of an employee) under the following three incidents:

A. The employee leaves the company while he or she has accomplished 15 years of full service and upon employer’s agreement. At this point we should notice that the framework for the employers agreement is challenged under the civil code article 281, which provides that the exercise of the right is prohibited where is manifestly exceeds the bounds of good faith morality or the economic or social purpose of that right. So, in most times employees can reach employer’s agreement and finally obtain the relevant lump sum benefit after the completion of 15 years of full service as the employer’s agreement should be considered almost positive in any case.



- B.** The employee becomes disabled (with an 80% or more disability rate) under a total and permanent situation. It is worth noticing that the vesting period is five years for any accident or illness or just one day of service for accident or illness that may be connected with an occupational disease. So, from the very first year of service, an employee may gain the lump-sum benefit payment upon any event which may result to a total and permanent disability and so early retirement.
- C.** When employment ends by the decision of the employer (involuntary resignation) at any time for any reason (including bankruptcy of the entity).

From fact A & B, it is obvious that early retirement and lump-sum benefit payment may occur within the very early age band and not only on 62 or 67 years old.

For Fact C please note that although it was established by law since 1920 and it is met every year in the PNL of each entity, no provision / reserves are booked since auditors believe that it is not permitted by par 159-168 of IAS 19.

Taking the above into account it is more than clear that the benefit is not provided only at normal retirement and the employee may entitle the benefit from the first date of his/her employment. Consequently, the 'View C' proposed in your paper is totally unacceptable for benefit attribution. Furthermore, and taking into account the general principle of prudence, we believe that "View B" should be considered as the ideal solution because it accumulates quickly the relevant fund reserve for facing the lump-sum benefit payment.

Moreover, please have in mind some examples of the varied legislation which are in force in Greece concerning employees' benefits for Retirement as well as for involuntary resignation:

- a)** In your example, the lump sum benefit that you describe is in force only for monthly salary employees of the private sector. Initially the scale of the lump sum benefit was 24 monthly salaries attributed to 28 years of service. Amendments took place under the third Memorandum in 2012 by law 4093 in order to help / allow entities with decrease earnings to proceed with involuntary resignations / dismissals. As we have mentioned above the employee in involuntary resignations is entitled the lump sum benefit according to the years of service. By amending the scale of the benefit in 2012 (as you describe in your example), the cost of benefit due to involuntary resignation for employers, at the present time, is lower than it used to be. However, law 4093/12.11.2012 protected the lump sum benefit for those employees with more than 16 years of service at the employer. Hence there is 2 categories of salaried employees. Those with less than 16 years of service as at 12.11.2012 and those with more than 16 years of service as at 12.11.2012
- b)** The lump sum benefit for Daily workers wasn't amended and the scale attributed a benefit of 165 daily wages in 30 years of service.
- c)** In the Broad Public Sector the lump sum benefit was established by law 103/1975. Employees of the Broad Public Sector receive a lump sum benefit under any condition from the entity for their service up to 2005 (1 salary per year of service up to 2005) and from a social security fund for their service from 2006 and their after



d) Lawyer employees receive the benefit of monthly salary employees under any condition (including voluntary resignation as also death)

e.t.c.

Finally, please note that Greece by Presidential Decree 178 of 2002 has adopted Directive 98/50/EC relating to the safeguarding of employees' rights in the event of transfers of undertakings, businesses or parts of business. In article 4 of the above law Projected Unit Credit method was established as the appropriate one to estimate the benefit obligation of employees in line with article 3 of the directive.

Taking the above into account we strongly believe that the appropriate and prudent attribution method for the varies of benefits that exist in Greece, providing benefits not only at normal retirement but also in involuntary resignation etc. is to follow the benefit rules in line with the benefit scale. An Actuary use probabilities/rates by structuring a Multiple Decrement Tables (along with mortality and morbidity rates), to estimate the probability that a benefit might not be entitled, by the beneficiary.

Hence, concerning the attribution method for salary employees in the private sector we insist that "View B" should be taken into account.

Thank you very much for giving me the opportunity to state my opinion as an actuary who also has a huge experience in case laws and the legislation environment in Greece. I would be delighted if you gave me the chance to have a call with you and further elaborate on our valid concerns.

Kind Regards,

V. Marghios

VASSILIS MARGHIOS

Prudential – V. MARGHIOS & PARTNERS

Administrator, Partner | Actuary

Actuary (M.A.S.) / Economist (B.E.)

Phone: +30 210 64 70 061

148 Momferatou St. 11475 Athens - Greece

www.prudential.com.gr

www.prudential-group.gr

International Financial Reporting Standards Interpretations
Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

10 February 2021

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative Agenda Decision (TAD): Attributing Benefit to Periods of Service (IAS 19 *Employee Benefits*)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee (the Committee) published in the December 2020 *IFRIC Update*.

The Committee discussed a question about the periods of service to which an entity attributes benefit for a particular defined benefit plan. For the defined benefit plan illustrated, 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'

We do not agree with the conclusion reached by the committee, as we do not believe it is the only acceptable accounting treatment for the defined benefit plan illustrated in the tentative agenda decision. Furthermore, the TAD seems to introduce an absolute rule which is more in the nature of standard setting than interpretation, as we describe more fully below.

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 TAD 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 this is the only acceptable approach when applying IAS 19, nor, arguably, is it the most relevant one, for the following reasons:

- The overarching objective of IAS 19, as outlined in paragraph 1, requires an entity to 'recognise an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.'
- Paragraph 70 requires post-employment benefits to be attributed 'from the date when service by the employee first leads to benefits under the plan'. Paragraph 71 of IAS 19 further states '[a]n 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.'

- For a post-employment benefit plan providing a lump sum on retirement and whose only vesting condition is to remain in employment until retirement date, paragraph 72 of IAS 19 requires the attribution of benefit to commence on the date the employee first provides service, as it states that '[e]mployee service gives rise to an obligation ... even if the benefits are conditional on future employment (in other words they are not vested)'. 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.

In the fact pattern raised in the submission, if the employee completes all of his or her period of employment with the employer that hires him or her, then the employer is obliged to pay the post-employment benefit. In other words, 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 age 22 will need to provide service for 40 years (if the retirement age is 62) to earn the same level of benefits as an employee joining at 42 who will only have to provide service for 20 years, each year of service provided by that employee reduces the amount of future service that the employee will have to render before becoming entitled to the post-employment benefit. This would suggest that it is appropriate to allocate a service cost for all service periods from the hiring date to the vesting date to meet the overarching objective of IAS 19 and the requirement in paragraph 70(a) of the standard.

Attributing the ultimate cost of the post-employment benefit over the entire period of employment is also relevant as it faithfully reflects the underlying economics, for example, the annual payroll cost of the employee joining at age 22 is less than that of the employee joining at age 42 because it takes 40 years for the same amount of post-employment benefit to vest than for an employee joining at age 42 who will earn the same amount of benefits in only half of the time (20 years vs 40 years).

Therefore, whilst we agree that the Committee's tentative conclusion is an acceptable accounting treatment for the plan illustrated in the agenda decision, based on Example 2 illustrating paragraph 73 of IAS 19, we would also accept the view where attribution of benefit starts when the employee first provides service, in line with the overarching objective of IAS 19 as expressed in paragraph 1.

The committee's discussions have shown a belief that the fact pattern described in the TAD is very narrow. However, we would like to highlight that similar fact patterns are common in several jurisdictions and for certain senior management roles within entities.

As a practical example outlining the above, in one jurisdiction it is common to provide post-employment medical benefits to employees who have a specified number of years of continuous service prior to a specified retirement age. Applying paragraph 73 of IAS 19, entities in that jurisdiction typically do not wait until an employee reaches retirement age

minus the specified number of years of continuous service to begin attributing benefit, instead attributing the benefit from the date the employee first provides service as it is the employee's service throughout the entire employment period that will ultimately lead to benefit. In some cases, the specified number of years of continuous service prior to retirement age is short, for example, 2 years, and the conclusion reached in the TAD would require entities to delay expense recognition until the years shortly before retirement age.

We agree with the Committee's rejection of View B and with the analysis in paragraphs 33-35 of the agenda paper, as we also see no basis to stop attributing benefit for an employee before the benefits have fully vested. We think it would be important to bring that analysis into the agenda decision itself as it is useful guidance for preparers of financial statements.

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

Yours faithfully,

Ernst + Young Global Limited



IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

12 February 2021

Dear Sir/Madam

Tentative agenda decision: Attributing Benefit to Periods of Service (IAS 19)

We are commenting on the above tentative agenda decision, published in the December 2020 edition of IFRIC Update on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the agenda decision. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Based on the facts provided, we agree that the conclusion reached in the tentative agenda decision, with respect to the period over which the service cost should be provided, is one acceptable interpretation of the standard.

We note that plans of this nature can be complicated. We are aware that there are at least two jurisdictions (Greece and France) that have plans similar to that described in the submission. We suggest that the Committee carefully consider whether there are any other relevant facts related to these plans that may alter the outcome. Otherwise there is a risk that the agenda decision might be read out of context. For example, we understand that some countries require employees to have worked a minimum number of total years in-country to be eligible for the defined benefit plan. We think these types of additional facts might influence the analysis.

We note that the conclusion in the tentative agenda decision is reached by applying the principles in IAS 19 paragraph 70. That is, an entity shall attribute benefit to periods of service under the plan’s benefit formula. In addition, paragraph 73 of IAS 19 explains how, in such circumstances, the service cost should be spread. The first part of Example 2 of paragraph 73 supports this approach.

However, it is not clear how the second part of this example (where the employee earns the award, irrespective of the period of service, provided the employee is employed at the age of 65) would provide the same answer when applying the logic in the tentative agenda decision. Should a benefit that ‘cliff vests’ after the benefit formula has “maxed out” be

- recognised at the point in time that it ‘vests’ or

PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7822 4652



- be spread over the relevant service period?

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.

If the interpretations committee decides to issue the tentative agenda decision as a final agenda decision, we believe that the Committee should explain how the second part of Example 2 of paragraph 73 is consistent with the conclusions of the first part.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney, PwC Global Chief Accountant and Head of Reporting (+ 44 7841 569635) or Gary Berchowitz (+44 7535100574).

Yours faithfully

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers' in a cursive script.

Henry Daubeney
Partner, Global Chief Accountant and Head of Reporting
Office: 02078042160 | Mobile: 07841569635
Email: henry.daubeney@uk.pwc.com
PricewaterhouseCoopers LLP

12 February 2021

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 0112
www.deloitte.com/about

Direct phone: 020 7007 0884
vepoole@deloitte.co.uk

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision – Attributing benefit to periods of service (IAS 19)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the December 2020 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification about the periods of service to which an entity attributes benefit for a particular defined benefit plan.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision. We agree that for the specific defined benefit plan illustrated in the agenda decision Example 2 illustrating IAS 19:73 provides relevant guidance for determining the periods of service to which the benefits should be attributed.

However, we believe that the principles used in Example 2 to determine the periods of service over which the benefits must be allocated are not entirely clear. In particular, we note that Example 2 also concludes "*[f]or 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.*" While this appears to be a reasonable conclusion, Example 2 does not provide a clear explanation of the principle that results in attributing the benefits to each of these years even though the years of service do not affect the amount or timing of benefits. Indeed, regardless of the number of years of service, the employee receives the same amount upon reaching the age of 65.

We believe that it is necessary to explain why in some cases benefits are allocated to years of service even though the years of service do not affect the amount or timing of benefits (e.g. an employee that joins at the age of 55 in Example 2) and in other cases no benefit is allocated to these years of services (years of service provided before the age of 35 in that same example). As the principle is not clearly explained, we are concerned that diversity in practice is likely to continue for plans that share some characteristics with the plan illustrated in the tentative agenda decision but are not exactly the same.

We suggest that this lack of clarity be addressed as part of an annual improvement project to explain in which circumstances benefits should be attributed to the whole period of service, rather than a specific period of service that affects the amount or timing of the benefits.

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4a, 3TR, United Kingdom.

Yours sincerely

A handwritten signature in grey ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS Leader



February 12, 2021

IFRS Interpretations Committee

Re: Comments to Tentative Agenda Decision: Attributing Benefit to Periods of Service (IAS 19)

We read with great interest the Tentative Agenda Decision: Attributing Benefit to Periods of Service (IAS 19). We appreciate the opportunity offered by the IFRS Interpretations committee to submit comments regarding the tentative agenda decision. As a total rewards consulting firm in Canada, Normandin Beaudry performs accounting valuations for many pension plans and other post-employment benefits plans.

You will find in the following pages our comments regarding the Tentative Agenda Decision: Attributing Benefit to Periods of Service (IAS 19).

We understand the conclusion regarding the attribution period for the specific type of defined benefit plan illustrated in this agenda decision. However, the fact pattern illustrated in this agenda decision does not reflect the reality of our clients' plans. We would like to bring to your attention that the majority of the plan for which we perform actuarial valuations does not require clearly a specified number of consecutive years of service.

The plans evaluated normally have a maximum number of years of service; however, the plan provisions do not require that these years of service be consecutive. In fact, we have several clients whose employees leave the organization and return years later; these clients usually confirm to us that all years of service worked must be considered in the recognized years of service. Here is an example of a recurring situation among our clients:

- The employee starts working for organization A on January 1, 2005;
- The employee leaves organization A for organization B on December 31, 2009;
- The employee returns to work for organization A on January 1, 2011;
- The actuarial valuation dated December 31, 2020, must take into consideration the 15 years of recognized service for the purpose of attributing benefits, i.e., five years worked from January 1, 2005, to December 31, 2009, and the ten years worked from January 1, 2011, to December 31, 2020;
- Organization A confirmed that the years of service prior to December 31, 2009, must be recognized.

We believe that there has to be some clarification regarding the plans that do not require consecutive years of service, which represents the majority of our clients' plans. In addition, while listening to the IFRS discussion group on December 1, 2020, certain participants raised the fact that a distinction could be made to the fact pattern illustrated in this agenda decision given the notion of consecutive years.

It would be our pleasure to discuss with you any question or comment you may have regarding our comments. To that end, you can contact Marie-Hélène Brassard at 514-285-1122, ext. 270 (mhbrassard@normandin-beaudry.ca) or Josée Patry at 514-285-1122, ext. 245 (jpatry@normandin-beaudry.ca).

Regards,

Normandin Beaudry consultants

15 February 2021

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions published in December 2020:

- (a) Attributing Benefit to Periods of Service (IAS 19 *Employee Benefits*)
- (b) Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 *Intangible Assets*)

We agree with the Interpretations Committee's reasons set out in the Tentative Agenda Decision for not adding these items onto its agenda.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director



ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA

Comments on the Tentative Agenda Decision and comment letter on Attributing Benefit to Periods of Service (IAS 19)

The Association of National Accountants of Nigeria (ANAN) has critically and painstakingly reviewed the basis of IFRS Interpretations Committee's decision and welcomes the opportunity to comment on attributing benefit to periods of service (IAS 19).

The Association recognises the fact that in general, employees are entitled to both long term payment which is called gratuity and piecemeal payment known as pension but this varies from one industry or entity to another.

There is therefore no uniformity in the operations of post-employment benefit schemes. Consequently, the Association agrees with IFRS Interpretations Committee's conclusion that the principles and requirements in IAS 19 have provided adequate basis for the determination of periods to which retirement benefits is attributable in an entity.

However, the general mode of operation under Nigeria jurisdiction is in agreement with the scenario in "B" of the illustration of the fact pattern which posited that the amount of retirement benefits is calculated as one month of final salary for each year of service before retirement age.

Finally, the Association does not have any concern to raise against the tentative agenda decision of the Interpretation Committee.

For any further information or clarification, please contact the undersigned.

Dr. Nuruddeen Abba Abdullahi, mni, FCNA
Chief Executive Officer
Association of National Accountants of Nigeria
abdullahi@anan.org.ng



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No. 15 of 1965)

PLOT 16, IDOWU TAYLOR STREET,
VICTORIA ISLAND,
P.O BOX1580, MARINA, LAGOS, NIGERIA

Tel: 09053847510-1

Email: info.ican@ican.org.ng, rce@ican.org.ng

Website: www.icanig.org

Registrar/Chief Executive

AHMED M. KUMSHE (PROF.), FCA

February 8th, 2021.

ICAN/CP/R&T/FEB8/2020

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD.

Dear Sir,

Re: Attributing Benefit to Periods of Service (IAS 19)

Please find below our comments on the above-named Tentative Agenda Decision.

Conclusion:

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.

Response:

We agree with the Committee's conclusion that the principle and requirements of IAS 19 employee benefits provide an adequate basis for the entity to determine the periods to which retirement benefit is attributed, in the fact pattern described in the request.

We thank you for giving us the opportunity to contribute to the Agenda Decision and we are available should there be need for further clarification.

Yours faithfully,

**For: Ahmed M. Kumshe (Prof.), FCA
Registrar/Chief Executive**



RÉPUBLIQUE
FRANÇAISE

*Liberté
Égalité
Fraternité*



**AUTORITÉ
DES NORMES COMPTABLES**

Paris, 15 February 2021

Patrick de Cambourg

Phone : 01 53 44 28 53
Mail. : patrick.de-cambourg@anc.gouv.fr
Internet : www.anc.gouv.fr

Mrs Sue Lloyd
Chair of the IFRS Interpretations Committee
7 Westferry Circus, Canary Wharf
London, E14 4HD
United Kingdom

PDC n°6

December 2020 IFRIC Update—Feedback on the Tentative Agenda Decisions

Dear Sue,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on two IFRS Interpretations Committee's (Committee) Tentative Agenda Decisions (TAD) published in December 2020.

There are two appendices to this letter:

- Appendix A sets out our comments in relation to the TAD on *Classification of Debt with Covenants as Current or Non-current*; and
- Appendix B sets out our comments with regard to the TAD on *Attributing Benefit to Periods of Service*.

Should you need any further information, please do not hesitate to contact me.

Yours sincerely,

Patrick de Cambourg

Appendix B—Attributing Benefit to Periods of Service (IAS 19 Employee Benefits)

We do not entirely agree with the Committee's analysis and tentative conclusion as set out in the TAD. We think that, in the very specific fact pattern described in the submission, the Committee's tentative conclusion is a *possible* view and that an alternative analysis exists.

The TAD specifies that '*...[t]he Committee's conclusion aligns with the outcome set out in Example 2 illustrating paragraph 73, which is part of IAS 19*'. We disagree with this statement. We think that the Committee's tentative conclusion only aligns with an excerpt from the above-mentioned example (example 2 in this letter) but not with the example in its entirety. As the Committee's public discussions indicate, the Committee 'crosschecked' its conclusion retaining only a feature of the plan described in this example and that is reproduced in paragraph 28 of [Agenda Paper 3](#) for the December 2020 Committee's meeting—'*A plan pays a lump sum retirement benefit of CU2,000 to all employees who are still employed at the age of 55 years after twenty years of service...*'. However, we think the Committee's ignored another feature of the plan of the example that is: '*... or who are still employed at the age of 65, regardless of their length of service*' (alternative scenario in this letter).

Example 2 illustrates the case of employees who join before the age of 35 and specifies that for those employees '*...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...*'.

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 TAD, 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*'.

We think essential for the Committee to ensure that, and explicitly explain in any agenda decision, why its analysis tallies with example 2 in its entirety. This is because the Committee's analysis of the requirements in IAS 19 may have widespread effects. In this respect, we note that post-employment benefit plans that entitle employees to receive a retirement benefit when they reach the retirement age provided they are still employed by the entity at that time are common. Some of those plans specify that the benefits may be capped at an amount that is based on a given number of consecutive years of service.

We think that 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—is also an acceptable conclusion for the particular defined benefit plan as described in the submission. This is because:

- 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.

- attributing the ultimate cost of the post-employment benefit over the employees' entire career would also faithfully reflect the underlying economics, ie the average full annual payroll cost of the employee joining at 25 is less than that of the employee joining at 45 because it takes him or her 40 years to vest in the same amount of benefits whereas the employee joining at 45 who will earn the same amount of benefits in only half the period of time (20 years versus 40 years).
- the alternative scenario in example 2 also supports, in our view, that conclusion.

Accordingly, we recommend that the Committee develop further its analysis before finalising the TAD and consider the rationale and merits of the alternative conclusion based on example 2.

February 14, 2021

IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

SOCPA Comments on Tentative Agenda Decision: Attributing Benefit to Periods of Service (IAS 19)

Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision: Attributing Benefit to Periods of Service (IAS 19)*.

We agree with the Committee's conclusion 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 this tentative agenda decision. In fact, the fact pattern described in the tentative agenda decision is very narrow, straightforward and pose no question. It is very easy to apply the requirements to them. Therefore, it is preferably to issue 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.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames

Secretary General