

## STAFF PAPER

May 2021

## IASB® meeting

<b>Project</b>	<b>Attributing Benefit to Periods of Service (IAS 19)</b>		
<b>Paper topic</b>	Finalisation of Agenda Decision		
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**Introduction and purpose**

1. At its April 2021 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission about the periods of service to which an entity attributes benefit for a particular defined benefit plan. The Committee instead decided to finalise an agenda decision that would include material explaining how the applicable principles and requirements in IFRS Standards apply to the fact pattern described in the submission.
2. Under the terms of the defined benefit plan described in the agenda decision:
  - (a) employees are entitled to a lump sum benefit payment when they reach a specified 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 the fact pattern, 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 (that is, the maximum retirement benefit an employee is entitled is 16 months of final salary); and
  - (d) the retirement benefit is calculated using only the number of consecutive years of employee service with the entity immediately before the retirement age.
4. The Committee published a [tentative agenda decision](#) in December 2020 on the topic, having concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the periods of service to which retirement benefit is attributed in the fact pattern described in the submission.
5. The Committee considered feedback on the tentative agenda decision at its April 2021 meeting and decided to finalise the agenda decision. The purpose of this meeting is to ask Board members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation [Due Process Handbook](#).

### **Overview of the feedback on the tentative agenda decision**

6. The Committee received 10 comment letters on its tentative agenda decision by the comment deadline of 15 February 2021.
7. Five respondents agreed with the Committee’s analysis and observations in the tentative agenda decision. However, one of these respondents said the principles underpinning Example 2 illustrating paragraph 73 of IAS 19 (Example 2) are unclear and suggested clarifying this as part of an annual improvements project.
8. Three respondents said the conclusion reached in the tentative agenda decision was an acceptable interpretation of IAS 19. However, in their view, applying IAS 19 an entity could also consider that its obligation arose from the date an employee joins the entity regardless of the employee’s age and highlighted a possible inconsistency within Example 2. One respondent said the explanatory material in the tentative agenda decision was more in the nature of standard-setting.

9. Several respondents commented on the fact pattern—some asked whether and how the explanatory material in the tentative agenda decision would apply to other fact patterns and a few said the fact pattern described in the tentative agenda decision was incomplete and did not consider some relevant terms and conditions that, in their view, could affect the Committee’s analysis and conclusions.
10. The Committee considered this feedback at its April 2021 meeting<sup>1</sup>. Having done so, the Committee confirmed the technical analysis and conclusions in the tentative agenda decision. The Committee made some changes to the wording of the tentative agenda decision to address respondents’ comments. Those changes in wording did not change the overall structure or content of the tentative agenda decision, but rather were editorial or clarifying in nature.
11. Eleven of 14 Committee members voted to finalise the agenda decision.
12. Appendix A to this paper includes the wording of the agenda decision, approved by the Committee.

**Questions for the Board**

Do Board members object to the Committee’s:

- (a) decision that a standard-setting project should not be added to the work plan; and
- (b) conclusion that the agenda decision does not add or change requirements in IFRS Standards?

**Report to the Board**

13. Some respondents to the tentative agenda decision said paragraphs 70–74 of IAS 19 are not always clear about the principles to be applied when attributing benefit to periods of service for a defined benefit plan. While voting to finalise the agenda decision, the Committee suggested reporting this feedback to the Board.

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<sup>1</sup> [Agenda Paper 2](#) to the Committee’s April 2021 meeting analyses comments received.

## Appendix A—The Agenda Decision

A1. The Agenda Decision below was approved by the Committee at its meeting in April 2021.

### **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 specified 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 (that is, the maximum retirement benefit to which an employee is entitled is 16 months of final salary); and
- d. the retirement benefit is calculated using only the number of consecutive years of employee service with the entity immediately before the retirement age.

Paragraphs 70–74 of IAS 19 require an entity to attribute benefit to periods of service under the plan’s benefit formula from the date when employee service first leads to benefits under the plan until the date when further employee service will lead to no material amount of further benefits under the plan. 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 the 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 (that is, there are more than 16 years before the employee's retirement age), any service the employee renders before the age of 46 does not 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 benefit 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, 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 benefit 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.
- 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 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 (that is, 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 of service 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.