

28 October 2005

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Dear Sir David

### **Exposure Draft of Proposed Amendments to IAS 19 *Employee Benefits***

Deloitte Touche Tohmatsu is pleased to comment on the International Accounting Standards Board's (the Board's or IASB's) *Exposure Draft of Proposed Amendments to IAS 19 Employee Benefits* (referred to as the ED or the draft standard). Our responses to the questions raised in the ED are set out in the Appendix to this letter.

We question the need for piecemeal changes to IAS 19 *Employee Benefits* (IAS 19), a Standard that the IASB acknowledges requires significant revision. We acknowledge the existence of the IASB's Short-term Convergence project, however we believe constituents would be better served in this particular instance by having to deal with these amendments as part of a broader proposal addressing IAS 19 as a whole.

We question the relevance of the distinction between voluntary and involuntary termination benefits and disagree with the proposed change in the point of liability recognition. If, at the time that an entity offers benefits, the entity has committed itself (either legally or constructively) and raised a valid expectation on the part of the employee that it will fulfil its responsibility should the employee accept the offer, a liability has been created. The key issue is whether an employee is required to provide future services in return for the termination benefits (whether voluntary or involuntary), in which case those benefits should be recognised as the services are provided. We agree with the immediate recognition of termination benefits where these are not offered to employees in exchange for the employees' future service.

If you have any questions concerning our comments, we would be pleased to discuss them.

Sincerely,

Ken Wild  
**Global IFRS Leader**

**Question 1 – Definition of termination benefits**

*The Exposure Draft proposes amending the definition of termination benefits to clarify that benefits that are offered in exchange for an employee’s decision to accept voluntary termination of employment are termination benefits only if they are offered for a short period (see paragraph 7). Other employee benefits that are offered to encourage employees to leave service before normal retirement date are post-employment benefits (see paragraph 135).*

*Do you agree with this amendment? If not, how would you characterise such benefits, and why?*

We agree with the immediate recognition of termination benefits (whether voluntary or involuntary) where these are not offered to employees in exchange for the employees’ future service.

We note the introduction of a new term; “*short period*” which is used in paragraph 7(b), 135 and referred to in BC19 of the ED. We find the distinction drawn between voluntary termination benefits and post-employment benefits on the basis of whether the benefits are offered for a “*short period*” or not, a tenuous one. Not only is the lack of guidance on how to interpret this term unhelpful, but we strongly believe that there are other considerations to be analysed prior to concluding whether benefits are termination benefits or post-employment benefits (for example, the existence of vesting conditions, whether the offer is a one-off benefit or an ongoing scheme; or whether it is available only to a specific category of employees or to all employees).

We encourage the IASB to provide additional principles or guidance on how to distinguish between termination benefits (whether voluntary or involuntary) and post-employment benefits taking into account the other issues and circumstances that surround such benefit offers and desist from introducing a distinction between voluntary termination benefits and post-employment benefits on the basis of a term that may be interpreted differently by different constituents.

**Question 2 – Recognition of termination benefits**

*The Exposure Draft proposes that voluntary termination benefits should be recognised when employees accept the entity’s offer of those benefits (see paragraph 137). It also proposes that involuntary termination benefits, with the exception of those provided in exchange for employees’ future services, should be recognised when the entity has communicated its plan of termination to the affected employees and the plan meets specified criteria (see paragraph 138).*

*Is recognition of a liability for voluntary and involuntary termination benefits at these points appropriate? If not, when should they be recognised and why?*

We disagree with the proposal regarding voluntary termination benefits because we are not convinced by the Board’s assertion that an entity will always be in a position to withdraw an offer. If, at the time that an entity offers voluntary termination benefits, the entity has committed itself (either legally or constructively), and raised a valid expectation on the part of the employee that it will fulfil its responsibility should the employee accept the offer, a liability has been created. Consequently, the acceptance of the offer by the employee should not be the

determinant of the recognition of a liability in all cases but may be a factor that is considered in measuring the legal or constructive obligation that has already led to recognition of a liability. We believe our view is consistent with existing IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In addition, this concept is already enshrined in paragraph 140 of IAS 19 (Revised 16 December 2004) and paragraph 91 of the Basis for Conclusions of the same Standard. Consequently, we disagree with the IASB's proposal in paragraph 137 of the Exposure Draft and would encourage the IASB to reconsider this issue.

### **Question 3 – Recognition of involuntary termination benefits that relate to future service**

*The Exposure Draft proposes that if involuntary termination benefits are provided in exchange for employees' future services, the liability for those benefits should be recognised over the period of the future service (see paragraph 139).*

*The Exposure Draft proposes three criteria for determining whether involuntary termination benefits are provided in exchange for future services (see paragraph 140).*

*Do you agree with the criteria for determining whether involuntary termination benefits are provided in exchange for future services? If not, why not and what criteria would you propose? In these cases, is recognition of a liability over the future service period appropriate? If not, when should it be recognised and why?*

As indicated above, we agree with the immediate recognition of termination benefits (whether voluntary or involuntary) where these are not offered to employees in exchange for the employees' future service.

We encourage the IASB to provide a single set of principles or guidance on how to distinguish between termination benefits (whether voluntary or involuntary) and post-employment benefits taking into account those factors set out in paragraph 140 of the ED, in addition to an assessment of whether the offer (whether voluntary or involuntary) and associated benefits are provided to employees over a minimum retention period only.