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Financial Accounting Standards Board
Robert H. Herz – Chairman
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5516
USA

Proposed EITF Issue No. 05-5 "Accounting for the Altersteilzeit Early Retirement Programs and Similar Type Arrangements"

Dear Mr. Herz,

As discussed at our meeting in London last week we take the opportunity to comment on the reached consensus to FASB Emerging Issue Task Force Issue No. 05-5, "Accounting for the Altersteilzeit Early Retirement Programs and Similar Type Arrangements".

We agree with the objective of the reached consensus to provide guidance on the accounting for the salary component, the bonus feature and any available government subsidy in German Altersteilzeit (ATZ) early retirement programs.

The reached consensus gives guidance for the accounting of German Altersteilzeit early retirement programs. Other international benefit arrangements might have similar terms to the ATZ arrangements but already small differences in the terms may affect the accounting for that arrangements. As a result the guidance provided in the reached consensus will mainly affect German companies which account under US-GAAP provisions.

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Some German companies already account liabilities for Altersteilzeit early retirement programs under International Financial Reporting Standards due to a clarification made by the Institute of German Certified Chartered Accountants (IDW) in its Statement RS HFA 3.

The IDW explains in RS HFA 3 that German ATZ arrangements are early retirement programs designed to smooth the transition from employment into retirement for elderly employees before their legal retirement age. The German ATZ Act applies to arrangements between employees and employers which intervene in an existing relationship between both parties. In order to make such an intervention more attractive and to acquire acceptance of an new agreement the employer pays a bonus feature. Economically the bonus feature is no compensation for services rendered by the employee but meets the criteria of termination benefits pursuant to IAS 19.7. The present value of future bonus payments should be expensed at the time the participating employee signs the ATZ contract (IAS 19.133b) and is not recognized over the vesting period. This view corresponds with View C of the proposed EITF.

The reached consensus, however, follows View A of the proposed EITF concluding that the cost of the total termination/retirement benefit should be accrued ratably over the service period beginning when the employee signs the ATZ contract and ending when the employee stops working.

We understand the FASB is interested in greater international comparability in the accounting and wants to make the accounting requirements for entities that report financial statements under both US-GAAP and the international accounting standards less burdensome.

Since the reached consensus will mainly affect the accounting for German companies, we suggest to coordinate accounting for ATZ early retirement programs with the IASB in order to achieve compliance between US-GAAP and international accounting standards.

Very truly yours,

sgnd. Dr. Klaus Patzak   sgnd. Dr. Elisabeth Schmalfuß