



Project:	AASB Work Plan 2017-2019	Meeting	AASB May 2017 (M157)
Topic:	Discounting of defined benefit plan liabilities in the public sector – project plan	Agenda Item:	3.7
Contact(s):	Shaun Steenkamp ssteenkamp@asb.gov.au 03 9617 7640 Clark Anstis canstis@asb.gov.au 03 9617 7616	Project Priority:	High
		Decision-Making:	High
		Project Status:	Project planning

Introduction

- As part of the feedback on ITC 34 *AASB Agenda Consultation 2017-2019*, some constituents requested the Board to consider the discount rate public sector entities are required to apply to long-term employee benefit liabilities, such as defined benefit liabilities. The key concern expressed was that the current requirement to use spot Government bond rates gives rise to significant volatility in profit or loss. Constituents also noted that the broader issue of the consistent selection of a discount rate in the public sector for long-term liabilities could also be considered.
- At its August 2016 meeting, the Board considered the feedback received and directed staff to prepare a project plan to investigate the issues raised. This agenda paper sets out the proposed project plan to assist the Board to form its views whether to add this project to the AASB work programme for 2017-2019 (addressed in Agenda Paper 3.0).¹

Project rationale, objective(s) and link to AASB strategy

Project rationale

(responds to RIS² questions *What is the problem you are trying to solve?* and *Why is government action needed?*)

- AASB 119 *Employee Benefits* requires not-for-profit public sector entities to use market yields on government bonds to discount their post-employment benefit obligations. In July 2015 the AASB noted a letter from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) expressing concern

¹ The staff recommendation as to whether the project should be added to the 2017-2019 work programme is included in Agenda Paper 3.0.

² Australian Government Regulation Impact Statement

about the use of a spot discount rate for their defined benefit obligations. The primary concern was that the spot rate is volatile and given the magnitude of defined benefit obligations in the public sector, caused significant volatility in the entity's profit or loss. Furthermore, using a spot rate does not reflect the manner in which these entities manage their defined benefit liabilities.

- 4 A number of constituents, including HoTARAC, requested that the AASB consider alternative discount rates that would more accurately reflect the manner in which public sector entities manage their defined benefit liabilities. Among the options suggested was an average, or long-term, rate to help reduce volatility. Whatever the chosen rate might be, it would be beneficial if that rate could be consistent (or be made consistent) with other long-term liability discounting requirements.

Project objective(s)

(responds in part to RIS question *Why is government action needed?* through clear identification of the objectives, outcomes or goals of this project)

- 5 The objective of this project is to investigate and consider whether any alternative discount rate could be prescribed when discounting long-term liabilities in the not-for-profit public sector, and if so, to develop the revised discount rate approach through the usual due process.

Link to AASB strategy

- 6 The Board's strategy for the period 2015-2019 identifies five strategic directions.³ This project is consistent with strategic direction 4 'facilitate and encourage active stakeholder participation in developing standards'. Undertaking the project shows that the Board responds to stakeholder feedback; thereby providing support to the Board's strategy of encouraging active stakeholder participation.

Project scope

- 7 Having regard to the feedback on ITC 34 and the proposed project objective, staff recommend the scope of this project is to:
- (a) identify the discount rates similar entities are required to apply in comparable jurisdictions;
 - (b) consider academic research concerning appropriate discount rates to apply to similar long-term liabilities;
 - (c) assess whether any alternatives identified are warranted given cost / benefit considerations for users and preparers; and
 - (d) develop and issue any amendments as necessary.
- 8 Staff recommend that the scope of the project **exclude** measurement of the defined benefit liability, or other long-term liability, other than determining the discount rate

3 The AASB Strategy 2015-2019 is available on the AASB website at:
http://www.aasb.gov.au/admin/file/content102/c3/AASB_Strategy_2015-2019.pdf.

noted above (for example, offsetting franking credits receivable against contributions taxes payable).

Staff assessment

- 9 Having regard to the proposed project scope, and project path/milestones, overall staff assess the project as:
- (a) Priority Medium
 - (b) Timing Not urgent
 - (c) Resource commitment Low
 - (d) Project length 1 year
 - (e) Project scale Implementation project (narrow-scope)

Key stakeholders

(Identification of key stakeholders will assist in planning for the RIS question *Who will you consult and how will you consult them?*)

- 10 Staff have identified the following as key stakeholders of the project:
- (a) not-for-profit public sector entities;
 - (b) ACAG;
 - (c) HoTARAC;
 - (d) public accounts review committees (public sector);
 - (e) IPSASB; and
 - (f) NZASB.

Project milestones

- 11 Staff have identified the following as key milestones of the project. These will be reassessed periodically and revised/extended to ensure the project path remains appropriate and the project can be adequately resourced.

Major project milestones	Staff comment
Present a project plan	Completed (this agenda paper)
Identifying the specific issues to be addressed by the project (refining project scope), and developing a proposal as to how remaining known concerns could be addressed	While the discount rate applied might appear narrow-scope, the selection of a discount rate is not. Staff will need to explore a number of alternatives to prescribe, if indeed a single discount rate is appropriate.
Develop communications strategy	Staff tentatively think this project may require significant additional

Major project milestones	Staff comment
	effort with respect to outreach activity and communication deliverables
Research – accounting in other jurisdictions (eg New Zealand, United Kingdom and the United States), in IPSAS Standards, and relevant academic research	This research activity is likely to require a moderate level of staff effort
Research – identify the different positions valuation experts and industry practitioners might take	Staff think this research activity is likely to require moderate staff effort
Analysis of approaches to addressing each specific measurement issue within project scope	Involve Panel as necessary to obtain feedback on the approaches. Extent of staff effort required will depend on the issues to be addressed as part of this project
Review of approaches for consistency with the Conceptual Framework, including identifying whether there is a case for departure, if necessary	Extent of staff effort required will depend on the approaches under consideration
GAAP/GFS analysis completed	Assistance from the ABS and the Department of Finance would be sought
<i>Indicative milestones</i>	
Develop an Exposure Draft (ED)	Involve Panel to develop guidance that is useful to preparers of financial statements
Board approves the ED	Board to determine an appropriate comment period; this may be 90 days
Review of stakeholder feedback on the ED	Extent of staff effort will depend in part on the communications strategy
Redeliberations on the ED completed	Depending on the feedback received, this may take between 1 – 2 Board meetings
Pre-ballot draft circulated for Board comment	Staff effort will be dependent on Board decisions from redeliberations
Ballot draft issued for voting	Staff effort will be dependent on Board feedback
Standard approved and issued	Minimal additional staff effort involved

Resources required

12 The following resources will be required:

Resources	Expected contribution
(a) Staffing – standard-setting	Technical director/Assistant – Medium Project manager/APM ⁴ /Intern – High
(b) Staffing – research	Research director – Low Project manager/Assistant/Intern – Low
(c) Project advisory panel	Staff recommend that the Financial Instruments panel be utilised for this project. Staff do not think a new panel is required specifically for this issue.
(d) Other	None

Factors that might add to complexity and length of the project

13 The IASB currently has a project to consider the discount rates applied in IFRS Standards. Although listed on the IASB’s work plan, the project has not been progressed since January 2016 and is not expected to progress further in the foreseeable future. Nevertheless, should the IASB’s project recommence it will have an impact on the project considered in this paper with the likely outcome being a delay.

Related AASB, IASB and IPSASB projects

14 Staff identified the following as current projects where the outcomes of which may affect, or could be affected by, this project:

Source	Project
AASB	<ul style="list-style-type: none"> • Service Concession Arrangements: Grantors • Public Sector Insurance Contracts
IASB	<ul style="list-style-type: none"> • Discount Rates
IPSASB	<ul style="list-style-type: none"> • None

Questions for Board members	
Q1	Do Board members agree with the proposed project objective and project scope set out in paragraphs 5, 7 and 8?
Q2	Do Board members have any other comments about the proposed project plan?

4 Assistant Project Manager