

**Collation and Analysis of Submissions on
IASB Exposure Draft ED/2009/10 *Discount Rate for Employee Benefits*
(proposed amendments to IAS 19)**

ID	Respondents
IAA	Institute of Actuaries of Australia
ABS	Actuarial Benefit Services
MMC	Mercer
NSWT	New South Wales Treasury
WWW	Watson Wyatt Worldwide
WC	Wayne Cannon
GT	Grant Thornton
HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
JAB	Joint Accounting Bodies – CPAA, ICAA and NIA

Question 1 – Discount rate for employee benefits

Agree	IAA, MCC, WWW, WC and GT
Disagree	ABS, NSW, HoTARAC and JAB

Agree

Constituents in favour of the IASB’s proposal generally agree with the IASB’s stated objective of consistency.

Disagree

The main reasons and alternatives given by constituents not in favour of the IASB’s proposal are as follows.

- (a) If the objective of the IASB is to improve consistency between all entities, then the change should be to require all entities to use the government bond rate. It would be consistent with the general thrust of IAS 19 for the discount rate to reflect the time value of money, which is likely to be better represented by government bond yields than corporate bond yields in most countries.
- (b) The IASB’s stated objective for greater consistency may not be achieved. The reference to the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* for determining fair value to determine the discount rate will require judgment and may lead to different rates being applied across jurisdictions, industries and entities.
- (c) The proposed amendments are not adequately justified in the ED and the IASB has not sufficiently analysed the implications of the amendments. The amendments are reactive and piecemeal and the IASB should defer consideration of this issue to form part of the IAS 19 *Employee Benefits* project, to prevent any further medium-term inconsistencies arising.

Staff comment

None of the matters raised warrant an amendment to the draft AASB comment letter.

Question 2 – Guidance on determining the discount rate for employee benefits

Agree	IAA, GT and HoTARAC
Disagree	ABS, MCC, NSW and JAB

Agree

Constituents in favour of the IASB proposal generally agree on the basis that it is a short-term measure until the IASB fundamentally reviews the accounting for employee benefits.

Disagree

Constituents not in favour of the proposal generally consider that using the guidance in IAS 39 for determining fair value to determine the discount rate still leaves room for subjectivity in cases where there is no deep market in high quality corporate bonds.

IAS 39 also does not address certain issues:

- (a) whether markets outside the jurisdiction should be considered;
- (b) how to identify what is regarded as a high quality corporate bond; and
- (c) whether weighting of different bonds is appropriate.

Staff comment

Staff recommend that issues concerning the use of IAS 39 for guidance be incorporated into the draft AASB comment letter. In particular, staff consider that the AASB comment letter should highlight the issue of whether the aim under an amended IAS 19 would be to determine yields on country-specific high quality corporate bonds or whether reference can be made to global markets. The existing paragraph 78 of IAS 19 states: “In countries where there is no deep market...”. Accordingly, the present intention seems to be to identify a discount rate based on country-specific information. However, it is proposed that these words be deleted, and the issue of country-specificity is not raised elsewhere in the IASB’s ED.

Question 3 – Transition

Most constituents are either supportive or have no comments about the proposed transition requirements.

The IAA considers that the reference to defined benefit liability in paragraph 156A(b) be clarified. Where the entity applies the corridor approach in the recognition of actuarial gains and losses the impact of a change on the defined benefit liability will differ from the impact on the defined benefit obligation.

Staff comment

Staff recommend that IAA's comment to be incorporated into the draft AASB comment letter.

On reconsideration of the proposed transitional provisions, staff also consider that the AASB should comment that the focus only on defined benefit liabilities may not be appropriate. Although paragraph 78 is worded in terms of 'post-employment benefit obligations' – the discount rate is also used in measuring:

- (a) contributions owed to a defined contribution plan not due within 12 months (paragraph 45 of IAS 19);
- (b) termination benefits not due within 12 months (paragraph 139 of IAS 19); and
- (c) any other long-term employee benefit liabilities (such as long-service leave).

Retain paragraph Aus78.1?

Yes	MCC, ABS, WC, GT, HoTARAC, JAB
No	IAA, NSW

General comments

Additional guidance is needed on the method of determining an appropriate corporate bond yield for the purpose of setting discount rates given there is no established deep market in Australia. There are various sources of corporate bond yield curves in Australia which can give different rates for similar terms. Without clearer guidance on the methodology, the discount rate will still be a potential source of significant variations in the measurement of employee benefit liabilities by entities within Australia.

The distinction between NFP public sector entities and non-NFP public sector entities may not be necessary as the key point is the standing of the public sector entity. If the public sector entity can be assumed to guarantee the benefit payments in all practical economic circumstances, then the government bond yield should be used.

The AASB should adopt paragraph 94 of IPSAS 25 for public sector entities which allows an entity to exercise judgement about whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds or by another financial instrument.

Agree with retaining existing paragraph Aus78.1

Some constituents believe that while the level of liabilities and service cost would be lower if the discount rate were based on corporate yields, that outcome would be conceptually incorrect and misleading. The difference in the value of liabilities between a private and public sector scheme with identical benefits is appropriate. The higher value of the public sector liability reflects the greater likelihood that its obligations will eventually be met. Consequently, the removal of paragraph Aus78.1 on the grounds of 'greater consistency' would actually produce an inappropriate outcome.

It is appropriate for NFP public sector entities to discount their employee benefit liabilities by reference to government bond yields as these are the public sector equivalent of high quality corporate bond yields.

Disagree with retaining existing paragraph Aus78.1

Retaining paragraph Aus78.1 means having greater inconsistency across entities in Australia. The only justification for requiring NFP public sector entities to use a different basis for determining the discount rate would be differential credit risk – but paragraph 79 explicitly excludes the consideration of entity specific risk in determining the discount rate.

Retaining paragraph Aus78.1 will result in NFP public sector entities placing a higher value on their employee benefit liabilities than private sector entities and non NFP public sector entities.