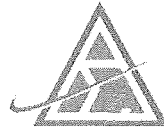


**List of Submissions to ED 187** *Exposure Draft ED/2009/10 Discount Rate for Employee Benefits (Proposed Amendments to IAS19)*

- 1 Institute of Actuaries of Australia
- 2 ABS (PL) Pty Ltd
- 3 Mercer (Australia) Pty Ltd
- 4 NSW Treasury
- 5 Watson Wyatt
- 6 Qld State Actuary
- 7 Grant Thornton



Institute of Actuaries of Australia

14 September 2009

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007  
AUSTRALIA

E-mail: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Mr Stevenson

**IASB Exposure Draft ED/2009/10  
AASB ED 187**

The Institute of Actuaries of Australia ("the Institute") is the sole professional body for actuaries in Australia. It represents the interests of over 1,400 fellows and 2,000 other members. Our members have had significant involvement in the development of insurance regulation, financial reporting and related practices in Australia over many years.

The Institute welcomes the opportunity to submit comments to the proposed changes to IAS 19/AASB 119. The Institute is broadly supportive of the proposed change to IAS 19/AASB 119 to eliminate the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds. We believe that the change will increase the comparability of financial statements across countries.

Our submission is provided in the context of the current divergence between government and corporate bonds, and the IASB's intention to review accounting for employee benefits more broadly in due course. We would encourage further consideration of the discount rates used across various standards. This submission is not intended to pre-empt the views that we might reach in such a review.

We address the specific matters for comment in the Appendices.

We would be happy to discuss any of the matters raised in this letter.

Yours Sincerely

Trevor Thompson  
President

cc IASB (via IASB website ([www.iasb.org](http://www.iasb.org)), using the 'Open to Comment' page.)

The Institute of Actuaries of Australia

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## **Appendix A: IASB Specific Matters for Comment**

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### **Question 1 – Discount rate for employee benefits**

*Do you agree that the Board should eliminate the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds? Why or why not? If not, what do you suggest instead, and why?*

We agree that the Board should eliminate the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds.

The current deep market test has led to variation in discount rates between countries to the point where it is practically impossible to compare employee benefits information between countries. Further it has resulted in significant inconsistency even within a single entity's financial statements where that entity supports plans in more than one country.

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

*For guidance on determining the discount rate, do you agree that an entity should refer to the guidance in IAS 39 Financial Instruments: Recognition and Measurement for determining fair value?\* Why or why not? If not, what do you suggest instead, and why?*

We agree with the proposal to refer to the guidance in IAS 39 and in the proposed fair value standard for determining the appropriate discount rates. We agree for a given bond the fair value and discount rate are related and one can be determined once the other is known. It is appropriate that when effectively a valuation of the same instrument is being sought by two different standards, the value will be determined consistently.

However, we note that IAS 39 and the proposed new standard provide guidance on the valuation of specific instruments. Neither deals with the situation where the yield on an unspecified generic corporate bond is required. Therefore we believe that there is a place for further guidance linking the generic corporate bond in IAS 19 with real world instruments that can be valued using the principles in IAS 39.

We also note that the broad terms of IAS 39 and the proposed standard will lead to some inconsistency between entities as judgements are made about an appropriate base interest rate, yield curve and credit adjustment.

We agree with the IASB's comment that the goal of greater global consistency outweighs the need for greater professional judgement at the local level. While some inconsistency will remain in the final result it is likely to be less than under the current rules.

### **Question 3 – Transition**

*The Board considered whether the change in the defined benefit liability (or asset) that arises from application of the proposed amendments should be recognised in retained earnings or as an actuarial gain or loss in the period of initial application (see paragraph BC10). Do you agree that an entity should:*

- a. *apply the proposed amendments prospectively from the beginning of the period in which it first applies the amendments?*



- b. *recognise gains or losses arising on the change in accounting policy directly in retained earnings? Why or why not? If not, what do you suggest instead, and why?*

In the first instance we would suggest that the reference to the defined benefit liability in paragraph 156A(b) be clarified. Where the entity applies a corridor in the recognition of gains and losses the impact of a change on the defined benefit liability will differ from the impact on the defined benefit obligation. We assume that the IASB intends to recognise the net change in the defined benefit obligation as an adjustment to retained earnings where the corridor method is applied.

Subject to that clarification, we support the transitional approach proposed, being:

- Commencing from the beginning of the period in which the entity first applies the amendments, with
- Immediate recognition of gains or losses through retained earnings,

where there was not a deep market in corporate bonds at the time of the entities originally transitioned to IAS 19. Had this amendment applied at the time of transition, the impact on retained earnings would have been calculated using a corporate bond yield, hence it is appropriate for the impact of the move from a government to a corporate bond yield to be included in retained earnings.

Where the transition was on the basis of a corporate bond yield and following transition it was decided that there was no longer a deep market in corporate bonds, that change would have been included in actuarial gains and losses. Hence it would be appropriate this amendment to reverse the change to actuarial gains and losses.



## **Appendix B: AASB Specific Matters for Comment**

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2. *The AASB would particularly value comments on whether:*

- a. *there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to not-for-profit entities;*

We are not aware of any regulatory issues, in respect of not-for-profit or any other entities that will affect the implementation of the proposals.

The main other issue that may arise in the Australian environment is that there are limited long-duration high quality bonds in the Australian market, there may be some variation in the methods used to determine the yield on such bonds. We believe that this issue can be relatively easily resolved through some guidance from the IASB.

- b. *overall, the proposals would result in financial statements that would be useful to users; and*

We believe that overall the proposals result in financial statements that would be more useful for users as they are more widely comparable.

- c. *the proposals are in the best interests of the Australian economy.*

Given that the proposals will make the financial statements of Australian companies more widely comparable with similar organisations globally, we believe that the proposals are in the best interests of the Australian economy.

3. *Paragraph Aus78.1 of AASB 119 requires not-for-profit public sector entities to discount post-employment benefit obligations denominated in Australian currency using market yields on government bonds. The AASB has tentatively decided to retain paragraph Aus78.1. The AASB would value comments on:*

- a. *its decision to retain paragraph Aus78.1; and*
- b. *in the limited context of the IASB's objective to have greater consistency, the manner in which not-for-profit public sector entities should discount long-term employee benefit liabilities and the basis for any suggestions.*

In the context of the IASB's objective to have greater consistency we do not agree with the proposal to retain Aus78.1. We acknowledge that a high-quality corporate bond yield may not seem an appropriate choice of discount rates for not-for-profit public sector entities. However, we would encourage the AASB to raise the broader issue of inconsistency in discount rates across standards with the IASB rather than taking action in this particular instance.

14 September 2009

14 September 2009

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007

E-mail: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Chairman

## ED187 – Discount Rate for Employee Benefits AASB119

Thank you for the opportunity to comment on proposed changes to AASB119. My views reflect my position as an actuary who performs valuations for small and medium entities.

### Previous IASB Conclusions

I note that in the document titled “*International Accounting Standard IAS 19- Employee Benefits - January 2008 (incorporating amendments from IFRSs issued up to 17 January 2008) - BASIS FOR CONCLUSIONS*”. The IASB stated in BC31

“The Board has not identified clear evidence that the expected return on an appropriate portfolio of assets provides a relevant and reliable indication of the risks associated with a defined benefit obligation, or that such a rate can be determined with reasonable objectivity. Therefore, the Board decided that the discount rate should reflect the time value of money but should not attempt to capture those risks. Furthermore, the discount rate should not reflect the entity’s own credit rating, as otherwise an entity with a lower credit rating would recognise a smaller liability. The rate that best achieves these objectives is the yield on high quality corporate bonds. In countries where there is no deep market in such bonds, the yield on government bonds should be used.”

However, in the Introduction to this international ED, the IASB states:

“Introduction: IAS 19 Employee Benefits requires an entity to determine the rate used to discount employee benefit obligations with reference to market yields on high quality corporate bonds at the end of the reporting period. However, when there is no deep market in such bonds, IAS 19 requires an entity to use market yields on government bonds instead. The use of these different rates means that entities with similar employee benefit obligations can report them at very different amounts. The significant widening of the spread between yields on corporate bonds and yields on government bonds as a result of the global financial crisis has considerably increased this effect.”

Comment: It seems that these two “basis for changes” are at odds. It appears that the significant widening of the gap between government and corporate bond yields as a result of the GFC, is because of the increased relative riskiest of high quality corporate bonds compared to government bonds (ie or, the increase in corporate yields corresponds to an (implicit) lower credit rating due to future uncertainty of corporate returns.)

Comment: 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, whether or not there exists a suitably deep and liquid market in corporate bonds. Using government bond yields (or often referred to as the risk free rate) would avoid all components risk. Using corporate bond yields as a starting point still includes a component of "risk". It may better to allow specifically for this risk (and other risks) elsewhere.

### Australian Version

AUS78.1 in an earlier version of AASB119 (1 January 2005) stated that Australia does not have a sufficiently active and liquid market for high quality bonds:

"Aus78.1 In applying the requirement in paragraph 78, Australia does not have a sufficiently active and liquid market for high quality corporate bonds. Accordingly, market yields on government bonds shall be used to discount post-employment benefit obligations denominated in Australian currency."

Although the current version of AASB119 (1 January 2007) varied Aus78.1 to refer only to not-for-profit entities, paragraph 78 still included:

"78. .... In countries where there is no deep market in such bonds, the market yields (at the reporting date) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations."

Comment: In my experience valuing long term employee benefits in Australia, the most common interpretation was that Australia did not have a sufficiently active and liquid market for high quality corporate bonds, and as such, the government bond rate was used in most cases. The government bond rate is:

1. Publicly available
2. Accessible at the valuation date
3. Not subjective (except perhaps for durations longer than 10 years)

Comment: Based on my experience, moving from using the Commonwealth Government bond rate to using the rates reflected in "high quality corporate bonds" will introduce greater subjectivity and therefore greater disparity between entities, which seems at odds with the stated reasons for the change.

Comment: If the proposed changes are adopted in Australia then the AASB should:

1. Define what "high quality corporate bonds" means in Australia. [Note here that, the GFC has caused some "high quality corporate entities" to possibly lose their standing of high quality? How would these changes to what may be defined "high quality" be reflected in the yields adopted from period to period?]
2. Declare whether it considers Australia has an appropriate market for high quality bonds. (So that at least this presumption is consistent across valuers.)

3. Provide guidance as to where public information can be obtained efficiently at each valuation date, so that the subjectiveness of the assessments of the adopted discount rates can be reduced.

### Answers to Specific IASB Questions

Question 1: Do not support the proposed change to eliminate government bonds. Change should be to require the use of government bonds for all entities, and possibly include a proviso which gives an entity the option to value at other (higher) rates with sufficient justification and quantitatively disclosing the difference in the notes to the financial statements.

Question 2: Still leaves room for greater subjectivity in cases where there is no deep market in high quality corporate bonds.

Question 3: No strong opinion on this issue. It is simply a change in assumption and should be treated consistent with any other change in actuarial assumption.

### AASB Specific Matters for Comment

Question 1: In Australia, it is my experience that government bonds rates are the most common basis for the discount rate under AASB119 and therefore there may already be a significant level of consistency in Australia. (A survey of large accounting firms' experiences could provide more accurate data on this assertion.)

Question 2: Some issues specific to the Australian environment were discussed previously on Page 2. In Australia, moving to a discount rate based on "high quality corporate bonds" would likely:


1. lead to a reduced liability in most cases (where corporate bond yields are greater than the risk-free government bond yields)
2. lead to greater subjectivity (and therefore greater variability) in discount rate between entities
3. could lead to greater pressure on valuers to use a "higher" discount rate, since objective, market data less available, which increases scope for "judgement"


Please feel free to forward this submission to the IASB if deemed suitable.

Sincerely



Corinna Lueg

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**David Knox**  
Senior Actuary

**MERCER**



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14 September 2009

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
VIC 8007  
By email: standard@asb.gov.au

Dear Sir,

**AASB Exposure Draft ED 187: Discount Rate for Employee Benefits (proposed amendments to AASB 119)**

Mercer is pleased to respond to the Australian Accounting Standards Board's call for comments on Exposure Draft 187 in relation to AASB 119 and the discount rate used to value employee benefits.

Mercer is in broad agreement with the changes proposed, as they will encourage greater consistency in the valuation of employee benefits in different countries.

However, we do have some reservations about:

- potential differences in methods used by entities within a country to determine an appropriate corporate bond yield; and
- if paragraph Aus78.1 of AASB 119 is retained, potential inconsistencies that will be created between different public sector entities, and between not-for-profit public sector entities and private sector entities.

We note a dilemma in the application of AASB 119 to both public and private sector entities. Whilst we agree that by using corporate bond yields as the basis for discount rates there is greater consistency between countries, the use of corporate bond yields is not inherently appropriate for public sector entities. However, if there is a distinction between the discount rates used for public and private sector entities, this will give rise to different valuations under the same accounting standard for similar liabilities depending on the type of entity. This is also difficult to justify.

There are a number of possible ways of resolving this issue, including:



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- excluding public sector entities from the application of AASB 119;
- adopting the International Public Sector Accounting Standard for Employee Benefits (IPSAS 25) for public sector entities;
- deleting paragraph 78.1 from AASB 119; or
- requiring public sector entities to discount employee benefit liabilities at an alternative rate, such as an expected investment earning rate or a long-term bond rate (eg 6% pa).

Our comments on the specific questions raised in the AASB and IASB Exposure Drafts follow.

## **AASB Issues**

*2. The AASB would particularly value comments on whether:*

*(a) there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to not-for-profit entities;*

We are not aware of any regulatory issues affecting the implementation of the proposals.

However, we believe that there needs to be additional guidance given 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 (including the Commonwealth Bank, UBS and Bloomberg), which can give different rates for similar terms. Data for durations of more than 5 years is limited. In addition, swap rates at different durations are available. Depending on the particular source used (or if an alternative method is used to generate a corporate bond yield from the yields on specific bonds), entities could select different discount rates even if the duration of their liabilities is the same. Without clearer guidance on the method for setting discount rates, there will still be the potential for significant variations in the valuation of employee benefit liabilities by entities within Australia.

We suggest that the AASB and representatives from the accounting and actuarial professions in Australia agree on a standard approach to setting discount rates for AASB 119 purposes.



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*(b) overall, the proposals would result in financial statements that would be useful to users; and*

We believe that in general the proposals will result in financial statements that are of more use to readers, in particular by improving the comparability between entities in different countries.

*(c) the proposals are in the best interests of the Australian economy.*

Subject to the comments below relating to the impact of the changes on public sector entities, we believe that the proposals are broadly in the best interests of the Australian economy.

*3. Paragraph Aus78.1 of AASB 119 requires not-for-profit public sector entities to discount post-employment benefit obligations denominated in Australian currency using market yields on government bonds. The AASB has tentatively decided to retain paragraph Aus78.1. The AASB would value comments on:*

*(a) its decision to retain paragraph Aus78.1;*

The proposal will result in not-for-profit public sector entities placing a higher value on their employee benefit liabilities than private sector entities and non not-for-profit public sector entities if paragraph Aus78.1 is retained. We question whether this is a desired outcome.

We acknowledge that it was initially decided that the Australian equivalents to International Financial Reporting Standards should cover public sector entities as well as private sector entities; even though this is not the case in other countries (a separate set of International Public Sector Accounting Standards exists, including IPSAS 25 relating to accounting for employee benefits). The proposed change to IAS 19 means that it is less applicable to public sector entities, and it may therefore be necessary to reconsider the scope of AASB 119 and whether it should continue to apply to public sector entities. An alternative could be to adopt IPSAS 25 for public sector entities.

On the basis that public sector entities continue to be covered by AASB 119, the retention of paragraph Aus78.1 will create a distinction between not-for-profit public sector entities (which will continue to discount liabilities using government bond yields) and other public



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sector entities, which will use corporate bond yields. Assuming this is the intention, there will need to be a clear distinction between the two groups of public sector entities.

A not-for-profit entity is defined in Australian accounting standards as an entity whose principal objective is not the generation of profit. Privatisation of government entities has given rise to a large number of entities with different characteristics. It is often not clear whether their aim is profit generation or not. Therefore at a minimum we recommend that the AASB clarify the criteria that must be met for an entity to classify itself as not-for-profit.

We are also aware of one State government that defines entities falling within the defined General Government Sector as not-for-profit, and the remainder are deemed for-profit. Such a distinction highlights the inconsistencies that will arise under AASB 119 for different public sector entities.

*(b) in the limited context of the IASB's objective to have greater consistency, the manner in which not-for-profit public sector entities should discount long-term employee benefit liabilities and the basis for any suggestions.*

We believe that it is appropriate for not-for-profit public sector entities to discount their benefit liabilities using government bond yields, as these are the rates at which they would borrow money in the marketplace.

## **IASB Issues**

### **Question 1: Discount rate for employee benefits**

*Do you agree that the Board should eliminate the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds? Why or why not? If not, what do you suggest instead, and why?*

We support the removal of the requirement to set discount rates using government bond yields in countries without a deep market in corporate bonds.

However, the IASB should be aware that public sector entities in Australia are covered by the Australian equivalent to IAS 19 (AASB 119), whereas we understand that public sector entities are not covered by IAS 19 in the majority of other countries that have adopted International Financial Reporting Standards. AASB 119 currently includes a specific



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paragraph that requires not-for-profit public sector entities to value liabilities using government bond yields.

Assuming this paragraph is retained in AASB 119, the change will result in public sector entities that are not classified as not-for-profit public sector entities discounting benefit liabilities using corporate bond yields whereas not-for-profit public sector entities will be required to use government bond yields. There will be an inconsistency in the discount rates used by not-for-profit public sector entities and all other entities.

**Question 2: Guidance on determining the discount rate for employee benefits**

*For guidance on determining the discount rate, do you agree that an entity should refer to the guidance in IAS 39 Financial Instruments: Recognition and Measurement for determining fair value? Why or why not? If not, what do you suggest instead, and why?*

We believe that there needs to be clearer guidance for determining an appropriate corporate bond yield in countries with no deep market to meet the objective of improved comparability between entities. Whereas government bond yields are readily available, corporate bond yields must be estimated, and a judgement made about the best source of yields or the most appropriate methodology to use to determine an appropriate yield. We believe that the guidance in IAS 39 still leaves the determination of yields open to wide interpretation, and hence entities in the same country could use different discount rates even if the duration of liabilities is the same.

**Question 3: Transition**

*The Board considered whether the change in the defined benefit liability (or asset) that arises from application of the proposed amendments should be recognised in retained earnings or as an actuarial gain or loss in the period of initial application (see paragraph BC10). Do you agree that an entity should:*

*(a) apply the proposed amendments prospectively from the beginning of the period in which it first applies the amendments?*

We agree that the amendments should only apply prospectively to minimise the costs associated with implementing the change.

*(b) recognise gains or losses arising on the change in accounting policy directly in retained earnings? Why or why not? If not, what do you suggest instead, and why?*

# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

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We also agree that the initial impact of the change should be recognised in retained earnings. As it is a change to the wording and application of the standard, it does not seem appropriate that the impact should affect profit and loss.

## **About Mercer**

Mercer is one of the leading providers of actuarial, consulting and administrative services to superannuation funds in Australia. We also operate one of Australia's largest superannuation master trusts. We have a large client base of employers contributing to defined benefit public sector and corporate superannuation funds to which we provide financial reporting information in accordance with AASB 119. Indeed we have the largest number of superannuation actuaries in Australia who prepare AASB119 reports for their clients.

Should you have any questions about the above comments or wish to discuss the matter further, please contact me on (03) 9623 5464.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dr David Knox'.

**Dr David Knox**  
**Senior Actuary**



New South Wales  
TREASURY

Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
COLLINS ST WEST VIC 8007

Contact: D. McHugh  
Telephone: (02) 9228 5340  
Our Reference:  
Your Reference:

14 September 2009

Dear Mr Stevenson

**AASB ED 187 / IASB ED 2009/10 Discount Rate for Employee Benefits**

The New South Wales Treasury welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on Exposure Draft AASB 187 *Discount Rate for Employee Benefits*. Detailed comments to the International Accounting Standards Board (IASB) on the equivalent IASB ED 2009/10 are attached.

NSW Treasury does not support the proposal to omit reference to the government bond rate in AASB 119 / IAS 19, and instead believes that reference should be omitted to the high quality corporate bond rate.

NSW Treasury agrees that, in principle, the IASB should come up with a consistent discount rate. However, we do not believe that the high quality corporate bond rate is the relevant rate, as this is inconsistent with the existing principles in IAS 19, which is based on the time value of money, excluding actuarial, investment or entity specific credit risk. The discount rate that is most consistent with this principle is the government bond rate, as the best indicator of the risk free rate in most countries.

Notwithstanding this, we believe that if the IASB's proposal proceeds and high quality corporate bond rates are adopted, then this should be applied by the AASB to *all* entities, as there is no justification for any differential treatment for not-for-profit public sector entities. The only argument for a different treatment is based on the different credit risk of the public sector compared to the private sector. Under the existing Standard, however, this is not a valid reason for any difference in the discount rate, as para 79 explicitly excludes the consideration of entity specific risk in determining the discount rate.

If the AASB does not apply the high quality corporate bond rate to *all* entities, assuming the IASB proposal proceeds, this will result in a perverse outcome, whereby the public sector will recognise higher unfunded liabilities than the private sector, solely because the government bond rate is lower than the high quality corporate bond rate, even where in all other respects the liability may be identical. Therefore, this approach would increase inconsistency within Australia.

In the longer term, NSW Treasury shares the views of the Heads of Treasuries (HoTs) that improvements could be made to the requirements in Aus78.1 as HoTs noted in its letter dated 4 August 2009.

NSW Treasury is not aware of any regulatory impediments to implementation of the changes. We offer no comment about whether the changes are in the best interests of the Australian economy.

If you have any queries regarding NSW Treasury's comments, please contact me on 02 9228 3019 or Dianne McHugh on 02 9228 5340.

Yours faithfully

A handwritten signature in cursive script that reads "R Williams".

Robert Williams  
for Secretary



New South Wales  
TREASURY

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon St  
London EC4M 6XH  
United Kingdom

Contact: D., McHugh  
Telephone: (02) 9228 5340  
Our Reference:  
Your Reference:

14 September 2009

Dear Sir David

ED 2009/10 Discount Rate for Employee Benefits

New South Wales Treasury welcomes the opportunity to provide comments to the International Accounting Standards Board (IASB) on the Exposure Draft: *Discount Rate for Employee Benefits*. Detailed comments are attached.

NSW Treasury does not support the proposal to omit reference to the government bond rate in IAS 19, and instead believes that reference should be omitted to the high quality corporate bond rate.

NSW Treasury agrees that, in principle, the IASB should come up with a consistent discount rate. However, we do not believe that the high quality corporate bond rate is the relevant rate because, this is inconsistent with the existing principles in IAS 19, which is based on the time value of money, excluding actuarial, investment or entity specific credit risk. The discount rate that is most consistent with this principle is the government bond rate, as the best indicator of the risk free rate in most countries.

However, we are of the opinion that even if it is accepted that the high quality corporate bond rate is the appropriate discount rate, the IAS 39 fair value guidance and the *Fair Value Measurement* Exposure Draft does not provide sufficient practical guidance to achieve the Board's objective of a more consistent outcome. This is because this guidance does not address significant issues such as how to identify what is regarded as a high quality corporate bond.

If you have any queries regarding NSW Treasury's comments, please contact myself on 612 9228 3019 or Dianne McHugh on 612 9228 5340.

Yours faithfully

Robert Williams  
for Secretary

## NSW Treasury Response to IASB ED 2009/10 Discount Rate for Employee Benefits

### **Question 1 – Discount rate for employee benefits**

*Do you agree that the Board should eliminate the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds? Why or why not? If not, what do you suggest instead, and why?*

Disagree. NSW Treasury believes that IAS 19 should not omit reference to the government bond rate. Instead IAS 19 should omit reference to the high quality corporate bond rate.

NSW Treasury agrees that, in principle, the IASB should come up with a consistent discount rate. However, we do not believe that the high quality corporate bond rate is the relevant rate because this is inconsistent with the existing principles in IAS 19. That is, the principle in IAS 19, para 79, is based on the time value of money, excluding actuarial, investment or entity specific credit risk. The discount rate that is most consistent with this principle is the government bond rate, as the best indicator of the risk free rate (except in countries where the government has a lower credit standing than the entity). We believe that the use of the high quality corporate bond rate is inappropriate in most countries as the rate incorporates risk.

This view is also consistent with the IAS 39, para AG82(a), which refers to the 'time value of money' and the government bond rate as the risk free rate.

We also believe that the use of the government bond rate increases consistency, compared to the use of the high quality corporate bond rate, as it eliminates the difficulty in estimating a high quality corporate bond rate in countries where there is no deep market. We are not convinced that using an estimated high quality corporate bond rate where there is no deep market results in an increase in consistency. This is further discussed in response to Question 2.

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

*For guidance on determining the discount rate, do you agree that an entity should refer to the guidance in IAS 39 Financial Instruments: Recognition and Measurement for determining fair value? Why or why not? If not, what do you suggest instead, and why?*

Disagree.

As discussed in the response to Question 1 above, we believe that reference to the IAS 39 fair value guidance, para AG82(a), is inconsistent with the ED's proposal to eliminate reference to the government bond rate. That is, the IAS 39 guidance infers that the time value of money, which is the principle underlying IAS 19, is indicated by the government bond rate, except in countries where an entity has a better credit standing than the central government.

Further, even if it is accepted that the high quality corporate bond rate is the appropriate discount rate, the IAS 39 material does not provide sufficient practical guidance to calculate the estimated market yields on high quality corporate bonds, where there is no deep market. This is because this guidance does not address significant issues such as:

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

Without this guidance, we do not believe that the Board will achieve its objective of a more consistent outcome. Further, we do not believe that the guidance in the Fair Value measurement exposure draft will resolve this issue.

### **Question 3 – Transition**

*The Board considered whether the change in the defined benefit liability (or asset) that arises from application of the proposed amendments should be recognised in retained earnings or as an actuarial gain or loss in the period of initial application (see paragraph BC10). Do you agree that an entity should:*

- (a) apply the proposed amendments prospectively from the beginning of the period in which it first applies the amendments?*
- (b) recognise gains or losses arising on the change in accounting policy directly in retained earnings?*

*Why or why not? If not, what do you suggest instead, and why?*

NSW Treasury agrees with the IASB's comments in its Basis for Conclusions for both (a) and (b).

### **Other comments**

NSW Treasury is concerned regarding the short time frame for comment. Given that this will have major impacts on countries that use the government bond rate, we believe that this issue should have been considered as part of a normal due process, to ensure a more thorough consideration and justification for the changes. We believe that this proposal should be considered as part of the other proposed amendments to IAS 19 which will be exposed for comment later this year.



14 September 2009

Australian Accounting Standards Board  
Level 7  
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MELBOURNE VIC 3000

By email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

To whom it may concern

**Watson Wyatt Australia's response to IASB Exposure Draft "Discount rate for Employee Benefits (proposed amendments for IAS 19)"**

In Australia, Watson Wyatt is one of the leading actuarial and employee benefit consulting firms, providing superannuation and actuarial consulting services in respect of both defined benefit and defined contribution superannuation plans.

Watson Wyatt commenced business in Australia in 1982 and since then has grown substantially. We have offices in Melbourne and Sydney, with approximately 120 associates. We employ approximately 20 qualified superannuation actuaries and approximately a further 30 consultants and actuarial analysts who are studying towards the full actuarial qualification. We are the appointed actuary to more than 40 defined benefit corporate superannuation funds in Australia.

Globally, Watson Wyatt is submitting a response to the IASB regarding this Exposure Draft. Therefore, the comments in this response to the AASB have focused more specifically on the Australian application of the intended standard.

In this submission, we have:

- Responded to the specific Matters for Comment as requested by the AASB.
- Provided some analysis of the Australian corporate bond market.
- Made recommendations for consistent Australian implementation.
- Requested clarification for one specific area of the Exposure Draft.



## AASB Specific Matters for Comment

Below, we have responded to the Australian Accounting Standards Board's specific "Matters for Comment", being:

1. *The IASB Exposure Draft contains proposals to eliminate the use by preparers of different discount rates by deleting from paragraph 78 of AASB 119 Employee Benefits the reference to using market yields on government bonds. Paragraph BC7 of the IASB Exposure Draft explains that the IASB has not yet considered whether the measurement of employee benefit obligations could be improved more generally and, in particular, the IASB has not yet considered whether the yield on high quality corporate bonds is the most appropriate discount rate for post-employment benefit obligations. The IASB's objective for publishing these proposals is only to introduce more consistency into the existing requirements.*

To obtain global consistency, Watson Wyatt Australia support the removal of the requirement to set discount rates according to government bond yields in "non deep" bond markets.

It is our understanding that it is the intent of the IASB to align all companies' reporting globally to high quality corporate bond yields (as required by the marked-up wording of paragraph 78 attached to the exposure draft). This is the basis on which the exposure draft has been communicated by the IASB.

There are some legitimate practical concerns in Australia, for example that the need for local judgement will result in less domestic consistency than currently obtained under AASB119. Therefore, achieving both local and global consistency will be dependent on the development of some form of localised and common guidance. We believe many Australian professional firms will be interested in preparing such common guidance (please see our later comments, under "Recommendations for Implementation").

We note that the AASB has flagged the comments in BC7 and agree that any fundamental review of IAS19 should consider the discount rate requirements in more detail and have therefore assumed in this response that the AASB will align AASB119 to avoid any divergence with the intended changes to IAS19.

2. *The AASB would particularly value comments on whether:*
  - (a) *there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to not-for-profit entities;*
  - (b) *overall, the proposals would result in financial statements that would be useful to users; and*
  - (c) *the proposals are in the best interests of the Australian economy.*



In the Exposure draft, the IASB has commented that the goal of greater global consistency outweighs the need for greater professional judgement at the local level.

Given this goal:

- We recommend that the discount rate provisions of AASB119 be aligned with IAS19 (any divergence would reduce consistency globally, and introduce duplicate reporting for Australian subsidiaries of multinationals reporting under IAS19). This will result in a (proxy) AA rated corporate bond being adopted globally.
- The exposure draft references the principles in IAS39 for guidance when setting discount rates. IAS39 is very broad and will permit a range of different approaches. This will mean that IAS39 will allow divergence in professional practice to emerge, undermining the “consistency” goal within the country (and potentially increasing the costs of preparing AASB119 disclosures as professionals reconcile differing approaches which comply with IAS39). We have therefore addressed this issue under “Recommendations for consistent Australian implementation” (see below).
- The Australian experience has shown that convergence of practice has not automatically emerged if the debate is left to the local auditors and actuaries. For example, a key Australian learning has been that the treatment of investment taxes has still not converged, five years after the effective implementation of IAS 19. The measurement of published Defined Benefit Obligations of Australian companies therefore continues to differ. Importantly, we would expect that similar differences will emerge following this exposure draft without sufficient Australian guidance.

3. *Paragraph Aus78.1 of AASB 119 requires not-for-profit public sector entities to discount post-employment benefit obligations denominated in Australian currency using market yields on government bonds. The AASB has tentatively decided to retain paragraph Aus78.1. The AASB would value comments on:*

- (a) its decision to retain paragraph Aus78.1; and*
- (b) in the limited context of the IASB’s objective to have greater consistency, the manner in which not-for-profit public sector entities should discount long-term employee benefit liabilities and the basis for any suggestions.*

We note that the AASB has tentatively decided to retain paragraph Aus 78.1 requiring not-for-profit public sector entities to set discount rates based on government bond yields. There are technical arguments which will either support or oppose this proposal depending on the AASB’s key objective for AASB119. This highlights the key issue of whether the yield on high quality corporate bonds is the most appropriate discount rate for post-employment benefit obligations, which should be addressed globally as part of the IASB’s wider review.



## 2. Review of Australian corporate bond market

In the Appendix to this submission we set out extracts of our recent analysis of the Australian corporate bond market. It can be seen from the Appendix that actuaries and auditors will need to work through some (often unclear and conflicting) issues when setting discount rates based on corporate bond yields in Australia.

## 3. Recommendations for consistent Australian implementation

The Appendix highlights several practical (but differing) approaches that could be considered by a working committee in Australia. However, in our view none of the issues outlined in the Appendix are beyond resolution, or should be taken as reasons **not** to adopt the exposure draft's key recommendations.

We strongly recommend that the AASB facilitate a working committee of industry representatives to establish specific Australian guidance (having consideration to Australian conditions). In particular, we recommend that:

- The working committee review available local market conditions and available data and develop an appropriate and common methodology for setting discount rates for AASB119 purposes.
- Such guidance could be considered mandatory, or even “safe harbour” guidance (i.e. which a practitioner could apply, and be confident that the principles could not be challenged).

We are aware that local accounting standard boards have preferred to remain “principles-based” in the past and we understand that there may be practical limitations on the AASB’s ability to drive such detailed analysis. Therefore, the above recommendation is specifically intended to involve the AASB but be driven by the industry participants with an expectation that some commonly agreed working principles are determined.

Our firm, like those of auditors and other actuaries, would be prepared to contribute to a mandated AASB facilitated working committee. In our view, the upfront investment of time in such a committee will substantially reduce future advisory costs and lead to Australian consistency more quickly.



#### 4. Area for clarification within Exposure Draft

We note there appears to be an inconsistency in certain materials made available by the IASB regarding the prospective application. In our global submission, we will be seeking the IASB's clarification of this:

- Under paragraph 156A and BC9 of Exposure Draft, it states that any resulting net change in the defined benefit liability (or asset) is adjusted through retained earnings at the beginning of that period and disclose the amount of that adjustment;  
  
In the case of an early adopter, we have taken this to mean that the 2009 accounts would include changes to the *beginning of year Defined Benefit Obligation* (with a retained earnings adjustment at that point), and the *2009 service cost and interest cost will be restated* to be on a "high quality corporate bond" basis.
- However, in a summary on the IASB website, it states that "Entities would apply the proposed amendment prospectively from the end of the accounting period in which the amendment is adopted, with any adjustment arising from the change in accounting policy going direct to retained earnings" (Please refer to <http://www.iasb.org/Current+Projects/IASB+Projects/Post-employment+Benefits+%28including+Pensions%29/Discount+rate+for+Employee+Benefits/Discount+rate+for+Employee+Benefits.htm>)  
  
The summary therefore suggests that an early adopter would adjust its 2009 *end of year Defined Benefit Obligation* only, presumably *without restating the 2009 service cost and interest cost* (i.e. it would first impact Profit and Loss in 2010).

In Watson Wyatt's global submission, will be asking that the IASB clarify its intent. We have a preference for making the adjustment at the **end** of the accounting period as this is consistent with a prospective approach and we do not see any added value in restating the prior year's service cost and interest cost.

\* \* \* \* \*

We would welcome the opportunity to further discuss the points raised in this submission with the AASB.

Yours sincerely

Philip Collins  
Principal  
Watson Wyatt Australia

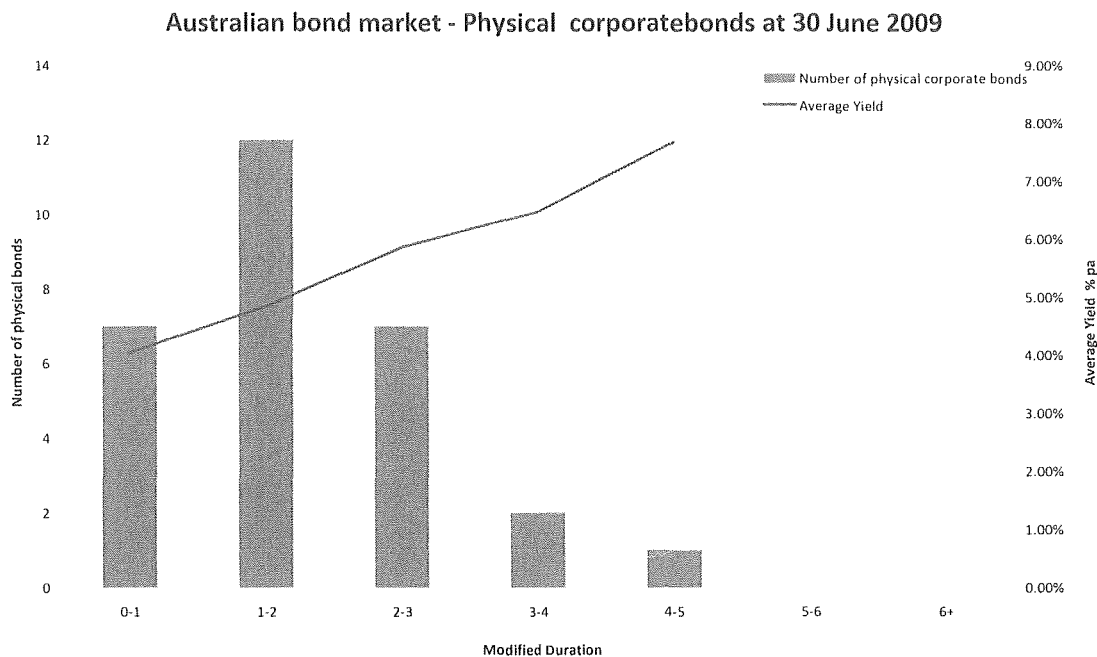
Brad Jeffrey  
Director  
Watson Wyatt Australia



## Appendix

### Review of Australian corporate bond market

- Market corporate bond data is often sparse at best. Chart 1 below shows the number of AA corporate bonds available in Australia at 30 June 2009.



Source: UBS AG

The number of existing corporate bonds on issue is often very small, particularly at the longer durations required to measure retirement benefit obligations. There are currently no AA rated corporate bonds with terms to maturity of greater than 5 years. Those that are longer dated are lower rated than AA.

The typical duration of an Australian DB Plan is 8-12 years. The lack of available bonds at this duration is therefore a challenge in discount rate setting (as is reliance on the yields of the small number of bonds that *do* exist at the 4-5 durations).

- Where some bond data exists, the trading volumes of such bonds are almost always extremely small. “Rate sheets” maintained by investment banks in Australia market places are best estimates by those institutions only. Such rates sheets are updated based on any trading activity in Australia, but also movements in overseas bond markets and credit spreads. Whilst each “rate sheet” reflects UBS’ market assessment of corporate bond yields, it should not be taken to imply that a trade could actually be undertaken at such yields. Yields actually obtainable in the marketplace if a physical bond trade was actually initiated will often differ.

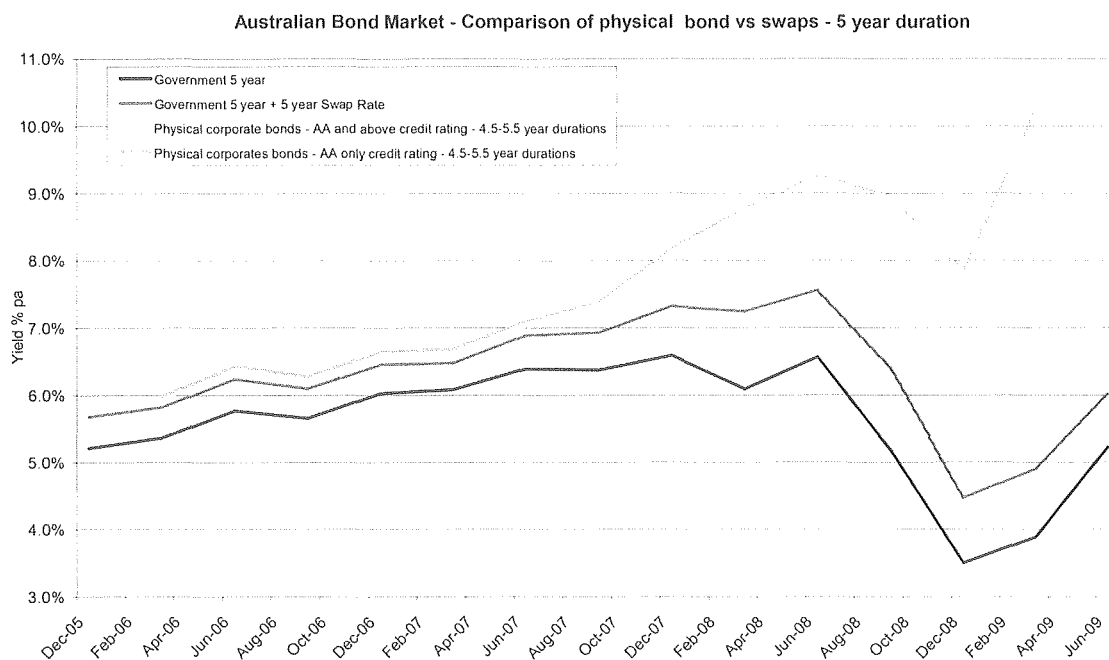


- Other markets could be used to determine an implied corporate bond spread, such as the yields on interest rate swap securities.

In the Australian market place, the advantages of using swap yields are:

1. Longer terms – it is possible to obtain swap rates for terms of up to thirty years.
2. Trading volumes are substantially higher than physical corporate bond markets. Given the illiquidities of the market, the aim of this approach is to determine an objective proxy for the credit spread which maximises the amount of market data (as far as possible) objectively determines the proxy.

Such a “soft spread” could then be applied on top of government bond yields. This methodology would meet the (broadly worded) provisions of IAS39. The relationship between the corporate bonds implied, versus (any available) actual corporate bonds available will differ, often significantly where bond markets become distressed (as has been the case over the last year) as demonstrated in the graph below.



Sources: RBA, UBS AG, Datastream

The difference between a hard spread and soft spread has diverged, in recent times, due to the stressed nature of underlying financial markets and, in particular, due to the loss of liquidity in corporate bond markets.

Again, data on actual AA rated bonds is difficult to obtain beyond 5 years' duration (which is necessary, given the typical duration of Australian DB Plans). We have slightly extended the analysis by including AA and more highly rated bond yields to gain slightly more data.



- It is very subjective which method is more desirable – an implied soft spread, based on a market which maintained some reasonable degree of trading over this period, versus the “hard spread” approach, which is based on Rate Sheets maintained by investment banks, for securities are not necessarily physically being traded.
- Where data is considerably lacking in a particular country, it has been suggested (for example in FRS17) that corporate bond spreads in other countries be used as a proxy. This has its own issues. Past analysis by Watson Wyatt has shown that the relationship between global and local spreads is often poorly correlated. But some countries may feel there are very few alternatives.

**Comments on ED 187 Discount Rate for Employee Benefits  
(proposed amendments to AASB 119) - August 2009**

*Summary*

**Paragraph Aus78.1 should be retained within AASB 119**, to ensure that the liabilities of public sector entities are valued appropriately. This position is reinforced when it is recognised that the more comprehensive review of IAS 19 will be undertaken in due course – in the meantime, AASB 119 should not be changed unless absolutely necessary.

There are arguments that the IASB's quest for consistency would be better served by restricting the choice of discount rate to that based on sovereign bond yields, rather than corporate bond yields. However, the proposed change to IAS 19 is not unreasonable given:

- the increase in liabilities that would result from any change to sovereign yields;
- the arguments supporting a high quality bond yield in most private sector schemes;
- the reference to the IAS 39 techniques to estimate yields in shallow or non-existent markets (notwithstanding the practical issues in countries without a deep corporate bond market); and
- the intention to comprehensively review of IAS 19 in due course.

In summary, **I accept the restriction to high quality corporate bond yields for schemes sponsored by private sector entities.**

*Discussion*

The IASB has stated in its corresponding Exposure Draft that it is not asserting that the yield on high quality corporate bonds is the most appropriate discount rate for post-employment benefit obligations. Comprehensive consideration of this question is to be included in a more wide ranging review of IAS 19 in due course. The IASB's current intent is to reduce the inconsistency in the application of the existing standard where different discount rates (sovereign versus high quality corporate) produce materially different liability estimates on substantially similar benefit obligations. Whilst this is a reasonable objective, it is important that the validity of liability estimates is not sacrificed in the quest for consistency.

Although comments on the conceptual basis underlying the selection of discount rates should rightly wait until the comprehensive review of IAS 19, it is worth noting the following points:

- Putting aside the issue of risk margins, the value of a stream of liability cash flows should be equivalent to the value of an asset that reproduces those cash flows. For this replication to occur in practice the cash flows must be matched by the flows generated by bonds, that are assumed, for all practical purposes, of being paid with certainty (i.e. correlations are not good enough). In most countries, these bonds would be issued by the Government so that the yield on a matching portfolio of sovereign bonds would be the appropriate discount rate with which to value the liability cash flows.
  - The use of "high quality" corporate bond yields in IAS 19 reflects a small premium for the risk that the benefits will not be fully paid; i.e. the option of the employer
-

sponsor to “walk away”. It will be noted that this premium is not directly related to the credit standing of the sponsor in funded schemes, as the pension debt is collateralised by the scheme assets. Whilst the credit standing of the sponsor is indirectly related to the value of the benefit flows, consistency and simplicity required that IAS 19 limit the range of discount rates to “high quality” corporate bond yields which, in practice, are generally taken to be AA yields.

- One consequence of the arguments above is that the discount rate for public sector schemes should be based on sovereign bond yields, at least in circumstances where all stakeholders treat the constructive obligation as fixed; i.e. the sponsor is assured of perpetual existence and the benefit payments are effectively certain.

The IASB ED states that the “problems” resulting from the definition of discount rates in IAS 19 were exacerbated by the widening of spreads caused by the global financial crisis (GFC). I would assert that the markets for corporate bonds were more adversely affected than the sovereign markets during the GFC and consequently that observed corporate yields were more likely to be distorted<sup>1</sup>. This would have resulted in liabilities that were quite volatile and less likely to represent the “true” solvency position.

Therefore, if consistency is considered the over-riding objective so that only one option is to be allowed for the setting of discount rates, the better option would be to restrict the choice to sovereign yields. I assume that the resultant increase in liabilities would not be appreciated by corporate sponsors around the world and so the more pragmatic option has been taken by the IASB. Overall, I accept the restriction to high quality corporate bond yields for schemes sponsored by private sector entities.

### ***Public Sector Schemes***

As an actuarial advisor to public sector schemes, I am more concerned with the use of “high quality” corporate bond yields for the purpose of discounting liability cash flows backed by government sponsors. As noted above, I believe that the conceptually correct approach in these circumstances is to base the discount rate on sovereign yields. Presumably this argument was supported by the AASB through their inclusion of paragraph Aus78.1 in AASB 119 and their tentative decision in ED 187 to retain it.

Whilst the level of liabilities and service cost would be lower if the discount rate was based on corporate yields, I believe that outcome to be conceptually incorrect and misleading to a reader of the financial statements. The difference in the value of liabilities between a private sector and public sector scheme with identical benefits is entirely appropriate. The higher value of the public sector liability reflects the greater likelihood that its cash flows will eventually be paid. Consequently, the removal of Aus78.1 on the grounds of “greater consistency” would actually produce an inappropriate outcome.

Another consequence of the arguments above is that the distinction between “for profit” and “not for profit” public sector entities is not relevant for the purpose of setting an appropriate discount rate. The key point is the standing of the public sector employer sponsor. If the sponsor can be assumed to guarantee the benefit payments in all practical economic circumstances, then the sovereign bond yield should be used, independent of the profit

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<sup>1</sup> I note that IAS 39 states that “The best evidence of fair value is quoted prices in an active market.” Whilst it is debateable whether corporate bond market were “active” at all times during the GFC, quoted yields would generally be the starting point.

intention of the entity. However, given that AASB 119 will soon be subject to comprehensive review, I do not support any change to Aus78.1 at this time regarding this issue.

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Dear Kevin

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 187 which is a re-badged copy of the International Accounting Standards Board's Exposure Draft ED/2009/10 (the ED). We have considered the ED along with the accompanying Staff Paper and set out our comments below.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International which is working on a global submission to the IASB, and discussions with key constituents.

The views expressed here are preliminary in nature, and a more detailed Grant Thornton's global submission will be finalised by the IASB's due date of 30 September 2009.

We agree that entities with similar underlying employee benefit obligation may increasingly report them at significantly different amounts due to the widening of the spread between yields on corporate bonds and yields on government bonds during the global financial crisis. Although we have some concerns regarding the adequacy of using the yield on high quality corporate bonds to identify the discount rate, we believe that the ED's proposals represent a net improvement to IAS 19. We therefore support the Board's intention to quickly eliminate this unintended reduction in comparability.

However we do believe that in some countries where there is not deep market in high quality corporate bonds, there may be no alternative other than to use a government bond rate, and we suggest that the AASB may wish to consider whether in the Australian context, this is the case. Using the AASB 139/IAS 39 hierarchy for valuation may end back with a government bond rate by default- i.e. start with the market rate if there is a market and then revert to other valuation techniques such as 'similar transactions' and then cash flow estimates etc if there is no suitable market. It could be argued that the 'similar transactions' part of the hierarchy would allow you to use government bonds as a starting point with perhaps an adjustment to reflect the higher risk of corporate bonds.

In the longer term, we believe that a wider review of the measurement of post-employment benefit obligations and the accounting for post-employment benefit plans more generally is needed. In particular, we believe that the Board's basis for conclusions on the use of high quality corporate bonds to determine the discount rate (IAS 19.BC26-34) is worth revisiting.

However, we appreciate that the current ED is intended as a short-term urgent improvement to address a narrowly defined problem. Consequently, consideration of whether the yield on high quality corporate bonds is the most appropriate discount rate for measuring post-employment benefit obligations is outside the scope of this consultation.

Our responses to the questions in the ED's Invitation to Comment reflect the ED's narrow scope and are set out below.

**Question 1 – Discount rate for employee benefits**

Do you agree that the Board should eliminate the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds?

Why or why not? If not, what do you suggest instead, and why?

**Response**

For the reasons noted above, we agree with the proposal to eliminate the requirement to use government bond rates in the absence of a deep market for high quality corporate bonds. This should help reduce inconsistencies in amounts recognised for similar underlying employee benefit obligation.

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

For guidance on determining the discount rate, do you agree that an entity should refer to the guidance in IAS 39 Financial Instruments: Recognition and Measurement for determining fair value?\*

Why or why not? If not, what do you suggest instead, and why?

**Response**

We agree in principle with the proposal to use the principles and approach in IAS 39.AG69-82 (with a subsequent updated link to the finalised *Fair Value Measurement* IFRS when issued) to estimate the yields on high quality corporate bonds, which is flexible enough to deal with changes in the depth of the market for such bonds.

Additional disclosures relating to the reliability and source of the discount rate calculation (i.e. whether the rate is based on market rates or other valuation technique) would enhance the information provided to users of the financial statements.

**Question 3 – Transition**

The Board considered whether the change in the defined benefit liability (or asset) that arises from application of the proposed amendments should be recognised in retained earnings or as an actuarial gain or loss in the period of initial application (see paragraph BC10). Do you agree that an entity should:

- a apply the proposed amendments prospectively from the beginning of the period in which it first applies the amendments?
- b recognise gains or losses arising on the change in accounting policy directly in retained earnings?

Why or why not? If not, what do you suggest instead, and why?

**Response**

The nature of the change of accounting policy is such that we agree it may not be practicable to apply it retrospectively. Consequently, we support prospective application.

We agree that the gain or loss recognised on the change in accounting policy should be recognised in retained earnings.

**Specific AASB Questions**

- 2 (a) Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to not-for-profit entities; and

**Response**

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals.

- 2 (b) whether, overall, the proposals would result in financial statements that would be useful to users; and

**Response**

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals.

- 2 (c) Whether the proposals are in the best interests of the Australian economy.

**Response**

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals.

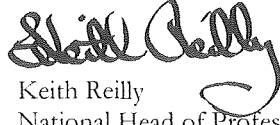
- 3 Retention to allow the not-for-profit sector entities to use market yields on government bonds.

Response

We support this retention as the applicable corporate bond rate presumably is the government bond rate.

If you require any further information or comment, please contact me.

Yours sincerely  
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly  
National Head of Professional Standards