



Australian Government

**Australian Accounting
Standards Board**

**AASB 7-8 September 2011
Agenda paper 3.6**

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29 August 2011

Mr Phil Gaetjens
Secretary
The NSW Treasury
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Mr Gaetjens

Employee Benefits

This letter is in response to a letter dated 11 August 2011 from Mr Michael Lambert, Acting Secretary. In particular, I note the request that the Australian Accounting Standards Board (AASB) seek to have the proposed fundamental review of this area expedited by the International Accounting Standards Board (IASB).

The IASB has recently issued a Request for Views *Agenda Consultation 2011* and is seeking input by 30 November 2011. The AASB has issued Invitation to Comment 25, which incorporates the IASB's Request for Views for comment by 10 November, and the AASB will making its own submission to the IASB. I encourage you to make your views known to the IASB and the AASB about the priority you place on the various topics.

The IASB's Request for Views identifies 'post-employment benefits' as a topic. The presentation of measurement changes is also a relevant topic in the context of employee benefits and the IASB's Request for Views also mention the topics of 'financial statement presentation' and 'other comprehensive income'.

In addition, much of the focus of Mr Lambert's letter is on the impacts of the discount rate requirements of IAS 19 (AASB 119) *Employee Benefits*, and the IASB's Request for Views also identifies 'discount rate' as a topic.

The AASB has recently initiated a research project on the present valuing of cash flows (discounting). Present values of cash flows are required, or are among the approaches to be applied, in measuring many assets and liabilities, including those related to employee benefits. The intention is to provide the IASB with research that facilitates improvements to International Financial Reporting Standards (IFRSs) on the topic of present valuing of cash flows in the context of all the relevant IFRSs.

It is planned to conduct the research as an Asian-Oceanian Standard-Setters Group (AOSSG) project and we will be working in collaboration with our Hong Kong colleagues.


The project is likely to examine a wide range of issues, including the manner in which risks are incorporated into present value calculations.

Specifically on the comments in Mr Lambert's letter on linking liability measurement to asset returns, the recent work in standard setting is based on the view that liabilities should be measured with regard to their intrinsic characteristics. That is, liability measurement should not have regard to the existence of assets, and liability measurement should not be driven by seeking to reduce volatility.

In the case of defined employee benefits, if measurement of the liabilities were by association with any investment assets, it would mean that identical liabilities could be measured at different amounts. The measurement of liabilities would depend on whether they are funded and, if so, the nature of the relevant assets. The extreme case would be a wholly unfunded defined benefit employee liability versus a fully funded liability.

Let me know if you wish to discuss this topic further, including the AOSSG's research project on the present valuing of cash flows (discounting).

Yours sincerely

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a large, stylized initial "K" and "M".

Kevin M. Stevenson
Chairman and CEO