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Mr Kevin Stevenson
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Dear Mr ~~Stevenson~~ Kevin

AASB EXPOSURE DRAFT 195 DEFINED BENEFIT PLANS: PROPOSED AMENDMENTS TO AASB 119

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the Australian Accounting Standards Board on Exposure Draft 197 *Defined Benefit Plans: Proposed Amendments to AASB 119*.

HoTARAC supports the AASB's review of the accounting for superannuation defined benefit plans under AASB 119. However, as previously raised in its letter dated 4 August 2009, the majority of HoTARAC remains concerned about the application of current measurement approaches for the reporting of long-term financial liabilities, including superannuation liabilities. This concern arises from the use of a single bond rate to discount liabilities, increasing volatility and diminishing the ability of key users to make informed assessments about a government's or other entity's financial performance and financial sustainability. While HoTARAC understands that this is beyond the scope of the current IASB Project, HoTARAC strongly encourages the AASB to consider this issue as a matter of priority.

In terms of the current proposal, HoTARAC agrees with the proposed removal of the corridor approach and the requirement to immediately recognise all actuarial gains and losses. However, HoTARAC does not support calculating net interest expense with the same rate used to discount the defined benefit obligation. Instead, HoTARAC supports a net interest calculation, which nets the expected return on plan assets against the gross interest cost on the defined benefit obligation. The main reasons for HoTARAC's support for a net interest calculation are:

- Calculating interest income and expense based on the discount rate used to calculate the defined benefit obligation, ignores the nature of the underlying assets and liabilities.

- The arbitrary and misleading nature of the interest calculation is magnified in countries such as Australia where not-for-profit public sector entities are required to discount using the government bond rate, while other entities are required to use the government bond rate in the absence of a deep market in high quality corporate bonds.

- There is a loss of valuable information in the notes regarding the expected return on plan assets which is useful for forecasting future investment returns and potential employer funding.

The AASB should note that the change to the net interest calculation is likely to have a very significant impact on the "headline" Net Operating Balance reported in whole-of-government and General Government Sector financial statements. If the government bond rate is used to calculate gross interest income, the full funding of defined benefit plans may become less attractive, leading to a preference for low risk, more expensive investment strategies, irrespective of the nature of the underlying assets.

HoTARAC is also opposed to increasing the already extensive disclosure requirements for defined benefit plans. In particular, HoTARAC questions whether the onerous sensitivity disclosures and the extension of the defined benefit superannuation plan disclosures to "other long term employee benefits" are justified on cost benefit grounds.

HoTARAC's comments on the Exposure Draft are provided in Attachment 1. A copy of HoTARAC's comments to the IASB is provided in Attachment 2.

If you have any queries regarding HoTARAC's comments, please contact Robert Williams from New South Wales Treasury on (02) 9228 5340.

Yours sincerely

Don Challen

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

12 August 2010

Encl

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HOTARAC RESPONSE TO EXPOSURE DRAFT 195 DEFINED BENEFIT PLANS: PROPOSED AMENDMENTS TO AASB 119

AASB Specific Matters for Comment

Question 1: The Preface to AASB 1049 Whole of Government and General Government Sector Financial Reporting notes that, as a result of potential amendments to the requirements in other Australian Accounting Standards, differences between Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) not contemplated in AASB 1049 may eventuate. Consistent with the AASB's comments in the Preface to AASB 1049 addressing this matter, the AASB will have regard to the implications for whole of government and GGS financial reporting in deciding whether to amend the proposals in this ED or the requirements in AASB 1049 to either avoid or confirm the existence of a difference. In that regard, do you think the proposed changes to the treatment of:

(a) past service cost;

(b) gains and losses arising from curtailments;

(c) net interest on the net defined benefit liability (asset); or

(d) remeasurements of the net defined benefit liability (asset);

would have implications for GAAP-GFS harmonisation and, if so, how do you think those implications should be dealt with in the context of the principles in AASB 1049?

1.1 No. HoTARAC expects that, due to the discount rate being lower than the expected return on plan assets, the revision to AASB 119 will have a negative impact on the Net Operating Balance. However, HoTARAC does not believe that the revisions will impact on GAAP-GFS harmonisation per se. HoTARAC expects that, under GFS, Paragraph (d) "remeasurements", would be classified as "other economic flows" and the "net interest on the net defined benefit liability" at Paragraph (c), would be classified as "transactions", though this would be subject to confirmation with the Australian Bureau of Statistics. In accordance with Paragraph 30 of AASB 1049, the GFS classification would also be applied in the harmonised GAAP-GFS financial statements.

In principle, the introduction of a concept of "remeasurements", better aligns with GFS and the concept of "other economic flows". However, as the IASB more commonly introduces the concept of "remeasurements", GAAP-GFS harmonisation is likely to be made more complicated. Complications with harmonisation will arise if the ABS does not agree that all "remeasurements" under AASB 119 should be classified as "other economic flows".

A minority of HoTARAC members believe that, as GFS does not advocate netting, the proposal to present a net interest expense may have implications for AASB 1049 reporting, especially for jurisdictions where the defined benefit plan is part of the public sector.

Question 2: Do you agree that the proposed amendments to the definition of "return on plan assets" and Paragraph 73(b)(iv) of IASB's ED/2010/3 Defined Benefit Plans clarify the treatment of superannuation contributions tax in accounting for defined benefit obligations? If not, please explain why.

2.1 Yes, subject to the comments made to the IASB in response to Question 13.

3. The AASB would particularly value comments on whether:

(a) in addition to the issues raised in relation to Question 1 above, 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:

(i) not-for-profit entities; and

(ii) public sector 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 and New Zealand economies.

3.(a)(b) While HoTARAC supports the proposal to require immediate recognition of all movements in the net defined benefit liability or asset, HoTARAC does not support the proposed calculation of the net interest expense. Omitting the expected return on plan assets from the calculation will result in the loss of valuable information in the notes and will mean that the treatment does not reflect the underlying reality and nature of the plan asset portfolio. This issue is magnified in Australia where not-for-profit public sector entities are required to discount using the government bond rate, while other entities are required to use the government bond rate in the absence of a deep market in high quality corporate bonds. In addition, a major concern of HoTARAC is the inappropriateness of the use of the government bond rate as the discount rate at reporting date.

HoTARAC is also opposed to increasing the already extensive disclosure requirements for defined benefit plans. In particular, HoTARAC questions whether the onerous sensitivity disclosures and the extension of the defined benefit superannuation plan disclosures to "other long term employee benefits" are justified on cost benefit grounds. HoTARAC also notes that most defined benefit superannuation plans in Australia are now closed to new members, such that defined benefit superannuation obligations will decline over the medium term.

3.(c)

No comment.

HOTARAC RESPONSE TO EXPOSURE DRAFT ED/2010/3 DEFINED BENEFIT PLANS: PROPOSED AMENDMENTS TO IASB 19

Question 1: The Exposure Draft proposes that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. (Paragraphs 54, 61 and BC9-BC12) Do you agree? Why or why not?

Yes. HoTARAC agrees that immediate recognition results in the most relevant information for users.

Question 2: Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?

Yes. HoTARAC agrees that the attribution of unvested benefits to past service results in a liability as defined in IAS 19.

Question 3: Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14-BC18) Why or why not?

HoTARAC agrees that there should be some disaggregation of the defined benefit cost in the Statement of Comprehensive Income, as various components have different predictive values, and their breakdown will enhance comparability and allow users to better understand the reasons for the change in the net defined benefit liability or asset. Please refer to HoTARAC's response to Question 6.

Question 4: Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19-BC23) Why or why not?

Yes. HoTARAC believes that this is appropriate, given that these changes meet the definition of actuarial gains and losses and therefore are more appropriately classified as remeasurements.

Question 5: The Exposure Draft proposes that the finance cost component should comprise net interest on the net defined benefit liability (asset) determined by applying the discount rate specified in Paragraph 78 to the net defined benefit liability (asset). As a consequence, it eliminates from IAS 19 the requirement to present an expected return on plan assets in profit or loss. Should net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in Paragraph 78 to the net defined benefit liability (asset)? Why or why not? If not, how would you define the finance cost component and why? (Paragraphs 7, 119B, 119C and BC23-BC32)

HoTARAC does not support the calculation of a net interest expense based on the same rate used to discount the defined benefit obligation and believes that the arguments for change are weak. Instead, HoTARAC supports a net interest calculation which nets the expected return on plan assets against the gross interest cost on defined benefit obligations for the following main reasons:

- The proposal does not take into account the fact that the gross defined benefit obligation and the plan assets are measured within the plan on different bases and at different discount rates.

- As the portfolio of plan assets is diverse and not limited to either government or high quality corporate bonds, calculating interest income based on bond rates is arbitrary and does not reflect the nature of the underlying assets.

- The arbitrary and misleading nature of this interest calculation is magnified in countries such as Australia where in practice the government bond rate is used, which is often lower than a corporate bond rate and the expected return on plan assets.

- For financial assets measured at fair value, there is no accepted basis for disaggregating changes in fair value into an interest component.

- There is a loss of valuable information in the notes regarding the expected return on plan assets, as the disaggregated gross interest income will be based on the liability discount rate rather than the expected return on plan assets. The presentation of this information is useful for forecasting future investment returns and potential employer funding.

- There are many aspects of the defined benefit calculations that require judgement. Determining the expected return on plan assets requires no more judgement than many other assumptions. Concerns about judgement are usually overcome by requiring disclosure of the basis for the judgement.

- The Exposure Draft compounds existing issues with the discount rate. That is, there have been ongoing issues as to whether the Paragraph 78 discount rate is appropriate for the defined benefit obligation. This is further discussed in response to Question 17.

Question 6: Should entities present:

(a) service cost in profit or loss?;

(b) net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss?

(c) remeasurements in other comprehensive income?

(Paragraphs 119A and BC35-BC45) Why or why not?

HoTARAC agrees that the service cost and net interest should be presented in profit or loss, although HoTARAC does not agree with the basis for the net interest calculation as mentioned in response to Question 5.

In regard to remeasurements, HoTARAC supports the elimination of options, and supports the arguments for recognition in other comprehensive income. However, HoTARAC believes that the IASB needs to address, as a separate Project, the principles that guide which items should be reported in other comprehensive income, as this is unclear. For example, there are numerous examples in current Standards of "remeasurements" which are required to be recognised in profit or loss, such as provision remeasurements, financial assets through profit or loss, gain or loss on disposal of property, plant and equipment.

The majority of HoTARAC believes that, in regard to the Exposure Draft, the IASB needs to provide additional explanation regarding the background to the decision about what is proposed to be included in "remeasurements" and how this interrelates with the IASB's Financial Statement Presentation Project. Although there is an assertion that the proposed definition of remeasurements is consistent with the Financial Statement Presentation Project (Paragraph BC34), this is not demonstrated or explained. For example, it is unclear why the return on plan assets excluding interest, is a "remeasurement", yet the difference between the expected and actual return on plan assets is not.

Question 7: Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) Why or why not?

Yes. HoTARAC agrees that routine and non-routine settlement gains and losses satisfy the definition of actuarial gains and losses. However, HoTARAC suggests that explicit references are made to "actuarial gains and losses" and the terms "routine" and "non-routine" settlements in Paragraph 119D as clarification.

(a) Do you agree that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss? (Paragraphs 98A 119A (a) and BC48)

Yes.

(b) Should entities disclose (i) a narrative description of any plan amendments, curtailments and non-routine settlements, and (ii) their effect on the statement of comprehensive income? (Paragraphs 125C(c), 125E, BC49 and BC78) Why or why not?

Yes. HoTARAC regards these disclosures as useful to users.

The Exposure Draft states that the objectives of disclosing information about an entity's defined benefit plans are:

(a) to explain the characteristics of the entity's defined benefit plans;

(b) to identify and explain the amounts in the entity's financial statements arising from its defined benefit plans; and

(c) to describe how defined benefit plans affect the amount, timing and variability of the entity's future cash flows.

(Paragraphs 125A and BC52-BC59)

Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

Yes. HoTARAC supports the proposed objectives and supports a more principles-based approach to disclosure, ensuring that only relevant information is required to be disclosed. HoTARAC agrees that the current disclosure requirements are excessive and obscure an understanding of the information by users. However, HoTARAC is not convinced that the proposed disclosure requirements result in a significant improvement, as mentioned in the response to Question 9.

Question 9: To achieve the disclosure objectives, the Exposure Draft proposes new disclosure requirements, including:

(a) information about risk, including sensitivity analyses (Paragraphs 125C(b) 125I BC60(a), BC62(a) and BC63-BC66);

(b) information about the process used to determine demographic actuarial assumptions (Paragraphs 125G(b) and BC60(d) and (e));

(c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (Paragraphs 125H and BC60(f));

(d) information about asset-liability matching strategies (Paragraphs 125J and BC62(b)); and

(e) information about factors that could cause contributions to differ from service cost (Paragraphs 125K and BC62(c)).

Are the proposed new disclosure requirements appropriate? Why or why not?

If not, what disclosures do you propose to achieve the disclosure objectives?

No. Overall, HoTARAC's preference is to reduce the list of mandatory disclosures and instead have Application Guidance or Illustrative Examples illustrating how the disclosure principles may be satisfied for various types of employee benefits, for example long service leave and annual leave with both short-term and long-term components.

HoTARAC notes that the Exposure Draft includes proposed additional disclosures in a number of areas, including more disaggregated disclosures, such as those of plan assets and actuarial gains and losses, onerous sensitivity disclosures and the extension of presentation and disclosure requirements. In addition, HoTARAC has the following comments regarding Paragraphs (a), (c)-(e):

(a) HoTARAC does not support the sensitivity analysis proposal from a cost benefit perspective, as significant actuarial costs will be involved, for limited benefit. Specifically, HoTARAC is not convinced that this disclosure would provide meaningful information given the interrelated nature of the main actuarial assumptions. The relationship between actuarial assumptions is acknowledged in Paragraph 75 of IAS 19, where it discusses "mutually compatible" actuarial assumptions. Therefore, to meaningfully portray the impact of a change in actuarial assumption, the effect of a change in one assumption on another assumption would need to be considered. However, HoTARAC is concerned that this may be difficult to present in a manner that is readily understandable to users.

HoTARAC is also uncertain about what the IASB means by a "reasonably possible" change in actuarial assumption and believes that, if this proposal proceeds, there is a need for additional guidance or an illustrative example on this issue. Also, as an alternative to referring to "significant" actuarial assumptions outlined in Paragraph 125I, reference could be made to "material" actuarial assumptions, as this is a defined term that is better understood.

An alternative to the proposed sensitivity disclosure may be to improve the disclosures regarding the nature of the actuarial assumptions. These improvements may include disclosing the extent to which the information used for measurement and presentation and disclosures has been prepared internally or externally from the entity, and the relevant professional qualifications of the individuals concerned.

(c) HoTARAC does not support the disclosure of the defined benefit obligation excluding the effect of projected salary growth, as required by Paragraph 125H. In circumstances where a plan is not likely to be terminated, HoTARAC does not believe this provides useful information to users. As projected salary growth impacts on the amount payable, it is appropriate that it is incorporated in the measurement of the defined benefit obligation.

Excluding such salary growth does not reflect the underlying reality and does not provide useful information. This proposal is also not supported from a cost benefit perspective, as additional costs may be incurred to provide information which HoTARAC believes to be of limited benefit.

(d) HoTARAC believes that the disclosure on asset-liability matching strategies should also cover the entity's overall risk mitigation strategies in respect of the plan, rather than just the plan's mitigation strategy.

(e) Paragraph 125K of the Exposure Draft requires a "narrative discussion of factors that could cause contributions over the next five years to differ significantly from current service cost over that period". HoTARAC notes that a five-year timeframe is not consistent with the three-year timeframe usually adopted for actuarial reviews in Australia. Therefore, it may be impracticable to provide such information beyond a three-year timeframe. Also, for the reason explained above under point (a), HoTARAC suggests referring to "material" factors.

Question 10: The Exposure Draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? (Paragraphs 33A and BC67-BC69) Why or why not?

No comment.

Question 11: The Exposure Draft updates, without further reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control to make them consistent with the disclosures in Paragraphs 125A-125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not?

HoTARAC believes more clarity is needed in the Standard about the concept of "state plans".

Subject to this clarification, HoTARAC supports state plans, making disclosures in accordance with Paragraphs 125A-125K. However, HoTARAC believes that Paragraph 36 of the Exposure Draft should be amended to exclude the requirement for state plans to be subject to additional disclosures required by 33A(a)-(d). Paragraph 33A has primarily been developed to apply to multi-employer plans, but because state plans are accounted for in the same way, they are subject to the same disclosures. However, Paragrah 33A(a)-(d) was included to address concerns that entities in a defined benefit multi-employer plan, face greater risks than other entities, which result from the actions by other participants in the plan. HoTARAC does not believe that this concern applies to state plans, and therefore HoTARAC does not believe that the additional disclosures in Paragraph 33A(a)-(d) are warranted for state plans.

Question 12: Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A-125K and BC50-BC70)

Yes. HoTARAC does not support the extension of the defined benefit superannuation plan disclosures to employee benefits currently described as "other long-term employee benefits" for example long service leave and the long-term component of annual leave. This will represent a substantial increase in disclosure, which will impose additional costs. The implications and reasons for this change are not acknowledged in the basis for conclusions. HoTARAC acknowledges, however, that these types of employee benefits should be expensed in the period when the service is performed.

In addition, some HoTARAC jurisdictions note that costs will also be incurred to separate the long-term and short-term elements of these types of employee benefits, where information sourced for the proposed disclosure would usually be generated for the entire liability.

As an alternative, HoTARAC supports either retaining the current approach in IAS 19, Paragraph 131, or applying less onerous disclosure requirements to "other long-term employee benefits". HoTARAC agrees with the current IAS 19, Paragraph 127, supporting the simplified approach to other long-term employee benefits on the premise that these benefits will not usually be subject to the same degree of uncertainty.

Question 13: The Exposure Draft also proposes to amend IAS 19 as summarised below:

(a) The requirements in IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, as amended in November 2009, are incorporated without substantive change. (Paragraphs 115A-115K and BC73)

(b) "Minimum funding requirement" is defined as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan. (Paragraphs 7 and BC80)

(c) Tax payable by the plan shall be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax. (Paragraphs 7, 73(b), BC82 and BC83)

(d) The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84-BC86)

(e) Expected future salary increases shall be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years. (Paragraphs 71A and BC87-BC90)

(f) The mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. (Paragraphs 73(a)(i) and BC91)

(g) Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92-BC96)

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

HoTARAC agrees with the above proposals. However, HoTARAC suggests that the Basis for Conclusions should clarify that any actuarial assumption relating to the "taxes payable by the plan on contributions" as referred to in Paragraph (c) above, should be determined after considering other relevant circumstances such as any offsetting dividend imputation and tax deductions.

Question 14: IAS 19 requires entities to account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. In the Board's view, this would apply to many plans that meet the definition of a defined benefit multi-employer plan. (Paragraphs 32(a) and BC75(b))

Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?

No comment.

Question 15: Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97-BC101) Why or why not?

Yes, except for the sensitivity disclosure. If the sensitivity disclosure is approved, HoTARAC believes that comparative information should not be required given that hindsight may be inappropriately used in determining what is regarded as a reasonably possible change in assumption.

Question 16: In the Board's assessment:

(a) the main benefits of the proposals are:

(i) reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.

(ii) eliminating some presentation options currently allowed by IAS 19, thus improving comparability.

(iii) clarifying requirements that have resulted in diverse practices.

(iv) improving information about the risks arising from an entity's involvement in defined benefit plans.

(b) the costs of the proposal should be minimal, because entities are already required to obtain much of the information required to apply the proposed amendments when they apply the existing version of IAS 19. Do you agree with the Board's assessment? (Paragraphs BC103-BC107) Why or why not?

HoTARAC believes that the main benefit of the Exposure Draft is the proposal to require all changes in the defined benefit obligation and plan assets to be recognised immediately. HoTARAC supports this significant improvement. However, HoTARAC does not support the requirement to calculate net interest using the discount rate applied for the defined benefit obligation measurement, nor the omission of the expected return in plan assets in the net interest calculation. HoTARAC believes that this results in an amount that is less representative than the current treatment and results in a loss of valuable information in the notes.

Further, HoTARAC believes that there will be increased costs regarding some of the additional disclosure requirements, which will increase the volume and reduce the readability of the disclosures. Specifically, HoTARAC does not support the disclosures on cost benefit grounds in relation to the sensitivity analysis and the extension of the disclosure requirements to those employee benefits that are currently described as "other long term employee benefits". Also, the IASB does not appear to have considered the costs faced by economic entities, with large numbers of controlled entities, each with their own detailed disclosures for their own circumstances.

Question 17: Do you have any other comments on the proposals?

While HoTARAC understands that the issue of the IAS 19 discount rate is not within the scope of the current Project, the majority of HoTARAC believes that this is an important issue that needs to be addressed, as soon as possible, across a number of Standards associated with long-term liabilities.

A discount rate based on a borrowing rate at a point in time, for example reporting date, can give inappropriate outcomes. Due to the current global financial crisis, growth prospects remain relatively low and there have been substantial reductions in long-term government bond rates. By contrast, commercial borrowers may find their rates have increased. It is not clear that either change reflects movements in the time value of money.

This highlights the need for the IASB to investigate whether there is a better basis than long-term bond rates, as well as rates at reporting date ("spot" rate) to refer to when estimating the time value of money for long-term liabilities.

The current method diminishes the ability of key users to make informed assessments about an entity's financial performance and financial sustainability and therefore is a major limitation to the usefulness of financial reporting. Applying a single bond rate at reporting date to discount liabilities has seen significant volatility in reported superannuation liabilities. Volatility can significantly impact on reported liabilities, diminish the usefulness of financial reports to users and make it challenging for entities to allocate resources effectively. More importantly, increases in superannuation liabilities, driven by changes in the government bond rate, are not considered to reflect real movements in obligations by many users, as the funding requirements remain unchanged.

Alternatives to the high quality corporate bond and government bond rates should be considered for valuing liabilities. In addition, possible alternatives include an average rate over time, the full yield curve, an inflation index such as a forecast implicit price deflator, or the funding approach for measuring superannuation liabilities, which is based on long-term earning rates. Note that this is not an exhaustive list and not all alternatives would be equally supported.

Drafting issues

HoTARAC notes the following drafting issues:

- Long-term employee benefits:

    - Paragraph 4 and Paragraph 22 refers to "long-term employee benefits" as those that "...are not expected to become due to be settled *wholly* within twelve months..." (italics added). In contrast, Paragraph 7, which defines "long-term employee benefits" does not include a reference to "wholly". It is suggested that the word "wholly" in Paragraph 4 and Paragraph 22 should be omitted.

    - Paragraph 66, which is unamended, refers to obligations that "fall due" within twelve months. This is inconsistent with the terminology used to define "long-term employee benefits" in Paragraph 7.

- Short-term employee benefits:

    - The definition of "short-term employee benefits" in Paragraph 7 is modified to refer to those benefits "....that the entity expects to become due to be settled within twelve months after the end of the reporting period....and *before the completion of employment*" (italics added). HoTARAC queries why reference was included to "before the completion of employment", given that there are many instances where employees are paid out their short-term employee benefits, such as annual leave on completion of employment.

    - Paragraph 8 contains a number of references to these benefits being "due to be settled within twelve months after the end of the period". As this is only one of the two time-based criteria, HoTARAC recommends that, if the proposed definition is retained, either those references are deleted entirely, or the phrase "or before the completion of employment" be added to each such instance.

- Vested benefits: HoTARAC would prefer that the definition of "vested" remains, as it is still referred to in the proposed Standard (Paragraphs 69 and 98).

- Presentation vs Measurement: HoTARAC does not believe that Paragraphs 119B, 119C and 119D, to the extent that they pertain to "measurement", should be included under the heading "presentation" and instead it is suggested that they are relocated to an area where "measurement" requirements are addressed.

- Fair value definition: HoTARAC notes that the definition in the Exposure Draft is inconsistent with the proposed fair value definition in the 2009 *Fair Value Measurement* Exposure Draft for application to all items to be measured at fair value. Therefore, IAS 19 will need to be updated to ensure consistency with any revised fair value definition.

- Illustrative Example 6:

  - It is unclear why Example 6 includes a disclosure on "restriction on surplus" when in the example the plan is in deficit. HoTARAC does not believe that this disclosure is relevant when the plan is in deficit, so it either should be omitted, or the example changed to a situation where the plan is in surplus.

  - HoTARAC is unsure why the "effect of non-routine settlements" is not included as a subset of "remeasurements" in the defined benefit obligation as it is a subset of "remeasurements" in the "net defined benefit liability" and the "plan assets" disclosure.