Institute of Actuaries of Australia

14 September 2009

The Chairman
Australian Accounting Standards Board
PO Box 204
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AUSTRALIA

E-mail: standard@aasb.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), using the 'Open to Comment' page.)

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Appendix A: IASB Specific Matters for Comment

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 lead 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

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.

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