AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

25 September 2009

Mr. Kevin Stevenson
Chairman
Australian Accounting Standards Board
P O Box 204
Collins Street West
MELBOURNE VIC 8007

Dear Mr Stevenson

IASB EXPOSURE DRAFT ED/2009/10 DISCOUNT RATE FOR EMPLOYEE BENEFITS (Proposed amendments to IAS 19)

Attached for your information is a copy of the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

Yours sincerely

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

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ACAG AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

25 September 2009

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

Dear Sir David

EXPOSURE DRAFT ED/2009/10 DISCOUNT RATE FOR EMPLOYEE BENEFITS (Proposed amendments to IAS 19)

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill

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Chairman
ACAG Financial Reporting and Auditing Committee

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EXPOSURE DRAFT ED/2009/10 DISCOUNT RATE FOR EMPLOYEE BENEFITS (Proposed amendments to IAS 19)

ACAG has reviewed the exposure draft on the discount rate for employee benefits and provides the following comments.

Overall Comment

ACAG does not consider the proposals to be in the best interests of preparers and users of general-purpose financial reports in Australia, particularly public sector entities.

Specific Comments

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?

ACAG does not agree with the proposal to eliminate the use of the government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds.

The objective of improving comparability across jurisdictions may not be met even when this option is eliminated as many other variables affect the employee benefits balance.

ACAG recommends that in jurisdictions with no deep market in high quality corporate bonds, public sector entities be allowed to continue to use the government bond rate. This would reduce complexity whilst continuing to provide relevant and reliable information.

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?

ACAG agrees, notwithstanding our response to question 1, that the guidance in IAS 39 is appropriate for determining the discount rate.

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?

ACAG agrees with the proposal to require prospective application of the proposed amendment and the adjustment should be directly to retained earnings, consistent with other changes in accounting policy per IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This would be the least onerous approach.