16 September 2009

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Email: standard@aasb.gov.au

Dear Kevin

Comments on ED 187 Discount Rate for Employee Benefits

Thank you for the opportunity to comment on the AASB Exposure ED 187 *Discount Rate for Employee Benefits*. CPA Australia, The Institute of Chartered Accountants (The Institute) and the National Institute of Accountants (the Joint Accounting Bodies) have considered the above [proposed] Standard and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

Our response to matters on which Australian comment is requested is included in the attached Appendix. Also attached for your consideration is our submission to the IASB that includes our responses to the specific IASB questions for comment.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au, Kerry Hicks (The Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely

Geoff Rankin
Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants in Australia

Andrew Conway
Chief Executive Officer
National Institute of Accountants

Question

(a) Are 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?

The Joint Accounting Bodies understand that concerns have been expressed by the Heads of Treasuries and the Treasurer of Victoria regarding the continuing requirement that the public sector use the market yields on government bonds to discount employee benefit obligations (and some other liabilities). We encourage the Australian Accounting Standards Board (AASB) to research this issue with the International Public Sector Accounting Standards Board (IPSASB), rather than immediately moving to the same outcome for both profit entities and not-for-profits.

(b) Overall, would the proposals result in financial statements that would be useful to users?

Refer to our response to Question (a).

(c) Are the proposals in the best interests of the Australian economy?

Refer to our response to Question (a).

(d) Is it appropriate that paragraph Aus78.1 be retained?

Refer to our response to Question (a).

(e) In the limited context of the IASB's objective to have greater consistency, do you have any suggestions as to the manner in which not-for-profit public sector entities should discount long-term employee benefit liabilities?

The Joint Accounting Bodies do not support a change to achieve increased comparability to the detriment of relevance and reliability. Were the AASB to amend AASB 119.Aus78.1, we suggest the AASB should consider adopting the requirements of IPSAS 25 *Employee Benefits* paragraph 94. IPSAS 25.94 refers to the discount rate being approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds or by another financial instrument. IPSAS 25.94 asserts that in some jurisdictions, market yields at the reporting date on government bonds will provide the best approximation of the time value of money. However, there may be jurisdictions in which this is not the case, for example, jurisdictions where there is no deep market in government bonds, or in which market yields at the reporting date on government bonds do not reflect the time value of money. In such cases, the reporting entity determines the rate by another method, such as by reference to market yields on high quality corporate bonds.

Alternatively, the AASB might consider amending AASB 119.Aus78.1 to introduce a rebuttable presumption that the discount rate be based on an estimate of market yields on high quality corporate bonds. This presumption could be rebutted only on initial adoption of this amendment to IAS 19, and the government bond rate could be used, only when use of the government bond rate would result in information about employee benefits that is more relevant and reliable than that which would occur from using an estimate of market yields on high quality corporate bonds.

16 September 2009

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

Email: CommentLetters@iasb.org

Dear Sir David

Comments on ED 2009/10 Discount Rate for Employee Benefits

Thank you for the opportunity to comment on the IASB Exposure Draft 2009/10 *Discount Rate for Employee Benefits.* CPA Australia, The Institute of Chartered Accountants (The Institute) and the National Institute of Accountants (the Joint Accounting Bodies) have considered the above [proposed] Standard and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

The Joint Accounting Bodies understand that the problems of market volatility and opaqueness for the discount rate for employee benefits present at the end of 2008 have largely dissipated. Further, we note that the International Accounting Standards Board (IASB) intends a fundamental review of the accounting for employee benefits (including the measurement of defined benefits) in due course. The fundamental review would include consideration of whether the yield on high quality corporate bonds is the most appropriate discount rate for post-employment benefit obligations. Accordingly, we strongly encourage the IASB not to make any amendment to IAS 19 at this time.

However, should the IASB decide to proceed to amend IAS 19, the Joint Accounting Bodies do not agree with the IASB proposal to eliminate the requirement to use government bond rates to discount the employee benefit obligations when there is no deep market in high quality corporate bonds. We consider that for those countries without a deep market in high quality corporate bonds a better approach is for the IASB to introduce into the [proposed] Standard a rebuttable presumption that the discount rate be based on an estimate of market yields on high quality corporate bonds. This presumption could be rebutted only on initial adoption of this amendment to IAS 19, and the government bond rate could be used, only when use of the government bond rate would result in information about employee benefits that is more relevant and reliable than that which would occur from using an estimate of market yields on high quality corporate bonds.

We would also like to see some improved clarity around the expression "high quality corporate bonds".

Our response to matters on which specific comment is requested are included in the attached Appendix.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au, Kerry Hicks (The Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely

Geoff Rankin	Graham Meyer	Andrew Conway
Chief Executive Officer	**Chief Executive Officer**	**Chief Executive Officer**
CPA Australia Ltd	**Institute of Chartered Accountants in Australia**	**National Institute of Accountants**

cc: Australian Accounting Standards Board

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?

The Joint Accounting Bodies understand that the problems of market volatility and opaqueness for the discount rate for employee benefits present at the end of 2008 have largely dissipated. Further, we note that the International Accounting Standards Board (IASB) intends a fundamental review of the accounting for employee benefits (including the measurement of defined benefits) in due course. Accordingly, we strongly encourage the IASB not to make any amendment to IAS 19 at this time.

However, should the IASB decide to proceed to amend IAS 19, the Joint Accounting Bodies do not agree with the IASB proposal to eliminate the requirement to use government bond rates to discount the employee benefit obligations when there is no deep market in high quality corporate bonds. We consider that for those countries without a deep market in high quality corporate bonds a better approach is for the IASB to introduce into the [proposed] Standard a rebuttable presumption that the discount rate be based on an estimate of market yields on high quality corporate bonds. This presumption could be rebutted only on initial adoption of this amendment to IAS 19, and the government bond rate could be used, only when use of the government bond rate would result in information about employee benefits that is more relevant and reliable than that which would occur from using an estimate of market yields on high quality corporate bonds.

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?

The Joint Accounting Bodies do not agree with the proposal. We have been told by our constituents that it will not always be straightforward for an entity determine the discount rate using the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* for determining fair value. Accordingly, we would prefer guidance specific to IAS 19.

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?
The Joint Accounting Bodies agree with the proposals. However, we suggest the need for further clarity in the [proposed] paragraph 156A(b) for entities that currently apply the corridor method.

Other comments

The Joint Accounting Bodies would like to see some improved clarity around the expression "high quality corporate bonds".