



Australian Government

Australian Accounting
Standards Board

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03)9617 7608

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Ms S Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York
NEW YORK 10017
UNITED STATES OF AMERICA

Dear Ms Fox

Exposure Draft ED 31 *Employee Benefits*

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the abovenamed Exposure Draft.

The Board supports the proposals in ED 31. Whilst comments are not provided on all of the Specific Matters for Comment, the Board's specific comments on Questions 4, 6 and 9 are attached.

If you have queries regarding any matters in this submission, please contact Joanna Spencer (jspencer@asb.com.au) or myself.

Yours sincerely

A handwritten signature in cursive script that reads "David Boymal".

David Boymal
Chairman

ED 31 *Employee Benefits*

Specific Comments

Question 4

Do you agree that the risk-free discount rate used to discount post-employment benefit obligations should be determined by reference to:

- **Market yields at the reporting date on government bonds consistent with the currency and estimated term of the post-employment benefit obligations; or**
- **Market yields at the reporting date on high quality corporate bonds consistent with the currency and estimated term of the post-employment benefits obligations, where there is no deep market in government bonds, or where the market yield on government bonds is not the best representation of a risk-free rate (paragraph 90)?**

If you think that the discount rate should be determined by reference to market yields at the reporting date on high quality corporate bonds, please give your reasons.

The Board supports the approach proposed in the ED. It is consistent with one of the proposals in AASB ED 151 *Australian Additions to, and Deletions from, IFRSs* (which is currently open for comment), namely, that not-for-profit public sector entities should use a discount rate for post-employment benefit obligations that is determined by reference to market yields on government bonds. This is proposed in ED 151 because the AASB concluded that the rate for high quality corporate bonds is not relevant for such entities. Whilst ED 151 does not address whether to use a high quality corporate bond rate when the government bond rate is deemed not to be appropriate (either because of a lack of a liquid market, or because it is not the best representation of a risk-free rate), the AASB acknowledges that, in some jurisdictions, the government bond rate might not be the most appropriate rate for discounting post-employment benefits and agrees that this option should be made available for those jurisdictions.

Question 6

Do you agree that reporting entities should be permitted to adopt a policy of fully recognising actuarial gains and losses in the period in which they occur in the Statement of Recognized Revenue and Expense in accordance with paragraph 106? If you do not think that such a policy is appropriate, what requirements in relation to actuarial gains and losses should be reflected in the Standard?

The Board supports the ED's proposal to allow entities that adopt a policy of fully recognising actuarial gains and losses in the period in which they occur to do so in the Statement of Recognised Revenue and Expense. This is because the Board considers that these requirements are essentially the same as those of the revised IAS 19 *Employee Benefits* (post December 2004).

Question 9

Do you agree that on first time adoption of this Standard, all actuarial gains and losses related to initial liabilities for defined benefit obligations should be recognized in opening accumulated surpluses or deficits (paragraph 167)? If you disagree with this treatment, please give your reasons.

Yes. Whilst the Board recognises that this proposal differs from the requirements of IAS 19 *Employee Benefits*, whereby entities can elect to recognise any increase in the liability over five years, it considers that the proposal is reasonable because the proposed IPSAS's application date is five years after issuance of the IPSAS.

The Board further agrees that any cumulative actuarial gains and losses from the inception of the defined benefit plan(s) until the date of first adoption of the Standard should not be split into recognised and unrecognised portions. The Board considers that this 'clean slate' approach is appropriate because public sector entities that apply the IPSAS might not have the necessary records to determine the recognised/unrecognised portions of cumulative actuarial gains and losses.