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Sir David Tweedie
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30 September 2009

ED/2009/10 Discount Rate for Employee Benefits

Dear Sir David,

Deloitte Touche Tohmatsu is pleased to respond to the International Accounting Standards Board's (the IASB's) *Exposure Draft ED/2009/10 Discount Rate for Employee Benefits* (referred to as the 'ED').

We believe it is appropriate for the Board to proceed with the proposed amendment relating to the determination of the discount rate for employee benefit obligations, while keeping, for the time being, the general principle of determining this discount rate by reference to market yields on high quality corporate bonds. The urgency to act on the matter is justified by the significant increase of the spread between the yield on high quality corporate bonds and on government bonds as a result of the financial crisis. However, as explained in our detailed comments, we believe further clarifications are required to ensure that the amendment is applied consistently by entities. In particular, we believe that the Board should clearly establish the objective of estimating the discount rate in the absence of a deep market for high quality corporate bonds

While we support this short-term amendment, we have not reconsidered the appropriateness of measuring post-employment benefit obligations using the discount rate on high quality corporate bonds. We believe that such an assessment is a key aspect that will need to be reviewed as part of the Board's more comprehensive project on IAS 19 and in light of the comments we made in our response letter dated 1 September 2009 to the Discussion Paper DP/2009/2 *Credit Risk in Liability Measurement*.

Our detailed comments and answers to your questions on the ED along with other editorial comments are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Ken Wild in London at +44 (0)20 7007 0907.

Yours sincerely,

Ken Wild
Global IFRS Leader

Appendix

Response to questions on Exposure Draft "Discount Rate for Employee Benefits"

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 with the elimination of 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 requirement to use government bond rates may result in a disadvantage for some companies competing in an international environment and a source of difficulties in comparing similar international companies (companies with similar employee benefit obligations in different jurisdictions might report very different amounts).

Additionally, the need to fall back on government bond rates in the absence of a deep market for high quality corporate bonds is not justified since it is possible to use valuation techniques to determine a discount rate that meets the requirement in IAS 19, even when markets are not deep.

We note that the proposed amendment does not establish clearly the objective for determining the discount rate, in particular when the markets are not functioning as they should (i.e., are inactive or illiquid). In order to ensure consistency in application, we believe that the Board should clearly establish that the discount rate should be the rate that is appropriate to the environment in which the post-employment benefit obligation is incurred.

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 do not believe that the reference to IAS 39.AG69-AG82 will be useful for entities in determining an estimate of the discount rate to be used under IAS 19. As these paragraphs refer to the computation of the fair value, they include certain inputs, such as credit risk, which may be confusing for an entity trying to determine the factors that should be incorporated in the valuation techniques for determining a discount rate. Further, in addition to the reference to paragraphs 38-54 of the exposure draft on *Fair Value Measurement* (as currently presented in a footer of the proposed amendments of IAS 19), we also suggest the addition of a reference to the applicable paragraphs of Appendix C of that exposure draft (once finalised). Appendix C provides useful guidance for determining a discount rate.

Also, we suggest the following changes to the proposed amendment to IAS 19.78 (as amended in the ED): *"An entity shall discount funded and unfunded post-employment benefit obligations using rates determined by reference to market yields on high quality corporate bonds at the end of the reporting period. ~~An entity shall apply the principles and approach in paragraphs AG69-AG82 of IAS 39 Financial Instruments: Recognition and Measurement* to estimate such rates by reference to yields on high quality corporate bonds denominated in the same currency and whose term is consistent with the estimated term of the post-employment benefit obligations~~"*.

We believe that these changes are warranted by the view we expressed above that the reference to IAS 39 in IAS 19.78 is of limited relevance. If the Board decides to retain the reference to IAS 39, we believe that it shall nonetheless consider clarifying that the specification *"by reference to yields on high quality corporate bonds […]"* in the last sentence of IAS 19.78 is not meant to change the requirements of IAS 39.

In fact, we believe that, to the extent that the Board retains our suggestion to establish clearly the objective of estimating the discount rate in the absence of a deep market for high quality corporate bonds, there will be no need to specify in IAS 19.78 that the rate should be estimated by references to bonds "denominated in the same currency and whose term is consistent with the term of the post employment benefit obligations" as these criteria would be governed by the principle underlying the objective. In general terms, we would expect that the objective would be to estimate a rate that is appropriate to the environment in which the post-employment benefit obligation is incurred.

Finally, we believe further disclosures should be required to explain how the discount rates used for post-employment benefit obligations have been determined. Such disclosure could be similar to those in IFRS 7.27-28 (narrative description of the approach and the inputs used to determine 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?

We agree to both (a) and (b) for the reasons that are set out in the proposal. We agree that this change should be applied prospectively and that it should be considered a change in accounting policy. However, we believe that the Board should clarify whether the impact of adoption, if any, is recognised as an adjustment to the opening retained earnings of the comparative period or of the period of adoption.