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Le Président

JFL/PhS

N°72

Paris, 2nd October 2009

The IAS19 Project Manager
IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

Exposure Draft ED/2009/10 Discount rate for Employee Benefits

Dear Sir/Madam,

I am writing on behalf of the CNC to give you our comments on the above-mentioned Exposure Draft(ED). Our detailed comments are set out in the attached Appendix.

In our view a fundamental review of the requirements of IAS 19 with respect to discount rates is necessary although we agree with the Board's proposed amendment to IAS 19 on the grounds that it introduces greater consistency into current requirements. .

The proposed amendment requires employee benefit obligations to be discounted at a rate determined by reference to market yields on high quality corporate bonds, including when there is no deep market in such bonds. Under current requirements, where no such market exists, market yields on government bonds are used instead.

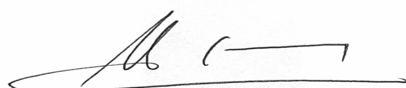
Considering the widening of the spread between yields on corporate and government bonds during the financial crisis, entities may therefore, under current requirements, use significantly different discount rates according to whether or not there is a deep market in corporate bonds in their jurisdiction. We therefore believe that the proposed amendment would help improve the comparability of reporting.

As corporate bond rates are by nature more volatile than government bonds, the proposal would be likely to introduce greater volatility into reported results. Moreover, there may be technical difficulties in estimating the relevant yields where there is no deep market and the related estimations would tend to be of a more subjective nature than estimates of yields on government bonds. We therefore recommend that the IASB should require full disclosure of the assumptions made in estimating corporate bond rates in order to enhance the comparability of the financial statements.

The ED does not set out to define the principle determining the discount rate for employee benefit obligations. We note this would be done as part of a future fundamental review of IAS 19. Whilst we appreciate that the proposed amendment introduces a timely improvement to reporting, in our view the main issue is to establish a rationale for the discount rate.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,



Jean-François Lepetit

APPENDIX

Exposure Draft ED/2009/10 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 that the Board's proposal would introduce greater consistency into the existing requirements of IAS 19 and that it should help to improve the comparability of financial statements.

We do, however, note that the estimation of the yield on high quality corporate bonds raises technical difficulties where there is no deep market. The resulting estimations are likely to be of a more subjective nature than the estimation of yields on government bonds.

We also note that the proposals are not intended to pre-empt the fundamental review of IAS 19 to take place within the scope of the Board's long term project and that the Board has not yet considered whether the yield on high quality corporate bonds is the most appropriate discount rate for post-employment benefit obligations. We stress the importance of the above-mentioned review in order to determine the principles on which the discount rate should be based .In particular, careful consideration should be given to the extent to which different risks should be reflected in the discount rate or not.

We further note that the yields of corporate bonds are more volatile than those of government bonds. The proposed amendment would therefore introduce more volatility into reported results.

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 that entities should refer to the guidance in IAS 39 in particular where it is necessary to estimate the yield of high quality corporate bonds when there is no deep market.

We do, however, suggest that the proposed amendment of §78 of IAS 19 should be modified. We propose eliminating the reference in the draft to the yield of bonds "denominated in the same currency and whose term is consistent with the estimated term of the post-employment benefit obligation". We believe that these requirements are not necessary because they could conflict with the implementation guidance in IAS 39. We know that swap transactions make it possible for bonds denominated in other currencies to be considered. In the case of a pension obligation with much longer maturities than the high quality corporate bonds observable on the market, the proposed wording in the draft amendment would appear to preclude using a valuation technique to determine the discount rate. On the contrary, the application guidance in IAS 39 (AG 74) would imply the use of valuation technique.

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 with 3(a) and (b) for the reasons stated below.

(a)We agree with the Board that retrospective application would be burdensome and costly for an entity that applies the "corridor" approach and that the resulting information would not benefit users.
(b) We also agree that the effect of applying the proposed modified requirements should be recognised directly in retained earnings as a change in accounting policy.