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Exposure Draft ED/2009/10
Discount Rate for Employee Benefits
Proposed amendments to IAS 19

The Swedish Enterprise Accounting Group (SEAG) is a forum for the Chief Accountants from the largest Swedish listed companies. The Group is administered by the Confederation of Swedish Enterprise, to which most participating companies of SEAG are joined.

Representing preparers' point of view, SEAG welcomes the opportunity to comment on the above-mentioned Exposure Draft.

The ED addresses a question that is of great importance for Swedish companies. Due to the lack of existence of a deep corporate bond market in Sweden, Swedish companies have been obliged to apply government bond rates when determining the discount rate for pension obligations. This has lead to a significant lack of comparability between Swedish entities and entities that apply a discount rate based on deep market corporate bond rates. The financial crisis has, due to a widened spread between government bond rates and deep market corporate bond rates, put this problem into focus.

SEAG therefore appreciates that the IASB now has acted to solve this problem in order to increase comparability between companies. SEAG strongly supports the amendments proposed in the ED. SEAG would also like to emphasise that it is of vital importance that the amendments are adopted by the IASB in such a time that entities can apply them in 2009.

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, based on the arguments presented in the Basis for Conclusions.

Question 2 – Guidance on determining the discount rate for employee

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, based on the arguments presented in the Basis for Conclusions.

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?

We agree. We also agree that early adoption should be permitted.

(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?

In BC 10 it is said that the proposed amendments would result in a change in accounting policy for some entities and that recognising the effect of such change as an actuarial gain or loss would combine information about gains and losses associated with changes in circumstances with those resulting from the change in accounting policy. Accordingly, the ED proposes that any effect arising from the change in accounting policy should be recognised directly in retained earnings, in the same way as other changes in accounting policy.

SEAG consider that a change of the discount rate applied could be viewed as a change in accounting estimate and thus not a change in accounting policy. IAS 19 has a two-step model for calculating discount rates, based on whether a deep market in high quality corporate bonds exists or not. This means that the current standard has one main rule and one supplementary rule for calculation. The supplementary rule, according to our view, is based on the idea that government bond rates can serve as a proxy for high quality corporate bond rates. The proposed amendment means that the supplementary rule is eliminated, based on the conclusion that the government bond rate is not a good proxy for high quality corporate bond rates. This change of course leads to an amendment of the standard but not in accounting policy.

We also believe that the most consistent method is to apply the same method that followed from the IFRIC decision in 2005, and therefore to treat the change due to the ED amendment of IAS 19 as an actuarial gain or loss. It is also worth pointing out that the gap that has opened up over the years between rates of corporate bonds and government bonds, and in particular the very low discount rates at the end of 2008, has lead to increased actuarial differences between countries with a deep market in high quality corporate bonds compared to countries without a deep market for high quality corporate bonds. The most logical solution, according to our view, would therefore be to reverse the effects of this increased difference and account for it as an actuarial gain or loss. Further, if the change due to the amendment in the ED is taken to equity, the effects of the increased difference in 2008 will be locked into unrecognised losses and produce future impact on P&L. This is not a method that will enhance usefulness of financial information.

We would also like to make a reference to IAS 8 paragraph 35. When it is difficult to distinguish a change in accounting policy from a change in accounting estimate, the change is treated as a change in accounting estimate.

SEAG would therefore prefer to recognise changes in discount rates due to the amendments of IAS 19 as actuarial gains or losses.

We are pleased to be at your service in case further clarification to our comments will be needed.

Yours sincerely,

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Claes Norberg
Secretary of the of the Swedish Enterprise Accounting Group