SwissHoldings

Verband der Industrie- und Dienstleistungskonzerne in der Schweiz
Fédération des groupes industriels et de services en Suisse
Federation of Industrial and Service Groups in Switzerland

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comment Letter on Exposure Draft – Discount Rate for Employee Benefits

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland represents 49 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to comment on the above-mentioned Exposure Draft (ED), and our response below has been prepared in conjunction with our member companies.

We appreciate the efforts by the Board to mandate the same reference point for the discount rate for employee benefit obligations regardless of whether there is a deep market on well rated corporate bonds or not. We are in agreement with the proposal and the thinking behind it.

Questions for respondents – Invitation to comment

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 proposal to eliminate the requirement to use government bond rates as the basis for the discount rate for pension obligations in countries in which no deep corporate bond market exist. As explained by the Board, comparability of pension obligations across entities can only be achieved, if all use the same reference point (i.e. corporate bonds) for the discount rate. The fact that some countries do not have a deep bond market is not an insurmountable challenge for the determination of a comparable discount rate, as market comparables and extrapolations are usually available for a robust estimate of the high quality corporate bond rate. Estimates are very common in determining fair values and this one would not be more subjective than those used in the estimation of the fair value of other assets or liabilities.

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?

Although the pension liability is itself not measured at fair value, we agree that a specific input into its measurement can itself be a fair value. A discount rate determined based on the high quality corporate bond rate fulfills the definition of fair value as per IAS 39.9, as it represents the amount for which a knowledgeable willing party is prepared to lend money (or to borrow). However, we do not agree that reference should be made to the Application Guidance of IAS 39. We prefer a rather pragmatic guidance within the standard itself, like the use of a local government bond rate market plus actual spread from another 'foreign' corporate bond market which accounts for liquidity and market depth than making reference to more complex and in an IAS 19 context less understandable Application Guidance to IAS 39. All the more, we understand that this IAS 39 Guidance provides support for the estimation of an individual instrument, e.g. bond yield, and not for the determination of a market yield of high quality corporate bonds as proposed by this ED.

Question 3 – Transition

The Board considered whether the change in the defined benefit liability (or asset) that arises from the application of the proposed amendments should be recognized 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) Recognize 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?

a) We agree that the new guidance on discount rates should be applied prospectively as retrospective application would require a revaluation of (at least) the defined benefit obligation, the service and interest costs reported in previous years. In many cases such a revaluation would have to be performed by actuaries and therefore would incur substantial additional costs, but be of limited benefit to the users of financial statements.

b) We think that from a conceptual point of view both options, i.e. the recognition of gains/losses arising on the proposed change in opening retained earnings or actuarial gains/losses recorded in the statement of recognized gains and losses, are possible. We support the view expressed by the Board that a recognition in retained earnings would separate the impact of a change in accounting policy from other changes in actuarial gains and losses and therefore would be more transparent and should not cause any additional implementation costs as under both options the opening defined benefit obligation would have to be calculated at the new and the old interest rates. The resulting change is the effect of a change in the discount rate and separation from other changes during the period should therefore not be an issue.

We thank you for the opportunity to submit our comments on your proposals.

Yours sincerely

SwissHoldings
Federation of Industrial and Service Groups in Switzerland

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Current Chair of SwissHoldings,
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cc SH Board