Federation of European Accountants
Fédération des Experts comptables Européens

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Ref.: ACC/HvD/LF/ID

Dear Mr. Enevoldsen,

Re: FEE Comments on EFRAG's Draft Comment Letter on IASB Exposure Draft of proposed Amendments to IAS 19 *Discount Rate for Employee Benefits*

(1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft of proposed Amendments to IAS 19 *Discount Rate for Employee Benefits* (the "ED").

(2) As a matter of principle, FEE supports a complete revision of standards rather than an ad hoc piecemeal approach of small changes to accommodate stakeholders' requests. However, we accept, like EFRAG, the IASB's decision to amend IAS 19 in the manner proposed for implementation in 2009, in particular since the purpose of this ED is not to re-debate IAS 19 conclusions on the type of discount rate to be used for employee benefit obligations.

(3) FEE also believes that the principle used to determine the discount rate in IAS 19 (including whether the discount rate should incorporate credit risk and if so, what credit risk) will need to be reassessed as part of the more fundamental review by the IASB of IAS 19 and in light of the comments made by FEE in its response letter on the Discussion Paper on Credit Risk in Liability Measurement.

(4) Like EFRAG, we question the proposal that IAS 19 should refer to the guidance in IAS 39 on the estimation of fair value for determining the discount rate and we support EFRAG's comments on the need for more specific guidance than currently available under IAS 39.

(5) We agree with the IASB that the change in the defined benefit liability (or asset) that arises from application of the proposed amendments represents a change in accounting policy. In addition, we would agree with the prospective application of the proposed amendments for the practical reasons cited in the Basis for Conclusions (BC8) of the ED.

Our responses to the questions in the Invitation to comment of the ED are included as an Appendix to this letter.

For further information on this letter, please contact Ms. Saskia Slomp, Technical Director.

Yours sincerely,

Hans van Damme
President

Appendix - Comments on the EFRAG draft comment letter including the responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed Amendments to IAS 19 *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?

(6) We agree with EFRAG's view and support the proposal to 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.

(7) We acknowledge, like EFRAG, that the recent increased rate spread between high quality corporate bonds and government bonds has meant that the government rate is in some jurisdictions no longer appropriate.

(8) As a matter of principle, FEE supports a complete revision of standards rather than an ad hoc piecemeal approach of small changes to accommodate stakeholders' requests. FEE also believes that the principle used to determine the discount rate in IAS 19 (including whether the discount rate should incorporate credit risk and if so, what credit risk) will need to be reassessed as part of the more fundamental review by the IASB of IAS 19 and in light of the comments made by FEE in its response letter on the Discussion Paper on Credit Risk in Liability Measurement. However, we accept, like EFRAG, the IASB's decision to amend IAS 19 in the manner proposed for implementation in 2009.

(9) In particular, we agree with EFRAG's argument to support this amendment (as detailed in paragraphs 6 to 9 of its draft comment letter) that the reduced comparability of similar entities operating in different jurisdictions - as a result of the increased rate spread having impacting jurisdictions differently - could be an important matter for certain entities and that the purpose of this ED is not to re-debate IAS 19 conclusions on the type of discount rate to be used for employee benefit obligations. However, we are not sure that this proposed change will in reality substantially improve comparability, partly in view of our concerns over the proposed guidance.

Appendix - Comments on the EFRAG draft comment letter including the responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed Amendments to IAS 19 *Discount Rate for Employee Benefits*

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?

(10) Like EFRAG, we question the proposal that IAS 19 should refer to the guidance in IAS 39 on the estimation of fair value for determining the discount rate and we support EFRAG's comments on the need for more specific guidance than currently available under IAS 39.

(11) Even though we believe that the reference to IAS 39 is relevant, we do not believe that the guidance provided in IAS 39 will be operationally sufficient and we would prefer that the guidance be customised to the particular issue being addressed. Including guidance on the specific issues related to estimating the discount rate on high quality corporate bonds in the absence of a deep market would be more useful than referring to the application guidance in IAS 39.

(12) EFRAG provides in paragraph 16 of its draft comment letter an example to suggest how IAS 19 might incorporate some of the guidance that might be needed in IAS 19, i.e. "that it would be helpful if IAS 19 suggested that a pragmatic approach when there is no deep market for high quality corporate bonds in the local jurisdiction could be to use the rate spread between high quality corporate bonds and government bonds in a jurisdiction where there is a deep market, and then apply that rate spread to the local government bond rate to approximate a local yield on high quality corporate bonds." In our view, this example would only be appropriate in cases of similar economic trends or characteristics in the financial markets, including similar factors such as the same currency. It would be clearer if EFRAG included these additional considerations explicitly in its example.

(13) For example, an alternative to the methodology proposed by EFRAG may be to construct a domestic high quality corporate bond rate by adding observable credit spread in other countries with similar economic trends and characteristics to the yield on domestic government bonds.

Appendix - Comments on the EFRAG draft comment letter including the responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed Amendments to IAS 19 *Discount Rate for Employee Benefits*

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?

(14) We acknowledge EFRAG's argument to support the view that the change in the discount rate should be treated as a change in accounting estimate, rather than as an accounting policy rate, as detailed in paragraph 19 of its draft comment letter where EFRAG indicates that "the intent of IAS 19 all along has been to require the discount rate to be the yield on high quality corporate bonds and the government bond rate was to be used as a proxy for the high-quality corporate bond rate".

(15) However, in our view, there is a stronger argument to support the fact that the change in the discount rate is a change in accounting policy: IAS 19 includes a requirement for entities to use the yield on high quality corporate bonds whenever there is a deep market for such bonds and to use the yield on government bonds whenever there is no deep market for high quality corporate bonds. On this basis, one may argue that there was no option between the two rates but an "obligatory alternative" between the two, and that therefore the elimination of the requirement to use the government bond rate when there is no deep market in high quality corporate bonds is not, in fact, a change in estimate but a change in accounting policy. Furthermore, it is difficult to support the argument that the rate on government bonds required by IAS 19 was really meant to be a proxy for high quality corporate bonds since the government bonds rate was not adjusted for the additional credit risk effect that would be expected to arise on high quality corporate bonds. To this effect, we note that IAS 19 differed from the UK ASB's FRS 17 requirement that indicated that a reasonable proxy for high quality corporate bond rate was the government bond rate *plus a margin for assumed credit risk spreads derived from global markets*.

(16) We agree with the IASB that the amendment represents a change in accounting policy, and we would agree with the prospective application of the proposed amendments for the practical reasons cited in the Basis for Conclusions (BC8) of the ED.