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International Accounting Standards Board
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Re: *Exposure Draft of Proposed Amendments to IAS 19 Discount Rate for Employee Benefits*

Dear Sir/Madam

We are pleased to have the opportunity to comment on *ED of Proposed Amendments to IAS 19 Discount Rate for Employee Benefits.*

We support the proposal that the discount rate to apply to employee benefit obligations is determined with reference to market yields on high quality corporate bonds even when there is no deep market in such bonds. However, we have some concerns regarding the applicability of the IAS 39 guidance and the transition.

Our comments are as follows:

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?

The current IAS 19 requires to use government bonds rates to discount the employee benefit obligations whenever it is not possible to use the market yields of high quality corporate bonds because their market is not deep. In such circumstance government bonds yields are therefore used as a proxy for the yields of risk-free (or quasi risk-free) corporate bonds. In the past, yields of the two categories tended to be rather similar i.e the spread between government bonds yields and high quality corporate bonds was minimal. The current financial crisis has widened such spread in countries where there is no deep market of corporate bonds and as a result the government bond rate can no longer be a good proxy for the high quality corporate bond rate. We acknowledge that, as said in paragraph BC2, the current requirement in IAS 19 means that entities with similar employee benefit obligations can report them at different amounts and therefore we are in favour of the use of corporate high quality corporate bonds even when there is no deep market in such bonds but only if government bonds yields are no longer a proxy for high quality corporate bonds. In other words, we are not in favour of eliminating tout court the use of government bonds rates. This is because in normal circumstances (i.e financial markets not in distress) the use of government bonds rates is simple, avoids subjective and costly estimates and is reasonable as past experience indicates. We are also concerned that amendments of the kinds proposed for IAS 19 are necessary to remedy distortions caused by contingent situation but may not be suitable in the long run. We are in favour to use exceptions to address exceptional circumstances rather then making radical changes to existing standards.

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 with the IASB that estimating the yield on a bond is essentially the same task as estimating its fair value (paragraph BC6). However, we share your point that the reference to the guidance in IAS 39 to estimate the yield on high quality corporate bond may not be appropriate. This is because such guidance refers to estimating an individual bond yield and not a market yield, and potentially these two yields may not be equal.
We suggest that a panel of high quality corporate bonds whose yield variability is not significant could be considered in order to estimate the market yield.

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?

Because the use of government bonds yields was simply a proxy to estimate the high quality corporate bonds, but the principle was still the use of corporate bonds albeit estimated by reference to other types of bonds, we do not see how the use of corporate bonds rates always (or in some circumstances as proposed by us) may be interpreted as a change in accounting policy. It is rather a change in estimate to be accounted for in accordance with IAS 8.

Yours sincerely,

Angelo Casò
(OIC Chairman)