

International Accounting Standards Board  
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Submitted electronically through the IASB Internet site ([www.iasb.org](http://www.iasb.org))

**Exposure Draft 2009/10 Discount Rate for Employee Benefits: Proposed Amendments to IAS 19**

Grant Thornton International is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft 2009/10 *Discount Rate for Employee Benefits: Proposed Amendments to IAS 19* (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We agree that entities with similar underlying employee benefit obligations may increasingly report them at significantly different amounts due to the widening of the spread between yields on corporate bonds and yields on government bonds during the global financial crisis. Although we have some concerns regarding the appropriateness of using the yield on high quality corporate bonds as the discount rate, we believe that the ED's proposals are an improvement to IAS 19. We therefore support the Board's proposal for a fast-track amendment.

In the longer term, we believe that a wider review of the measurement of post-employment benefit obligations and the accounting for post-employment benefit plans more generally is needed (as indicated in BC7). In particular, we believe that the Board's basis for conclusions on the use of high quality corporate bonds to determine the discount rate (IAS 19.BC26-34) is worth revisiting.

However, we appreciate that the current ED is intended as a short-term urgent improvement to address a narrowly defined problem. Consequently, consideration of whether the yield on high quality corporate bonds is the most appropriate discount rate for measuring post-employment benefit obligations is outside the scope of this consultation.

Our responses to the questions in the ED's Invitation to Comment reflect the ED's narrow scope and are set out below.

***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?**

For the reasons noted above, we agree with the proposal to eliminate the requirement to use government bond rates in the absence of a deep market for high quality corporate bonds. This should help reduce inconsistencies in amounts recognised for similar underlying employee benefit obligation.

***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 comment in BC6 to the effect that estimating the yield on high quality corporate bonds involves estimating their fair values. We therefore have no objection in principle with the proposal to use the guidance in IAS 39.AG69-82 (with a subsequent updated link to the finalised *Fair Value Measurement* IFRS when issued) to estimate the yield. However, we are not convinced that the IAS 39 guidance will be of much practical use in situations where guidance is needed. This is because the IAS 39 paragraphs in question:

- apply in the context of valuing a single instrument but not in determining an overall or composite market yield. The latter exercise involves identifying the instruments to include in the reference basket - a matter not addressed in the IAS 39 guidance;
- are used for instruments held or issued by the reporting entity rather than instruments to which the reporting entity is not party to the contractual terms;
- does not offer any practical expedient or other guidance on what to do in jurisdictions in which there are no quoted or observable transaction prices in high quality corporate bonds.

Accordingly we recommend that the Board considers the need for more specific and relevant guidance in this area.

Additional disclosures relating to the reliability and source of the discount rate calculation (ie whether the rate is based on market rates or other valuation technique) would enhance the information provided to users of the financial statements.

***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:**

- apply the proposed amendments prospectively from the beginning of the period in which it first applies the amendments?**
- 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?**

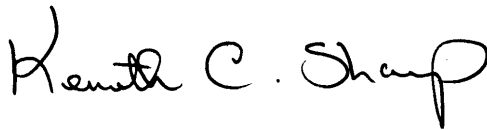
The nature of the change of accounting policy is such that we agree it may not be practicable to apply it retrospectively. Consequently, we support prospective application.

We agree that the gain or loss recognised on the change in accounting policy should be recognised in retained earnings.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive style with a large initial 'K' and a distinct 'S'.

Kenneth C Sharp  
Global Leader - Assurance Services  
Grant Thornton International