



September 11, 2009

By Email: <http://www.iasb.org/>

Re: Exposure Draft: Discount Rate for Employee Benefits (ED/2009/10)

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Exposure Draft: **Discount Rate for Employee Benefits (ED/2009/10)**. We believe that accounting for employee benefits is critical to any transparent and robust financial reporting regime and look forward to the upcoming broad review of IAS 19 by the IASB.

### **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?*

### **Comments**

We note based on the proposals in the ED, the Board has contemplated two major conceptual changes in relation to determining the discount rate for employee benefit obligations.

- a) While proposing a sole benchmark for the discount rate, the Board has preferred yield on high quality corporate bonds to yield on government bonds. At this time, on account of the financial market crisis and the expected trajectory of recovery, the spreads between these yields are excessively higher than normal. Resultantly, it is believed that this rule is unduly aggressive and disproportionately contravenes the conservatism principle. We note that the proposed change would lead to decrease in Defined Benefits Obligations and increase in actuarial gains. In short, the unintended outcome of this approach may well be the manifestation of under-statement of pension liabilities and the overstatement of comprehensive income in the financial statements. It is suggested that if a sole benchmark discount rate is to be prescribed, that rate should correspond to yield on government bonds. We contend that such choice would naturally be more conservative,

and that in any jurisdiction, the market for government bonds would typically exhibit more depth than that of corporate bonds.

- b) Unlike current IAS 19 provisions, the current ED overlooks the relative depth of the corporate bonds market while proposing yield on them as the sole benchmark for the establishment of a discount rate. In jurisdictions where the market for corporate bonds is not well developed, this proposal can result in a higher discount rate because of liquidity premium resulting in gross understatement of pension liability and overstatement of comprehensive income in the financial statements.

We endorse the proposal contained in a research paper<sup>1</sup> suggesting development of a self-contained comprehensive discount rate-choice accounting standard which would resolve issues associated with the choice of discount rate for financial reporting purposes.

Comments to Questions 2 and 3 are made without prejudice to our Question 1 observations. °

### **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?*

#### **Comments**

We agree that for guidance in determining the discount rate, an entity should refer to the guidance in IAS 39 Financial Instruments: Recognition and Measurement for determining fair value. This requirement will foster internal consistency of the standards while avoiding unnecessary duplication. °We expect that, as and when, the Board updates its guidance on fair value in IAS 39 – taken together with the Board’s intent to undertake a broad review of accounting for employee benefits – the anomaly noted in our comments to Question 1 will be attended to.

### **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 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?*

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<sup>1</sup> *Eckel, Leonard, Fortin, Steve and Fisher, Kathryn, The Choice of Discount Rate for External Reporting Purposes: Considerations for Standard Setting, Accounting Forum, Vol. 27, pp. 28-59, 2003.*

**Comments**

We endorse the prospective application of proposed amendments as put forward on the considerations of cost benefit and other practicalities although the retrospective application of the proposed amendments is conceptually superior.

*(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?*

**Comments**

We agree with the rationale given by the Board that any effect arising from the change should be recognised directly in retained earnings, in much the same way as other changes in accounting policy (BC10) because recognising the effect of such change as an actuarial gain or loss would coalesce information about gains and losses associated with changes in circumstances with those resulting from the change in accounting policy. Indeed, for many entities the proposed change would be a change in accounting policy.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamallesh Gosalia at [kgosalia@cga-canada.org](mailto:kgosalia@cga-canada.org) or alternatively the undersigned at [rlefevre@cga-canada.org](mailto:rlefevre@cga-canada.org).

Sincerely,  
[Original signed by:]

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Vice-President, Research & Standards