OICV-IOSCO

Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valore

October 13, 2009

Exposure Draft: Discount Rate for Employee Benefits
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft: Discount Rate for Employee Benefits

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: Discount Rate for Employee Benefits (the Exposure Draft).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 (SC1) seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of SC1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

Standing Committee No. 1 supports the IASB's efforts to enhance comparability of financial information by requiring discount rates used in the measurement of post-employment benefit obligations to be determined without regard to whether the country has a deep market for high quality corporate bonds. We also believe that the extent to which there is a lack of comparability is magnified by the current economic environment.

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: (34.91) 417.55.49 • Fax: (34.91) 555.93.68
mail@oicv.iosco.org
• www.iosco.org

<u>Question 1: Do you agree with eliminating the requirement to use government bond rates when there is no deep market in high quality corporate bonds?</u>

We 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, as we believe it would enhance comparability of financial information. However, while we believe that certain aspects of the principles and approach used for determining fair value for financial instruments may be relevant when determining an appropriate discount rate, we believe that to minimize diversity in practice, especially in countries with no deep market for high quality corporate bonds, the IASB should articulate a clear objective to be followed when applying the fair value measurement principles to determination of the discount rate. We provide further comments on this issue below. Some members believe, however, that in some jurisdictions there is an urgent need for practical guidance, and that broader principles should be deliberated in connection with the IASB's plans for a more fundamental review of accounting for employee benefits.

<u>Question 2: Do you agree that the discount rate should be determined by referring to the guidance in IAS 39?</u>

While we believe that certain aspects of the principles and approach described in the fair value measurement guidance contained in paragraphs AG69-AG82 of IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39)[1], may be relevant when determining an appropriate discount rate for measuring post-employment benefit obligations, we believe that a clear objective to be followed when applying those principles to determination of the discount rate would be helpful, particularly where the principles and approach of the fair value measurement guidance may be perceived as conflicting with the concepts in IAS 19. Following are two examples of potential conflict:

- IAS 39.AG79 provides guidance on determining discount rates when applying discounted cash flow analysis. This guidance requires the discount rate to be determined giving consideration to the terms and characteristics, including credit quality, of the instrument being measured. On the other hand, IAS 19.79 requires that the discount rate for post-employment benefit obligations does not include actuarial or investment risk nor entity-specific credit risk borne. This creates a conflict because IAS 39 requires consideration of the credit quality of the issuer and instrument when determining fair value, but IAS 19 requires that those characteristics are <u>not</u> considered when determining the discount rate.

- IAS 19.79 states that the "discount rate reflects the time value of money…", but in describing the time value of money, IAS 39.AG82(s) indicates that the time value of money is the basic or risk-free rate, and can "usually be derived from observable government bond prices…" This creates a conflict because IAS 39 states that the time value of money for purposes of fair value measurements is determined from government bond rates, while IAS 19, if amended by the Exposure Draft, would indicate that the time value of money is the high quality corporate bond rate, not the government bond rate.

[1] The Exposure Draft indicates that the paragraph references will be updated when the IASB issues an IFRS resulting from the exposure draft, *Fair Value Measurement*, which proposes to replace guidance on fair value measurements in IAS 39.

We believe that application guidance demonstrating how to apply the fair value measurement guidance may be useful because the fair value measurement guidance addresses how to determine the fair value of a financial instrument in its entirety and, thus, it is not clear how such guidance would be applied in determining the market yield on high quality corporate bonds.

Additionally, it is also not clear whether certain aspects of the fair value measurement guidance that have been referred to in the Exposure Draft are relevant and, if so, how. For example, guidance pertaining to equity instruments for which there are not active markets is included in the referenced paragraphs (see paragraphs AG80-AG81 of IAS 39), while the Exposure Draft relates to high quality corporate bonds, which are debt instruments.

****

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

Julie A. Erhardt

Julie A. Erhardt
Chair
IOSCO Standing Committee No. 1