BUSINESSEUROPE

IASB
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

30 September 2009

Dear Sir or Madam,

Re: EXPOSURE DRAFT (ED) OF PROPOSED AMENDMENTS TO IAS 19 *DISCOUNT RATE FOR EMPLOYEE BENEFITS*

BUSINESSEUROPE strongly supports the amendment proposed in the ED. The recent increased rate spread between high quality corporate bonds and government bonds indicates that the government bond rate no longer is a good proxy for the high quality corporate bond rate in some jurisdictions. It is therefore of vital importance to follow through on the proposed amendment in order to achieve better comparability. We also strongly believe that it is important for the Board to finalize the amendment in time for early adoption in 2009.

Comments on the specific questions raised by the Board

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?

We agree with the proposal to eliminate the requirement to use government bond rates as the basis for the discount rate for pension obligations in countries in which no deep corporate bond market exist. Comparability can only be achieved if all companies use the same reference point for the discount rate. The fact that some countries do not have a deep bond market is not an insurmountable challenge for the determination of a comparable discount rate, as market comparables are usually available for a robust estimate of the high quality corporate bond rate.

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Question 2 – Guidance on determining the discount rate for employee
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?

Although we support the idea to have a single principle to determine the discount rate and while we also agree that estimating the yield on a high quality corporate bond is essentially the same task as estimating the fair value of the bond, we do not find the reference to IAS 39 very helpful. The reference is to general guidelines for how to calculate a fair value of a (specific) bond. In order to makes this reference more operational it should be supplemented by an illustrative example on how to apply IAS 39 to determine the discount rate for employee benefit obligations. Have said that, an alternative and possibly better solution might be to create a (new) proxy rule for employee benefit obligations when no deep market in high quality bonds exists. Such a rule could i.e. be based on the rate of government bonds plus a theoretical spread based on countries that have a deep corporate bond market.

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?

We have certain doubts whether the amendment leads to a change in accounting policy. We consider that the intent of IAS 19 has been to require the discount rate to be the yield on high quality corporate bonds; the government bond rate has only been used as a proxy for the high quality corporate bond rate. The accounting policy is therefore to use the high quality corporate bond rate or something that approximates to that rate. As the ED is proposing that the government rate should no longer be regarded as an adequate proxy, it is not in our view proposing a change in accounting policy. Rather, we consider that the change should be viewed as a change in accounting estimate. The change should be accounted for in the same way as other changes in the discount rate.

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Since our view is that this is a change in accounting estimate, it follows that the new discount rate should be applied prospectively. We therefore agree with the ED that the proposed amendment should be applied on a prospective basis. Early adoption should also be permitted.

Should you wish any supplementary comment or information, please do not hesitate to contact us.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department