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Straight away

IFRS bulletin from PricewaterhouseCoopers

IASB issues an exposure draft amending IAS 19 discount rate for currencies where there is no deep market in high-quality corporate bonds

What is the issue?

The gap between yields on government bonds and high-quality corporate bonds has widened significantly in the last 12-18 months. The yields on government bonds fell, while corporate bond yields rose in some territories. IAS 19, 'Employee benefits', currently requires employee benefit obligations to be discounted using a rate based on the yield on high-quality corporate bonds in territories where there is a deep market in such bonds. The yield on government bonds is used where there is no deep market in high-quality corporate bonds.

The IASB has concluded that a distinction, based on whether or not there is a deep market in high-quality corporate bonds, creates a distortion between markets. For example, there is a deep market in high-quality corporate bonds in Europe only in sterling and euros. Companies based in the EU outside the eurozone and the UK are required to use discount rates that are currently much lower than those used by companies in the eurozone and the UK. The IASB has decided to fast-track an amendment that will remove this distinction and instead require the use of a high-quality corporate bond rate, even where such a rate is not observable and must be estimated. The discount rate will be estimated using observable inputs in the same way as the fair value of financial instruments.

The proposed amendment is expected to be implemented before 31 December 2009 and to allow but not require adoption in the current year. The transition provisions in the exposure draft are not clear but we believe the intention is to require prospective application from the start of the year of adoption, with an adjustment to retained earnings and the balance sheet when the defined benefit obligation is adjusted for the change in the discount rate

Am I affected?

This change will affect companies applying IAS 19 in territories where there is no deep market in high-quality corporate bonds, including for example Sweden, Norway, Australia, South Africa and Hong Kong. The amendment will reduce post-employment benefit obligations in those territories, so it is likely that some companies will want to early adopt the changes.

What do I need to do?

The comment deadline of 30 September gives very little time for comment. Entities, particularly those that may wish to early adopt the amendment, should consider this exposure draft to allow themselves time to comment on the proposals and plan the actuarial work that will be required to implement the changes.