The IASB's Post-Employment Benefits project and the recently published exposure draft on the Discount Rate for Employee Benefits

Content

THE POST-EMPLOYMENT BENEFITS PROJECT – AN OVERVIEW

The accounting for post-employment benefits is an important aspect of financial reporting. Both users and preparers of financial statements have criticised the current accounting requirements for failing to provide high quality, transparent information about post-employment benefit promises.

Why is the IASB reviewing pensions accounting?

The IASB agrees with many users and preparers that the current accounting model for post-employment benefits requires improvement.

A comprehensive review of all aspects of post-employment benefits accounting will take many years because of the complexity of the issues involved. As a result the IASB decided to address in this project those matters that require the most urgent attention, with the objective of issuing an amended standard by 2011.

Where are we in the project?

The IASB published in March 2008 a discussion paper (DP) on the accounting for post-employment benefits. The comment period for the DP ended in September 2008. Since then the IASB has reviewed the comments received and discussed in eight of its regular monthly public meetings some of the issues raised. It has also discussed the project with its working group in two meetings (the working group comprises a broad range of international experts, including actuaries, and auditors and users of financial statements as well as preparers and regulators).

In the light of those discussions, the IASB decided to continue the project by publishing three exposure drafts.

Topic	Timeline
Discount rate for employee benefits.	An exposure draft has now been published and is open for comment until **30 September 2009**. The IASB aims to issue amendments in time for December 2009 year-end financial statements.
Recognition and presentation of changes in the defined benefit obligation and in plan assets, disclosures and other issues raised in the comment letters that can be addressed expeditiously.	The IASB has substantially completed its discussions and at its meeting in September will review the publication timetable for this exposure draft.
Contribution-based promises	This matter may be addressed as part of a comprehensive review of pension accounting.

For more information about the project, visit the project page 'Post Employment Benefits' on the 'Projects' section on www.iasb.org

ABOUT THE DISCOUNT RATE EXPOSURE DRAFT

Why a separate exposure draft on the discount rate for employee benefits?

IAS 19 *Employee Benefits* requires an entity to determine the rate used to discount employee benefit obligations with reference to market yields on high quality corporate bonds at the end of the period. However, when there is no deep market in such bonds, IAS 19 requires an entity to use market yields on government bonds instead.

The global financial crisis has led to a significant widening of the spread between yields on corporate bonds and yields on government bonds. As a result, entities with similar employee benefit obligations may report them at very different discount rates. Some comment letters and discussions with stakeholders raised this as a matter of concern.

What is the IASB proposing?

The IASB proposes to eliminate the use of different rates for discounting the defined benefit obligation by deleting from IAS 19 the requirement to use yields on government bonds. Selecting one of the existing objectives for determining the discount rate would ensure greater comparability within a very short time frame.

According to the proposals entities would estimate the yield on high quality corporate bonds using the guidance in IAS 39 *Financial Instruments: Recognition and Presentation*. This requires more judgement than using an observable government bond rate. However, the IASB's conclusion is that consistency of objective is more important than minimising the use of judgement.

In countries where there is no deep market in high quality corporate bonds, entities would estimate the yield on such bonds. As a result, entities in those jurisdictions will no longer systematically report liabilities that are higher than equivalent obligations in other jurisdictions.

Does this mean that there will be no fundamental review of the measurement of employee benefit obligations?

No. The objective of this exposure draft is to address expeditiously a matter that has become urgent as a result of the financial crisis. A general review of issues relating to measurement will be undertaken as part of a fundamental review of pension accounting.

Why does the exposure draft have a short comment period?

The amendment to the discount rate requirements is urgently needed because effects of the global financial crisis may otherwise result in a reduction of comparability of financial statements compared with those for previous years.

The 40-day comment period balances the need for public consultation with the IASB's objective of finalising the amendments in time to improve comparability for the full-year December 2009 financial statements.

What would the effective date be?

The IASB intends to permit entities to adopt the amendments that arise from this exposure draft in their December 2009 financial statements.