30 September 2009

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@iasb.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT – *DISCOUNT RATE FOR EMPLOYEE BENEFITS* – PROPOSED AMENDMENTS TO IAS 19

In response to your request for comments on the IASB's exposure draft, *Discount Rate for Employee Benefits*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.
Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

Integritas, 7 Zulberg Close, Bruma Lake, 2198 POSTAL ADDRESS PO Box 59875, Kengray, 2100, Johannesburg
TEL +27 11 621 6600 FAX +27 11 621 3321 CALL CENTRE 08610 SAICA (72422) EMAIL saica@saica.co.za WEB saica.co.za | accountancysa.org.za

SAICA SUBMISSION ON EXPOSURE DRAFT ON *DISCOUNT RATES FOR EMPLOYEE BENEFITS* – PROPOSED AMENDMENTS TO IAS 19

GENERAL COMMENTS

While we understand that the reason for the proposal to amend IAS 19 is that the spread between yields on corporate bonds and yields on government bonds has widened significantly as a result of the global financial crisis (which has increased the difference considerably between the reported amounts of employee benefit liabilities determined using the different rates) we are not in favour of the proposed amendment from an African perspective.

OTHER COMMENTS

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?

From an African perspective, we do not agree with the proposal because in this region we have been using government bond rates since IAS 19 was first applied. Thus we are not concerned about any lack of comparability. Generally speaking, there are no deep markets in high quality corporate bonds in the African region and in some instances no market at all. Since it has become the established practice to use government bond rates in countries within this region, we are not in favour of having to derive a different discount rate until the Board determines what the most appropriate discount rate is. This view is based on the fact that the derived high quality corporate bond rate could arguably be said to be completely hypothetical in that there may, in fact, be no high quality corporate bonds in a particular country or the market may be illiquid. Although the exposure draft acknowledges estimation uncertainty, we are concerned that requiring calculations of a market rate on a hypothetical instrument (which would be the case if there are no high quality corporate bonds) would require a substantial amount of subjectivity, which could undermine comparability. We question, therefore, whether it is appropriate to require such a change now before the Board has determined what the most appropriate discount rate should be, given that another change to the discount rate may be required in future. In addition, in determining the most appropriate discount rate we encourage the Board to consider the outcome of its project on credit risk in liability measurement.

Also, generally speaking, one would expect high quality corporate bond rates to be higher than government bond rates, which (all things being equal) would result in a reduction in the measurement of the liability. In light of the fact that the Board has not determined what the most appropriate discount rate is and given the current economic crisis, we question whether it is appropriate to require lower liabilities to be recognised now. However, with specific reference to South Africa, we understand that our government bonds are not currently AA-rated. Therefore, the effect of the proposal would be to increase the recognised liability for companies in South Africa.

However, if the Board proceeds with the proposal to require the use of high quality corporate bond rates, we suggest that the Board permits the use of government bond rates where the estimation uncertainty is considered too high to determine a reliable measure of the discount rate. We believe that such an approach would address the concern that gave rise to the proposal as well as our concerns outlined above: Where it is possible to determine such high quality corporate bond rates reliably, comparability between similar economic environments would be enhanced. Where this is not possible, comparability over time and between entities in the same economic environment would continue by being able to continue using government bond rates.

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?

If the Board proceeds with the proposal, we agree with the Board's proposal that for guidance on determining the discount rate an entity should refer to the guidance in IAS 39 - *Financial Instruments: Recognition and Measurement* for determining fair value. However, we believe the Board should provide more specific guidance on the approach to follow if there are no high quality corporate bonds or if the market is illiquid. For example, if there is a market in a particular jurisdiction, but it is illiquid, it is not clear how one should derive a *market* rate given the illiquidity. Where there are no high quality corporate bonds (for example the highest rated corporate bonds might only be BB-rated), again it is not clear whether one assumes a hypothetical liquid market (for example, assuming there is an active market in BB-rated bonds, a discount could be applied to this rate to reflect the impact of a better credit rating in order to derive a hypothetical AA-rated bond) or whether one needs to incorporate the impact of illiquidity (because in reality there is no market at all in AA-rated corporate bonds) and if required, how this would be done. It is also not clear whether, if government bond rates are rated AA, these could be used as a proxy for high quality corporate bonds in the absence of a market for such bonds. Also, it is not clear whether a non-US company (for example a company in Zimbabwe) with a US$ denominated obligation should simply use US high quality corporate bond rates. This is because paragraph 78 does not actually state that the high quality corporate bonds should be those in the jurisdiction in which the entity operates. Reference is only made to those bonds of the same currency and duration as the defined benefit obligation.

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?

If the Board proceeds with the proposal, we agree with the transitional provisions as proposed by the Board in the Exposure Draft on the basis that it is probably the simplest and most pragmatic way of making the change given the different ways of recognising actuarial gains/losses and asset ceiling adjustments.