

Discount rate for employee benefits - Illustrative transition examples¹

This example illustrates the approaches to transition described in paragraph BC10 of the exposure draft.

An entity has an unfunded defined benefit plan with unrecognised actuarial losses of CU20 at the beginning of the year. It previously discounted its defined benefit liability using a government bond rate because there is no deep market in corporate bonds. The liability at the beginning of the reporting period using a government bond rate is CU120.

If the entity were to adopt the proposals in the exposure draft, it would be required to estimate the high quality corporate bond rate instead, using the guidance in IAS 39. The liability at the beginning of the reporting period using a high quality corporate bond rate is CU98. Because the entity applies the change in accounting policy prospectively, it does not remeasure the unrecognised gains and losses. Thus, when the entity changes accounting policy, it has a difference of CU22 to account for. The Board discussed two approaches to recognising this difference.

Retained earnings approach			Actuarial gains and losses approach		
In this approach the entity recognises the effect of the change to the defined benefit obligation directly in retained earnings (Dr net defined benefit liability, Cr retained earnings):			In this approach, the gain on transition of CU22 is added to the existing actuarial loss of (CU20):		
	Before change in accounting policy	After change in accounting policy		Before change in accounting policy	After change in accounting policy
	CU	CU		CU	CU
Defined benefit obligation	120	98	Defined benefit obligation	120	98
Unrecognised losses	(20)	(20)	Unrecognised losses	(20)	2
Liability recognised	<u>100</u>	<u>78</u>	Liability recognised	<u>100</u>	<u>100</u>

The exposure draft proposes that any effect arising from the change should be recognised directly in retained earnings, in the same way as other changes in accounting policy.

¹ *The example has been prepared by IASB staff for illustrative purposes only.*

