

STAFF PAPER

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IASB Meeting

Project	Discount rates		
Paper topic	Concluding the research		
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Introduction

1. The report to the Board in Agenda Paper 17A summarises the findings and outputs from the research on discount rates – present value measurements (referred to as the discount rates project). This paper should be read with that paper.
2. This paper asks the Board whether:
 - (a) the Board has any comments on how to make use of the outputs of the research project;
 - (b) consultation on the research outputs is needed; and
 - (c) the staff have done sufficient work to meet the objectives the Board set for the project.

Summary of staff recommendations and follow up

3. The staff recommend that the Board:
 - (a) does not seek feedback from the public on the research outputs; and
 - (b) does no further work on the research project.
4. The staff note the Board will be addressing project findings relating to existing requirements in its work on individual projects as appropriate; and the staff

intends to work on internal processes so that all staff refer to the list of matters to consider in future standard-setting work relating to discount rates and other aspects of present value measurements.

5. The staff plan to hold in the next few months a public education session for the Board on low and negative discount rates. Although this topic was beyond the scope of the research project, it has triggered public debate in the last few months.

Making use of the research outputs

6. There are two main outputs from this research project:
 - (a) findings from the review of existing requirements related to discount rates (present value measurements), included in the detailed research findings, presented in paper 17B discussed at the January 2016 Board meeting, and summarised in the Report to the Board, presented in paper 17A to be discussed at this meeting; and
 - (b) a list of matters for staff to consider when developing requirements relating to discount rates and other aspects of present value measurements, included in paper 17A for this meeting.
7. In the light of input received in the 2015 Agenda Consultation and the Board's review then of its priorities, the Board has no plan to carry out either a comprehensive or a targeted standard-setting project on discount rates.
8. However, a number of possibly unjustified inconsistencies in IFRS requirements related to discount rates identified by staff in this research project are planned to be considered in individual projects. In addition, there are opportunities to use the project findings to facilitate consistency in future standard-setting relating to discount rates and other aspects of present value measurements.
9. A summary of the project findings and the follow up currently planned is included in Appendix 1 to this paper.
10. The following subsections consider in more detail the follow up and how to make best use of the research outputs.

Follow up on the research findings

11. The staff's review of existing requirements for discount rates and present value measurements serves as a reference guide to requirements in IFRS Standards. It will be helpful to staff who need to look at discount rate issues on a particular project. Several staff working on projects dealing with discount rates have already used it.
12. Some potentially unjustified inconsistencies in requirements have been or will be considered, as follows:
 - (a) Matters being considered in existing projects:
 - (i) IAS 19 *Employee Benefits* allows entities to report net interest on a pension liability in various ways, for example as an operating expense or as a finance cost. The Primary Financial Statements project will consider whether the variety in reporting should be reduced.
 - (ii) IAS 36 *Impairment of Assets* contains a requirement to use pre-tax discount rates when determining value in use. The research found the requirement to be needlessly onerous. It will be considered in the Goodwill and Impairment project.
 - (b) Matters that may be considered in existing or planned projects:
 - (i) the research pipeline includes a future project on provisions. This would involve completing research already done on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, with the aim of assessing whether the Board should consider amending IAS 37. If the Board decides to consider amending any aspect of IAS 37, it could consider whether to clarify the measurement objective for provisions; it could also consider then whether to clarify which elements should be included in the measurement of provisions and specifically whether credit risk is a part of the measurement.
 - (ii) the standards-level review of disclosures in the Disclosure Initiative could include a cross-cutting review of disclosures relating to present value measurements.
 - (iii) for pension scheme benefits that depend on returns on plan assets, there is an inconsistency between assumptions

included in the cash flows and the discount rates. The research pipeline includes a future project to assess whether it is feasible to eliminate that inconsistency, without reviewing other aspects of IAS 19 *Employee Benefits*.

13. In the light of its discussions during the 2015 Agenda Consultation, the Board does not currently plan to address other potentially unjustified inconsistencies identified by the staff:
- (a) inconsistencies in requirements on when to use other comprehensive income, rather than profit or loss, in presenting the effect of changes in present value measurements. At the moment, it seems unlikely that this will be in the scope of the Primary Financial Statements project.
 - (b) the absence of a measurement objective in IAS 19 for post-employment obligations. The measurement requirements in IAS 19 are rules-based, which results in frequent requests for interpretations. Those requirements are also inconsistent with requirements for other similar liabilities. The Board considered this topic as a part of the 2015 Agenda Consultation and has no plan to review IAS 19, except for the narrow-scope project mentioned in paragraph 12(b)(iii).
 - (c) potential inconsistencies in practice in how tax is reflected in the measurements, and in particular the interaction between income taxes and discount rates. The Board had some discussion on this topic when discussing the project findings in January 2016 but did not reach a conclusion.
14. The research findings in these areas not currently planned to be considered will be useful if the Board decides to look at these matters and the staff are already making use of them when addressing requests for interpretation in these areas – such as a recent request relating to discount rates in IAS 19.

Making use of the list of matters for the staff to consider in future

15. As a by-product of the research project, the staff developed a list of matters to consider in future standard-setting work relating to discount rates and other aspects of present value measurements. The objective of this list is to help avoid

unjustified differences in present value measurements in future standard-setting. The list is included in the Report to the Board in the Agenda Paper 17A for this meeting.

16. The list has been drafted as a reminder of matters to consider when developing present value measurement requirements. It does not set a recommended position for those matters. Instead, each matter on the list (for example whether to reflect the time value of money or which elements to include in the measurement) is expected to be discussed by the Board, and consulted on, in the context of individual projects.
17. The staff could extend the scope of the recommendations on the list further by, for example:
 - (a) recommending the approach to follow for all or some items on the list, eg always reflect time value of money rather than just consider whether to reflect it; or
 - (b) directing the recommendations to the Board and not just to the staff.
18. Extending the scope of the recommendations could make future standard-setting in this area more consistent. However, it would require the Board to agree the recommendations and possibly also consult stakeholders. This in turn would require the Board to devote additional time to discuss the recommendations.
19. During the discussion on the 2015 Agenda Consultation, the Board made it clear that it would not be appropriate for it to spend significant time on either cross-cutting or targeted discount rate work at this time. Thus, the staff do not recommend developing the recommendations to the point where they would require the Board's discussion and approval.
20. The staff intend to work to embed the list in internal processes so that all staff refer to the list of matters to consider in future standard-setting work relating to discount rates and other aspects of present value measurements.
21. The staff have identified two specific near-term opportunities to use the list:
 - (a) The work on the rate-regulated activities project. It is not yet clear whether the project will require or allow the use of present value measurement techniques but, as a starting point, the project team could

use the findings and the list to help it consider whether to reflect the effect of time value of money.

- (b) Possible future work on IAS 37. If the Board decides to review any or all aspects of the measurement required by IAS 37, the list will be a useful guide, as well as specific findings relating to IAS 37 and mentioned in paragraph 12(b)(i).

Question 1

The staff note that the Board will be addressing project findings relating to existing requirements in the Board's work on individual projects as they become active.

The staff intend to work on internal processes to embed the list of matters to consider in future standard-setting work relating to discount rates and other aspects of present value measurements, so that all staff refer to the list in relevant future work.

Does the Board have any comments on making use of the research outputs? Specifically:

- a) do you have any ideas you would like the staff to follow up on?
- b) do you have any concerns you would like the staff to address?

Is public consultation needed?

22. The staff considered whether the Board should seek any feedback from the public on either of the two main outputs from the research:
- (a) research findings; and
 - (b) the list of matters to consider in future standard-setting work relating to discount rates and other aspects of present value measurements.
23. Paragraph 4.12 of the Due Process Handbook states that ‘the main output of the research programme is expected to be Discussion Papers and *research papers*. The Discussion Papers and research papers are designed to elicit comments from interested parties that can help the IASB decide whether to add a project to its

standard-setting programme. Discussion and research papers typically include a comprehensive overview of the issue, possible approaches to addressing the issue, the preliminary views of its authors or the IASB and an invitation to comment.’

24. In *IASB Work Plan 2017-2021 Feedback Statement on the 2015 Agenda Consultation*, the Board noted that, before adding to its work plan a standard-setting project to develop proposals either for a new Standard, or a major amendment to a Standard, the Board

decides whether to seek public feedback on the evidence gathered. To seek such feedback it would normally issue a Discussion Paper. To avoid placing unnecessary burdens on stakeholders, the Board seeks such feedback only if it is needed.

25. The staff think that the Board does not need to seek feedback from the public on either output of this research project, because:

- (a) the matters being addressed in individual projects will be consulted on as a part of those projects.
- (b) the list of matters for staff to consider in future standard-setting provides no instructions on what outcome to seek. Instead, the Board is expected to discuss, and consult on, items included in the list in individual projects.
- (c) in the light of input received in the 2015 Agenda Consultation and the Board’s review then of its priorities, the Board has no plan to carry out either a comprehensive or targeted standard-setting project on discount rates.

Question 2

Does the Board agree that there is no need to seek feedback from the public on either of the outputs of the discount rates research project?

How have the staff met the research objective?

26. The objective of the discount rates research was set following the 2011 Agenda Consultation as being to examine discount rate requirements in IFRS to identify why differences in discount rate requirements exist and to assess whether there are any unjustified inconsistencies that the Board should consider addressing.

Examine requirements and identify why differences exist

27. The staff identified all IFRS Standards requiring use of present value measurements and discount rates, and examined requirements by analysing the following questions:
- (a) is time value of money reflected in the measurement?
 - (b) is there an explicit and clear measurement objective?
 - (c) is it clear which elements are included in the measurement?
 - (d) what is the level of detail in requirements on how the measurement inputs are arrived at (ie present value measurement methodology)?
 - (e) are the presentation and disclosure requirements clear and consistent?
Are they supported by a disclosure objective?
28. This examination identified a number of differences (or, when requirements were unclear, possible differences) and the staff attributed them to one or more of the following reasons:
- (a) differences in measurement objectives;
 - (b) cost/benefit considerations;
 - (c) no guidance on measurement in the Conceptual Framework:
 - (i) no explicit and clear measurement objective;
 - (ii) not clear what measurement elements are included; or
 - (iii) no framework for present value measurement technique
 - (d) no framework for when to use profit or loss and when to use other comprehensive income;
 - (e) no definition of line items within profit or loss;

- (f) no disclosure framework:
 - (i) different disclosure objectives; or
 - (ii) no disclosure objectives.

29. In some cases, several reasons contributed to a specific difference identified.

Identify unjustified inconsistencies

- 30. The staff have treated differences in requirements due to different measurement objectives (such as difference between the discount rates used in current value measurement and those used in amortised cost measurement) and the differences due to cost-benefit considerations (such as not permitting discounting in IAS 12 *Income Taxes*) as justifiable.
- 31. For all other differences in requirements, the staff concluded that the differences were possibly unjustified. However, if the differences do not cause inconsistency in practice and the resulting information provided is useful, the staff also concluded there would be no need to recommend that the Board should consider addressing them.
- 32. Accordingly, the staff sought to understand which differences in requirements cause inconsistency in practice or mean that information provided is not useful. To do this, the staff undertook limited evidence gathering including:
 - (a) limited outreach and research with a variety of stakeholders as well as with the Board’s advisory bodies;
 - (b) review of relevant submissions to the IFRS Interpretations Committee;
 - (c) identification of the adjustments made by analysts to present value measurements; and
 - (d) sample-based assessment of the magnitude of differences caused by inconsistencies.
- 33. This resulted in staff identifying a number of areas for the Board to consider addressing, which are summarised in the table in Appendix 1 to this paper.

34. The staff have concluded that their research has met the objective of identifying why IFRS Standards have inconsistent discount rate requirements and assessing whether the differences are justified.

Question 3

Does the Board agree that:

- a) the staff have completed the research work they were asked to do; and
- b) no more work on the research project is therefore needed?

Appendix 1 Summary of research findings and follow up

Type of difference identified	Cause(s) attributed by staff	Potentially unjustified inconsistencies identified by staff	Follow up currently planned
Different discount rates to meet measurement objective	Different measurement objectives	None	None
Discounting not used at all in some places	Cost/benefit considerations	None	List for staff includes consideration of discounting if the effect is material
Measurement objective not explicit or unclear	No guidance on measurement in Conceptual Framework	No explicit measurement objective for defined benefit obligations in IAS 19	No current plans to address IAS 19 measurement objective
		Unclear measurement objective in IAS 37	IAS 37 measurement objective may be considered in pipeline research project on Provisions
			Revised Conceptual Framework will address measurement
			List to staff emphasises the benefits of explicit and clear measurement objectives in future standard-setting
Not always clear which elements to include in a present value measurement	No explicit or clear measurement objective	Diversity in practice for own credit risk in IAS 37	Own credit risk in IAS 37 may be considered in pipeline research project on Provisions
Different level of detail in how to arrive at measurement	No framework for present value measurement techniques	Possibly unjustified requirement to use only pre-tax rates in value in use in IAS 36	Goodwill and impairment project will consider the use of pre-tax rate in IAS 36
		Interaction between tax and discount rates not clear	No plans to work on income taxes. List for staff will facilitate consistency in future standard-setting projects

Type of difference identified	Cause(s) attributed by staff	Potentially unjustified inconsistencies identified by staff	Follow up currently planned
Inconsistency between measurement inputs	No explicit or clear measurement objective/rules-based requirements	In IAS 19, for pension scheme benefits that depend on returns on plan assets, inconsistency between cash flow assumptions and the discount rates	The research pipeline includes a future project to assess whether it is feasible to eliminate that inconsistency for benefits that depend on asset returns, without reviewing other aspects of IAS 19
		Credit risk included in IAS 19 discount rate not relevant to the cash flows	No current plans to address IAS 19 measurement objective. List for staff will facilitate consistency in future standard-setting projects
Different presentation requirements	No framework for when to use profit or loss and when to use other comprehensive income	Differences in approach to the use of profit or loss vs other comprehensive income	Revised Conceptual Framework will give some general guidance, but not on this specific point. No plans for more specific follow up
	No definition of finance costs	Unwinding of interest on defined benefit obligations presented inconsistently within profit or loss	Presentation of unwinding of discount likely to be considered in Primary Financial Statements project
Different disclosure requirements	Different disclosure objectives	Differences in content and wording of disclosure requirements	The work on principles of disclosures and standards-level review of disclosures could help address the differences
	No disclosure objectives		
	No disclosure framework		