STAFF PAPER

IFRS Interpretations Committee Meeting

July 2013

Project	IAS 19 *Employee Benefits*—Pre-tax or post-tax discount rate		
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Introduction

1. In February 2013, the IFRS Interpretations Committee ('the Interpretations Committee') received a request for guidance on the calculation of defined benefit obligations. In particular, the submitter asked the Interpretations Committee to clarify whether, in accordance with IAS 19 *Employee Benefits* (2011), the discount rate used to calculate a defined benefit liability should be pre- or post-tax. In other words, the issue is whether tax payments on the return on plan assets may be included in the measurement of the defined benefit obligation.

2. The Interpretations Committee discussed the issue in the March 2013[1] meeting.

3. In the March 2013 meeting, the Interpretations Committee noted that the discount rate used to calculate a defined benefit obligation should be a pre-tax discount rate, because:

[1] See Agenda Papers 15 http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/March/AP15%20-%20IAS%2019%20Pre%20or%20post-tax%20discount%20rate.pdf

(a) paragraph 76(b)(iv) of IAS 19 (2011) mentions only taxes on contributions and benefits payable within the context of measuring the defined benefit obligation;

(b) paragraph 130 of IAS 19 (2011) states that: in determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation; and

(c) according to paragraph BC130 of IAS 19 (2011) the measurement of the obligations should be independent of the measurement of any plan assets actually held by the plan.

On the basis of the analysis above the Interpretations Committee tentatively decided not to add this issue to its agenda.

Comment analysis

4. We received two comment letters on the tentative agenda decision.

5. Both of the respondents (AcSB and Deloitte) agree with the Interpretations Committee's tentative decision not to take this issue onto its agenda for the reasons provided in the tentative agenda decision.

Staff recommendation

6. After considering the comments received on the tentative agenda decision, we recommend that the Interpretations Committee should finalise its decision not to add this issue to its agenda. The proposed wording of the final agenda decision is shown in Appendix A to this paper.

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add this issue to its agenda?

2. Does the Interpretations Committee have any comments on the proposed wording in Appendix A for the final agenda decision?

Appendix A—Proposed wording for final agenda decision

A1 The proposed wording for the final agenda decision is presented below (deleted text is struck through).

IAS 19 *Employee Benefits*—Pre-tax or post-tax discount rate

The Interpretations Committee received a request for guidance on the calculation of defined benefit obligations. In particular, the submitter asked the Interpretations Committee to clarify whether, in accordance with IAS 19 *Employee Benefits* (2011), the discount rate used to calculate a defined benefit liability should be a pre-tax or post-tax rate.

The tax regime in the jurisdiction of the submitter can be summarised as follows:

- the entity receives a tax deduction for contributions that are made to the plan;
- the plan pays tax on the contributions received and on the investment income earned; but
- the plan does not receive a tax deduction for the benefits paid.

The Interpretations Committee noted that:

- paragraph 76(b)(iv) of IAS 19 (2011) mentions only taxes on contributions and benefits payable within the context of measuring the defined benefit obligation;
- paragraph 130 of IAS 19 (2011) states that: in determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation; and
- according to paragraph BC130 of IAS 19 (2011) the measurement of the obligations should be independent of the measurement of any plan assets actually held by the plan.

Consequently, the Interpretations Committee observed that the discount rate used to calculate a defined benefit obligation should be a pre-tax discount rate.

On the basis of the analysis above the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

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April 30, 2013

(By e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IAS 19 *Employee Benefits* – Pre-tax or post-tax discount rate

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the pre-tax or post-tax discount rate. This tentative agenda decision was published in the March 2013 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail pmartin@cpacanada.ca), or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail kingram@cpacanada.ca).

Yours truly,

Peter Martin

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Director, Accounting Standards

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Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
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E-mail: ifric@ifrs.org

3 June 2013

Dear Mr. Upton

Tentative Agenda Decision - IAS 19 Employee Benefits: Pre-tax or post-tax discount rate

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the March 2013 IFRIC Update of the tentative decision not to take onto the IFRIC's agenda a request for clarification on whether a pre or post-tax discount rate should be applied in respect of a defined benefit plan which is subject to tax on contributions received and investment income earned.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader
Technical