STAFF PAPER

IFRS Interpretations Committee meeting **November 2013**

IFRS Interpretations Committee meetings:
Nov 2012, Jan, March, May and July 2013

IASB meeting: Feb 2013

Project	**IAS 19 *Employee Benefits*—Actuarial assumptions: Discount rate**		
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Introduction

1. In November 2012, the IFRS Interpretations Committee (the 'Interpretations Committee') received a request for guidance on the determination of the rate used to discount post-employment benefit obligations. The submitter stated that:

   (a) according to paragraph 83 of IAS 19 *Employee Benefits* (2011) the discount rate should be determined by reference to market yields at the end of the reporting period on "high quality corporate bonds" (HQCB);

   (b) IAS 19 does not specify which corporate bonds qualify to be HQCB;

   (c) according to prevailing past practice, listed corporate bonds have usually been considered to be HQCB if they receive one of the two highest ratings given by a recognised rating agency (for example, 'AAA' and 'AA'); and

   (d) because of the financial crisis, the number of corporate bonds rated AAA or AA has decreased in proportions that the submitter considers significant.

On the basis of the points mentioned, the submitter asked the Interpretations Committee whether corporate bonds with a rating lower than AA can be considered HQCB.

2. The Interpretations Committee discussed this issue in the November 2012 and the January, March, May and July 2013 meetings.

3. In the July 2013 meeting, the Interpretations Committee tentatively decided not to add this issue to its agenda, because it noted that issuing additional guidance on, or changing the requirements for, the determination of the discount rate would be too broad for it to address in an efficient manner.

4. We received ten comment letters on the tentative agenda decision. We analyse the comment letters in the following paragraphs.

Comment analysis

5. Most of the respondents support the Interpretations Committee's tentative decision not to add this issue to its agenda.[1] We reproduce in the following paragraphs the main comments provided by these respondents.

6. Atos and Air France-KLM comment:

> We support the Tentative Agenda Decision not to add the discount rate issue to the agenda. In particular, we agree with the IFRS IC's confirmation on the following items, that:
>
> (i) beyond the guidance reflected in par. 84 and 85 of IAS 19 the Standard does not specify how to determine the market yields on high quality corporate bonds (HQCB), and in particular what grade of bonds should be designated as high quality
>
> (ii) the determination of the discount rate, which is a significant assumption, will be one where preparers shall apply and disclose their judgment according to IAS 1 and IAS 8 rather than using a rule-based process.

7. Similarly, ACTEO, AFEP and MEDEF comment:

[1] ACSB, Air France-KLM, Atos, ACTEO-AFEP-MEDEF, Deloitte, E.ON, Wolters Kluwer and BBVA.

> Indeed, we welcome the decision not to specify how to determine the market yields on high quality corporate bonds, and, in particular, the decision not to define them by reference to ratings given by rating agencies. This decision ensures that there is no move towards a rule-based standard.
>
> We also agree that the discount rate is a significant actuarial assumption for which entities should use judgment and disclose how they have applied it, within the core principle as defined in IAS 19 paragraphs 84-85 and cited in this tentative agenda decision.

Further guidance is needed

8. Deloitte comments:

> We agree with much of the analysis presented in the tentative agenda decision. However, we are concerned that the following issues are not addressed:
>
> - the determination of an appropriate discount rate in an economy with corporate bonds that, whilst not AA- or AAA-rated, are rated more highly than equivalent government bonds; and
> - the determination of whether a market in high quality corporate bonds is 'deep'.
>
> We believe that further guidance on these issues and on identification of an appropriate discount rate more generally is needed as the principle underpinning the use of a high quality corporate bond yield is not clear and IAS 19 uses a number of terms that are not defined.
>
> We recognise that the provision of guidance in this area may be in the nature of standard setting rather than interpretation and in that context agree with the Committee's decision not to add this item onto its agenda, but believe that a project to address this issue should be undertaken by the International Accounting Standards Board as soon as is practicable.

9. We are aware of the importance of this issue. For this reason, if the Interpretations Committee decides to finalise its agenda decision in its November meeting, we will present, in a future IASB meeting, a paper reporting the Interpretations Committee's discussions and conclusions.

High quality is not an absolute concept

10. E.ON and BBVA disagree with the Interpretations Committee's tentative conclusion that the credit quality is an absolute concept. For example E.ON. comments:

> The rejection of a relative concept of quality resulted in our understanding mainly from a literal discussion of the Standard's wording 'high' instead of 'highest'. We regard this line of argumentation not strong enough to discard a relative concept of quality and therefore do not agree with this particular finding.
>
> This said, we acknowledge the fact that the topic is too broad and cannot be answered by the IFRS IC in an efficient manner. We support the Tentative Agenda Decision not to add this issue to the agenda….

11. We think that the clarification provided by the Interpretations Committee (ie the term 'high quality' reflects an absolute concept of credit quality) is useful. Without this clarification entities could start using a relative concept of high quality that, in our view, is not consistent with the requirements of IAS 19 and thus could cause significant divergence in practice. We think that the Interpretations Committee / the IASB should amend paragraph 83 of IAS 19 to introduce a relative concept of HQCB and that the potential effect of such an amendment could be significant.[2]

The tentative agenda decision produces additional restrictions

12. E.ON, BBVA and Wolters Kluwer suggest deleting the following sentence of the tentative agenda decision: "… the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate." For example E.ON. asserts that:

[2] For further details please see Agenda Paper 11 for the July 2013 Interpretations Committee meeting http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/July/AP11-Discount%20rate%20HQCB%20issue.pdf.

> … it is our opinion that the Tentative Agenda Decision should, however, be amended in one aspect which is in our view not compatible with today's best practices and / or may contribute to future divergence in practice: the tentative agenda decision states that: '…the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate.' This is a strong rule and therefore, generally in conflict with a principle-based standard which leaves some room to the preparer's judgment. We believe this rule may lead to a divergence in market practice, as:
>
> (i) this decision implicitly states, that only new adopters of IFRS may choose their method for identifying the eligible HQCB population. Afterwards they have to use it as long as it is consistent over time (but not necessarily consistent to other preparers methods implemented at a different time), and
>
> (ii) this rule is not compatible with today's best practices, as preparers as well as actuaries refined their methodologies to take into account changed market circumstances …
>
> We therefore suggest deleting the mentioned paragraph and to give preparers the room for judgment to define the eligible high quality corporate bond universe and not to unnecessarily implement additional restrictions compared to today's status quo …

13. We think that the sentence: "Similarly, because HQCB refers to an absolute notion, the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate" should be deleted. This is because the following sentences of the tentative agenda decision provide enough guidance: "The Interpretations Committee also observed that the entity's policy for determining the discount rate should be applied consistently over time. The Interpretations Committee does not expect that an entity's method for determining the discount rate so as to reflect the yields on HQCB will change significantly from period to period. Accordingly, a reduction in the number of HQCB should not result in a change to an entity's policy for determining the discount rate, provided that the relevant market in HQCB remains deep."

14. We also think that deleting this sentence addresses the comment that the tentative agenda decision implicitly suggests that bonds with a rating of AA and AAA are to be considered as HQCB (see paragraphs 19–20 of this paper).[3]

The issue should be added to the Interpretations Committee's agenda

15. The ASCG and EY disagree with the Interpretations Committee's tentative decision not to add this issue to its agenda. We reproduce in the following paragraphs the main comments provided by those respondents.

16. The ASCG suggests the Interpretations Committee to add this issue to its agenda and to clarify whether government bonds that are used to determine the discount rate should be of 'high quality'. In particular, it comments:

> ... we would encourage the IFRS IC to take this issue onto its agenda and to develop an interpretation. If the IFRS IC would confirm its opinion, not to take the issue onto its agenda, then we would recommend that the IFRS IC asks the IASB to develop a narrow scope amendment of IAS 19. This is because we consider additional guidance on this issue to be of paramount importance.
>
> … we would like to point out that the tentative agenda decision does not address the issue whether government bonds have to be 'high quality' when they are used to determine the discount rate. We would be concerned if this issue is neither further discussed by the IFRS IC nor by the IASB. We believe this is also an important issue and hence, we would ask the IFRS IC to proceed to work on this issue. If the IFRS IC concludes that this issue is also too broad to be addressed in an efficient manner, we would recommend that the IASB develops a narrow scope amendment of IAS 19 with regard to this issue.

17. Similarly to the ASCG, EY asks the Interpretations Committee to clarify the principle for determining the discount rate. EY comments:

> We do not support the Committee's tentative decision not to add this issue to its agenda. We would support the Committee putting this issue on its agenda, with the aim of clarifying the principle for determining the discount rate in

[3] EY and the Accounting Standard Committee of Germany (ASCG) provided this comment.

> IAS 19.84 and adding Implementation Guidance to assist entities in applying the principle. Special focus should be paid to the interaction between paragraphs 84 and 83 of IAS 19 Employee Benefits. We consider the staff proposals presented to the May 2013 meeting of the Interpretations Committee to be a useful framework for the clarification of paragraph 84 of IAS 19 and the development of implementation guidance to assist in the determination of the discount rate.
>
> We recommend assessing whether a hypothetical bond matching approach to determine the discount rate may be appropriate and in what circumstances, as this approach is frequently used by companies reporting under US GAAP.
>
> Finally, we believe some specific fact patterns require further considerations. There are jurisdictions for which there is no deep market for high quality corporate bonds. It is unclear what the approach would be if the bonds of the government in the same country were not of a high quality either. We understand the underlying principles, as expressed by the Committee, to mean that this government bond rate could not be used as the discount rate for measuring post-employment benefit obligations. However, it is also unclear which alternative approach should be used.

18. We think that the Interpretations Committee will not reach a consensus on a timely basis on these matters (ie whether corporate bonds with a rating lower than AA can be HQCB and what an entity should do when there is no deep market in HQCB and government bonds are not of high quality). Indeed, the Interpretations Committee has already discussed these matters several times. Consequently, we think that the Interpretations Committee should finalise its agenda decision. In order to point out to the IASB the importance of this issue, we will present, in a future IASB meeting, a paper reporting the Interpretations Committee's discussions and conclusions on this topic.

The tentative agenda decision suggests that HQCB means AAA and AA

19. The ASCG thinks that the tentative agenda decision implicitly suggests that bonds with a rating of AA and AAA are to be considered as HQCB. It comments:

In its tentative agenda decision the IFRS IC states that ‘high quality’ reflects an absolute concept of credit quality, the policy for determining the discount rate should be applied consistently over time, the method for determining the discount rate does not change significantly from period to period, a reduction in the number of HQCB should not result in a change of an entity’s policy for determining the discount rate (as long as the relevant market remains deep), and according to prevailing practice, listed corporate bonds have been considered to be HQCB if they receive one of the two highest ratings given by a recognised rating agency (e.g. ‘AAA‘ and ‘AA‘). Bringing all these facts together, the IFRS IC states that corporate bonds with a rating of ‘AA’ and ‘AAA’ are to be considered as HQCB. If this is the IFRS IC’s position, then we ask the IFRS IC to state it explicitly in the agenda decision.

Otherwise, we have serious concerns that the unclear wording could result in diver-gent practice in determining the discount rate. Especially, entities formulating their accounting policy for determining the discount rate for the first time (e.g. first-time IFRS adopters) could consider ‘A’ rated corporate bonds as HQCB. This would be in line with the statement in the tentative agenda decision but would allow the first-time IFRS adopters to apply a different accounting policy in comparison to the entities with policies set up before the agenda decision was published.

20. EY provided a similar comment:

We understand the current wording of the agenda decision to be stricter than that issued in November 2012, as it refers to a number of considerations that seem to suggest that AA and above is the appropriate rating (paragraph 84 of IAS19 states that 'high quality' is an absolute, and not a relative, concept, and that the method would not be expected to change over time, or with a reduction in the depth of the market). We are supportive of the views expressed by the Committee that ‘high quality’ is an absolute concept and that the discount rate typically is a significant assumption that warrants sufficient disclosures such as judgments applied and sensitivity analyses. We agree with the view of the Committee that the method for determining ‘high quality’ is an accounting policy and should be applied consistently over time. We believe this might be better worded in the Committee’s agenda decision as follows:

> The Interpretations Committee also observed that the entity's policy for determining the discount rate is an accounting policy. As such, it should be applied consistently over time, unless the entity satisfies the condition set out in IAS 8 for a voluntary change of accounting method. ~~The Interpretations Committee does not expect that an entity's method for determining the discount rate so as to reflect the yields on HQCB will change significantly from period to period. Similarly, because HQCB refers to an absolute notion, the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate.~~ Accordingly, a reduction in the number of HQCB should not result in a change to an entity's policy for determining the discount rate, provided that the relevant market in HQCB remains deep. Paragraphs 83 and 86 of IAS 19, respectively, contain~~s~~ requirements if the market in HQCB were ~~is~~ no longer deep or if the market remains deep overall, but there were ~~is~~ an insufficient number of HQCB beyond a certain maturity.

21. In the light of these comments, we propose to focus the wording of the tentative agenda decision on the concept of high quality. In particular we propose:

    (a) to replace the sentence "the entity's policy for determining the discount rate should be applied consistently over time" with "the concept of high quality should not change over time" and

    (b) to replace the sentence "Accordingly, a reduction in the number of HQCB should not result in a change to an entity's policy for determining the discount rate, provided that the relevant market in HQCB remains deep" with "Accordingly, a reduction in the number of HQCB should not result in a change of the concept of high quality".

22. We are proposing these changes because we think that the concept of 'high quality' is an absolute concept. This means, in our view, that:

    (a) it is not entity-specific,

    (b) it is not related to market conditions and

    (c) it should not change from period to period.

23. We think that deleting the sentence: "Similarly, because HQCB refers to an absolute notion, the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate" addresses the comment that the tentative agenda decision implicitly suggests that bonds with a rating of AA and AAA are to be considered as HQCB.

24. We also think that in the agenda decision we should not state that a change in the entity's method for determining the discount rate is a change in accounting policy, because the Interpretations Committee has not reached a consensus on this matter. Indeed, the November 2012 *IFRIC Update* states that:

> The Interpretations Committee briefly discussed, but did not conclude, on whether a change to the way in which an entity determines the discount rate would be a change in accounting policy or a change in estimate …

25. We agree that we should add the reference to paragraph 86 in the agenda decision as suggested by EY. This proposed change reminds, in our view, that a market in HQCB can be deep even though there is no deep market in HQCB beyond a certain maturity.

Staff recommendation

26. 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. However, on the basis of this comment analysis, we propose changes to the wording of the tentative agenda decision as illustrated in Appendix A of 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 the final agenda decision

A1 The proposed wording for the final agenda decision is as follows (new text is underlined and deleted text is struck through):

IAS 19 *Employee Benefits*—Actuarial assumptions: discount rate

The Interpretations Committee discussed a request for guidance on the determination of the rate used to discount post-employment benefit obligations. The submitter stated that:

(a) according to paragraph 83 of IAS 19 *Employee Benefits* (2011) the discount rate should be determined by reference to market yields at the end of the reporting period on "high quality corporate bonds" (HQCB);

(b) IAS 19 does not specify which corporate bonds qualify to be HQCB;

(c) according to prevailing past practice, listed corporate bonds have usually been considered to be HQCB if they receive one of the two highest ratings given by a recognised rating agency (eg 'AAA' and 'AA'); and

(d) because of the financial crisis, the number of corporate bonds rated 'AAA' or 'AA' has decreased in proportions that the submitter considers significant.

In the light of the points above, the submitter asked the Interpretations Committee whether corporate bonds with a rating lower than 'AA' can be considered to be HQCB.

The Interpretations Committee observed that IAS 19 does not specify how to determine the market yields on HQCB, and in particular what grade of bonds should be designated as high quality. The Interpretations Committee considers that an entity should take into account the guidance in paragraphs 84 and 85 of IAS 19 (2011) in determining what corporate bonds can be considered to be HQCB.

Paragraphs 84 and 85 of IAS 19 (2011) state that the discount rate:

(a) reflects the time value of money but not the actuarial or investment risk;

(b) does not reflect the entity-specific credit risk;

(c) does not reflect the risk that future experience may differ from actuarial assumptions; and

(d) reflects the currency and the estimated timing of benefit payments.

The Interpretations Committee further noted that paragraph 83 of IAS 19 uses the term 'high quality', which reflects an absolute concept of credit quality and not a concept of credit quality that is relative to a given population of corporate bonds, which would be the case, for example, if the paragraph used the term 'the highest quality'.

The Interpretations Committee also observed that the <u>concept of high quality</u> ~~entity's policy for determining the discount rate~~ should <u>not change</u> ~~be applied consistently~~ over time. The Interpretations Committee does not expect that an entity's method for determining the discount rate so as to reflect the yields on HQCB will change significantly from period to period. ~~Similarly, because HQCB refers to an absolute notion, the Interpretations Committee does not expect that~~

~~there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate.~~ Accordingly, a reduction in the number of HQCB should not result in a change of the concept of high quality ~~to an entity's policy for determining the discount rate, provided that the relevant market in HQCB remains deep.~~ Paragraphs 83 and 86 of IAS 19, respectively, contain~~s~~ requirements if the market in HQCB is no longer deep or if the market remains deep overall, but there is an insufficient number of HQCB beyond a certain maturity.

The Interpretations Committee also noted that:

(a) paragraphs 144 and 145 of IAS 19 (2011) require an entity to disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation and a sensitivity analysis for each significant actuarial assumption;

(b) typically the discount rate is a significant actuarial assumption; and

(c) an entity shall disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements in accordance with paragraph 122 of IAS 1 *Presentation of Financial Statements*.

The Interpretations Committee discussed this issue in several meetings and noted that issuing additional guidance on, or changing the requirements for, the determination of the discount rate would be too broad for it to address in an efficient manner. Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

Accounting Standards Board
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September 25, 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*—Actuarial assumptions: 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 determination of the rate used to discount post-employment benefit obligations. This tentative agenda decision was published in the July 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

Peter Martin, CPA, CA
Director, Accounting Standards

Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

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MEDEF

The Chairman,
IFRS Interpretations Committee,
30 Cannon Street,
London EC4M 6XH

30 September 2013

Dear Mr. Upton,

Re: Agenda decision - IAS 19 Employee Benefits—Actuarial assumptions: discount rate

We wish to express our support for the tentative rejection proposed by the IFRS Interpretations Committee in connection with the definition of the discount rate used for pension obligations.

Indeed, we welcome the decision not to specify how to determine the market yields on high quality corporate bonds, and, in particular, the decision not to define them by reference to ratings given by rating agencies. This decision ensures that there is no move towards a rule-based standard.

We also agree that the discount rate is a significant actuarial assumption for which entities should use judgment and disclose how they have applied it, within the core principle as defined in IAS 19 paragraphs 84-85 and cited in this tentative agenda decision.

Yours sincerely,

ACTEO	AFEP	MEDEF
Patrice MARTEAU Chairman	François SOULMAGNON Director General	Agnès LEPINAY Director of economic and financial affairs

AIRFRANCE KLM

Wayne Upton
Chairman
IFRS Interpretation Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Ref.: Tentative Agenda Decision IAS 19 Employee Benefits – Actuarial assumptions: discount rate

Dear Mr. Upton,

Air France-KLM is the fourth largest airline group of the world. Our group is organized around four businesses – passenger, cargo, maintenance and other – with a total revenue for the year 2012 amounted to €25.6 billons. We operate more than 500 passenger aircraft and 60% of our sales are outside of home markets (France and Netherlands). We propose to our clients 124 long-haul destinations and 143 direct long-haul flights per day.

Air France-KLM is one of French biggest actors in pension with a defined benefits obligation of €16.3 billion and a pension funds value of € 16.8 billion as of December 31, 2012. Then the valuation of post-employment benefit obligation according to IAS 19 (Employee Benefits) is and will be an important item in the preparation of our IFRS financial statements. This is why we have been engaged in a broad dialogue among European and Global preparers to share best practices used to derive discount rates according to IAS 19. We followed the IFRS IC discussion closely and would like to present our comments on the Tentative Agenda Decision which was published in the IFRIC update, dated July 26th, 2013.

We support the Tentative Agenda Decision not to add the discount rate issue to the agenda. In particular, we agree with the IFRS IC's confirmation on the following items, that:

(i) beyond the guidance reflected in par. 84 and 85 of IAS 19 the Standard does not specify how to determine the market yields on high quality corporate bonds (HQCB), and in particular what grade of bonds should be designated as high quality

(ii) the determination of the discount rate, which is a significant assumption, will be one where preparers shall apply and disclose their judgment according to IAS 1 and IAS 8 rather than using a rule-based process

If you have any questions concerning our comments, please contact Séverine Guffroy in Paris at +33.1.49.89.52.90.

Yours sincerely

Philippe Calavia	Séverine Guffroy
Chief Financial Officer	Deputy Vice President Accounting

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Chairman
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United Kingdom

Ref.: Tentative Agenda Decision IAS 19 Employee Benefits – Actuarial assumptions: discount rate

Dear Mr. Upton,

Atos SE (Societas europaea) is an international information technology services company with annual 2012 revenue of EUR 8.8 billion and 77,000 employees in 47 countries. Serving a global client base, it delivers consulting and technology services, systems integration and managed services. Atos is focused on business technology that powers progress and helps organizations to create their firm of the future. It is the Worldwide Information Technology Partner for the Olympic and Paralympic Games and is quoted on the Paris Eurolist Market. Atos operates under the brands Atos, Atos Consulting & Technology Services, Worldline and Atos Worldgrid.

We support the Tentative Agenda Decision not to add the discount rate issue to the agenda. In particular, we agree with the IFRS IC's confirmation on the following items, that:

(i) beyond the guidance reflected in par. 84 and 85 of IAS 19 the Standard does not specify how to determine the market yields on high quality corporate bonds (HQCB), and in particular what grade of bonds should be designated as high quality

(ii) the determination of the discount rate, which is a significant assumption, will be one where preparers shall apply and disclose their judgment according to IAS 1 and IAS 8 rather than using a rule-based process

If you have any questions concerning our comments, please contact Jean-François Gavanou.

Yours sincerely

Jean-François Gavanou
Group Senior Vice President Pensions
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BBVA

25 September 2013

Wayne Upton
Chairman
IFRS Interpretation Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Upton,

Tentative decision on "IAS 19 Employee Benefits - Actuarial assumptions: discount rate"

BBVA is a highly diversified international financial group, with strengths in the traditional banking businesses of retail banking, asset management and corporate investment banking. With total assets in excess of €600bn, the group employs over 110,000 employees, serving 49m customers in 32 countries worldwide.

The valuation of employee benefits under IAS 19 (Employee Benefits) is important to BBVA. For some time we have been engaging in a broad dialogue among European and Global preparers to share best practices in deriving discount rates in accordance with IAS 19. We have followed this topic closely and wish to comment on the Tentative Agenda Decision published in the IFRIC Update of July 2013.

Firstly, we recognise the fact that the topic is too broad for you to address in an efficient manner and, on this basis, support your decision not to add this issue to the agenda. Furthermore, we agree with and welcome your confirmation of the following in your tentative decision:

- The Standard does not specify how to determine the market yields on high quality corporate bonds (HQCB), and in particular what grade of bonds should be designated as high quality.
- In determining the discount rate, which is a significant assumption, preparers shall continue to apply and disclose their judgement, rather than using a more prescriptive approach based on specific credit ratings.

However, there are some aspects of your tentative decision which we believe may be ambiguous, or at least unclear, and which therefore may lead to confusion on this subject, as well as divergent practices. These are as follows:

- Your justification of an "absolute" concept of quality is based on one possible interpretation of the meaning of the terms "high quality" vs. "the highest quality". This seems like a weak argument - and, in fact, one could equally argue the exact the opposite.

BBVA

- This aside, we believe that your conclusion that the standard's concept of quality is "absolute" is potentially at odds with the standard itself. If anything, the standard's concept of quality appears to be far from "absolute", for instance: the standard does not specify the grade of bonds designated as high quality, consideration of the depth of market is needed, and judgement plays a key role in these and other considerations when setting discount rates.

- The tentative decision then goes on to state: "Similarly, because HQCB refers to an absolute notion, the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate." In our opinion this statement conflicts with a principles-based standard, and the ability of preparer's to use their judgement where required. Furthermore, it may lead to divergences in market practice. In particular:

    - The statement is not compatible with today's best practices, as preparers as well as actuaries have for some time been using good judgement to refine their methodologies to take into account changed economic and market circumstances, e.g. eliminating financial issuers from their HQCB universe during the financial crisis in 2008, effectively capping discount rates.

    - A new IFRS adopter could potentially choose a method for identifying his HQCB population which could differ substantially from that employed by historic preparers, provided it applies it consistently over time.

We therefore suggest you consider removing the above mentioned statements and that, in the same manner as in the past, preparers continue to use good judgement as intended by the standard.

Yours sincerely

M. Angeles Pelaez
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25 September 2013

Dear Mr Upton

Tentative Agenda Decision - IAS 19 *Employee Benefits*: Actuarial assumptions – discount rate

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the July IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on the determination of the rate used to discount post-employment benefit obligations.

We agree with much of the analysis presented in the tentative agenda decision. However, we are concerned that the following issues are not addressed:

- the determination of an appropriate discount rate in an economy with corporate bonds that, whilst not AA- or AAA-rated, are rated more highly than equivalent government bonds; and
- the determination of whether a market in high quality corporate bonds is 'deep'.

We believe that further guidance on these issues and on identification of an appropriate discount rate more generally is needed as the principle underpinning the use of a high quality corporate bond yield is not clear and IAS 19 uses a number of terms that are not defined.

We recognise that the provision of guidance in this area may be in the nature of standard setting rather than interpretation and in that context agree with the Committee's decision not to add this item onto its agenda, but believe that a project to address this issue should be undertaken by the International Accounting Standards Board as soon as is practicable.

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

Yours sincerely

Deloitte.

Veronica Poole
Global IFRS Leader

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Wayne Upton
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September 17, 2013

Ref.: Tentative Agenda Decision IAS 19 Employee Benefits – Actuarial assumptions: discount rate

Dear Mr. Upton,

E.ON is one of the world's largest investor-owned power and gas companies with activities across Europe, Russia, and North America. In addition, there are businesses in Brazil and Turkey we manage jointly with partners. We supply around 26 million customers with energy. With our broad energy mix we own almost 68 GW of generation capacity and we are one of the world's leading renewables companies. With our strategy cleaner & better energy we are transforming E.ON into a global provider of specialized energy solutions which will benefit our employees, customers, and investors alike.

We believe that the valuation of post-employment benefit obligation according to IAS 19 (Employee Benefits) is and will be an important item in the preparation of IFRS financial statements. This is why we have been engaged in a broad dialogue among European and Global preparers to share best practices used to derive discount rates according to IAS 19. This raised interest on the subject and consequently led to a request for guidance by the ASCG which was submitted to IFRS IC last autumn and has since then been discussed in several IFRS IC meetings. We followed this discussion closely and would like to present our comments on the Tentative Agenda Decision which was published in the IFRIC update, dated July 26th, 2013.

We were surprised by the Tentative Agenda Decision that the IFRS IC intends not to decide on the topic, although significant resources have been employed to evaluate and understand the different aspects. As the topic is of very high importance to preparers globally, and within the Eurozone especially, a clear response to the submitted question 'Can corporate bonds with a rating lower than AA (e.g. A) be considered as high quality?' would have been appreciated by the financial community. The rejection of a relative concept of quality resulted in our understanding mainly from a literal discussion of the Standard's wording 'high' instead of 'highest'. We regard this line of argumentation not strong enough to discard a relative concept of quality and therefore do not agree with this particular finding.

This said, we acknowledge the fact that the topic is too broad and cannot be answered by the IFRS IC in an efficient manner. We support the Tentative Agenda Decision not to add this issue to the agenda. We agree with the IFRS IC's confirmation on the following items, that:

(i) beyond the guidance reflected in par. 84 and 85 of IAS 19 the Standard does not specify how to determine the market yields on high quality corporate bonds (HQCB), and in particular what grade of bonds should be designated as high quality. We understand that IAS 19 does not restrict the universe of HQCB to AAA and AA rated bonds; in particular, the IFRS IC did not follow the submitter's 'view 1'.

(ii) the determination of the discount rate, which is a significant assumption, will be one where preparers shall apply and disclose their judgment according to IAS 1 and IAS 8, rather than using a rule-based process based on certain credit ratings.

(iii) the IFRS IC is expecting preparers to use an absolute concept of credit quality, and not to significantly change the policy nor the method from one period to another.

Notwithstanding the above, it is our opinion that the Tentative Agenda Decision should, however, be amended in one aspect which is in our view not compatible with today's best practices and / or may contribute to future divergence in practice: The tentative agenda decision states: '... the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate.' This is a strong rule and therefore, generally in conflict with a principle-based standard which leaves some room to the preparer's judgment. We believe this rule may lead to a divergence in market practice, as:

(i) this decision implicitly states, that only new adopters of IFRS may choose their method for identifying the eligible HQCB population. Afterwards they have to use it as long as it is consistent over time (but not necessarily consistent to other preparers methods implemented at a different time), and

(ii) this rule is not compatible with today's best practices, as preparers as well as actuaries refined their methodologies to take into account changed market circumstances (e.g. by taking such measures as switching from a benchmark-based concept to a single issuance based concept in 2012 or eliminating financial issuers within the financial crisis to cap discount rates in 2008).

We therefore suggest deleting the mentioned paragraph and to give preparers the room for judgment to define the eligible high quality corporate bond universe and not to unnecessarily implement additional restrictions compared to today's status quo. Restrictions may prohibit necessary refinements in deriving an appropriate discount rate as today's fixed income markets are systematically affected by non-standard monetary policy measures by central banks.

If you have any questions concerning our comments, please contact Christian Rouette in Düsseldorf at +49 211 4579 668.

Yours sincerely

Andreas Roeper
Head of Group Accounting

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Head of Pension Finance & Asset Strategy

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Building a better working world

INVESTOR IN PEOPLE

International Financial Reporting Standards
Interpretations Committee
30 Cannon Street
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30 September 2013

Dear IFRS Interpretations Committee members,

Tentative Agenda Decision – *IAS 19 Employee Benefits — Actuarial assumptions: discount rate*

The global organisation of EY is pleased to submit its comments on the above Tentative Agenda Decision, as published in the July 2013 *IFRIC Update*.

The IFRS Interpretations Committee (the Committee) received a request "for guidance on the determination of the rate used to discount post-employment benefit obligations. The submitter stated that:

- according to paragraph 83 of IAS 19 *Employee Benefits* (2011) the discount rate should be determined by reference to market yields at the end of the reporting period on "high quality corporate bonds" (HQCB);
- IAS 19 does not specify which corporate bonds qualify to be HQCB;
- according to prevailing past practice, listed corporate bonds have usually been considered to be HQCB if they receive one of the two highest ratings given by a recognised rating agency (e.g., 'AAA' and 'AA'); and
- because of the financial crisis, the number of corporate bonds rated 'AAA' or 'AA' has decreased in proportions that the submitter considers significant.

In the light of the points above, the submitter asked the Interpretations Committee whether corporate bonds with a rating lower than 'AA' can be considered to be HQCB."

We do not support the Committee's tentative decision not to add this issue to its agenda. We would support the Committee putting this issue on its agenda, with the aim of clarifying the principle for determining the discount rate in IAS 19.84 and adding Implementation Guidance to assist entities in applying the principle. Special focus should be paid to the interaction between paragraphs 84 and 83 of IAS 19 *Employee Benefits*. We consider the staff proposals presented to the May 2013 meeting of the Interpretations Committee to be a useful framework for the clarification of paragraph 84 of IAS 19 and the development of implementation guidance to assist in the determination of the discount rate.

We understand the current wording of the agenda decision to be stricter than that issued in November 2012, as it refers to a number of considerations that seem to suggest that AA and above is the appropriate rating (paragraph 84 of IAS19 states that 'high quality' is an absolute, and not a relative, concept, and that the method would not be expected to change over time, or with a reduction in the depth of the market). We are supportive of the views expressed by the Committee that 'high quality' is an absolute concept and that the discount rate typically is a significant assumption that warrants sufficient disclosures such as judgments applied and sensitivity analyses. We agree with the view of the Committee that the method for determining 'high quality' is an accounting policy and should be applied consistently over time. We believe this might be better worded in the Committee's agenda decision as follows:

> The Interpretations Committee also observed that the entity's policy for determining the discount rate is an accounting policy. As such, it should be applied consistently over time, unless the entity satisfies the condition set out in IAS 8 for a voluntary change of accounting method. ~~The Interpretations Committee does not expect that an entity's method for determining the discount rate so as to reflect the yields on HQCB will change significantly from period to period. Similarly, because HQCB refers to an absolute notion, the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate.~~ Accordingly, a reduction in the number of HQCB should not result in a change to an entity's policy for determining the discount rate, provided that the relevant market in HQCB remains deep. Paragraphs 83 and 86 of IAS 19, respectively, contain~~s~~ requirements if the market in HQCB were ~~is~~ no longer deep or if the market remains deep overall, but there were ~~is~~ an insufficient number of HQCB beyond a certain maturity.

We recommend assessing whether a hypothetical bond matching approach to determine the discount rate may be appropriate and in what circumstances, as this approach is frequently used by companies reporting under US GAAP.

Finally, we believe some specific fact patterns require further considerations. There are jurisdictions for which there is no deep market for high quality corporate bonds. It is unclear what the approach would be if the bonds of the government in the same country were not of a high quality either. We understand the underlying principles, as expressed by the Committee, to mean that this government bond rate could not be used as the discount rate for measuring post-employment benefit obligations. However, it is also unclear which alternative approach should be used.

Given the arguments above, we believe it is appropriate to address this issue more comprehensively and to provide guidance on determining the rate used to discount post-employment benefit obligations. Therefore, we encourage the Committee to add the issue to its agenda in order to avoid potential diversity in practice.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

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Wayne Upton
Chairman of the
IFRS Interpretations Committee
30 Cannon Street
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United Kingdom

Berlin, 3 September 2012

Dear Wayne,

IAS 19 *Employee Benefits* — Actuarial assumptions: discount rate

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the tentative agenda decision of the IFRS Interpretations Committee (IFRS IC) published in the July 2013 *IFRIC Update*, not to take onto its agenda our request for guidance on the determination of the rate used to discount post-employment benefit obligations. In particular, whether corporate bonds with an internationally recognised rating lower than 'AA' can be considered to be high quality corporate bonds (HQCB)

We note IFRS IC's view that this issue is too broad to be addressed in an efficient manner. Nevertheless, we think it is important to provide guidance and clarifications on this issue. The determination of the rate used to discount post-employment benefit obligations is a crucial issue especially for prepares and investors but also for auditors and accounting enforcers with a high impact on financial statements. Therefore, we would ask the IFRS IC to reconsider its tentative agenda decision.

In its tentative agenda decision the IFRS IC states that ‘high quality’ reflects an absolute concept of credit quality, the policy for determining the discount rate should be applied consistently over time, the method for determining the discount rate does not change significantly from period to period, a reduction in the number of HQCB should not result in a change of an entity’s policy for determining the discount rate (as long as the relevant market remains deep), and according to prevailing practice, listed corporate bonds have been considered to be HQCB if they receive one of the two highest ratings given by a recognised rating agency (e.g. ‘AAA‘ and ‘AA‘). Bringing all these facts together, the IFRS IC states that corporate bonds with a rating of ‘AA’ and ‘AAA’ are to be considered as HQCB. If this is the IFRS IC’s position, then we ask the IFRS IC to state it explicitly in the agenda decision.

Otherwise, we have serious concerns that the unclear wording could result in divergent practice in determining the discount rate. Especially, entities formulating their accounting policy for determining the discount rate for the first time (e.g. first-time IFRS adopters) could consider ‘A’ rated corporate bonds as HQCB. This would be in line with the statement in the tentative agenda decision but would allow the first-time IFRS adopters to apply a different accounting policy in comparison to the entities with policies set up before the agenda decision was published.

Although the guidance resulting from an agenda decision is important for investors, prepares, auditors and accounting enforcers, it does not have the same authoritative status as an interpretation and it is not subject to the full due process. Therefore, we would encourage the IFRS IC to take this issue onto its agenda and to develop an interpretation. If the IFRS IC would confirm its opinion, not to take the issue onto its agenda, then we would recommend that the IFRS IC asks the IASB to develop a narrow scope amendment of IAS 19. This is because we consider additional guidance on this issue to be of paramount importance.

Furthermore, we would like to point out that the tentative agenda decision does not address the issue whether government bonds have to be ‘high quality’ when they are used to determine the discount rate. We would be concerned if this issue is neither further discussed by the IFRS IC nor by the IASB. We believe this is also an important issue and hence, we would ask the IFRS IC to proceed to work on this issue. If the IFRS IC concludes that this issue is also too broad to be addressed in an efficient manner, we would recommend that the IASB develops a narrow scope amendment of IAS 19 with regard to this issue.

If you would like to discuss any aspects of this comment letter in detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President

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Wayne Upton
Chairman
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30 Cannon Street
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date September 25, 2013

subject **Tentative Agenda Decision IAS 19 Employee Benefits – Actuarial assumptions: discount rate**

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Dear Mr. Upton,

Wolters Kluwer is a global leader in professional information services. Professionals in the areas of legal, business, tax, accounting, finance, audit, risk, compliance and healthcare rely on Wolters Kluwer's market leading information-enabled tools and software solutions to manage their business efficiently, deliver results to their clients, and succeed in an ever more dynamic world.

We have been engaged in a broad dialogue among European and Global preparers to share best practices used to derive discount rates according to IAS 19. With this letter we would like to present our comments on the Tentative Agenda Decision which was published in the IFRIC update, dated July 26th, 2013.

We support the Tentative Agenda Decision not to add this issue to the agenda. We agree with the IFRS IC's confirmation on the following items, that:

(i) beyond the guidance reflected in par. 84 and 85 of IAS 19 the Standard does not specify how to determine the market yields on high quality corporate bonds (HQCB), and in particular what grade of bonds should be designated as high quality. We understand that IAS 19 does not restrict the universe of HQCB to AAA and AA rated bonds; in particular, the IFRS IC did not follow the submitter's 'view 1'.

(ii) the determination of the discount rate, which is a significant assumption, will be one where preparers shall apply and disclose their judgment according to IAS 1 and IAS 8, rather than using a rule-based process based on certain credit ratings.

Notwithstanding the above, it is our opinion that the Tentative Agenda Decision should, however, be amended in one aspect which is in our view not compatible with today's best practices and / or may contribute to future divergence in practice: The tentative agenda decision states: '... the Interpretations Committee does not expect that there would be changes in the method for identifying the HQCB population that serves as a basis for determining the discount rate.' This is rule based accounting and therefore, generally in conflict with a principle-based standard. We therefore suggest deleting the mentioned paragraph. Restrictions may prohibit necessary refinements in deriving an appropriate discount rate as today's fixed income markets are systematically affected by non-standard monetary policy measures by central banks.

If you have any questions concerning our comments, please contact me at +31 172 641 422.

Yours sincerely

S.A. van Dam
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