

STAFF PAPER

January 2016
Addendum to papers

IASB Meeting – Education Session

Project	Present value measurements – discount rates research		
Paper topic	Additional materials distributed during the meeting		
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*Extract from discount rates scoping paper presented to the Board in June 2014 (AP15)**What evidence of inconsistency in discount rate requirements will we look for?*

43. Once potential inconsistencies are identified, we would look for evidence on whether these inconsistencies lead to problems in financial reporting, such as:

(a) Differences in interpretation lead to significant divergence in practice, or lack of guidance leads to significant divergence in practice; or

(b) Existing guidance, or the lack of it, creates opportunities for earnings management; or

(c) Users make adjustments to discount rates or ask questions on what is being reported (information asymmetry) – this could also be indicative of a wider measurement issue and not just an inconsistency.

44. The financial reporting problem not only needs to exist but it has to be significant in order to be addressed by the IASB. We would assess the significance of any identified inconsistencies, using the following indicators:

(a) Is the issue limited to certain jurisdictions or global?

(b) What types of entities or industries are affected by it?

(c) How pervasive or acute is a particular issue likely to be for entities?

45. We would also consider whether any significant problems identified are solvable by the IASB. We would do this by researching the possible approaches to solving the problem and by doing a preliminary analysis of their effects.

Elaborated examples of interaction of discount rates and tax (from AP17A)

Case 1 - interest taxable as recognised:

Ref	Description	Year 1	Year 2	Year 3	Year 4	Year 5	total
1	Gross cash flow (before tax)					100	
2	Gross interest rate (before tax)	10%					
3	Present value, pre-tax inputs (pre-tax cash flow of 100 at pre-tax rate of 10%)	62.09					
4	Gross interest	6.21	6.83	7.51	8.26	9.09	37.91
5	Tax	- 1.86	- 2.05	- 2.25	- 2.48	- 2.73	- 11.37
6	Total after-tax cash flows (1+5)	- 1.86	- 2.05	- 2.25	- 2.48	97.27	
7	After-tax discount rate (2-5X2)	7%					
8	Present value, post-tax inputs (post-tax cash flows at post-tax rate of 7%)	62.09					
	PV of tax cash flows	- 9.21					
	Pre-tax measurement	71.30					

Case 2 - tax on principal at the time of cash flow:

Ref	Description	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1	Gross cash flow (before tax)	-50	0	0	0	100	
2	Gross interest rate (before tax)	10%					
3	Present value, pre-tax inputs (pre-tax cash flow of 100 at pre-tax rate of 10%)	62.09					
4	Gross interest	6.21	6.83	7.51	8.26	9.09	37.91
5	Tax	-	-	-	-	30.00	- 30.00
6	Total after-tax cash flows (1+5)	-62.092	-	-	-	70.00	
7	After-tax discount rate (Internal rate of return using cash flows)	2%					
8	Present value, post-tax inputs (post-tax cash flows at post-tax rate of 2%)	62.09					
	PV of tax cash flows	- 26.61					
	Pre-tax measurement	88.70					