IFRS

STAFF PAPER

June 2017

IFRS® Interpretations Committee Meeting

Project	**IAS 19 *Employee Benefits*—Discount rate**		
Paper topic	Agenda decision to finalise		
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Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to clarify how an entity determines the rate used to discount post-employment benefit obligations (discount rate) in a country (Ecuador) that has adopted another currency as its official or legal currency (the US dollar). The entity's post-employment benefit obligation is denominated in US dollars. The submitter says there is no deep market for high quality corporate bonds (HQCB) denominated in US dollars in the country in which the entity operates (Ecuador).

2. The Committee concluded that the requirements in IAS 19 provide an adequate basis for an entity to determine the discount rate when the entity operates in a country that has adopted another currency as its official or legal currency. Consequently, the Committee tentatively decided not to add this matter to its standard-setting agenda.

3. The purpose of this paper is to:

    (a) analyse the comments received on the tentative agenda decision; and

    (b) ask the Committee if it agrees with our recommendation to finalise the agenda decision.

Comment letter summary

4. We received two comment letters, which have been reproduced in Appendix B to this paper.

5. Both respondents agree with the Committee's decision not to add this item to its agenda and with its analysis of the requirements in IAS 19.

6. Nonetheless, Deloitte suggests that the Committee amend the agenda decision to:

   (a) clarify that in determining the discount rate, an entity can include bonds issued in other jurisdictions when determining the appropriate population of HQCB to reference; and

   (b) remove the discussion about the use of government bond rates, because this is not relevant to the circumstances described in the submission (ie the defined benefit obligation is denominated in US dollars).

Staff analysis

The inclusion of bonds issued in other jurisdictions

7. We think it is not necessary to change the agenda decision to say that an entity can include bonds issued in other jurisdictions when determining the appropriate population of HQCB to reference when determining the discount rate. We think this is implicit in the Committee's observations on how an entity applies the requirements in paragraph 83 of IAS 19. In particular, the tentative agenda decision states:

   > '…the entity applies judgement to determine the appropriate population of high quality corporate bonds or government bonds to reference when determining the discount rate…'

Discussion about the use of government bond rates

8. We think the Committee should retain the discussion about the use of government bonds within the agenda decision. We note that the agenda decision discusses in

general what an entity does applying paragraph 83 of IAS 19—the discussion does not apply only to the circumstance described in the submission.

9. The submitter specifically asked the Committee to clarify which government bonds an entity uses in situations in which there is no deep market in HQCB. In particular, the submitter asked whether the entity uses market yields on US dollar denominated bonds issued by the Ecuadorian government or, instead, uses market yields on US dollar denominated bonds issued by a government in another market or country.

10. The agenda decision specifies that an entity would determine the discount rate using market yields on government bonds if there is no deep market in high quality corporate bonds. It also specifies that in this situation, an entity would apply judgement to determine the appropriate population of government bonds to reference when it determines the discount rate.

Staff recommendation

11. Based on our analysis, we recommend confirming the tentative agenda decision as published in the IFRIC Update in March 2017 with no changes. Appendix A to this paper outlines the draft wording for the final agenda decision.

Question for the Committee
Does the Committee agree with our recommendation to finalise the agenda decision outlined in Appendix A to this paper?

Appendix A—Proposed wording for final agenda decision

A1. We propose the following wording for the final agenda decision, which is unchanged from the tentative agenda decision except to remove the square brackets in the last sentence.

IAS 19 *Employee Benefits*—Discount rate in a country that has adopted another country's currency

The IFRS Interpretations Committee (the Committee) received a request to clarify how an entity determines the rate used to discount post-employment benefit obligations (discount rate) in a country (Ecuador) that has adopted another currency as its official or legal currency (the US dollar). The entity's post-employment benefit obligation is denominated in US dollars. The submitter says there is no deep market for high quality corporate bonds denominated in US dollars in the country in which the entity operates (Ecuador).

The submitter asked whether, in that situation, the entity considers the depth of the market in high quality corporate bonds denominated in US dollars in other markets or countries in which those bonds are issued (for example, the United States). If there is no deep market in high quality corporate bonds denominated in US dollars, IAS 19 requires the entity to use the market yield on government bonds denominated in US dollars when determining the discount rate. The submitter asked whether the entity can use market yields on bonds denominated in US dollars issued by the Ecuadorian government, or whether instead the entity is required to use market yields on bonds denominated in US dollars issued by a government in another market or country.

The Committee observed that, applying paragraph 83 of IAS 19:

(a) an entity with post-employment benefit obligations denominated in a particular currency assesses the depth of the market in high quality corporate bonds denominated in that currency. The entity does not limit this assessment to the market or country in which it operates, but also considers other markets or countries in which high quality corporate bonds denominated in that currency are issued;

(b) if there is a deep market in high quality corporate bonds denominated in that currency, the entity determines the discount rate by reference to market yields on high quality corporate bonds at the end of the reporting period. It does so even if there is no deep market in such bonds in the market or country in which the entity operates. In this situation, the entity does not use market yields on government bonds to determine the discount rate;

(c) if there is no deep market in high quality corporate bonds denominated in that currency, the entity determines the discount rate using market yields on government bonds denominated in that currency; and

(d) the entity applies judgement to determine the appropriate population of high quality corporate bonds or government bonds to reference when determining the discount rate. The currency and term of the bonds must be consistent with the currency and estimated term of the post-employment benefit obligations.

The Committee noted that the discount rate does not reflect the expected return on plan assets. Paragraph BC130 of IAS 19 says that the measurement of the obligation should be independent of the measurement of any plan assets actually held by a plan

In addition, the Committee considered the interaction between the requirements in paragraphs 75 and 83 of IAS 19. Paragraph 75 of IAS 19 requires actuarial assumptions to be mutually compatible. The Committee concluded that it is not possible to assess whether, and to what extent, a discount rate derived by applying the requirements in paragraph 83 of IAS 19 is compatible with other actuarial assumptions. Accordingly, the entity applies the requirements in paragraph 83 of IAS 19 when it determines the discount rate.

The Committee concluded that the requirements in IAS 19 provide an adequate basis for an entity to determine the discount rate when the entity operates in a country that has adopted another currency as its official or legal currency. Consequently, the Committee ~~[~~decided~~]~~ not to add this matter to its standard-setting agenda.

Appendix B—Comment letters

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22 May 2017

Sue Lloyd
Chair
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Dear Ms Lloyd

Tentative agenda decision – IAS 19 *Employee benefits*: Discount rate in a country that has adopted another country's currency

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March IFRIC Update of the tentative agenda decision not to take onto the Committee's agenda the request for clarification on the determination of a rate to discount post-employment benefit obligations in a country that has adopted another country's currency as its official or legal currency.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda and with its analysis of the requirements of IAS 19. However, we suggest that the tentative agenda decision could be made clearer by:

- Addition of a statement that the population of high quality corporate bonds used to determine a discount rate can include bonds issued in other jurisdictions.
- Removal of the discussion of use of government bond rates, as this is not relevant to the circumstances described in the tentative agenda decision (i.e. where the defined benefit obligation is denominated in US dollars).

As such, we propose the below amendments to the drafting of the tentative agenda decision.

The Committee observed that, applying paragraph 83 of IAS 19:

a. an entity with post-employment benefit obligations denominated in a particular currency assesses the depth of the market in high quality corporate bonds denominated in that currency. The entity does not limit this assessment to the market or country in which it operates, but also considers other markets or countries in which high quality corporate bonds denominated in that currency are issued;
b. if there is a deep market in high quality corporate bonds denominated in that currency, the entity applies judgement to determine the appropriate population of high quality corporate bonds, which will not be restricted to bonds issued in its own jurisdiction, to reference when determining the discount rate. The currency and term of the bonds must be consistent with the currency and estimated term of the post-employment benefit obligations.
c. ~~the entity determines the discount rate by reference to market yields on high quality corporate bonds at the end of the reporting period. It does so even if there is no deep market in such bonds in the market or country in which the entity operates. In this situation, the entity does not use market yields on government bonds to determine the discount rate;~~
d. ~~if there is no deep market in high quality corporate bonds denominated in that currency, the entity determines the discount rate using market yields on government bonds denominated in that currency; and~~

Deloitte.

~~e. the entity applies judgement to determine the appropriate population of high quality corporate bonds or government bonds to reference when determining the discount rate. The currency and term of the bonds must be consistent with the currency and estimated term of the post-employment benefit obligations.~~

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

MAZARS

Mrs Sue Lloyd

IFRS Interpretations Committee
30 Cannon Street
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United Kingdom

Paris, May 23, 2017

Tentative Agenda Decisions – IFRIC Update March 2017

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the March 2017 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We would like to draw your attention to Appendix 2 on modified financial liabilities. We strongly believe that this issue, which could lead to a significant change to widespread accounting practices despite the absence of any clear change in IFRS 9 compared to IAS 39, cannot be dealt with through a simple agenda decision.

We consider that such a change deserves to be introduced through an authoritative pronouncement, being an Interpretation or an Amendment to IFRS 9, including appropriate transition relief, and following a sufficient due process that would allow the Board, the Interpretations Committee and all interested stakeholders to question the economic relevance of the outcome.

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin **Edouard Fossat**

Financial Reporting Technical Support

Appendix 4

IAS 19 *Employee Benefits* — Discount rate in a country that has adopted another country's currency (Agenda Paper 3)

We agree with the proposed tentative agenda decision, which is consistent with the Committee's previous pronouncements regarding the discount rate under IAS 19.