PROPOSED FINANCIAL REPORTING STANDARD	ED/FRS

Exposure Draft of

DISCOUNT RATE FOR EMPLOYEE BENEFITS (proposed amendments to FRS 19)

*Comments to be received by **21 September 2009***

This ED is issued by the Accounting Standards Council (ASC) for comment only and does not necessarily represent the views of ASC. The proposals may be modified in the light of the comments received before being issued as a Financial Reporting Standard (FRS).

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **21 September 2009** preferably by email to MOF_Feedback_ASC@mof.gov.sg or addressed to:

Accounting Standards Council
c/o Ministry of Finance
100 High Street #10-01
The Treasury
Singapore 179434

Contents

Introduction

FRS 19 *Employee Benefits* requires an entity to determine the rate used to discount employee benefit obligations with reference to market yields on high quality corporate bonds at the end of the reporting period. However, when there is no deep market in such bonds, FRS 19 requires an entity to use market yields on government bonds instead. The use of these different rates means that entities with similar employee benefit obligations can report them at very different amounts. The significant widening of the spread between yields on corporate bonds and yields on government bonds as a result of the global financial crisis has considerably increased this effect.

This exposure draft contains proposals to eliminate the use of different rates by deleting from FRS 19 the requirement to use market yields on government bonds. It is intended to review the accounting for employee benefits more broadly in due course. These proposals are not intended to pre-empt that review.

Invitation to comment

The ASC invites comments on all aspects of this exposure draft and in particular on the questions set out below. Comments are most helpful if they:

(a) respond to the questions as stated

(b) indicate the specific paragraph or paragraphs to which the comments relate

(c) contain a clear rationale

(d) describe any alternatives that it should consider.

The ASC is not requesting comments on matters not addressed in this exposure draft. Comments should be submitted in writing and must arrive no later than **21 September 2009**.

Question 1 – Discount rate for employee benefits

Do you agree that the requirement to use government bond rates to determine the discount rate for employee benefit obligations should be eliminated when there is no deep market in high quality corporate bonds? Why or why not? If not, what do you suggest instead, and why?

Question 2 – Guidance on determining the discount rate for employee benefits

For guidance on determining the discount rate, do you agree that an entity should refer to the guidance in FRS 39 *Financial Instruments: Recognition and Measurement* for determining fair value?* Why or why not? If not, what do you suggest instead, and why?

Question 3 – Transition

It was considered whether the change in the defined benefit liability (or asset) that arises from application of the proposed amendments should be recognized in retained earnings or as an actuarial gain or loss in the period of initial application. Do you agree that an entity should:

(a) apply the proposed amendments prospectively from the beginning of the period in which it first applies the amendments?

(b) recognise gains or losses arising on the change in accounting policy directly in retained earnings?

Why or why not? If not, what do you suggest instead, and why?

* In May 2009, an exposure draft *Fair Value Measurement* was published. That exposure draft contains proposals to replace guidance on fair value in FRS 39. This reference will be updated to be consistent with paragraphs 38–54 of *Fair Value Measurement* when an FRS resulting from the proposals in that exposure draft is issued.

Proposed amendments to FRS 19 *Employee Benefits*

Paragraph 78 is amended and paragraph 81 is deleted (new text is underlined and deleted text is struck through). Paragraphs 156A and 159E are added.

Post-employment benefits: defined benefit plans

Recognition and measurement: present value of defined benefit obligations and current service cost

Actuarial assumptions: discount rate

78 **An entity shall ~~The rate used to~~ discount funded and unfunded post-employment benefit obligations ~~(both funded and unfunded) shall be~~ using rates determined by reference to market yields ~~at the end of the reporting period~~ on high quality corporate bonds at the end of the reporting period. ~~In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be~~ An entity shall apply the principles and approach in paragraphs AG69–AG82 of FRS 39 *Financial Instruments: Recognition and Measurement** to estimate such rates by reference to yields on high quality corporate bonds denominated in the same currency and whose term is consistent with the ~~currency and~~ estimated term of the post-employment benefit obligations.**

81 [Deleted] ~~In some cases, there may be no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available corporate or government bonds.~~

* In May 2009, an exposure draft *Fair Value Measurement* was published. That exposure draft contains proposals to replace guidance on fair value in FRS 39. This reference will be updated to be consistent with paragraphs 38–54 of *Fair Value Measurement* when an FRS resulting from the proposals in that exposure draft is issued.

Transitional provisions

156A An entity shall:

(a) apply the amendments in paragraph 78 and the deletion of paragraph 81 prospectively from the beginning of the reporting period in which it initially applies them.

(b) recognise any resulting net change in the defined benefit liability (or asset), including any effect on the limit in paragraph 58(b) as an adjustment to retained earnings at the beginning of that period, and disclose the amount of that adjustment.

Effective date

159E Paragraph 78 was amended and paragraph 81 was deleted by [draft] *Discount Rate for Employee Benefits* issued in [date to be inserted after exposure] 2009. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.