IFRS Interpretations Committee Meeting

January 2013

Project	**IAS 19 *Employee Benefits*—Discount rate**		
CONTACT(S)	Leonardo Piombino	lpiombino@ifrs.org	+44 (0)20 7246 0571

Introduction

1. In December 2012, the Interpretations Committee received a letter on this issue. The sender asked the Interpretation Committee to clarify whether:

   (a) the basket of HQCB should be determined at the Eurozone level or at country level; and

   (b) whether the characteristics of the assets in which an entity is allowed to invest should be taken into account to decide which bonds should be used in determining the discount rate.

2. The request has been reflected in agenda paper 10, and the letter is reproduced in full in appendix to this paper.

IFRIC UPDATE NOVEMBER 2012

Work in progress

IAS 19 Employee Benefits—Actuarial assumptions: discount rate

A submitter asked the IC whether corporate bonds with a rating lower than "AA" can be considered to be HQC bonds.

The Interpretations Committee noted that the predominant past practice has been to consider corporate bonds to be high quality if they receive one of the two highest ratings given by a recognized rating agency (eg 'AAA' and 'AA').

The Interpretations Committee observed that IAS 19 does not specify how to determine the market yields on HQC bonds, and in particular what grade of bonds should be designated as high quality. <u>The Interpretations Committee considers that an entity shall apply judgement in determining what the current market yields on HQC bonds are, taking into account the guidance in paragraphs 84 and 85 of IAS 19 (2011)</u>. [Emphasis added]

The Interpretations Committee will continue to discuss the requirements in IAS 19 for determining the discount rate based on the market yields on HQC bonds, used in the measurement of post-employment benefits, at its next meeting.

***

We believe the submitted question should be extended to include the specificity of a monetary zone like the Eurozone. In such a zone, HQC domestic bonds markets may no longer possess the characteristic of a deep market in some countries and government bonds yields vary significantly.

We would like to respectfully suggest that the IC considers the question of the basket of HQC bonds to be taken into account in a monetary zone like the Eurozone. Should the basket of HQC bonds be determined at the Eurozone level or should it be at the level of each Eurozone country, in which case one could default to government bonds, as prescribed by §83, in countries where there is no current deep market for HQC domestic bonds. If they are plan assets, should the characteristics of the assets an entity/fund is allowed to invest in be taken into account to override this potential conclusion?