COMMITTEE OF EUROPEAN SECURITIES REGULATORS

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RE: EFRAG's draft response on the IASB's ED *Discount Rate for Employee Benefits*

The Committee of European Securities Regulators (CESR), through its standing committee on financial reporting (CESR-Fin), has considered EFRAG's draft comment letter on the IASB exposure draft (ED) *Discount Rate for Employee Benefits*.

We thank you for this opportunity to comment on your draft response.

Like EFRAG, CESR supports the IASB's proposal contained in the ED to drop the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds and to have this amendment apply to the 2009 financial statements. CESR agrees with the IASB that there may be a need for a quick solution on this issue, in particular to ensure more comparability among issuers.

That said, CESR welcomes the IASB's proposal to revise IAS 19 in the near future. CESR believes that there is a need to improve IAS 19 and, in particular, to re-open the debate on what constitutes an appropriate discount rate for post-employment benefits, as this issue is not addressed in this ED.

CESR disagrees with EFRAG that specific guidance should be incorporated into IAS 19, as this would impede the quick adoption of a change that is welcome. However the application of IAS 39 guidance may prove difficult, therefore CESR encourages the IASB to perform an assessment of application issues resulting from the reference to IAS 39.

Lastly, like EFRAG, CESR agrees with the IASB's proposal that the amendment should be applied prospectively, but unlike EFRAG, CESR also agrees that the effect of the change should be recognised as an adjustment to retained earnings.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

Fernando Restoy
Chairman of CESR-Fin

Appendix – CESR's detailed comments

Question 1

Do you agree that the Board should eliminate the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds?

CESR supports the IASB's proposal to drop the requirement to use government bond rates to determine the discount rate for employee benefit obligations when there is no deep market in high quality corporate bonds. Moreover, CESR agrees that this amendment may be needed by issuers in 2009 and welcomes the fact that it will improve comparability between issuers.

CESR welcomes the IASB's intention to review accounting for employee benefits in the next few months (as indicated in BC7 of the ED). This proposal will provide an opportunity to discuss improvements to the standard, which CESR believes may include a debate on what constitutes an appropriate discount rate for post-employment benefit obligations.

Question 2

For guidance on determining the discount rate, do you agree that an entity should refer to the guidance in IAS 39, Financial Instruments: Recognition and Measurement for determining fair value?

Because CESR is of the opinion that developing specific guidance for inclusion in IAS 19 would impede the publication of a quick solution, we, unlike EFRAG, agree with the IASB that a reference to the guidance in IAS 39 is acceptable in the short term. However, because the guidance in IAS 39.AG69-82 does not deal with the assessment of yields for high quality corporate bonds, CESR would encourage the Board to assess implementation issues resulting from this reference to IAS 39. This may lead the IASB to conclude that providing additional guidance more specific to the situation is needed.

Question 3

The Board considered whether the change in defined benefit liability (or asset) that arises from application of the proposed amendments should be recognised in retained earnings or as an actuarial gain or loss in the period of initial application (see paragraph BC 10). 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 and losses arising on the change in accounting policy directly in retained earnings?

CESR is not convinced that the proposed amendments to the standard give rise to changes in accounting estimates rather than to changes in accounting policy, and as such we believe the effects of such changes should be recognised as actuarial gains or losses just like any other change in the discount rate.

As enforcers we have observed that issuers, in several jurisdictions, refer to yields on government bonds in the descriptions of their accounting policies. In many cases using corporate bond yields instead of government bond yields will result in a decrease in post-employment benefit obligations. If EFRAG's proposal were to be adopted, the result could be gains being recognised in the income statement. CESR doubts that this would result in an appropriate representation of an entity's performance. Therefore CESR agrees with the IASB that the appropriate transitional provision is to require an adjustment to retained earnings.