



We welcome the opportunity to comment on the Exposure Draft “**Discount Rate for Employee Benefits (proposed amendments to IAS 19).**”

Question 1 – Discount rate for employee benefits

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

Using high quality corporate bond rates is more appropriate than using government bond rates, because the first considers funding cost in an environment in which the entities are subject when they need resources for their business.

Normally rates for corporate bonds are higher than government bonds and the result is a higher discount rate and respectively a lower liability to be recognized, mainly related to moments of crisis and market stress. These situations of crisis impact the level of liquidity available in a market and using rates that are also subject to the same liquidity conditions of a market means that no discrepancies will be reflected in the financial statements of an entity.

Situations where there is no deep market in high quality corporate bonds can not be seen as an obstacle for this change, because even in these markets, entities are required to fund its operations and should be able to measure the rate in accordance to the proposed rule, considering the available funding opportunities.



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 IAS 39 Financial Instruments: Recognition and Measurement for determining fair value? Why or why not? If not, what do you suggest instead, and why?*

IAS 39 should be the reference for that. It is more useful to consolidate all aspects related to fair value determination in just one standard. Having just one standard to address fair value helps the preparation of financial statements and make sure that IAS 39 is not conflicting to another standard.

Question 3 – Transition

The Board 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 (see paragraph BC10). 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) recognize 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?

The prospective application from the beginning of the period in which it first applies the proposed amendments is recommended as a matter of avoiding changes in figures previously reported through the financial statements. Any change in figures previously reported to the market could result in a misleading interpretation about the reasons that originated that change.



The letter “b” also seems appropriate. The gains or losses arising on this change should keep the accounting treatment in the same way as other changes in accounting policies. It means entities would be allowed to recognize these effects against retained earnings without impacting on profit or loss. Any impact on profit or loss is not welcome, because it adds difficulties to the market (analysts, shareholders, etc) to measure fairly the results from the operations of an entity.